AkzoNobel

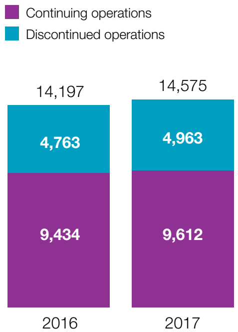
2017 Report

AkzoNobel in 2017 at a glance

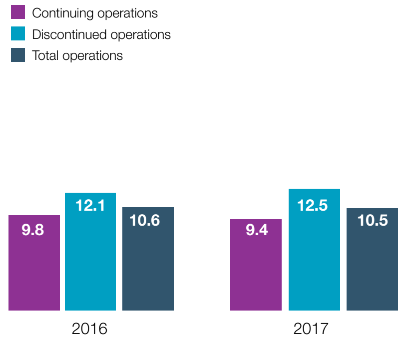
Creating two focused, high performing businesses:

- Separation of Specialty Chemicals on track for April 2018; Specialty Chemicals business now reported as discontinued operations
- Revenue, including discontinued operations, up 3% (up 4% excluding currency impact) at €14,575 million
- EBIT, including discontinued operations, up 2% to a record €1,525 million
- Operating income, including discontinued operations, at €1,396 million includes identified items of €129 million, mainly related to the transformation of AkzoNobel, including the separation of Specialty Chemicals
- 2020 financial guidance* reconfirmed: Paints and Coatings 15% ROS, ROI >25%; Specialty Chemicals 16% ROS, ROI >20%

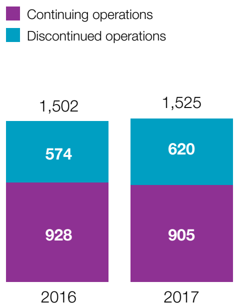
Revenue in € millions



ROS in %



EBIT in € millions



ROI in %

- Net income attributable to shareholders at €832 million (2016: €970 million)
- Total dividend proposed for 2017 up 52% to €2.50 per share (2016: €1.65)
- Special cash dividend of €4.00 per share paid in December 2017 as advance proceeds related to the separation of Specialty Chemicals
- Net cash inflow from operating activities at €969 million (2016: €1,291 million)

In the rest of this Report 2017, all financial numbers refer to Paints and Coatings (unless otherwise stated).

Discontinued operations and held for sale

As from December 22, 2017, the Specialty Chemicals business is classified as held for sale and discontinued operations, therefore the consolidated statement of income for 2017, and for 2016, have been represented to show the results of the Specialty Chemicals business as discontinued.

The Specialty Chemicals business consists of the Specialty Chemicals Business Area and certain other assets and liabilities and income and expenses, which are directly attributed to the Specialty Chemicals business from the Other activities.

* Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

Revenue by destination

North America
12%

Mature Europe
33%

Emerging Europe
9%

Asia Pacific
32%

Latin America
9%

Other regions
5%

Paints and Coatings

€9.6 billion revenue
€905 million EBIT
€1.76 earnings per share
150+ countries
35,700 employees

2017 business highlights

Q1

Opened new plant in China to strengthen our global position in powder coatings, led by our Interpon brand

Q1

Invested in a new £13 million innovation hub in the UK

Q1

Partnered with SOS Children's Villages to fight youth unemployment with the power of paint

Q2

Held investor day in London to launch our new strategy

Q2

Opened a new coatings facility in Chonburi, Thailand

Q2

Partnered with The Ocean Cleanup together with our International brand for the largest clean-up in history

Q2

Double coatings acquisition of the UK's Flexcrete Technologies and Disa Technology in France

Q3

Announced major expansion of organic peroxides capacity in China

Q3

Opened the world's most advanced and sustainable paint factory in Ashington, the new center of production for Dulux in the UK

Q4

All our paints and coatings production in the Netherlands is now powered by green energy

Q4

Chemical Island in Brazil expanded to support growth of Fibria, the world's leading producer of eucalyptus pulp

Q4

Agreed to acquire the business of V.Powdertech, the leading Thai manufacturer of powder coatings

Report 2017

Featured content

> Our commitment to unlocking value, accelerating growth and contributing to the success of our customers becomes stronger by the day

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How AkzoNobel performed in 2017

Financial guidance

15%

Return on sales (ROS)[1]
Achieve return on sales (EBIT/revenue) of 15% by 2020

>25%

Return on investment (ROI)[2]
Achieve return on investment (EBIT/average invested capital) of more than 25% by 2020

The transformation of AkzoNobel into a focused Paints and Coatings company, including the separation of Specialty Chemicals, is progressing and the associated one-off costs are within expectations. Phase one of creating a fit-for-purpose Paints and Coatings organization (announced in October 2017) is on track to achieve €110 million savings in 2018, contributing directly towards delivering the 2020 financial guidance. Various measures to mitigate current market challenges, including increased selling prices and cost discipline, also continue to be implemented.

[1] Excluding unallocated corporate center costs; assumes no significant market disruption.
[2] Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

2017 progress

9.4%

13.9%

Sustainability targets (including discontinued operations)

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

2017 progress

20%	7%	106

How AkzoNobel created value in 2017

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth and achieve our strategic ambitions.

We are actively working to reduce our carbon footprint across the value chain – to improve our resource productivity and reduce our environmental footprint.

We are also creating social value by helping our employees to develop their skills 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.

Economic* value: Input

€6.3 billion
group equity

€3.3 billion
borrowings

€270 million
research and development expenses

Organization

€9.6 billion
revenue

€905 million
EBIT

€250 million
capital expenditures

€6,045 million
invested capital at year-end

We invested in 2017 to keep our facilities in good shape and expand our manufacturing capability.

Environmental value: Input

45%
renewable energy

11%
renewable raw materials as % of organic materials

9.7 million tons
upstream CO_2(e) emissions

98,000 TJ
energy use

€0.6 billion
energy spend

Social value: Input

45,400
employees at year-end 2017

22,900
number of volunteers for Community Program projects (cumulative since 2005)

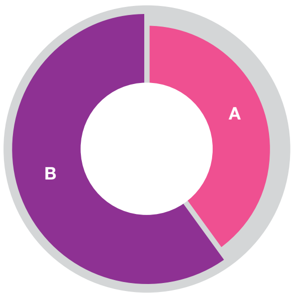
Organization

0.2
total reportable rate of injuries (per 200,000 hours)

* All economic data (excluding income tax paid, dividend paid and revenue from eco-premium solutions) relates to Paints and Coatings. All environmental and social data relates to the combined Paints and Coatings and Specialty Chemicals organization.

Outcomes

Revenue breakdown by Business Area in %



A	Decorative Paints	40
B	Performance Coatings	60

€338 million
income tax paid

€1,187 million
dividend paid

9.4% ROS

13.9% ROI

20%
of revenue from eco-premium solutions with customer benefits, due to RD&I investments

Organization

3.4 million tons
CO_2(e) emissions own operations

137 kilotons
total waste own operations

31%
reduction in operational eco-efficiency footprint (since 2009)

Outcomes

11.5 million tons
downstream CO_2(e) emissions

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

7%
improvement CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

106 REI
in Resource Efficiency Index

Outcomes

19%
female executives

5%
high potential turnover

€2,853 million
employee benefits

2,636
Community Program projects (cumulative since 2005)

CEO statement

2017 was an extraordinary year for AkzoNobel. Our people helped the company deliver volume and revenue growth while going through a time of unprecedented change. And as that period of transformation continues, our commitment to unlocking value, accelerating growth and contributing to the success of our customers – to becoming a world class, global market leader in the paints and coatings industry – becomes stronger by the day.

* Excluding unallocated corporate center costs; assumes no significant market disruption.

As we forge ahead to build for the future and maximize the power of our brands, the company is sharpening its focus. We have a new management team in place; have adopted a new structure to create a simpler, faster organization ready to adapt to new industry challenges; have committed to new financial guidance of 15% ROS* by 2020 and remain as dedicated as ever to delivering for our customers. Thanks to the tireless effort of our hard-working colleagues around the world, AkzoNobel is entering an exciting new era.

CFO Maëlys Castella took a leave of absence, also for health reasons. She has been an integral part of establishing a solid financial foundation. We look forward to welcoming her back in a senior management role once she returns.

The improvements Ton and Maëlys brought about were crucial and helped pave the way for the new AkzoNobel. Thanks to their vision, leadership and expertise, we established a solid structure and put key processes in place

"AS WE FORGE AHEAD TO BUILD FOR THE FUTURE AND MAXIMIZE THE POWER OF OUR BRANDS, THE COMPANY IS SHARPENING ITS FOCUS"

There were many notable events during 2017, although the milestone development was the decision to separate our Specialty Chemicals business.

Another major change saw CEO Ton Büchner step down for health reasons. Ton's contribution to the company was immense. He put in place a strong operational foundation, providing a solid platform for the future. I feel privileged to have worked with him and honored to have succeeded him.

which have enabled the company to move forward and take the next step. Our new strategy – which has powerful performance and precise processes as cornerstones – is therefore a natural progression. It will make us more agile and drive the streamlining of our core capabilities – making and selling paint and striving for the best efficiency and performance in what we do.

We gave full details of this new strategic direction when we officially announced our plans to create two focused, high performing companies – Paints and Coatings, and Specialty

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Chemicals. We have widespread shareholder support for the direction we are taking and our focus now is on ensuring a successful separation of Specialty Chemicals. As of January 1, 2018, we have been operating as two separate companies under the AkzoNobel umbrella, ready for formal separation in April. As well as enabling Specialty Chemicals to realize its full potential, this will create a leaner, stronger Paints and Coatings company to take AkzoNobel forward.

This is something we have been building up to for some time, driven by sustained operational and financial performance improvements. The company has solid financials and our single focus on the proud craft of making the finest paints and coatings will enable us to make a step-change in our performance and long-term value creation, with a clear commitment to achieving our 2020 financial guidance.

During 2017, we received unsolicited proposals from a competitor which undervalued AkzoNobel and raised a number of other concerns. We carefully and seriously considered each of these proposals, but concluded they were not in the best long-term interests of the company, its shareholders and other stakeholders. We also held constructive discussions about a possible merger with one of our peers, which ended without agreement. As the industry continues to consolidate, we will continue to strengthen our business model, with a singular focus on further improvement. However, we remain open to exploring relevant opportunities, including bolt-on acquisitions, illustrated by three acquisitions we made in 2017 – Flexcrete Technologies in the UK, Disa Technology in France and the business of V.Powdertech in Thailand (see page 11).

As a focused Paints and Coatings company, we have changed the structure of our Executive Committee and the way we operate and work with each other – underpinned by the roll-out of a world class Integrated Business Planning process. Designed to support a more efficient and faster way of working, we have reorganized the company by separating our commercial activities (led by Chief Operating Officer, Ruud Joosten) from those in our supply chain (led by Chief Supply Chain Officer, David Allen), while maintaining very close cooperation between the two. This means on the commercial side, we will have a clearer focus on customers, delivering on our new financial guidance and achieving profitable growth. And by centralizing all supply chain responsibilities – including manufacturing – into a single, global function with dedicated experts, we can serve our customers more efficiently by further driving standardization, building functional excellence, leveraging expertise and assets across our businesses and accelerating our AkzoNobel Leading Performance System (ALPS) program. We expect to start seeing the benefits already in 2018. Due to this reorganization, the roles of Executive Committee members responsible for Business Areas became redundant. It was therefore mutually and amicably decided that Mr. Conrad Keijzer would step down in April 2017.

In the midst of these management changes, I was delighted to announce Maarten de Vries as our new CFO, to complete our Executive Committee. He started on January 1, 2018, and brings a wealth of expertise and international business experience. I look forward to working with him.

Throughout 2017, I am proud to say we never lost focus. We continued to deliver for our customers, develop new and exciting products, grow the business and increase our operational efficiency. We achieved another record year of EBIT (including discontinued operations), despite significant external headwinds, and delivered real organic growth, supplemented by the three acquisitions I referred to earlier. Specialty Chemicals achieved record results as it prepares to become a standalone business, led by Werner Fuhrmann. Meanwhile, the investments we are making to drive growth were evident throughout our portfolio, and throughout the

During 2017, our new CEO dedicated as much time as possible to visiting some of our sites around the world, meeting employees and learning more about how we work with our customers.

world, as various new sites opened and several locations were expanded – including our research and development facilities in Houston, Texas.

One of the highlights was the official opening of our new Ashington, UK, site (pictured on previous page). The facility is the world's most advanced and sustainable paint plant and is the new center of production for Dulux in the UK (see page 12 for more details). It's physical proof of our strategy in action and I feel immensely proud of what our colleagues have achieved there. In addition, we opened a new €31 million plant for coatings in Chonburi, Thailand, a new Aerospace Color Center in Dongguan, China, and we are building the biggest powder coatings plant of its kind in Changzhou, China.

The Specialty Chemicals business also expanded several sites. As well as increasing capacity for sodium hydrosulfide in LeMoyne (US), a capacity expansion was inaugurated for producing organic peroxides in Los Reyes (Mexico). In China, an important expansion was completed at the Boxing plant, while production capacity for dicumyl peroxide (DCP) was boosted at the multi-site in Ningbo. And in Gujarat, India, work started on a world-scale plant for monochloroacetic acid (MCA) as part of a joint arrangement with Atul. All these developments underline our commitment to working more closely with our customers to deliver the brands, products and technologies they need to ensure their own success.

With all that happened during the year, we made sure we kept our eye on the ball, so it was very pleasing to be ranked number one on the 2017 Dow Jones Sustainability Index in the Chemicals industry. The fact we claimed top spot again (our fifth number one ranking in six years) says everything about the dedication and commitment of our employees. Our people take great pride in what they do and are always looking to deliver more by consuming less, so this was a notable achievement. We all believe putting sustainability at the heart of our business strategy leads to better long-term business results, both for ourselves and our business partners. During 2017, we put particular emphasis on increasing our energy efficiency, reducing material waste and continuing to deliver more eco-premium solutions and water-based products to our customers. Sustainability is clearly good for business.

Relevant cutting-edge innovation is also key to delivering on our strategy and we're making great progress with our product development, especially in terms of providing customers with more sustainable solutions and greater functionality. For example, in China we introduced Dulux Biocare, an interior paint which will boost the sustainable development of the country's eco-friendly residential repainting market. We also launched Sikkens Alpha Rezisto for the professional market in several European countries. Its hydrophobic coating creates a surface which repels many common household stains. In Specialty Chemicals, notable launches included six new product applications from the Pulp and Performance Chemicals business through its Levasil (colloidal silica), Expancel (expandable microspheres) and Kromasil brands.

I always like to see how people benefit from using our products, so I was very happy that our partnership with the MasterPeace organization achieved its goal of creating 100 Walls of Connection in cities around the world (in fact, the eventual total was 141). An extension of our global "Let's Colour" initiative, we worked with artists and local residents to help create connections between groups of people who otherwise wouldn't have come together (see page 14). I was also delighted with the success of the inaugural Imagine Chemistry innovation challenge, which attracted a lot of interest globally and is being staged for a second time in 2018 (see page 58).

Our employees are our greatest asset and I want to thank the proud people of AkzoNobel for all their hard work during such a busy year. Their passion, resilience and commitment to delighting our customers has shone throughout 2017, whether they have been dealing with the challenges of Hurricane Harvey in the US, driving our continuous improvement agenda, developing new products or delivering on successfully carrying out the separation of Specialty Chemicals. Thanks to them, we now stand on the cusp of a new era.

It's an honor to be the new CEO of AkzoNobel. We are building something very special, backed by two centuries of pride and experience. We have a new organization in place; we have a compelling strategy and clear financial ambitions; we have a world class portfolio of brands and products; we command strong leadership positions in our markets and are ready to hit the ground running as we look to continue our momentum in 2018 and beyond. I am in no doubt we have the brands, the products, the people – and the passion – to deliver.

Thierry Vanlancker, CEO and Chairman of the Board of Management and Executive Committee

Thierry Vanlancker pictured with former CEO Ton Büchner at the investor update held in London in April 2017.

ACQUISITIONS SHOW NEW STRATEGY IN ACTION

Our focus on building a stronger AkzoNobel has resulted in solid progress in recent years as we continue to leverage our size, scale and global presence to pursue selected acquisitions. This remains a firm part of our strategy.

Having acquired BASF's Industrial Coatings business in 2016 – a sizeable deal which added around 2% inorganic revenue growth (AkzoNobel including Specialty Chemicals) – we made three further bolt-on acquisitions in 2017. Key to the success of these deals has been the streamlining of our M&A processes, while we have also standardized our integration approach to ensure we effectively deliver the targeted synergies.

Our acquisition criteria are compelling and simple. The targets must deliver a number one or two position in the market, and/or offer new customer value propositions or new technologies. In addition to strategic fit, the economics need to be supportive of the increased financial guidance we shared in April 2017. All recent acquisitions exceed these criteria comfortably, delivering sustainable, long-term value for all our stakeholders. Details about our 2017 deals can be found below.

Disa Technology (France)

Specializes in the manufacture and sale of self-adhesive vinyl, polyester and polycarbonate films used on aircraft, vehicles, agricultural machinery and other equipment. Acquiring the business means we can offer our customers a broader product portfolio while complementing our own position in liquid coatings and films for those markets.

Flexcrete Technologies (UK)

Manufactures industry-leading technical mortars and high performance coatings for the protection and repair of concrete substrates. The deal will allow us to expand our customer offering in several key industrial markets, including downstream oil and gas and chemical processing, commercial infrastructure, power, water and waste water, and mining and mineral processing. By leveraging our global presence and existing distribution channels, we can also sell these products more efficiently to our customers.

V.Powdertech (Thailand)

Supplies a range of powder coatings products for domestic appliances, furniture and general industrial applications. The acquisition will bring new technologies and services to complement our global technology portfolio and business in market segments such as architectural and automotive coatings. The transaction includes all relevant technologies, patents and trademarks, as well as a high quality manufacturing plant close to Bangkok. The deal means we are strongly positioned to capitalize on the growth in demand for powder coatings in South East Asia.

These acquisitions show that we are taking part in the consolidation of the paints and coatings market in a "string of pearls" strategy. We've also shown that we don't shy away from looking at value-adding, transformative opportunities.

SETTING NEW STANDARDS

When we opened the world's most advanced and sustainable paint plant in Ashington (UK) in September 2017, it was described as a vote of confidence in the Northern Powerhouse and a demonstration of the rock solid relationship between the Dutch and UK economies.

For AkzoNobel, however, the state-of-the-art factory – the largest ever global investment in the company's paints activities – was proof of our growth strategy in action.

"Ashington secures AkzoNobel's future as a manufacturer of cutting-edge products, including paints that improve air quality, increase energy efficiency and protect against bacteria," said Ruud Joosten, Chief Operating Officer of Paints and Coatings. "We have taken the best technology available globally, improved on it and put it all under one roof, ensuring that this new facility represents a significant step forward for the whole industry."

The new center of production for Dulux – a global mega-brand and the UK's leading decorative paint brand – the facility uses a variety of renewable energy sources, including photovoltaic cells and a biomass boiler which burns wood pellets from managed forests in the UK.

It's estimated that the carbon footprint per liter of paint produced at the site will be 50% lower when compared with facilities at the plants it is replacing. This makes it an excellent example of how we apply our sustainable business imperative of resource productivity in practice.

The factory will be capable of producing enough paint each year to redecorate every living room, bathroom and kitchen in the UK. A highly agile production system means the plant can produce paint across the entire AkzoNobel range, which includes Dulux, Dulux Trade, Cuprinol, Polycell, Hammerite and Armstead.

Ashington will also house the second Dulux Academy in the UK. The customized training center is designed to provide painters and decorators with the expertise and know-how they need for business success. The first academy, in Slough, has already trained 1,600 people.

"WE HAVE TAKEN THE BEST TECHNOLOGY AVAILABLE GLOBALLY, IMPROVED ON IT AND PUT IT ALL UNDER ONE ROOF"

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CONNECTING PEOPLE AND PLACES

Ever since we launched our partnership with the MasterPeace organization in early 2017, people have started to fall in love with walls all over again.

In cities in particular, we increasingly see invisible walls creating separation and detachment. Our initiative with global peace movement MasterPeace is helping to overcome that barrier.

Known as Walls of Connection, it was a simple idea, but proved to be brilliantly effective. We got artists and local residents together to create designs which were then painted onto a wall in the local community. In total, 141 walls have been painted in 31 cities, helping to make people's lives more liveable and inspiring.

The beauty of the project is that it has enabled connections to be made between groups of people who otherwise wouldn't have come together. Launched at the Albeda College in Rotterdam, the Netherlands, the event made a lasting impact on many of those who were involved. The young people who took part embraced the opportunity to connect and overcome division and drew praise for how energized they were.

Some commented that they literally saw the barriers between people collapse before their eyes. And it's something which has the power to create lasting change. All the artworks that have been created around the world are a permanent visual reminder which people can see every day and be proud of.

Another great thing about our MasterPeace partnership is that it provided an opportunity for our employees to get involved and contribute to the societies in which we operate. In fact, employee involvement is one of the main criteria we use in setting up most of our partnerships, driven by the fact that collaborating with others is a vital part of what we do.

Working with MasterPeace was rewarding for all involved. Together, we've helped many people to break down barriers and become connected in a very special way. You could say that walls really did come tumbling down.

For more information, please visit:
www.masterpeace.org/walls-of-connection

"Let's Colour" Walls of Connection has demonstrated the power of paint brands, such as Dulux, to uplift communities and make living spaces more liveable and enjoyable. In fun and surprising ways, these walls have brought communities together in celebrating unity, kindness and connection. Nearly 400 artists and more than 5,200 people (including 259 AkzoNobel volunteers) joined in during 2017.

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THE LARGEST CLEAN-UP IN HISTORY

Our oceans are under attack – from a small but powerful enemy – and the statistics are staggering. More than five trillion pieces of plastic currently litter the seas around the world, with eight million tons being added every year. Some even claim that by 2050, there will be more plastic than fish in the sea – unless something is done about it.

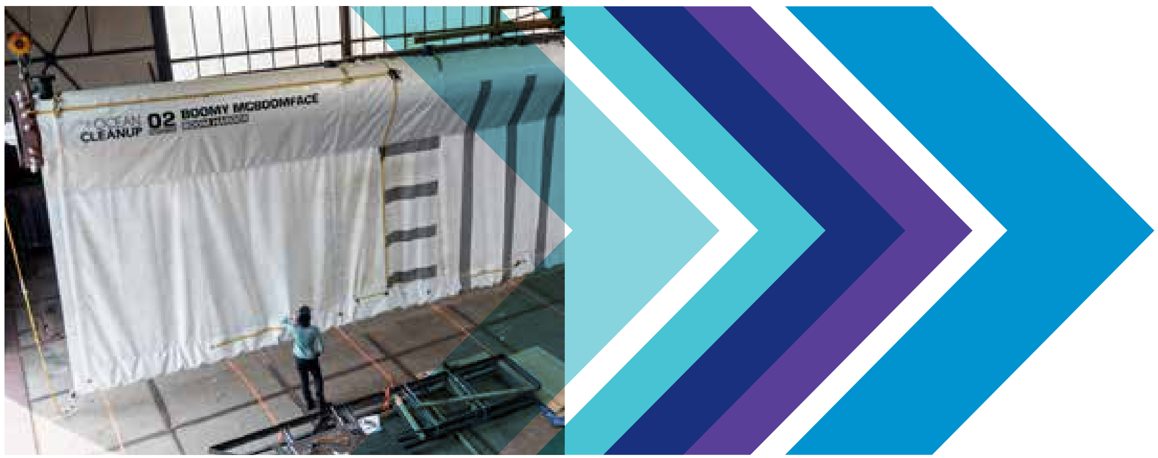
Fortunately, that's exactly what's happening. Back in 2013, young Dutchman Boyan Slat had become so concerned about the state of the world's oceans that he decided to set up The Ocean Cleanup with the express aim of ridding the seas of plastic.

Fast forward to today and his vision is edging ever closer to reality. A floating system is being developed which could clean 50% of the Great Pacific Garbage Patch (located half-way between Hawaii and California) in five years. The technology is now at the prototype stage, with the first operational clean-up system scheduled to be deployed in the Great Pacific Garbage Patch by mid-2018.

To help protect the equipment from the harsh marine environment, AkzoNobel has partnered with The Ocean Cleanup and will provide biocide-free coatings technology for all its devices for the next five years. As the world's largest producer of marine coatings – with a maritime heritage stretching back more than a century – the partnership offers a natural showcase for the company's expertise.

The most high profile use of AkzoNobel's International range of products will be on the specially designed floating clean-up system which will collect the waste plastic. The system employs U-shaped screens to channel floating plastic to a central point. The concentrated plastic can then be extracted and shipped to shore for recycling into durable products. It's designed to capture plastic pieces of all sizes, from one centimeter right up to massive discarded fishing nets, which can measure tens of meters. By removing the plastic while most of it is still large, it can be prevented from breaking down into dangerous micro-plastics.

"The ocean plastic pollution problem is a very big one, and big problems require big solutions," explains Boyan. "This has been my mission since I started The Ocean Cleanup and, with the help of many partners, we have come a long way. After all, don't we all want a future that is better than the present?"



The Ocean Cleanup's systems will be equipped with an impenetrable screen to catch the sub-surface debris. This will allow sea life to safely pass underneath the screen with the current. The system will be protected by biocide-free Intersleek products, which are already helping to make the shipping industry more sustainable by reducing fuel consumption and cutting emissions.

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Our Sikkens brand has come a long way since Wiert Willemszoon Sikkens opened a small paint and varnish works in Groningen, the Netherlands, in 1792.

Now established as a world class paints and coatings brand, its unrivalled quality and diverse product range means it's a favorite among professional painters, as well as being a leader in the car refinishes market.

In 2017, Sikkens Alpha Rezisto wall paint was launched in several European countries. Featuring unique Stainshield Technology, its hydrophobic coating creates a surface which repels many common household stains.

Strategic performance

In 2017, AkzoNobel announced its strategic intention to create two focused, high performing companies – Paints and Coatings, and Specialty Chemicals – to drive a step-change in growth and value creation and enable both businesses to become more agile, while accelerating profitability.

Our strategy

In 2017, we announced the decision to create two focused, high performing companies – Paints and Coatings, and Specialty Chemicals – with separation due to take place by April 2018. Pursuing this strategy will drive a step-change in growth and value creation and enable both businesses to become more agile, while accelerating profitability. Increased financial guidance was also announced for the two new businesses.

**Strategy:
Create two focused businesses**

- Separation within 12 months
- Dual-track process
- Focused Paints and Coatings strategy

Accelerating sustainable growth and profitability

- Clearer customer focus
- Fit-for-purpose organization and processes
- €150 mln savings per year from continuous improvement

Paints and Coatings

2020 guidance

ROS[1] **15%**
ROI[2] **>25%**

Increased shareholder returns:

- 52% higher dividend for 2017
- €1bln special cash dividend
- Vast majority of net proceeds returned[3]

Strong financial and operational foundation

[1] Excluding unallocated corporate center costs; assumes no significant market disruption
[2] Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption
[3] Specialty Chemicals separation

The creation of two focused, high performing companies is the logical next step for AkzoNobel. With strong financial and operational foundations having been put in place in recent years, now is the time for us to achieve our full potential and deliver a step-change in long-term value creation by separating our Paints and Coatings, and Specialty Chemicals activities.

Our focused strategy for Paints and Coatings will accelerate growth and profitability, while increasing returns to all our stakeholders. We are creating a fit-for-purpose organization with clearer customer focus, continued cost discipline, a performance culture and simplified ways of working. Our financial guidance for this refocused business is 15% return on sales[1] and more than 25% return on investment[2] by 2020. See pages 21 and 22 for further details.

Our world class Specialty Chemicals business has been on a dual-track process, with two possible separation scenarios – legal demerger or private sale – still being considered as this Report 2017 was being published. The business has developed a single, clear road map to deliver its 2020 financial guidance[4] of 16% return on sales and more than 20% return on investment. See page 23 for further details.

[4] Based on reported figures, excluding unallocated corporate costs and other carve-out adjustments which are expected to lead to downward adjustments of ROS and ROI. Exchange rates from April 2017.

The clear focus for AkzoNobel Paints and Coatings is to become the preferred choice for customers and grow faster than relevant markets. This will ensure we further strengthen the market positions we have in all our geographic regions.

At our investor update held in London in April, we gave full details of the new strategy for the company – including the separation of Specialty Chemicals – and announced updated financial guidance for 2020.

In order to support this, we have put a new Executive Committee structure in place designed to not only drive operational synergies and standardization, but also leverage expertise across the business. To enable a more efficient and faster way of working, we have separated our commercial activities (led by Chief Operating Officer, Ruud Joosten) from those in our supply chain (led by Chief Supply Chain Officer, David Allen), while maintaining close cooperation between the two (see page 38 for more operational insight).

On the commercial side, this new structure will enable a clearer focus on our customers, delivering our new financial targets and achieving sustainable, profitable growth. To ensure maximum customer focus and agility, our paints and coatings activities have been consolidated into eight business units from the start of 2018, all reporting to the Chief Operating Officer directly.

Meanwhile, by centralizing all supply chain responsibilities – including manufacturing and procurement – into a single, global function with dedicated experts, we can further drive progress across a number of key areas. We can achieve faster standardization, build functional excellence, leverage scale and expertise across our businesses and accelerate our ALPS continuous improvement program.

To help connect these teams and drive delivery, we are rolling out Integrated Business Planning across the company. This will provide the heartbeat for achieving alignment and delivering a common operating plan. It will further drive efficiency, improve transparency and be the driving force to help us lower the cost of getting products to our customers. Operational excellence and continuous improvement programs also remain at the heart of our plans across all functions – we aim to realize €150 million a year in savings from continuous improvement, which will contribute significantly to achieving our 2020 financial guidance.

In addition, we have introduced a new role of Chief Technology Officer to sharpen our medium to long-term innovation road map and drive opportunities closer to our customer needs. One of the key responsibilities of this role is to help realize synergies across Paints and Coatings and drive clearer benefits from our innovation efforts, including building on our increasing focus on digital business innovation.

Going forward, we will continue to develop our world class portfolio of brands and products – including Dulux, International, Sikkens and Interpon – with a focus on sustainable and digital solutions which will help bring us closer to our customers. Remaining open to exploring relevant opportunities, including bolt-on acquisitions, also continues to be part of our strategy.

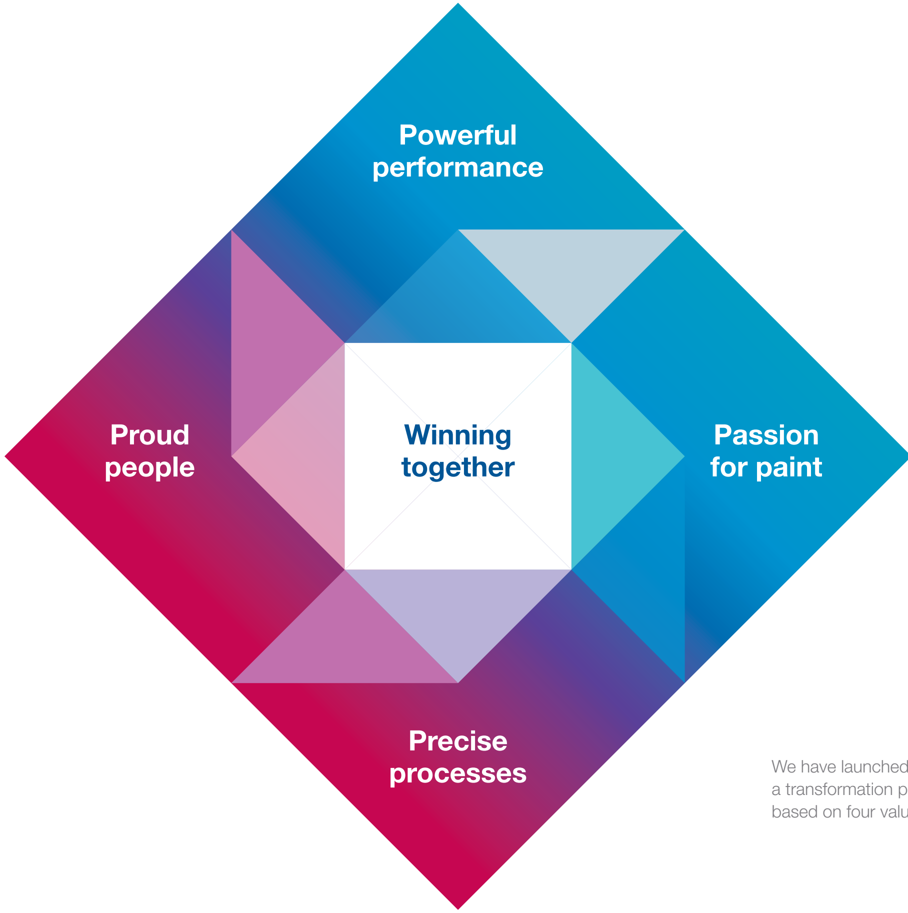
By creating a high performance, fit-for-purpose organization with a clear and single focus, we intend to accelerate our growth momentum and enhance profitability. We are committed to increasing returns to shareholders, while continuing to invest in growth, creating sustainable value for all our stakeholders to become a truly global paints and coatings leader.

Paints and Coatings

Our focused strategy for Paints and Coatings is designed to accelerate growth and profitability. This means becoming the number one choice for customers.

By returning to our paints and coatings roots – established more than two centuries ago – we are adopting a laser sharp focus to achieve 15% return on sales* by 2020.

Success will be found in streamlining our core capabilities – making and selling paint – and striving for the best efficiency and performance in what we do. We aim to set the standard, be first choice for customers and shape the industry. To help us achieve our ambitions, we have launched a "Winning together" transformation program which will make the most of the focus we now have in our company. The program is based on the following four value drivers:



We have launched phase one of a transformation program which is based on four value drivers.

Passion for paint

We are reigniting our passion for making and selling paint. The pride we take in the products and services we deliver and our deep understanding of customer needs will help us stay ahead of the competition – establishing us as the number one choice. Putting a world class Integrated Supply Chain organization in place will drive improvements in quality, service and efficiency as we continue to anticipate current and future needs. This will be supported by relevant, focused innovation to ensure everyone benefits from our products and services.

Precise processes

Integrated Business Planning will be the way we operate. We will get the waste out of our key end-to-end processes – including smooth hand-offs with our Global Business Services (GBS) organization – to ensure we rigorously execute simple and standardized processes. We will leverage a single Enterprise Resource Planning (ERP) and systems platform and use reliable, real-time information for decision-making.

Proud people

We believe in fostering a trusted workforce with the right values and a winning mindset. We intend to accelerate opportunities for the ample talent we have around the world. We are building a single, strong and diverse global team for a focused, high performing Paints and Coatings company. One which takes pride in living our core principles and being the best at making and selling paint in our chosen segments.

Powerful performance

We are adopting a laser sharp focus to achieve 15% return on sales* by 2020. A high performance culture will accelerate our pace of improvement. We will remain focused on margin improvement and will always look to deliver more by consuming less. We will combine our commitment to lowering fixed costs – building on our track record of continuous improvement – with frugal procurement. For every action we will ask ourselves: "Will it speed up the journey towards our 15% ROS* by 2020?"

*Excluding unallocated corporate center costs; assumes no significant market disruption.

Specialty Chemicals

Ready to unleash its full potential as a standalone company, the focus for Specialty Chemicals is on accelerating growth and creating value. Our strategy is focused on capturing profitable growth with our customers and continuing to deliver on targets and beyond with our continuous operational excellence drive. Post-separation, we will offer additional step-change growth opportunities to unlock further value.

Strategy to deliver on commitments and achieve full potential with additional growth

* Based on reported figures, excluding unallocated corporate costs and other carve-out adjustments which are expected to lead to downward adjustments of ROS and ROI. Exchange rates from April 2017.

Specialty Chemicals is a world class business, evidenced by our safety record and solid financial performance. Our unique portfolio, commitment to continuous improvement and strong customer relationships have helped us achieve high profitability and leadership positions throughout our businesses, with 80% of revenue coming from number one or two positions. Given our strong presence in high growth markets, discipline in execution and strong culture focused on results, we are well positioned for future success (see page 66 for more details on the separation process).

Accelerating growth

Our key customers are winning in growth markets and we aim to grow with them. We are managing our margins to better adapt to changing raw material prices while analyzing our portfolio to fine-tune our products, customers and prices. Strong focus on commercializing our existing new product introduction pipeline, expanding our growing range of eco-premium solutions and co-developing products with customers will play a key role in accelerating our growth.

Continued focus on operational excellence

We have a strong track record of improving profitability. By maintaining our commitment to operational excellence, we will build on these achievements. Continuous and thorough analysis of our sites and production processes will debottleneck and free up resources to run our sites to their fullest potential. Embedding standardized processes, continuous improvement tools and clear targets throughout our organization will enable us to continue to improve our fixed and variable costs, while Integrated Business Planning will help us reduce working capital costs. This combination of operational excellence and operating leverage will result in higher margins and ensure attractive ROIs as per our 2020 guidance. The focus on further optimization goes hand in hand with our unwavering commitment to safety for our employees and the communities in which we operate, and our belief that focusing on sustainability is simply the smartest way to do business. We will work to maintain our leadership position in Health, Safety, Environment and Security performance and continue to drive the shift from fossil fuels to renewable sources of energy, such as wind power and biomass.

Investments to spur a step-change in growth

As a standalone company, we are well-positioned to make strategic investments with attractive returns tailored to the needs of our customers and the markets in which we operate. We have identified and prioritized investments for the next five years that will allow us to continue our success and grow post-separation. These opportunities range from capacity expansions in growth markets to collaborations with start-ups and universities designed to spur innovation. We also plan to further invest in the development of more eco-premium solutions. In addition to organic growth opportunities, we envisage bolt-on acquisitions in selected areas that will enable us to truly take our growth ambitions to the next level.

2017 financial performance

Paints and Coatings

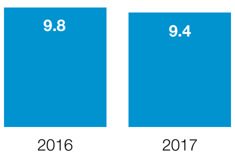
Return on sales (ROS)

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.

- Focus on growth is delivering, with volume up
- Positive impact of continuous improvement and cost control
- Various measures to mitigate current market challenges, including increased selling prices and cost discipline, continue to be implemented

2020 guidance* 15%

Return on sales (ROS) development
EBIT as % of revenue



2016 is represented to present the Specialty Chemicals business as discontinued operations.
* Excluding unallocated corporate center costs; assumes no significant market disruption.

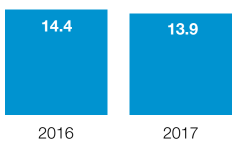
Return on investment (ROI)

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.

- EBIT was impacted by higher raw material costs, partly offset by increased selling prices, continuous improvement and cost control
- Average invested capital of the Paints and Coatings organization increased slightly to €6.5 billion

2020 guidance** >25%

Return on investment (ROI) development
EBIT/average invested capital in %



2016 is represented to present the Specialty Chemicals business as discontinued operations.
** Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

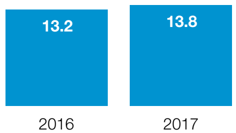
Specialty Chemicals

Return on sales (ROS)

Profitability increased, with higher volume and cost savings more than compensating for raw material price inflation and adverse currencies.

2020 guidance*** 16%

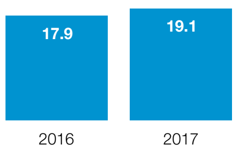
Return on sales (ROS) development
EBIT/average invested capital in %



Return on investment (ROI)

2020 guidance*** >20%

Return on investment (ROI) development
EBIT/average invested capital in %



*** Based on reported figures, excluding unallocated corporate costs and other carve-out adjustments which are expected to lead to downward adjustments of ROS and ROI. Exchange rates from April 2017.

2017 sustainability performance*

*Including discontinued operations.

Eco-premium solutions

During 2017, sales of eco-premium solutions with customer benefits totaled 20% of our revenue. We aim to maintain eco-premium solutions at a sustainable 20% of revenue through 2020 by constantly innovating.

The eco-premium portfolio is dynamic, as some solutions have stopped being classified as eco-premium due to competitive offerings having caught up. At the same time, new solutions have been introduced to the portfolio.

Another 21% of our products met the eco-performer criteria in 2017, having clear sustainability features and being at least as good as mainstream alternatives.

Cradle-to-grave carbon footprint

In 2017, cradle-to-grave carbon footprint per ton of sales further reduced to 7% below the 2012 baseline.

Climate change risks and opportunities are assessed via our risk management process, aligned with recommendations of the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD). We manage potential business risk of a regulated price on carbon, leading to higher raw material costs, by working with suppliers to manage their carbon footprint, embedding carbon information at raw material level in formulating systems and adopting an internal carbon price in investment proposals (see Notes 5 and 6 of the Sustainability statements).

We also set a value chain carbon reduction target and committed to carbon neutrality by 2050. We are capitalizing on increased demand for low carbon solutions and shifting our portfolio to low VOC water-based paint.

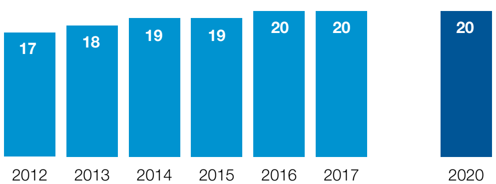
Resource Efficiency Index (REI)

The Resource Efficiency Index measures gross margin over carbon footprint, charting our long-term drive for margin growth decoupled from resource constraints.

In 2017, our volume grew in all areas. We also integrated an industrial coatings business acquired from BASF. As a result, our carbon footprint increased slightly, even though our emissions per ton of product went down. Combined with a lower gross margin, the Resource Efficiency Index equaled 106, compared with the 2012 baseline of 100.

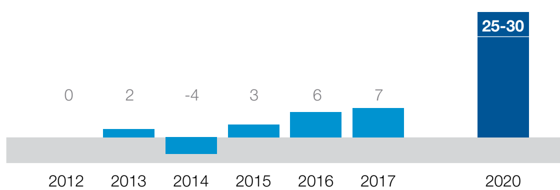
Target 20%

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

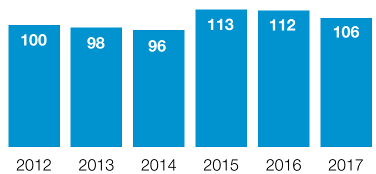


Target 25-30%

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



Resource Efficiency Index
gross margin/CO_2(e) indexed



For more details on our sustainability performance, please refer to the Sustainability statements.

How we created value in 2017

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth while accelerating profitability.

Economic value

Financial overview

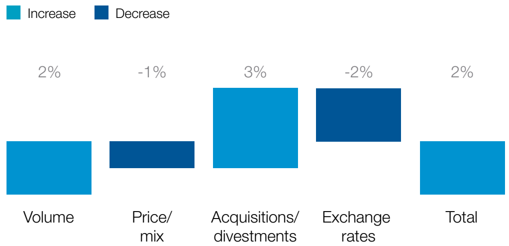
Revenue up 2% (up 4% excluding currency impact), mainly due to volume growth and acquisitions, partly offset by unfavorable currency and price/mix effects. Volumes 2% higher; up 7% for Decorative Paints, down 1% for Performance Coatings due to adverse conditions in the

Summary of financial outcomes

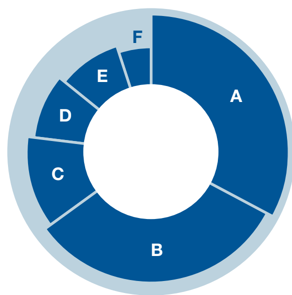
In € millions	2016[1]	2017	Δ%
Revenue	9,434	9,612	2
EBIT	928	905	(2)
Operating income	923	825	(11)
ROS %[2]	9.8	9.4	
OPI margin %	9.8	8.6	
Average invested capital	6,422	6,494	
ROI (in %)[2]	14.4	13.9	
Capital expenditures	278	250	
Net debt	1,252	1,951	
Number of employees	36,300	35,700	
Net income from continuing operations	538	443	(18)
Net income from discontinued operations	432	389	
Net income attributable to shareholders	970	832	(14)
Earnings per share from total operations (in €)	3.87	3.31	
Adjusted earnings per share from continuing operations (in €)	2.38	2.56	
Adjusted earnings per share from total operations (in €)	4.15	4.40	
Net cash from operating activities	1,291	969	

[1] Represented to present the Specialty Chemicals business as discontinued operations.
[2] ROS% = EBIT/Revenue. ROI (in %) = 12 months EBIT/12 months average invested capital.

Revenue development in % versus 2016

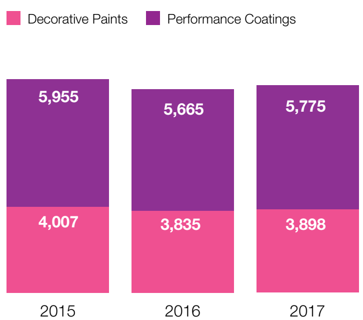


Revenue by destination in %



A Mature Europe	33
B Asia Pacific	32
C North America	12
D Latin America	9
E Emerging Europe	9
F Other regions	5

Revenue in € millions



marine, and oil and gas industries. EBIT at €905 million (2016: €928 million), due to higher raw material costs, partly offset by increased selling prices, continuous improvement and cost control. ROS at 9.4% (2016: 9.8%). ROI at 13.9% (2016: 14.4%).

Revenue

Revenue up 2% (up 4% excluding currency impact) and in both Business Areas, mainly due to volume growth and acquisitions, partly offset by unfavorable currencies and price/mix effects.

- In Decorative Paints, revenue was up 2% (up 4% excluding currency impact), driven by strong volume growth, partly offset by adverse currencies and price/mix effects. Volumes were up 7% overall, with positive developments in all regions
- In Performance Coatings, revenue was up 2% (up 4% excluding currency impact), mainly due to the acquired industrial coatings business, partly offset by adverse currencies. Volume growth for most segments and regions was more than offset by lower volumes in the marine, and oil and gas industries

Acquisitions

The impact of acquisitions on revenue was 3% for AkzoNobel and 5% for Performance Coatings.

- In Q4 2017, we completed the acquisition of the business of V.Powdertech Co., Ltd., the leading Thai manufacturer of powder coatings
- In Q3 2017, the acquisitions of Flexcrete Technologies Ltd. and Disa Technology (Disatech) were completed
- In Q4 2016, the acquisition of BASF's Industrial Coatings business was completed

Raw material price development

Raw material prices in 2017 were higher compared with the previous year. We are taking appropriate measures to deal with higher raw material prices in an inflationary environment.

It is expected to take several quarters before the necessary mitigating impact of these measures is fully realized.

EBIT

EBIT at €905 million (2016: €928 million), impacted by higher raw material costs, partly compensated by increased selling prices, continuous improvement and cost control.

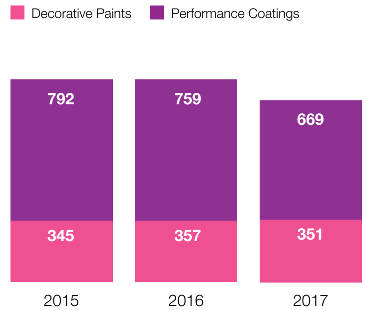
- In Decorative Paints, EBIT was 2% lower, due to adverse currency effects. Steep increases in raw material costs were offset by continuous improvement and cost control
- In Performance Coatings, EBIT was 12% lower, impacted by higher raw material costs and lower volumes, mainly due to adverse conditions in the marine, and oil and gas industries, partly compensated by continuous improvement and cost control
- EBIT in Other activities improved due to lower corporate costs, including one-off items, as well as lower pension and insurance related costs

Operating income

Operating income was negatively impacted by identified items totaling €80 million, mainly related to the transformation of the Paints and Coatings organization and legal items. The identified items impacted operating income in Other activities, as well as Decorative Paints and Performance Coatings.

In 2016, operating income was negatively impacted by identified items totaling €5 million, including acquisition and integration related costs of the acquired Industrial Coatings business, asset impairments and adjustments to post-retirement provisions.

EBIT in € millions



Cash flows and net debt

Operating activities in 2017 related to continuing and discontinued operations resulted in cash inflows of €969 million (2016: €1,291 million).

Profit for the period was impacted by identified items related to the new strategy to create a focused, high performing Paints and Coatings business, and to the separation of the Specialty Chemicals business.

In 2017, a €500 million bond was launched at attractive terms, with a two-year maturity, at a coupon of three months Euribor plus 0.2% mark-up, floored at zero percent.

At December 31, 2017, net debt was €1,951 million, versus €1,252 million at year-end 2016. The increase is mainly due to the €1 billion special cash dividend and the share repurchase program.

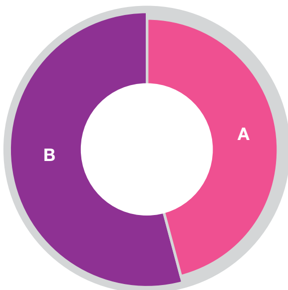
Invested capital

Invested capital at year-end 2017 totaled €6.0 billion (year-end 2016: €10.3 billion).

Invested capital at year-end 2017 was impacted by the held-for-sale accounting of the Specialty Chemicals business.

Allocation of 2017 capital expenditures of €250 million in % (2.6% of revenue)

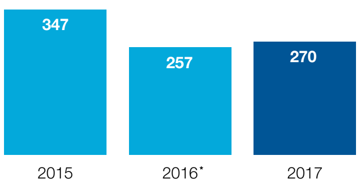
A	Decorative Paints	46
B	Performance Coatings	54



Innovation

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

Innovation investments
research and development expenses in € millions



* 2016 is represented to present the Specialty Chemicals business as discontinued operations.

Eco-premium solutions*

We achieved 20% of total sales from eco-premium solutions with customer benefits, in line with our 2020 target of 20%.

Another 21% of sales met the eco-performer criteria, having clear sustainability features and being at least as good as mainstream alternatives.

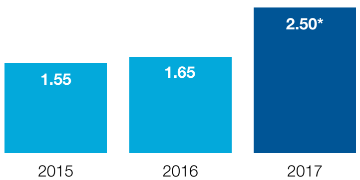
For more details, see Note 1 of the Sustainability statements.

*Including discontinued operations.

Dividend

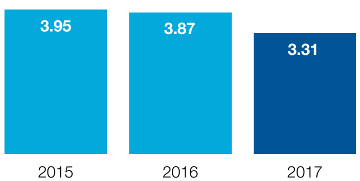
Our policy is to pay a stable to rising dividend. In 2017, an interim dividend of €0.56 per share (2016: €0.37), with the option to elect stock dividend, was paid. We will propose a final dividend of €1.94 per share, making a total 2017 dividend of €2.50 (2016: €1.65) per share, up 52%. A €1 billion special cash dividend was also paid on December 7 as advance proceeds for the Specialty Chemicals separation.

Dividend in €

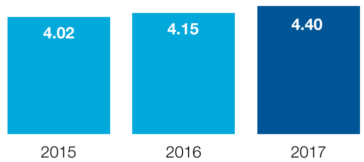


* Proposed. Excludes special cash dividend of €4.00 per share paid as advance proceeds related to the separation of Specialty Chemicals.

Earnings per share total operations in €



Adjusted earnings per share in €



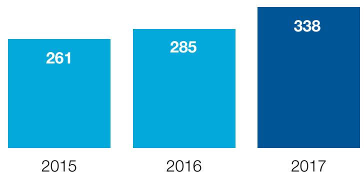
Net financing income and expenses

For the full-year, the net financing income and expenses decreased, mainly due to lower interest on provisions.

Income tax

Full-year effective tax rate for continued operations was 33% (2016: 28%), impacted by US tax reform, several adjustments to prior years and de-recognition of deferred tax assets due to the Specialty Chemicals separation. Effective tax rate going forward is expected to be 27%.

Income tax paid in € millions



Outlook

Headwinds experienced during 2017, including higher raw material costs and adverse effects from foreign currency, are projected to continue in 2018, especially during the start of the year.

We anticipate ongoing positive developments for Decorative Paints in all regions, particularly Asia. Trends for Performance Coatings are expected to be positive for most segments and regions, while still challenging for Marine and Protective Coatings.

We continue implementing various measures to mitigate current market challenges, including increased selling prices and cost discipline. Our “Winning together – 15 by 20” strategy will create a focused Paints and Coatings company and deliver our 2020 guidance.

Environmental value*

Cradle-to-grave carbon footprint

Cradle-to-grave carbon footprint is an important measure of resource productivity. Carbon footprint per ton of sold product has reduced 7% since 2012. Emissions from our own production are 9% lower than in 2016.

We continued to work with our suppliers and have increased sales of paints with a lower carbon footprint in Asia.

For more details, see Note 6 of the Sustainability statements.

Energy

The energy we use at our sites contributes about 15% to our cradle-to-grave carbon footprint. Renewable energy is an important aspect of the improvements required to reduce our carbon footprint.

The proportion of renewable energy in our operations increased to 45%.

For more details, see Note 6 of the Sustainability statements.

Raw materials

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 2017, 11% of all our organic raw materials came from bio-based (renewable) sources.

For more details, see Note 6 of the Sustainability statements.

Operational eco-efficiency program

The focus of the operational eco-efficiency program is to increase efficiency in the use of raw materials and energy and decrease emissions and waste in our own operations. It is an important way to drive out cost.

In 2017, we further improved our eco-efficiency, resulting in an improvement of 31% since 2009, with significant improvements on the individual eco-efficiency parameters, such as waste, VOC, carbon, NOx and SOx emissions.

For more details, see Note 7 of the Sustainability statements.

Waste

Effective raw material management helps to reduce waste 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 5%, while total waste volume was down by 4%.

For more details, see Note 7 of the Sustainability statements.

Social value*

Employees

At year-end 2017, the number of employees decreased by 1% to 45,400 people (year-end 2016: 46,000 people).

For more details, see Note 5 of the Consolidated financial statements.

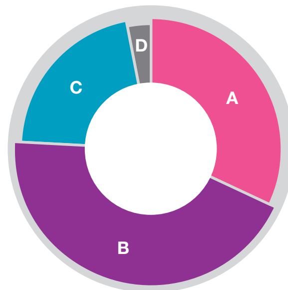
*Including discontinued operations.

Employees

45,400 at year-end 2017

Employees by Business Area in %
at December 31, 2017

A Decorative Paints	32
B Performance Coatings	44
C Discontinued operations	21
D Other	3



Safety

The number of reportable injuries reduced by 27% compared with 2016, while the injury rate is now at the target level set for 2020 (0.20 per 200,00 hours worked).

Lost time injuries and contractor injuries also continued to go down.

For more details, see Note 9 of the Sustainability statements.

Programs

During 2017, we carried out 332 societal projects with a total budget spend of about €3 million and the support of 4,821 AkzoNobel volunteers.

In addition, we supplied 148,237 liters of paint for our social projects during the year.

For more details, see Note 11 of the Sustainability statements.

Integrated materiality diagram

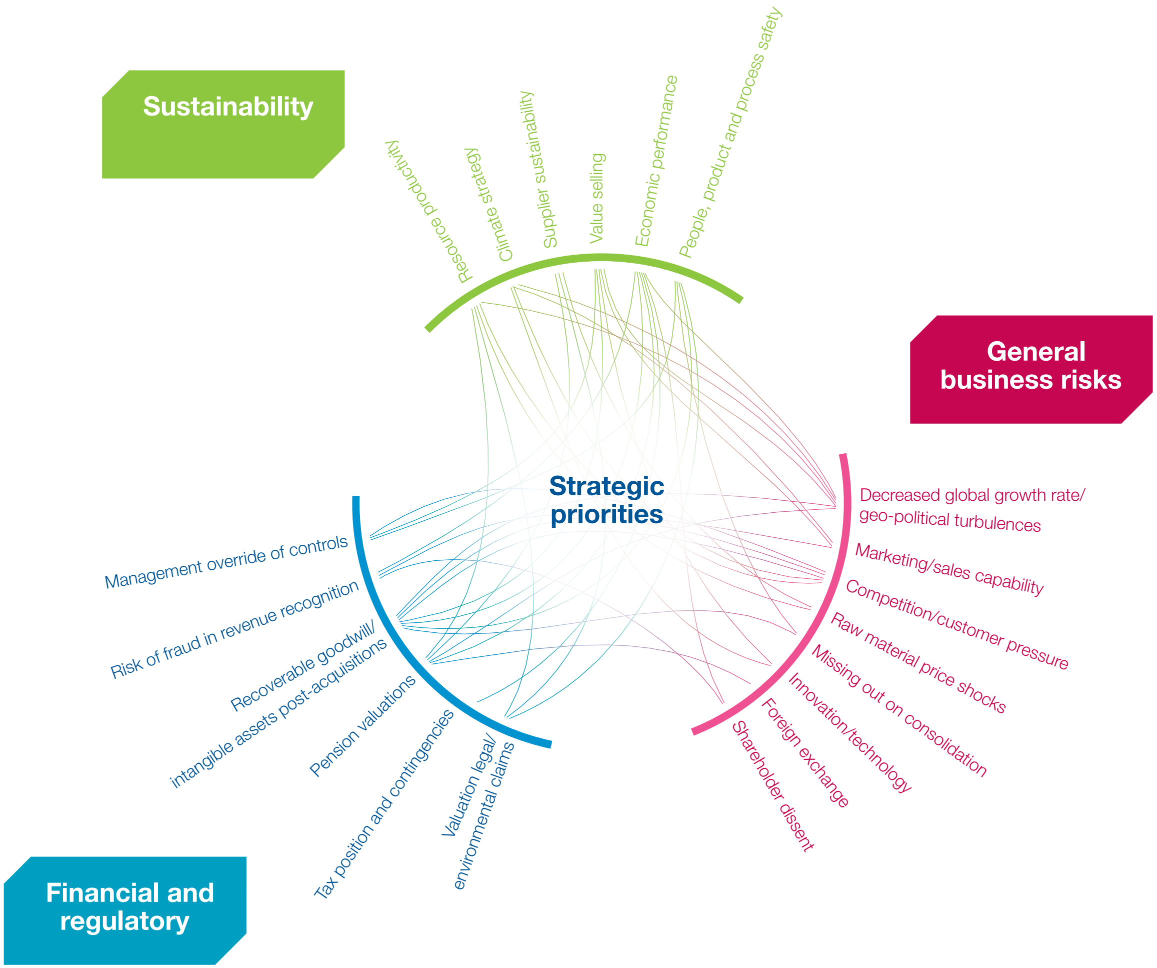
We have updated our materiality analysis following a holistic review of major risks, issues and opportunities, fully aligned to our strategic focus areas. The rationale behind this integrated annual exercise is to ensure we have programs in place to capitalize on key opportunities, as well as mitigation plans that address key risks.

The materiality analysis is not a static exercise. This year, we added a number of new topics, while the level of importance of some existing topics changed from last year. We also reduced the number of key risks for added focus.

For example, we have added shareholder dissent as a risk due to possible concerns being raised about our strategy and/or performance. As you will read in this Report 2017, we have been working hard to improve shareholder relations and ensure we maintain a continued and constructive dialog.

From a sustainability perspective, value selling and resource productivity are now the most important opportunities for driving short and long-term value for our stakeholders.

The materiality review has shown that our Code of Conduct and strategic actions are addressing all the updated key opportunities and risks. It also highlighted that our three categories (General business, Sustainability, and Financial and regulatory risks) have links and overlaps, underlining our integrated approach.



The way we have depicted the materiality analysis in the above diagram has changed from previous years. In 2016, we used an indicative representation, but this year we are displaying the actual links between categories for increased clarity and transparency.

Managing our key opportunities and risks in a 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 Board of Management and the Executive Committee are 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 and risk appetite

Our risk management framework is in line with the Enterprise Risk Management – Integrated Framework of COSO and the Dutch Corporate Governance Code, and provides reasonable assurance that our business objectives can be achieved and our obligations to customers, shareholders, employees and society can be met.

Clarity on risk appetite, along with the boundaries that determine the freedom of action or choice, is provided to all managers and differs per objective area and type of risk: strategic, operational, financial and compliance.

For more information on our risk management framework, visit: www.akzonobel.com/risk-management-framework

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

Medium-term risks

Risk management in 2017

Enterprise risk management is a company-wide activity, under the responsibility of the Board of Management and the Executive Committee, which ensures we focus on the areas of major risk exposure.

During 2017, we held 84 enterprise risk management workshops. They identified around 1,700 unique risk scenarios, which were prioritized by responsible management teams and functional experts. The outcomes of all risk analyses are included in risk profiling and trend analysis and shared by managers across the company at different levels.

Our initial focus is on major risks that may impact achievement of our strategy in the next three-to-five years (medium-term risks). We also recognize there are relevant risk factors beyond the five-year horizon that could impact our strategy (long-term risks). Both risk categories feature in this chapter on the understanding they are not exhaustive lists. There may be current risks the company has not fully assessed, or that are currently identified as not having a significant impact, which could, at a later stage, develop into a material impact.

As well as risks listed in this section, our 2017 risk landscape changed due to the decision to separate Specialty Chemicals, and the actions of an activist shareholder.

The separation of Specialty Chemicals is not without risk. We have, however, assessed a complete set of risks and mitigating measures which we believe adequately address:

- All aspects – legal, operational, human and economic – of the path to separation
- The options to divest or demerge
- The challenges that lie beyond the separation for the Specialty Chemicals, and Paints and Coatings businesses

During 2017, we intensified our discussions with shareholders. We will continue to develop this, and our communication with other stakeholders.

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.

External – Strategic	
• Global economy and the geo-political context	■
• International operations	■
• Strategic moves in our value chain	■

External – Operational	
• Sourcing of raw materials and energy	▲
• Product liability	■
• Environmental risks and liabilities	■
• Information technology	▲

External – Financial	
• Post-retirement benefits	■
• Fluctuations in exchange rates	■

External – Compliance	
• Complying with laws and regulations	▲

Internal – Strategic	
• Innovation, identification and successful implementation of major transforming technologies	■

Internal – Operational	
• Attraction and retention of talent	▲
• Production process risks	▼
• Management of change	▲

Risk has been assessed to increase	▲
Risk has been assessed to decrease	▼
Risk has been assessed to remain fairly stable	■

External - Strategic

Global economy and the geo-political context

The world's geo-political situation remains unpredictable and, despite an improved economic outlook, we continue to operate in highly competitive markets that require us to carefully manage cost and complexity and develop a good understanding of end-user segments. Failure in this area could have an immediate impact on market share and margins and 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 to further standardize core functional processes in all regions
- Further deploy our commercial excellence programs and more sustainable product solutions to capture organic growth
- Develop alternative business models – e-commerce, partnerships with start-ups
- Have contingency plans prepared for a select number of scenarios, dealing with geographical or segment slowdowns

External - Strategic

International operations

As a global business we are exposed to a variety of risks, many beyond our control, such as unfavorable geo-political, social or economic developments and developments in laws, trade policies, regulations and standards. Our ambition to grow the business across the globe will further expose us to these risks.

Mitigating actions

- Strategically spread activities geographically and serve many sectors
- Carefully monitor the political, economic and legislative conditions across the globe
- Refer major investment decisions to Executive Committee
- Combine implementing international compliance standards with local transparency and accountability

External - Strategic

Strategic moves in our value chain

An accumulation of strategic moves (horizontally and/or vertically) impacts our competitive position and/or increases the vulnerability of operations. Further consolidation renders acquisitions more expensive, makes possible anti-trust implications larger and the required synergy targets more difficult to achieve.

Mitigating actions

- Competitive intelligence analysis of (new) competitors, customers and suppliers
- Strengthen M&A and integration capabilities
- Enhance pipeline of viable market and technology opportunities for mergers and acquisitions, focusing on strategic rationale
- Pro-actively explore M&A outside auction processes

External - Operational

Sourcing of raw materials and energy

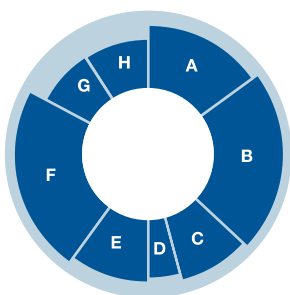
Prices for key raw materials and energy can be volatile, are affected by economic conditions and regulations and have a direct impact on margins. In addition, there is a non-level playing field on a global level (e.g. shale gas, national policies, subsidies), which affects our competitive position. The chart below shows our relative spend on these key raw materials, excluding energy.

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, demand forecasting and margin-impact assessment
- Our Supplier Sustainability Program is embedded in our sourcing strategy, selection and management process to ensure compliance of critical suppliers, while also driving continuous improvements. We are also active in several industry groups

Breakdown of total raw material spend* in %

A Additives	15
B Chemicals & intermediates	22
C Latex & monomers	9
D Pigments & colorants	4
E Packaging	10
F Resins & precursors	23
G Solvents	8
H Titanium dioxide	9



* Total operations.

External - Operational

Product liability

High impact product liability claims, while unlikely, could follow from the use of former, current or new technologies and compounds.

Mitigating actions

- Quality improvement programs across the company
- Product stewardship and regulatory affairs integrated in RD&I, HSE&S and sustainability agenda
- Tailored insurance coverage for product liability claims

External - Operational

Environmental risks and liabilities

Due to the nature of our business, we use – and have used – potentially hazardous compounds 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 costs of regulatory compliance and claims.

Mitigating actions

- HSE&S principles are embedded in our training programs and work ethic
- Contingency plans and assignment arrangements are in place to mitigate material operational risks
- Mandatory annual environmental liability reviews are conducted
- Corporate directives cover recurring risk categories
- Environmental standards and regulations are integrated in plant design
- Provisions for environmental clean-up cost or indemnifications are recognized against earnings
- Innovation efforts to remain at the forefront of new, sustainable product introductions

External - Operational

Information technology

The company's longer term IT strategy means we increasingly rely on fewer consolidated critical applications, including industrial process control systems. As the number of digital exchanges of business transactions is increasing, the non-availability of IT systems, or unauthorized access, can have a direct impact on our business processes, competitive position and reputation.

Mitigating actions

- Focus on measures such as redundant design, back-up processes, virus protection, anti-spoofing, advanced forensic scanning and mission critical infrastructure support
- Centrally monitor access control processes and identity and access enhancements
- Improve and test end-user awareness and behavior via cyber-security campaigns and e-learning
- Roll-out of the new IM security standard for industrial control systems to all manufacturing locations
- Further test and improve the IT security response and incident management process

External - Financial

Post-retirement benefits

Our current policy is to contribute to defined contribution schemes wherever possible. A number of defined benefit pension and healthcare schemes from the past are generally 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 and demographic risks associated with all our defined benefit plans, for example through hedging interest rates, inflation and mortality risks via investment in longevity and bulk annuity policies

External - Financial

Fluctuations in exchange rates

With operations in more than 80 countries and reporting in euros, we are exposed to currency fluctuations.

Mitigating actions

- A centralized treasury function managing foreign currency exposure (see Note 24 of the Consolidated financial statements)
- Risk reduction through local-for-local production
- Strive for natural hedges in our main currencies to reduce transactional exposure

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 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 and training 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

Internal - Strategic

Innovation, identification and successful implementation of major transforming technologies

Our success and leadership positions depend on the sustainable growth of our business through research, development and innovation in order to foster the adoption of major transforming technologies.

Mitigating actions

- Prioritize funding for technology road maps and innovation strategies
- Enhance our global open innovation capability
- Invest in promising venture funds
- Explore acquiring/partnering with innovative start-ups

Internal - Operational

Attraction and retention of talent

Ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce across the globe is an increasingly complex process. At the same time, it determines to a large extent the success of our organization.

Mitigating actions

- Strengthen AkzoNobel's employee value proposition, based on the company purpose and brand
- Further improve talent and succession action planning
- Fully embed leadership behaviors in our Performance and Development Dialog annual appraisal
- Deploy the AkzoNobel Academy to the full extent

Internal - Operational

Production process risks

Production process risks arise from areas such as personal health and safety and process and product safety, and can impact our organization and reputation and cause business continuity risks.

Mitigating actions

- ALPS is being implemented to drive continuous improvement and operational excellence
- Operate under state-of-the-art safety requirements for our manufacturing and RD&I sites (e.g. AkzoNobel People, Process and Product Safety Common Platform)
- Ongoing business continuity planning and risk transfer arrangements

Internal - Operational

Management of change

To support the implementation of our strategy, we continue to implement important changes in our operating model across the entire company.

Mitigating actions

- Focus on core principles and values to set desired behavioral changes in motion
- Embed project and change management in the curriculum of the AkzoNobel Academy
- Roll out principles of commercial excellence in all levels of the organization
- Combine sales and marketing under the responsibility of the newly created role of Chief Operating Officer
- Accelerate the adoption of a new organizational model through the creation of a Planning and Transformation Office
- Continue the journey of creating fit-for-purpose support functions to drive synergies and standardization and leverage expertise at a company-wide level

In May, our high-end Levis paint brand was officially launched onto the market in China at a special event staged in Shanghai. The introduction is designed to further strengthen the company's competitiveness in the Chinese decorative paint market.

Long-term risks

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. We monitor the development of these risks as part of our risk management process and include them in our overall strategic assessment.

The most significant long-term risks we observe are:

- Public concern over specific substances and their environmental impact (such as hazardous substances, plastics/synthetic polymers, fossil fuels), could result in major changes in our markets
- Emerging technologies – including downstream process technology, digital and cybercrime – transforming our markets, the application of our products and supply chains and triggering the introduction of an ever more stringent legal and regulatory environment
- Failing to listen to, and engage with, an ever-widening field of stakeholders and address their social and environmental concerns, leading to reputation and financial damage
- Not making sustainable business imperatives an integral part of economic value creation, due to variable maturity of markets, as well as real and perceived differences in risks and opportunities
- Increased instability due to a rise in national sentiment, increased public pressure to move away from globalization, increased geo-political tensions and failure of national and supranational governance, having a negative impact on business and an effective global response to climate change, or man-made environmental damage in general

Established in 1931, the Dulux brand (a combination of the words "durable" and "luxury") is now officially recognized as a mega-brand and is a firm favorite for consumers in countries around the world.

The first paint brand to advertise on TV, Dulux continues to innovate, develop exciting colors and introduce new functionality. In 2017, new product launches included Dulux Wood Charm – a water-based woodcare product for the Asian market – and Dulux Biocare, an interior paint which will help boost the sustainable development of China's eco-friendly residential repainting market.

Business performance

The following section gives a detailed summary of how each of our businesses performed during 2017. Information on market characteristics is also provided.

Paints and Coatings

During 2017, we introduced a new organizational set-up for Paints and Coatings in preparation for AkzoNobel's future as a focused paints and coatings company. Ruud Joosten (pictured right) became Chief Operating Officer, while David Allen (left) was appointed Chief Supply Chain Officer. Part of a major strategic restructuring, David is now responsible for making our paints and coatings, while Ruud is responsible for marketing and selling them. Here, they reflect on the year's events.

Things are rarely dull when you are part of a rapidly consolidating global industry sector and so it proved in 2017. It will no doubt be remembered as one of the most eventful years in AkzoNobel's long history, but along with that came new opportunities.

Operating in such a dynamic, competitive environment had its challenges, and while we experienced difficulties in certain markets, others proved more favorable due to a combination of regional demand, changing consumer preferences for bio-based products and ongoing technological advancements. The strength of our brands and products also drove overall performance as we leveraged our scale and continued to invest in water-based technologies and digital solutions to support the growing needs of our customers.

The Paints and Coatings organization is therefore looking ahead with confidence. We are creating a world-leading company capable of driving faster business planning and are well positioned to accelerate growth and enhance profitability. We have a clear strategy to grow our business, develop our world class brands and color expertise and continue driving our digital and innovation agendas. And we have the organization in place to enable optimal alignment between business needs and operational and supply chain delivery. We're convinced it's the natural next step in our evolution as we remain committed to working closely with our customers and firmly establishing ourselves as the number one choice.

Our clear strategic focus ensured we made steady progress with our growth ambitions during the year, securing three acquisitions. In July, we announced a double deal for the UK's Flexcrete Technologies Ltd. and French manufacturer Disa Technology (Disatech). Flexcrete manufactures industry-leading technical mortars and high performance coatings for concrete, while Disatech supplies innovative adhesive films used in the aerospace, transportation and industrial equipment sectors. This was followed in November by the acquisition of the business of V.Powdertech Co., Ltd., the leading Thai manufacturer of powder coatings (see page 11).

One of the main 2017 highlights was the opening of our new site in Ashington in the UK – the largest ever global investment in the company's paints activities. The world's most advanced and sustainable paint plant, it's the new center of production for our global mega-brand, Dulux,

"WE ARE CREATING A WORLD-LEADING COMPANY WHICH IS WELL POSITIONED TO ACCELERATE GROWTH AND ENHANCE PROFITABILITY" which is also the UK's leading decorative paint brand. We have taken the best technology available globally, improved on it and put it all under one roof, ensuring this new facility represents a significant step forward for the whole industry. It's also home to our second Dulux Academy, set up to help the UK painting and decorating industry meet the ever-growing demand for skilled professionals. In addition to Ashington, we opened a new €31 million coatings plant in Chonburi, Thailand, our ninth production site in South East Asia. We also inaugurated a new Aerospace Color Center in Dongguan, China, which will offer improved and faster service to existing and new customers.

The ability of these new plants to serve our customers faster and more reliably is crucial, which is why our new organizational structure is designed to not only drive operational synergies and standardization, but also leverage expertise across all our activities. The key to maximizing the power of our brands, accelerating our operational excellence benefits and working towards a lower cost to serve is Integrated Business Planning. It will be a driving force linking the needs of the business with our manufacturing capability

Ruud and David pictured with senior management from the Paints and Coatings businesses.

Our new Aerospace Color Center in Dongguan, China, will offer improved and faster service to new and existing customers.

and will be pivotal to ensuring we lower the cost of getting our products to our customers on time, in full.

This change in the way we operate will be fundamental to creating a fit-for-purpose Paints and Coatings organization (see pages 21 and 22 for more details). It will also create an even stronger platform for us to accelerate the introduction of new products and technologies – because meeting customer needs is at the heart of what we do. In 2017, we made solid progress in this area, most notably in creating global concepts such as Easycare – a highly durable interior consumer paint featuring unique stain repellent technology – which repels liquid spills, making them easier to wash away. It's being implemented in more and more countries and underlines our strategy of using our global leverage to win locally. For professional painters, we launched Sikkens Alpha Rezisto – which repels many common household stains – in numerous European countries. In addition, a new generation of BPANI (BPA non-intent) coatings for beer and beverage packaging was introduced, providing customers with more

It's estimated that the carbon footprint per liter of paint produced at our new Ashington site in the UK will be 50% lower, compared with facilities at the plants it is replacing.

sustainable and innovative solutions. Automotive Coatings also deployed its 10,000th Automatchic Vision device for perfect color matching.

Meanwhile, another digital innovation – our Visualizer decorating app – continued its remarkable success story. Downloaded nearly 20 million times to date (with 192 million visualizations being made in 2017 alone), it allows people to play with color ideas and see what rooms will look like, before anything is applied to the wall. Regularly upgraded with new features, it's just one of the ways in which we share our global expertise in color and design with customers and consumers (see page 47).

Other examples of how we worked closely with customers this year to successfully deliver advanced solutions include Carbeat, an industry first digital tool for vehicle repair shops which offers significant benefits by giving a real-time overview of the repair process. We also supplied the victorious Eindhoven University of Technology team in the World Solar Challenge with high performance coatings and technical expertise.

Partnerships are another way of sharing knowledge and know-how, and two other developments in 2017 – both closely related – enabled us to highlight our long-established maritime heritage. In June, we joined forces with The Ocean Cleanup for the largest clean-up in history. For the next five years, we'll be providing our advanced, biocide-free International coatings technology for their devices and equipment. The main aim during that time will be to remove half the plastic in the Great Pacific Garbage Patch. Our International and Awlgrip coatings also feature on all the boats in the Volvo Ocean Race, which started in October and is due to finish in June 2018. As the world's largest producer of marine coatings, with a maritime heritage stretching back more than a century, these two partnerships are a natural fit for AkzoNobel and perfect showcases for our expertise.

Another great partnership saw us team up with global peace movement MasterPeace. With walls so often being seen as a symbol of division, we worked with local artists and residents to paint 141 "Let's Colour" Walls of Connection in over 30 cities around the world. We also widened our partnership with SOS Children's Villages to include six new countries in 2018, further highlighting our ongoing commitment to contributing to the societies in which we operate.

From a financial perspective, it was a mixed year, with positive developments in some areas being offset by a series of negative impacts. Although raw material prices remained high, it's clear that our strategy to grow the Paints business is working, while in Coatings, aside from the challenges presented by the downturn in the marine, and oil and gas industries, we performed well in our other markets and made good progress while continuing to develop new and exciting products for our customers.

There were two main developments with regards to the Paints business during 2017. On a positive note, we saw volume growth in many parts of the world, especially Asia. However, the high price of raw materials impacted our results. We saw some recovery in European countries such as Turkey and Russia, while Latin America stabilized after a difficult period. There is ongoing uncertainty in the UK, but we command a strong leadership position with our Dulux brand and have signalled our intent to continue supplying the best possible products for our customers by opening the new world class plant in Ashington.

In Coatings, the Specialty, Powder and Automotive businesses all performed well, with Powder in particular benefiting from its global leadership position. The business continues to grow, with new sites under construction in India (Thane) and China (Changzhou). In fact, the Changzhou powder plant is the biggest of its kind in the world. It was a very different story for our Marine and Protective Coatings

Launched in November, Carbeat is an industry first digital solution for automotive repair shops which gives a real-time overview of the repair process and offers significant benefits.

business, due to the depressed shipbuilding industry and the sluggish oil and gas segment.

As we move forward into a new era for the organization, we will continue to look for synergies in terms of sales, marketing and innovation excellence. There are clearly many benefits to be gained from learning from each other in areas such as color, product development, sales,

During 2017, we teamed up with celebrity hot rod builder Dave Kindig, who hosts popular TV show Bitchin' Rides. Together, we designed and launched Modern Classikk, a new custom color line of automotive paints. The range includes 26 eye-catching colors that have never been seen on the road before.

marketing and digital innovation. For example, the work being done in Paints to convert to water-based products is clearly something we can transfer to Coatings. Similarly, pricing excellence initiatives from Coatings will be mirrored by initiatives in Paints. It will all contribute to achieving our 2020 financial guidance of 15% ROS* and ROI** in excess of 25%.

The most important factor in making all of this work will be our colleagues around the world, who take great pride in what they do. By working together as a single company with a single objective, we can realize our

vision of achieving a world class, customer-driven digital supply chain which operates at top quartile operational and financial performance levels. We are engaging all our employees to deliver on the sustainable business imperatives – value selling and resource productivity – by incorporating sustainability in their personal objectives.

It's an exciting time for the company and we're confident that our passion for paint and focus on powerful performance will ensure we deliver for all our stakeholders.

* Excluding unallocated corporate center costs; assumes no significant market disruption.
**Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

Decorative Paints value creation summary 2017

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.

Economic value: Organization

€3.9 billion
revenue

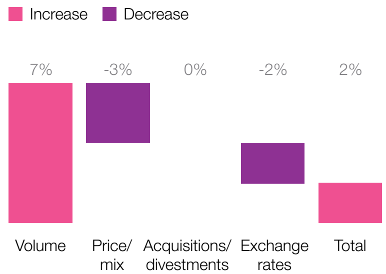
€351 million
EBIT

€2.7 billion
invested capital

€112 million
capital expenditures

During 2017, we invested in increased asset integrity in both growth and mature markets, while continuing to invest in selected growth projects, such as the Ashington (UK) state-of-the-art paint factory, officially inaugurated in September 2017, and the Langfang plant in China.

Revenue development in % versus 2016



Environmental value: Input

2.5 million tons
upstream CO_2(e) emissions

1,800 TJ
energy use

Organization

We continue to improve efficiency by reducing our energy use per ton of production, and are working towards improving our share of renewable energy. We continue to drive resource productivity to make the most of valuable raw materials and reduce environmental impact, while strengthening our business.

Social value: Input

14,400
employees at year-end 2017

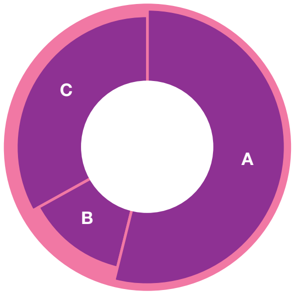
Organization

0.2
total reportable rate of injuries (per 200,000 hours)

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

Outcomes

Revenue breakdown by business unit
in %



A Decorative Paints Europe, Middle East and Africa	54
B Decorative Paints Latin America	13
C Decorative Paints Asia	33

9.0% ROS

12.5% ROI

27%
of revenue from eco-premium solutions with customer benefits, due to RD&I investments

Outcomes

0.1 million tons
CO_2(e) emissions own operations

30 kilotons
total waste

1.2 million tons
downstream CO_2(e) emissions

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

16%
improvement CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

Outcomes

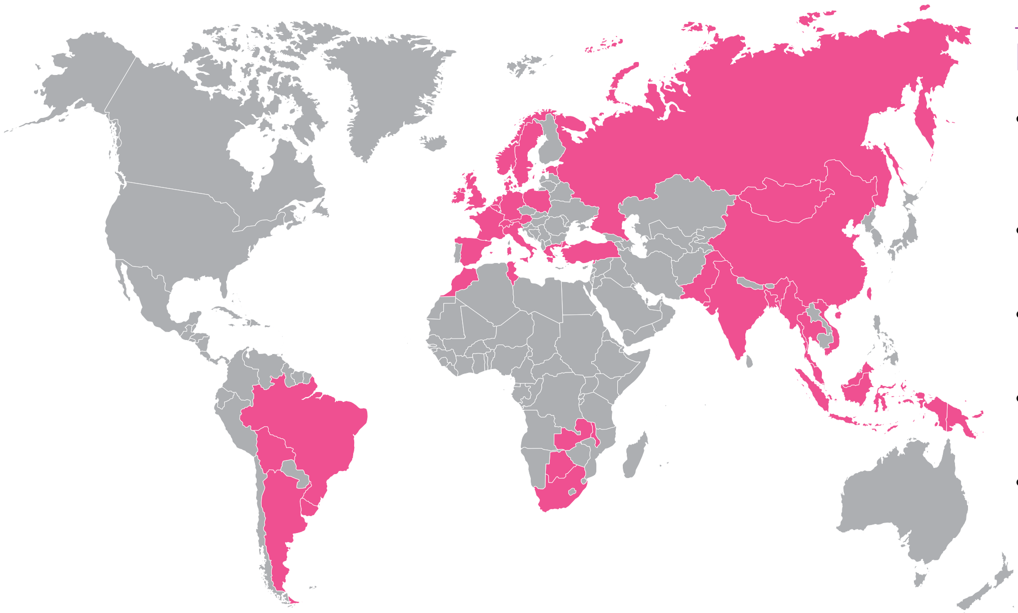
€676 million
employee benefits

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

1,460
people trained as painters

We participate in community programs and local sponsorships.

Decorative Paints key business developments



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

- Market share growth achieved in Europe and Africa, despite higher raw material costs, price increases in several countries and lower consumer confidence in the UK. We also saw growth in exterior products in Turkey and strong progress in our professional painters business in Belgium and the Netherlands
- We opened the world's most advanced and sustainable paint plant in Ashington, UK. The new center of production for Dulux – the UK's leading decorative paint brand – it represents the largest ever global investment in our paints activities
- Sikkens Alpha Rezisto was launched for professional painters in numerous European countries. The product's hydrophobic coating creates a surface which repels many common household stains
- Successful mid-tier consumer product launches took place in Russia, South Africa and Morocco, while new e-commerce initiatives were successfully launched in several countries, including the Netherlands, Poland and the UK
- Our UK business was awarded the Carbon Trust Triple Standard for the second time. It recognizes AkzoNobel as having the greatest positive impact on the environment

Some of our customers

- Bricomarche
- Leroy Merlin
- Kingfisher
- OBI

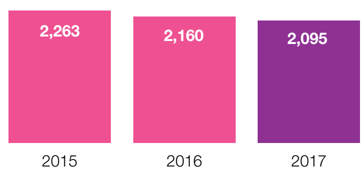
Key cost drivers

- Oil price
- Energy prices
- Titanium dioxide price

Top raw materials

- Binders/resins
- Titanium dioxide
- Packaging materials

Revenue in € millions

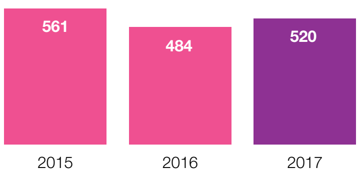


Key brands

Decorative Paints **Latin America**

- Revenue and volumes were up, despite economic weakness and political uncertainty in our key market, Brazil
- Launched Easycare premium wall paint across the region and aligned all markets to the Weathershield family of premium exterior wall paints
- Commercial excellence initiatives adopted by our distributor network in Brazil resulted in gains in store presence and sales. As a result, we were ranked #1 supplier among small retailers for the first time in a survey run by the construction retailers' national association
- A new water treatment plant was inaugurated at Mauá in São Paulo, which allows recycled water to be used to make paint. The facility expects to reuse 80% of its water in 2018 and 100% by 2020
- We also announced phase two of the Tangará Reserve project in Mauá, focused on preserving 700,000m^2 of Mata Atlântica forest that lies inside our site
- As part of our global "Let's Colour" initiative, artist Luna Buschinelli created a 2,500m^2 artwork at a school in Rio de Janeiro, using 1,000 liters of our Coral paint. It will feature in the next Guinness Book of World Records as the largest mural painted by a woman

Revenue in € millions

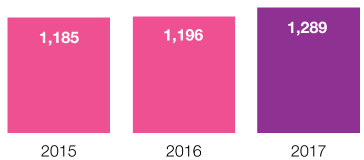


Key brands

Decorative Paints **Asia**

- We continued to perform well in 2017, achieving growth throughout Asia, despite continued higher raw material costs, which had an adverse impact across the region. India was also affected by the lingering effects of demonetization in the first half year, and the mid-year implementation of goods and services tax (GST)
- Product launches included Dulux Wood Charm, a water-based woodcare product, and Dulux Aqua Shield, a consumer waterproofing solution which has 60% thicker film and better water beading, enabling it to close cracks and prevent water seepage
- In China and North Asia, we relaunched our Levis brand and introduced Dulux Biocare, which is United States Department of Agriculture (USDA) certified and will help boost the sustainable development of China's eco-friendly residential repainting market
- We cooperated with Beijing Western Sunshine Rural Development Foundation to build a kindergarten for the Ruicong School in Langfang, China
- An agreement was signed with China National Sports Group and Dow Chemical to launch our first-ever partnership in the sports and education sectors. It involves embedding sustainable development practices into the construction and renovation of sports venues and school buildings across China

Revenue in € millions



Key brands

The much-anticipated trend reports we produce provide consumers and designers with exciting ideas to help coat products and transform living spaces.

Our color experts work with industry specialists to identify global trends and turn them into inspirational color palettes to ensure surfaces get the splash of color and caring touch they deserve.

INSPIRING OUR WORLD WITH COLOR

For hundreds of years, we've been helping to put color on just about anything you can imagine – in a way that's designed to make everyday life better.

Working with industry specialists, our color experts identify global trends and translate them into inspirational palettes to ensure that the walls in our homes, our electronics, furniture, vehicles and buildings get the splash of color and the caring touch they deserve.

Every year, our much-anticipated trend reports – such as ColourFutures, Trend Editions and our Color of the Year – provide consumers and designers with exciting ideas to help coat products and transform living spaces. Meanwhile, every four years, we update our Futura collection for powder coatings – a collaboration with leading trend consultants – which offers a new source of inspiration to architects and designers.

The comprehensive research which underlies these activities serves as the foundation for color innovation and inspiration across all our businesses. They work together with our Global Aesthetic Center in the Netherlands and a group of international specialists to identify societal trends and consumer behaviors. The aim is to better understand our global society and what we need from our environment. These trends are then translated into the colors that help shape our lives.

Our color design teams take this research a step further when determining what's needed for the next generation of phones, cars, buildings and consumer appliances. We know that when our customers paint or coat something, they care about it – and so should we. That's why our advice depends on truly understanding customers and their technical requirements. This insight helps us create the colors and textures that ultimately drive design choices.

We're also using digital innovation to make it easier for customers to take advantage of our color knowledge and expertise. Our popular Visualizer decorating app, for example, allows people to play with color ideas and see what rooms will look like, before any paint has been applied to the wall. It has been downloaded nearly 20 million times to date. Meanwhile, our highly successful Automatchic Vision tool is a revolutionary digital system which allows bodyshops to precisely measure and match the existing color on any area of a vehicle. We deployed our 10,000th device during 2017.

This collaborative process of working with in-house and global experts – and most importantly with our customers – ensures that we keep our finger on the pulse of global design and societal trends. It helps us stay one step ahead so we can lead the way in defining the colors that surround us every day.

"WE KEEP OUR FINGER ON THE PULSE OF GLOBAL DESIGN AND SOCIETAL TRENDS"

Click to watch video

Performance Coatings value creation summary 2017

Our Performance Coatings businesses supply 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.

Economic value: Organization

€5.8 billion
revenue

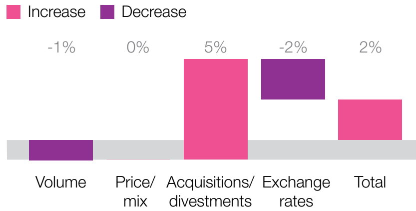
€669 million
EBIT

€2.9 billion
invested capital

€129 million
capital expenditures

During 2017, we invested heavily in capacity expansions in emerging markets, and more moderately in mature markets. Examples include the opening of our Changzhou powder coatings production facility in China, aimed at strengthening our leading position in North Asia. We also invested in a new powder coatings site in Thane, India. In addition, several efficiency improvement projects were carried out, mostly in Europe.

Revenue development in % versus 2016



Environmental value: Input

4.0 million tons
upstream CO_2(e) emissions

4,600 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 drive resource productivity to make the most of valuable raw materials and reduce environmental impact, while strengthening our business.

Social value: Input

19,900
employees at year-end 2017

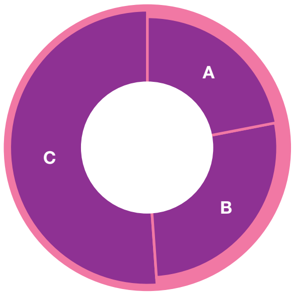
Organization

0.2
total reportable rate of injuries (per 200,000 hours)

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

Outcomes

Revenue breakdown by business unit
in %



A	Marine and Protective Coatings	22
B	Automotive and Specialty Coatings	27
C	Industrial and Powder Coatings	51

11.6% ROS

23.4% ROI

17%
of revenue from eco-premium solutions with customer benefits, due to RD&I investments

Outcomes

0.3 million tons
CO_2(e) emissions own operations

47 kilotons
total waste

8.3 million tons
downstream CO_2(e) emissions

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

5%
increase CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

Outcomes

€1,074 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.

We participate in community programs and local sponsorships.

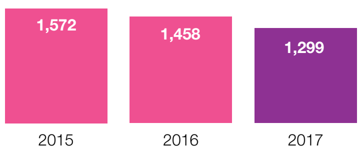
Performance Coatings key business developments

Marine and Protective Coatings

- Headwinds in the upstream oil and gas market depressed demand and impacted volume, while the marine sector continued to experience tough market conditions, mainly in new build
- Significant growth achieved in North America, despite extreme weather challenges
- Completed the acquisition of Flexcrete Technologies Ltd., a UK-based manufacturer of industry-leading technical mortars and high performance coatings for concrete
- Partnered with The Ocean Cleanup to provide advanced, biocide-free coatings for all their devices and equipment for the next five years
- Enhanced our leading position in the wind energy industry by successfully integrating the RELEST wind blade coatings technology and teams
- Announced a €13 million investment in Felling, UK, to establish an RD&I campus for protective coatings research, testing and simulation
- Achieved significant sales of Chartek 2218, our latest epoxy passive fire protection system
- Suite of digital tools introduced to help improve customer engagement and service

Key brands

Revenue in € millions



Some of our customers

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

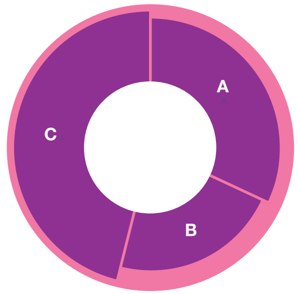
Top raw materials

- Epoxy resins and organic solvents
- Epoxies
- Curing agents
- Titanium dioxide

Key cost drivers

- Oil feedstock chain
- Metals, base chemical prices

Geo-mix revenue by destination in %



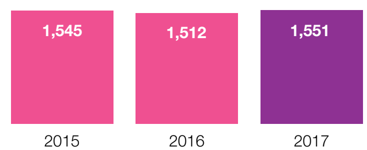
A EMEA	32
B Americas	22
C Asia Pacific	46

Automotive and Specialty Coatings

- Overall performance was strong, despite increasing raw material prices and a highly competitive environment
- Acquired Disa Technology, a French manufacturer of innovative technical marks and decorative film technologies, to boost our portfolio of liquid coatings and films
- Opened a hi-tech Automotive Training Center in Dubai, offering wet paint and powder services across multiple segments
- New Aerospace Color Center opened in Dongguan, China, to meet growing demand
- Successfully integrated part of BASF's Industrial Coatings activities into our Commercial Vehicle organization
- Deployed the 10,000th Automatchic Vision device for perfect color matching
- Rolled out new super yacht coating range and high performance antifouling yacht solutions
- Launched new range of additives and resins used in anti-fingerprint and easy-clean coatings for consumer electronics and automotive interiors
- Supplied the victorious Eindhoven University of Technology team in the World Solar Challenge with coatings and technical application expertise

Key brands

Revenue in € millions



Some of our customers

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

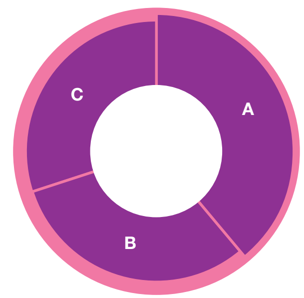
Top raw materials

- Acrylic resins
- Effect pigments
- Ester solvents
- Isocyanates

Key cost drivers

- Metals, base chemical prices
- Oil, energy prices

Geo-mix revenue by destination in %



A EMEA	39
B Americas	31
C Asia Pacific	30

Industrial and Powder Coatings

- Strong volume growth in Powder Coatings, while Industrial Coatings also achieved volume and revenue growth
- Acquired the business of V.Powdertech, the leading Thai manufacturer of powder coatings
- Three new Powder Coatings sites under construction in India and China (Changzhou). The Changzhou plant is the biggest of its kind in the world
- Opened a €31 million coatings plant in Chonburi, Thailand (serving several businesses, including Industrial Coatings), and a new powder coatings factory in Chengdu, China
- A new generation of BPANI (BPA non-intent) coatings for beer and beverage packaging was launched, providing customers with more sustainable and innovative solutions
- Wood Coatings continued to roll out its NDuraSilk range of high performance kitchen cabinet coatings, which offer increased efficiency in application
- Launched new Futura collection for powder coatings, an extensive range of highly durable and sustainable colors, finishes and textures developed with trend experts PeclersParis
- Integrating the relevant parts of the acquired BASF Industrial Coatings business into our activities

Key brands

AkzoNobel
Sikkens Wood Coatings
Interpon Powder Coatings
cromadex
Resicoat Experts in Functional Powder Coatings
Trinar
Aqualure™
Chemcraft
Polydure
Zweihorn

Some of our customers

- Arcelor Mittal
- Ardagh
- Ball
- Bluescope Steel
- Bosch
- Caterpillar
- Crown
- IKEA
- Lacquer Craft Furniture
- McDonalds
- Masterbrand Cabinets Inc.
- Nokia
- Philips
- Scania
- Siemens
- Tata Steel
- Whirlpool

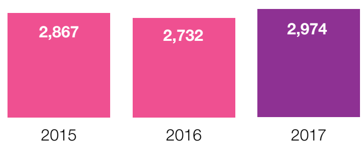
Top raw materials

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

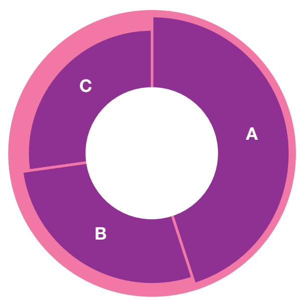
Key cost drivers

- 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	45
B Americas	28
C Asia Pacific	27

Specialty Chemicals

We achieved record results in 2017 and grew the business, despite currency headwinds and challenging conditions in some markets. Our solid track record of improving profitability, combined with a commitment to operational excellence and capturing long-term growth, mean we are in a strong position and ready to stand on our own feet as we separate from AkzoNobel in 2018.

In addition to our record financial performance, we also achieved the lowest safety incident rate in the history of AkzoNobel's chemicals business. Over the last two years, we have reduced our incident rate by 58%.

With the foundations in place, we are now focusing on the next stage of value creation – organic growth. This gained traction in 2017, driven by increasing demand from our customers. To satisfy this growing demand, we approved a series of debottlenecking investments and expanded several sites in all our key regions.

Meanwhile, construction of a new membrane technology plant in Germany was completed for the production of potassium hydroxide, chlorine and hydrogen – in a joint arrangement with Evonik – while in Spain, our Sal Vesta joint arrangement opened up new markets in the Mediterranean following the opening of a new packaging facility in Súria. We also broke ground at several locations, including a world-scale plant for monochloroacetic acid (MCA) in Gujarat, India (as part of a joint arrangement with chemical company Atul), and at our Kvantorp plant in Sweden (as part of a project to expand production capacity for chelated micronutrients).

"WE ARE IN A STRONG POSITION AND READY TO STAND ON OUR OWN FEET"

Werner Fuhrmann
CEO of Specialty Chemicals and member of the Executive Committee

For example, in China, we completed an expansion at our Boxing plant – significantly increasing Surface Chemistry's regional product portfolio – and boosted production capacity for dicumyl peroxide (DCP) at our Ningbo multi-site by 40%. We then announced plans to further increase DCP capacity in Ningbo by another 50% by Q3 in 2018. In North America, capacity for sodium hydrosulfide was increased in LeMoyne (US) to meet growing customer demand, while in Los Reyes (Mexico), we inaugurated a capacity expansion for the production of organic peroxides. Over in Brazil, we completed the expansion of the Chemical Island at the Fibria Três Lagoas site, which is now the largest single pulp mill in the world.

This activity throughout the year shows that we are investing all over the world and are continuing to satisfy the requirements of our customers.

Organic growth is also being stimulated through the introduction of new products and technologies. I'm particularly excited by the work being done in our Ethylene and Sulfur Derivatives business to develop a novel technology platform for the production of ethylene amines and their derivatives from ethylene oxide. In addition, a partnership with Itaconix was announced to develop innovative, bio-based chelates for use in cleaning markets. I was also very pleased to see our first Imagine Chemistry

Werner pictured with senior management from the Specialty Chemicals businesses.

innovation challenge prove to be such a big success. We received more than 200 entries and selected ten worthy winners for a variety of collaboration agreements. We have high hopes for the second edition, which is being staged in Sweden in mid-2018.

Looking briefly at how each business performed, Industrial Chemicals had a strong year, with high capacity utilization and good margins, while Pulp and Performance Chemicals also had an excellent 2017 and captured healthy growth opportunities. Ethylene and Sulfur Derivatives and Polymer Chemistry benefited from robust demand, and Surface Chemistry had a satisfactory year, after being held back by lower activity with regard to shale gas-driven drilling and oil and gas exploration. Fortunately, our sites suffered no significant damage due to Hurriance Harvey in the US, although in Q3 there were disruptions to the manufacturing and supply chain. Our employees deserve credit for dealing with the challenges it posed in a positive way. In terms of continuous improvement, the efficiencies resulting from the AkzoNobel Leading Performance System (ALPS) ensured we delivered more from constrained assets.

From a sustainability perspective, we were pleased to make an important contribution to the company being ranked number one in the Chemicals industry on the Dow Jones Sustainability Index. We also received the European Chemical Industry Council (CEFIC) Responsible Care® Award in the Environment Responsibility category.

Our work in this area continued to gather pace in 2017 as we led an initiative with DSM, Google and Philips in the Netherlands to enable and source green power from the Bouwdokken wind park. We also teamed up with a bio-steam facility in Delfzijl to reduce annual CO_2 emissions by around 100,000 tons. Our safety performance – which remains top of our agenda – continued to improve as well, as we move closer to our ambition of zero incidents.

Having announced the separation of the company into two focused businesses, along with new financial guidance, I am confident that Specialty Chemicals is well positioned to grow and prosper. We have a highly engaged workforce and we're looking forward to a new future.

Specialty Chemicals value creation summary 2017

We are a major producer of specialty chemicals, supplying key products to business-to-business customers. 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 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.

Economic value: Organization

€5.0 billion
revenue

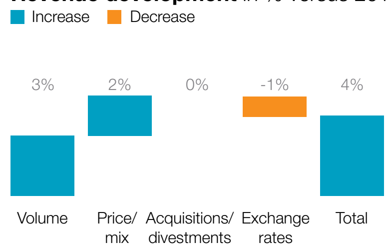
€689 million
EBIT

€3.6 billion
invested capital

€363 million
capital expenditures

During 2017, we invested in several asset integrity and efficiency improvement projects while continuing to invest in growth projects for specific segments. This included increasing Expancel production capacity in Sweden and building a world-scale plant for monochloroacetic acid as part of a joint arrangement with Atul in India. We also completed expansions in Mariager, Denmark, and in Boxing, China.

Revenue development in % versus 2016



Environmental value: Input

3.2 million tons
upstream CO_2(e) emissions

91,600 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 drive resource productivity to make the most of valuable raw materials and reduce environmental impact, while strengthening our business.

Social value: Input

9,000
employees at year-end 2017

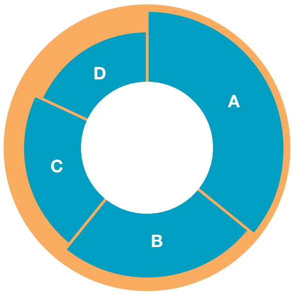
Organization

0.2
total reportable rate of injuries (per 200,000 hours)

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

Outcomes

Revenue breakdown by business unit
in %



A Functional Chemicals	36
B Industrial Chemicals	25
C Surface Chemistry	21
D Pulp and Performance Chemicals	18

13.8% ROS

19.1% ROI

19%
of revenue from eco-premium solutions, due to RD&I investments

Outcomes

3.0 million tons
CO_2(e) emissions own operations

60 kilotons
total waste

2.0 million tons
downstream CO_2(e) emissions

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

15%
improvement CO_2(e) per ton of sales from 2012 cradle-to-grave carbon footprint

Outcomes

€797 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.

We participate in community programs and local sponsorships.

Specialty Chemicals key business developments

Functional Chemicals

- Volume development was positive throughout the year
- Capacity for sodium hydrosulfide increased in LeMoyne (US) to meet growing customer demand. Capacity expanded for organic peroxides production in Los Reyes (Mexico)
- Investing over €10 million in Sweden to expand capacity for chelated micronutrients, primarily high performance iron chelates
- Launched Itaconix partnership to develop bio-based chelates for use in cleaning markets
- Boosted production capacity by 40% for dicumyl peroxide (DCP) at our Ningbo site (China) and announced plans to further increase capacity by another 50% by Q3 2018
- Plans being considered to build a world class EHEC cellulosic ethers plant to meet growing demand in the paints, and building and construction markets
- Increased supply of initiators to the PVC industry to meet strong customer demand
- Began relocation of Tianjin (China) organic peroxides site to Nangang industrial park
- Developed a novel technology platform for producing ethylene amines and their derivatives from ethylene oxide

Key brands

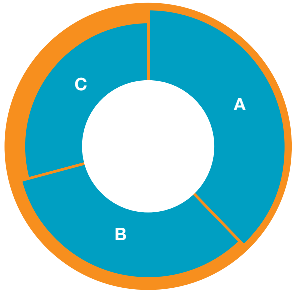
Bolikel XP, Ferrazone (This Iron Works), Bermocoll, Butanox, Elotex, Dissolvine (master the elements), Akucell (cellulose gum), Thioplast G

Revenue in € millions

Chemical platforms

Polymer Chemistry and Ethylene Oxide Network

Geo-mix revenue by destination in %



A EMEA	38
B Americas	33
C Asia Pacific	29

Some of our customers

- Evonik
- 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
- Cellulose

Industrial Chemicals

- Strong volume growth in salt and chlorine, despite bi-annual turnaround of Rotterdam plant
- Broke ground on a world-scale plant for MCA in Gujarat, India, as part of a joint arrangement with chemical company Atul
- Our Sal Vesta joint arrangement in Spain opened up new markets for us in the Mediterranean following the opening of a new packaging facility, located in Súria
- Led an initiative in the Netherlands with DSM, Google and Philips to enable and source green power from the Bouwdokken wind park, and teamed up with a bio-steam facility in Delfzijl which will reduce annual CO_2 emissions by around 100,000 tons
- Also in Delfzijl, we began investigating the possibility of producing green hydrogen, based on renewable energy
- Construction of new membrane technology plant in Germany completed for the production of potassium hydroxide, chlorine and hydrogen (in a joint arrangement with Evonik)
- Received the 2017 European Responsible Care® Award for our partnership approach to developing new value chains that enable substantial carbon footprint reductions

Key brands

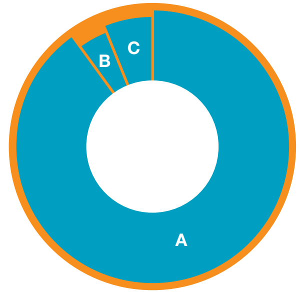
AkzoNobel, JOZO, KNZ, Suprasel

Revenue in € millions

Chemical platform

Salt-Chlorine chain

Geo-mix revenue by destination in %



A EMEA	90
B Americas	4
C Asia Pacific	6

Some of our customers

- Covestro
- Huntsman
- Shin-Etsu

Top raw materials

- Energy
- Acetic acid
- Salt

Key cost drivers

- Energy
- Methanol

Pulp and Performance Chemicals

- Volumes grew substantially in our core markets throughout 2017
- More than €20 million invested in Sweden to expand capacity for the Expancel product line, with completion due by the end of 2018
- Completed the expansion of the Chemical Island at Fibria's Três Lagoas facility in Brazil – now the world's largest single pulp mill. The expansion included the installation of a second chlorine dioxide plant and increased space for chemical storage and logistics
- Six new product applications launched and commercialized within product brands for Levasil (colloidal silica), Expancel (expandable microspheres) and Kromasil. They will spur growth in the fluid catalytic cracking, food packaging and pharmaceutical markets
- Our new integrated supply chain strategy has resulted in cost productivity improvements and capacity increases catering for additional volume for growth from existing assets
- Termination of the remaining toll manufacturing for the divested Paper Chemicals business
- Considerable efforts to improve safety and safety behavior resulted in a continuous reduction of incidents, with a record low incident rate in 2017

Key brands

eka, Expancel, Kromasil, Levasil Colloidal Silica

Chemical platform

Bleaching Chemicals and Performance Chemicals

Some of our customers

- Cabot
- Diam
- Domtar
- Fibria
- Fujimi
- Sanofi
- SCA
- Suzano

Top raw materials

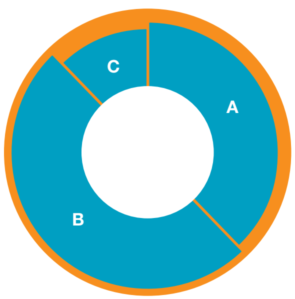
- Energy
- Salt
- Sodium silicate

Key cost drivers

- Energy
- Logistics

Revenue in € millions

Geo-mix revenue by destination in %



A EMEA	38
B Americas	50
C Asia Pacific	12

Surface Chemistry

- Positive growth achieved despite unplanned supply chain interruptions, especially in Q3 due to Hurricane Harvey in the US
- Strong volume growth in Asia, while we also capitalized on regulatory changes in high growth markets
- Strong progress in the cleaning, personal care and lubes and fuels segments; Nonyl Phenol ethoxylates were successfully replaced in the asphalt and cleaning segments
- In the cleaning segment, we were recognized by the US Environmental Protection Agency as Safer Choice Partner of the Year
- Completed an expansion at our Boxing site in China, significantly increasing our regional product portfolio and reconfirming the company's commitment to Asia

Key brands

Dermacryl® Film Forming Polymers, Morwet™, Armovis® Stimulation Surfactants, Lilaflot™, Berol®, Amphomer®

Chemical platform

Surfactants, Polymers

Some of our customers

- Altana
- Baker Hughes
- Lubrizol
- Monsanto
- Procter & Gamble
- Ferrexpo Poltava

Top raw materials

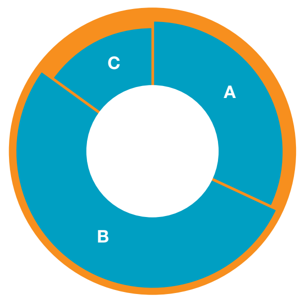
- Animal fats
- Ethylene oxide
- Vegetable oils

Key cost drivers

- Natural oils and fat
- Ethylene
- Oil and gas

Revenue in € millions

Geo-mix revenue by destination in %



A EMEA	32
B Americas	53
C Asia Pacific	15

TURNING GREAT IDEAS INTO REALITY

It began with more than 200 hopeful start-ups pitching their bright ideas for sustainable chemistry solutions – and ended with ten worthy winners securing a variety of collaboration agreements with AkzoNobel's Specialty Chemicals business and various partners.

"WE WANT TO SEE OUR PRODUCT COME TO MARKET AND HELP MAKE THE WORLD A BETTER PLACE"

In many ways, the company's inaugural – and hugely successful – Imagine Chemistry start-up challenge has proved to be just the beginning of an exciting journey for all involved.

Launched in early 2017, start-ups and researchers from around the world were invited to help solve real-life challenges faced by our Specialty Chemicals businesses. Twenty of those who entered were selected to attend the finals in Deventer, the Netherlands, where over the course of three days they worked with experts in research, business and finance to further improve their ideas.

After much deliberation, three start-ups walked away with joint development agreements to help bring their ideas to market. Their projects focused on: a sustainable alternative to polyacrylates, used – among others – to make thickeners for personal care products; a new process to turn CO_2 and natural gas into key chemicals such as ethylene oxide; and a solution to create cellulosic products from plant biomass with the help of pressurized water.

One team also secured a long-term agreement which will see Specialty Chemicals provide expertise and support to further develop their idea of scalable, low-cost, post-bioreactor dewatering.

Noah Helman of Industrial Microbes – one of the three joint development agreement winners – summed up the enthusiasm of all the finalists: "Like all the teams, we are excited and honored to have been selected," he said.

Added Peter Nieuwenhuizen, Global Research, Development and Innovation Director for Specialty Chemicals: "We launched Imagine Chemistry because we wanted to share in the same infectious enthusiasm for innovation which is so prevalent in start-ups. And we want our partners to share in our track record and route to market. We just think there is so much to be gained by being creative and customer-driven together.

"The challenge is also designed to help us embed open, collaborative innovation in our ways of working and forge partnerships with start-ups and others whose ideas present new opportunities for sustainable growth. We got off to a great start and are looking forward to working with the winners to make our industry – and the world – more sustainable."

The global challenge proved to be so successful that a second edition is underway for 2018, when the finals will be held in Gothenburg, Sweden.


Click to
watch video

With powder coatings being a relatively new technology, our business has a heritage which is decades old rather than centuries. It has come a long way in a short time, however.

Our Interpon brand is the global market leader and the business is growing all the time, evidenced by the ongoing construction of three new sites. We also acquired the business of V.Powdertech – the leading Thai manufacturer of powder coatings – in 2017.

The year also saw the launch of the latest Futura collection, an extensive range of highly durable and sustainable colors, finishes and textures which offers architects, designers and developers an exciting new source of inspiration.

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 2017.

Our Board of Management and Executive Committee

Thierry Vanlancker*

CEO and Chairman of the Board of Management and the Executive Committee (1964, Belgian)
Thierry Vanlancker joined AkzoNobel in 2016, bringing with him more than 28 years of experience in the chemicals industry. He led operations in polymers, performance coatings and chemicals at DuPont and was President of Fluoroproducts at Chemours. Thierry has lived and worked in Switzerland, the US, Germany, France and Belgium. He holds a degree in Chemical Engineering from the University of Gent.

*Designated CEO and Chairman of the Board of Management by the Supervisory Board on July 19, 2017. Formally appointed by shareholders on September 8, 2017.

David Allen

Chief Supply Chain Officer and member of the Executive Committee (1954, American)
David Allen joined AkzoNobel as Head of the Integrated Supply Chain in 2013 and by early 2014 also led the Research, Development and Innovation function. He was previously Chief Operations Officer for China National Bluestar Group and worked for General Electric Company and Sabic in various executive operations, manufacturing and supply chain roles. He is an engineer by training and holds a Mechanical Engineering degree from Georgia Institute of Technology.

Marten Booisma

Chief Human Resources Officer and member of the Executive Committee (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. Sven holds a professorship in company law at the Vrije Universiteit in Amsterdam.

Werner Fuhrmann*

CEO of Specialty Chemicals and member of the Executive Committee (1953, German)
Werner Fuhrmann joined the Executive Committee in 2011. He was previously Head of Integrated Supply Chain, and before that 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. Werner served as a Board member of both the European Chemicals Association and American Chemistry Council.

*Resigned from the Executive Committee on January 2, 2018, following internal separation of Specialty Chemicals.

Ruud Joosten

Chief Operating Officer and member of the Executive Committee (1964, Dutch)
After graduating from the Vrije Universiteit in Amsterdam 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.

Maarten de Vries*

CFO and member of the Board of Management and the Executive Committee (1962, Dutch)
Maarten de Vries joined AkzoNobel in January 2018. He spent the previous three years as CFO at Intertrust Group and TNT Express. He was a member of the Management Board of Intertrust Group and of the Executive Board of TNT Express. From 2011 to 2014, Maarten was CEO of TP Vision. Prior to this he held various senior positions at Royal Philips Electronics, including Chief Information Officer and Chief Purchasing Officer at Group Management Committee level.

*Offically appointed CFO as of January 1, 2018, succeeding Maëlys Castella.

Hans De Vriese*

Interim CFO (1964, Belgian)
Hans De Vriese joined AkzoNobel as Group Controller in 2009. Prior to joining the company, he was CFO Asia Pacific for General Motors.

*Interim CFO from September to December 2017.

For further information please visit our website: akzonobel.com/management

From left to right:
David Allen, Ruud Joosten, Marten Booisma, Thierry Vanlancker, Hans De Vriese, Sven Dumoulin, Werner Fuhrmann.

Statement of the Board of Management

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

We have prepared the Report 2017, 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 2017 give a true and fair view of our assets and liabilities; our financial position at December 31, 2017; and the result of our consolidated operations for the financial year 2017
- The management report in this Report 2017 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 our principal risks and uncertainties

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 financial and non-financial 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 2017 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 comfort to the Board of Management, as well as the Supervisory Board, that our system of risk management and internal controls – as designed and represented by management – are adequate and effective.

While we routinely work towards continuous improvement of our processes and procedures regarding financial reporting, the Board of Management is of the opinion that:
- The report provides sufficient insights into any failings of the internal risk management and control systems
- These systems provide reasonable assurance that the financial reporting does not contain material inaccuracies
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis
- The report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of 12 months after report preparation

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.

Amsterdam, March 7, 2018
The Board of Management

Our Supervisory Board

Antony Burgmans (1947, Dutch)

Chairman
Initial appointment: 2006
Current term of office: 2014-2018

Member of the Supervisory Board of Jumbo Group Holding B.V.; Former Chairman and CEO of Unilever N.V. and plc.; Former Chairman of the Supervisory Board of TNT Express N.V.; Former non-executive Director of BP plc.; Former member of the Supervisory Board of SHV Holdings N.V.

Peggy Bruzelius (1949, Swedish)

Initial appointment: 2007
Current term of office: 2015-2019

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

Sue Clark* (1964, British)

Initial appointment: 2017
Current term of office: 2017-2021

Non-executive Director of Britvic plc.; Non-executive Director of Bakkavor Group plc.; Non-executive Director of Tulchan Communications LLP; Former Managing Director Europe SABMiller plc.; Former Director Corporate Affairs Railtrack plc. and Scottish Power plc.

*Appointed November 30, 2017.

Byron E. Grote

(1948, American and British)

Initial appointment: 2014
Current term of office: 2014-2018

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

Louis Hughes (1949, American)

Initial appointment: 2006
Current term of office: 2014-2018

Member of the Boards of Directors of ABB Group and Nokia Corporation; Executive Advisor of Wind Point Partners; Chairman of InZeroSystems LLC; Former President and COO of Lockheed Martin; Former Executive Vice-President of General Motors.

Michiel Jaski* (1959, Dutch)

Initial appointment: 2017
Current term of office: 2017-2021

Member of the Supervisory Board of Synbra Holding B.V.; Chairman of the Supervisory Board of UNICA Group B.V.; Former CEO of OFFICEFIRST Immobilien A.G.; Former CEO of Grontmij N.V.; Former member of the Executive Board of ARCADIS N.V.; Former VP at Shell.

*Appointed November 30, 2017.

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.

Dick Sluimers (1953, Dutch)

Initial appointment: 2015
Current term of office: 2015-2019

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

Patrick Thomas* (1957, British)

Initial appointment: 2017
Current term of office: 2017-2021

Chairman and CEO of Covestro A.G.; Former Chairman and CEO of Bayer MaterialScience A.G.; Former non-executive Director of BG Group plc.; Former President of Specialties, Huntsman International LLC; Former CEO Polyurethanes division of ICI plc.

*Appointed November 30, 2017.

Ben Verwaayen (1952, Dutch)

Initial appointment: 2012
Current term of office: 2016-2020

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

Sari Baldauf (1955, Finnish); initial appointment 2012; term of office 2016-2017; resigned December 1, 2017

Supervisory Board Chairman's statement

For AkzoNobel, 2017 was a landmark year and one of the most eventful in its long history. During the year, significant changes were required to reshape the company and prepare for the future. The Supervisory Board made a substantial contribution to the new direction and strategy for AkzoNobel and was fully focused on ensuring the company acted in the best interests of all of its stakeholders, including shareholders.

The Supervisory Board is convinced AkzoNobel has a compelling new strategy that will build on the strong financial foundation which has been put in place in recent years. Now is the right time to create two focused, high performing businesses – Paints and Coatings, and Specialty Chemicals. This logical next step will generate superior value creation than the alternatives, with substantially fewer risks, uncertainties and social costs. It will enable AkzoNobel to thrive, both to the benefit of its shareholders and the communities in which it operates worldwide.

The unsolicited and non-binding proposals from PPG which were received during the year were carefully and thoroughly reviewed, in consultation with our internal and external financial advisors and legal counsel. The Supervisory Board and the Board of Management unanimously concluded that PPG's proposals undervalued AkzoNobel, failed to reflect the value-creating opportunities unveiled at the investor update on April 19, 2017, and were not in the best interest of the company, its shareholders, employees and other stakeholders. The Supervisory Board held itself accountable for its decisions in an Extraordinary General Meeting held in September. In this meeting, and in many one-on-one meetings with shareholders, the company provided a platform to further explain and discuss our response to PPG's proposals. In addition, our decision-making was scrutinized in court and upheld by the Enterprise Chamber of the Amsterdam Court of Appeal.

Shareholders subsequently approved the separation of the Specialty Chemicals business at an EGM held on November 30, 2017. Following this approval, a €1 billion special cash dividend was paid out in December 2017 as advance proceeds, which demonstrates AkzoNobel's commitment to substantial shareholder returns.

The separation of Specialty Chemicals is being conducted via a dual-track process (resulting in either a private sale or legal demerger) and is on track for April 2018. Internal separation was completed by January 1, 2018. The Supervisory Board will make the final decision on whether to proceed with either a legal demerger or a private sale by assessing various factors, such as value creation and the interests of all our stakeholders, including shareholders. The Specialty Chemicals business is in a strong financial position and well placed to operate as a standalone business, with excellent opportunities to unlock further value in the future.

Moving forward, as the paints and coatings industry continues to consolidate, the company will focus on its strategy and delivering on the 2020 financial guidance. On a continuous basis, potential opportunities to grow and create value through M&A transactions will also be considered. During 2017, AkzoNobel held constructive discussions with Axalta about a possible merger, which ended without agreement. However, the company remains open to exploring relevant opportunities.

A vital part of achieving the goals and ambitions that have been set is the company's sustainability agenda. It remains fundamental to AkzoNobel's business strategy and is key to driving innovation and ensuring that customer needs and expectations are met – and often exceeded. The Supervisory Board continues to monitor the company's contribution to the UN Sustainable Development Goals and has a constructive, advisory and analytical role in overseeing management's formulation and implementation of the sustainability agenda. It was therefore pleasing to see AkzoNobel ranked in first place on the Dow Jones Sustainability Index in the Chemicals industry when the 2017 list was announced in September (our fifth number one ranking in six years).

A number of significant appointments were made on an executive management level during 2017. In September, shareholders officially approved the appointment of Thierry Vanlancker as the company's new CEO, following Ton Büchner's departure for health reasons. Ton was an outstanding leader for AkzoNobel, transforming the company and setting it up for future success. His focus on delivering for customers and operational excellence drove profitability and increased returns to shareholders. Ton's passion for the business and personal commitment helped create a strong culture across the company. He will be greatly missed in the boardroom and by many AkzoNobel colleagues around the world. We wish him every success in the future.

In Thierry Vanlancker, we have a highly qualified chief executive who is well placed to continue building momentum for the company. His extensive experience in the chemicals and coatings industry provides him with the right background and qualifications to take AkzoNobel forward into a new era.

Other management changes during 2017 saw CFO Maëlys Castella take a leave of absence for health reasons. She has been an integral part of establishing the solid financial foundation and culture of operational excellence that AkzoNobel now has in place. We wish her a speedy recovery and look forward to welcoming her back in a senior management role once she is ready to return. Her successor, Maarten de Vries – who was appointed CFO as of January 1, 2018 – has more than 25 years of experience in finance and international business. We look forward to working with him as we continue to deliver sustainable growth and value creation for all our stakeholders.

We also welcomed three new Supervisory Board members during the year: Mrs. Sue Clark, Mr. Patrick Thomas and Mr. Michiel Jaski. They bring with them extensive experience, knowledge and insight, which will benefit the composition of our Board moving forward. The Supervisory Board would also like to thank Ms. Sari Baldauf – who decided to step down as of December 1, 2017 – for her significant contribution since being appointed in 2012.

The Supervisory Board values its relationship with shareholders and takes its responsibility in this respect very seriously. During 2017, this relationship was impacted. A range of additional measures was therefore taken to improve shareholder relations. These actions – including a significant number of meetings and calls – sought to strengthen and maintain a continued and constructive dialog with our shareholders. In addition, a shareholder survey was conducted to gather independent and structured feedback. The company appointed JP Morgan Cazenove as a special advisor to a newly established Supervisory Board committee on shareholder relations. The Supervisory Board and management team look forward to further enhancing the relationship with AkzoNobel's shareholders as the company delivers on its strategy.

The transformation of the company has required careful and informed decision-making. The Supervisory Board held a total of 38 meetings in 2017 to analyze and discuss the many developments and was advised by legal counsel specifically retained by the Supervisory Board to ensure that our decisions met the highest standards in legal and corporate governance. I would like to thank my colleagues on the Supervisory Board for their contribution and commitment during this intense period.

Finally, I confirm that I will retire as planned from my position as Chairman of the Supervisory Board of AkzoNobel when my third term of office ends in April 2018. I am proud to have contributed to the company's progress and development – particularly during such an historic time – and look forward to seeing AkzoNobel continue to grow and prosper. I would like to express my gratitude for the cooperation and teamwork demonstrated by my fellow Supervisory Board members throughout my time with the company. As a Board, we also thank the Board of Management, the members of the Executive Committee and all employees for their commitment and hard work during such a busy and historic year.

Amsterdam, March 7, 2018
Antony Burgmans
Chairman of the Supervisory Board

Report of the Supervisory Board

Reference is made to the Timeline on pages 78 and 79, which sets out key events for AkzoNobel in 2017. In the context of the extraordinary events it chronicles, the focus of the Supervisory Board for 2017 has been to consider the interests of all stakeholders in its decision making.

The Supervisory Board values its relationship with shareholders and all stakeholders, and takes its responsibility towards them very seriously. While the Enterprise Chamber and Amsterdam District Court denied measures requested by some shareholders in May and July 2017, the Supervisory Board recognized that relations with shareholders required improvement and took a range of measures designed to strengthen and maintain a constructive dialog.

Such measures included the creation of a Supervisory Board committee for shareholder relations, with David Mayhew and the team at JP Morgan Cazenove appointed as advisors. An Extraordinary General Meeting was convened on September 8, 2017, when further explanation was provided regarding AkzoNobel's response to the unsolicited and non-binding proposals made by PPG earlier in the year.

In August 2017, following constructive dialog, an agreement was reached with Elliott Advisors (UK) Ltd. (Elliott), aimed at normalizing the relationship with Elliott. A further Extraordinary General Meeting was convened on November 30, 2017, to consider appointments to the Board of Management and Supervisory Board, and to obtain approval for the separation of the Specialty Chemicals business from AkzoNobel through a private sale or a legal demerger. In addition, an augmented schedule of roadshows and conferences contributed to improved relations with shareholders as the year progressed. Going forward, an enlarged program of analyst and investor webcasts and events has been announced which will continue to improve shareholder relations beyond 2017.

The Supervisory Board will continue to actively engage with shareholders and all stakeholders in AkzoNobel to achieve our goal of accelerating sustainable growth and value creation.

Supervisory Board activities 2017 (see pages 78 and 79 for Timeline of key events)

Q1
- Review Q4 2016 financials and performance
- Financial statements and profit allocation
- Final dividend 2016
- Business reviews
- Risk management: Risk session outcomes
- Talent management and succession planning
- ISC strategy review
- Compliance culture

Q2
- Review Q1 2017 financials and performance
- Business reviews
- Annual General Meeting 2017
- Information Management strategy review (including cyber-security)
- Market update and BA strategy updates
- Sustainability strategy review
- Review 2020 financial guidance
- Competitor analyses
- Industry dynamics
- Talent management and succession planning

Q3
- Review Q2 2017 financials and performance
- Business reviews
- Functional and business strategy review
- Risk management: Enterprise risk management update
- Competitor analyses
- Talent management and succession planning
- Organization structure review, including management structure
- Extraordinary General Meeting, September 2017
- Shareholder engagement
- Nomination Supervisory Board candidate Mr. Patrick Thomas
- Nomination Supervisory Board candidate Mrs. Sue Clark
- Nomination CEO/Board of Management candidate Mr. Thierry Vanlancker
- Implementation of the new Dutch Corporate Governance Code

Q4
- Review Q3 2017 financials and performance
- Business reviews
- Remuneration policy review
- Performance and budget planning
- Interim dividend 2017
- Supervisory Board succession planning
- Executive succession planning
- Talent management and succession planning
- Extraordinary General Meeting November 2017
- Nomination Supervisory Board candidate Mr. Michiel Jaski
- Corporate Governance Code 2017 compliance

The table provides an overview of relevant topics discussed and reviewed in Supervisory Board meetings in 2017

Supervisory Board attendance record

	SB	AC	RC	NC
Antony Burgmans	38/38	–	7/7	3/3
Sari Baldauf[1]	35/37	–	6/6	3/3
Peggy Bruzelius	35/38	8/10	–	–
Sue Clark[2]	1/1	–	–	–
Byron E. Grote[3]	38/38	10/10	–	2/2
Louis Hughes	37/38	10/10	–	–
Michiel Jaski[2]	1/1	–	–	–
Pamela Kirby	38/38	–	7/7	3/3
Dick Sluimers[4]	36/38	10/10	4/4	–
Patrick Thomas[2]	1/1	–	–	–
Ben Verwaayen	35/38	–	6/7	3/3

The table indicates the meeting attendance for the Supervisory Board (SB), the Audit Committee (AC), the Remuneration Committee (RC) and the Nomination Committee (NC).
[1] Resigned December 1, 2017
[2] Appointed November 30, 2017
[3] Appointed to the Nomination Committee in February 2017
[4] Appointed to the Remuneration Committee in June 2017

Meetings

The Supervisory Board held eight regular scheduled meetings and 30 additional meetings during 2017. The additional meetings were required to ensure the Supervisory Board was sufficiently informed and could make considered decisions regarding the exceptional events that occurred during the year (further details can be found in the Timeline on pages 78 and 79). The Board of Management attended all eight meetings and the vast majority of the 30 additional meetings. The Executive Committee attended the majority of the scheduled meetings, while the additional meetings were mostly held without the 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 the previous page.

Supervisory Board attendance record

The table on the left provides an overview of the attendance record of the individual members of the Supervisory Board. The Supervisory Board attaches great value to the attendance of its meetings by each Supervisory Board member. However, if Supervisory Board members are unable to attend a Supervisory Board or committee meeting, they inform the relevant Chairman, stating the reason. They also have the opportunity to discuss any agenda items with the relevant Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend. The Supervisory Board notes the low absenteeism rate from Supervisory Board and committee meetings in 2017.

Strategy reviews

During 2017, the Supervisory Board continued to allocate adequate time to discuss strategic activities, in particular with regard to the events set out in the Timeline on pages 78 and 79. This included detailed Business Area by Business Area analyses, and the decision to separate Specialty Chemicals and create two high performing businesses. The company renewed its efforts to achieve functional excellence and efficiencies by implementing a transformation program, pursuant to which a new management structure was announced. In addition, functional and operational strategy updates were reviewed and discussed, including from Information Management, Integrated Supply Chain, Human Resources and Sustainability.

At corporate level, the Supervisory Board received comprehensive market updates, approved the financial guidance for 2020 for Paints and Coatings in April and reviewed and approved the company's strategy to create two focused businesses with sustainable growth plans. During the Extraordinary General Meeting held in November 2017, it was reconfirmed that this strategy is expected to unlock further value and accelerate growth for both the Paints and Coatings, and Specialty Chemicals businesses.

Separation of Specialty Chemicals

During 2017, the Supervisory Board allocated adequate time to overseeing the separation of Specialty Chemicals. The separation is following a dual-track process (either for legal demerger or private sale) and remains on track for April 2018. Internal separation was completed by January 1, 2018. The Supervisory Board will decide whether to opt for a legal demerger or private sale on the basis of various factors, including which method creates most value and what is in the best interest of our shareholders and other stakeholders. The Specialty Chemicals business is in a strong financial position and is well placed to operate as a standalone business.

Sustainability

Sustainability is integral to the company's business strategy. For AkzoNobel, this means delivering both short-term and long-term value for shareholders and all other stakeholders, because today's profits are essential to fund tomorrow's innovations.

The focus on sustainable product portfolios and resource productivity is an investment in the future success of AkzoNobel, motivating and giving pride to employees, because sustainability is a core principle, defining what the company is and what it stands for.

The Supervisory Board reviews sustainability as an intrinsic value driver in the work of all businesses and all functions. Likewise, the Sustainability Council – which advises the Executive Committee on sustainability developments – contains representatives of every business and function and is led by the CEO.

Over the last 15 years, AkzoNobel has successfully differentiated itself from its competitors by taking a pragmatic approach to business sustainability, seeking to generate more value from fewer resources and to turn societal concerns and environmental challenges into product innovations that meet a market need. AkzoNobel also benchmarked its sustainability processes and earned stakeholder respect by achieving a clear leadership status in independent rankings. During 2017, the company returned to the top of the influential Dow Jones Sustainability Index (DJSI) to lead the rankings for the fifth time in six years, being placed first in the Chemicals industry. This represents a quick and successful response from the company after its run of four consecutive years at the top was briefly interrupted in 2016. AkzoNobel's status as a clear leader was demonstrated again when the company achieved the top ranking in the Carbon Disclosure Project (CDP) "Catalyst for Change" report on the chemical industry's carbon disclosure transparency.

During 2017, the Supervisory Board also assessed the company's sustainability strategy and targets. The Supervisory Board is confident that by making sustainability an explicit differentiator – part of the company's brand – AkzoNobel enhanced its value proposition for employees and business partners. Looking forward, the company will continue to develop business opportunities in alignment with the UN Sustainable Development Goals, which are relevant for the long-term societal needs of each region, creating more shared value from fewer resources.

Performance and budget planning

Sustainability also forms an integral part of corporate and management performance and the Supervisory Board pursued a detailed approach to assessing this performance during the year. Individual Board of Management and Executive Committee performance was addressed in Supervisory Board meetings following recommendations from the Remuneration Committee. For more details, see the report of the Remuneration Committee on page 74.

Discussions on corporate performance are held at each regular Supervisory Board meeting. These discussions include business 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 2018 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 prevailing market conditions. Following this assessment, the Supervisory Board has approved the proposed budget and operational plan for 2018.

During 2017, 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 difficult market conditions and significant supply chain disruptions. The nature of this performance provided a basis for the Supervisory Board's approval of the proposal to increase the dividend for the year 2017. In addition, a €1 billion special cash dividend – as advance proceeds from the separation of Specialty Chemicals – was paid on December 7, 2017. Further details on the 2017 dividend proposal are provided in the Consolidated financial statements and profit allocation paragraph.

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 risks related to each of the events set out in the Timeline published on pages 78 and 79 and scrutinized related mitigating actions.

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 support our comprehensive global risk management processes and facilitate risk workshops. During the workshops, risk scenarios are prepared and assessed, including the appropriateness of the controls and mitigation measures. Implementation of risk mitigating measures for the key risks, as identified by the Board of Management and the Executive Committee, is monitored by the Supervisory Board during the year by means of risk updates and reviews. Further details are included in the Risk management chapter in the Strategic performance section.

Corporate governance

Following the implementation of the revised Dutch Corporate Governance Code (the "Code") with effect from January 1, 2017, a working group was established – comprising internal experts from each function – to perform an in-depth review of the corporate governance framework and systems of the company in the context of compliance with the Code. Certain practices were revised and the Supervisory Board is satisfied the company has complied with the Code on a "comply or explain" basis. Further details can be found in the Governance and compliance section.

Talent management and succession planning

Talent management has been a strong focus for the Supervisory Board in 2017. Throughout the year, the Supervisory Board discussed and undertook detailed executive succession planning. The executive talent pool, which was reviewed and defined in 2016, was used to ensure that executive level succession plans are in place and implemented in the new organizational structure.

In July 2017, Mr. Ton Büchner resigned as CEO for health reasons. The Supervisory Board's consistent and structured approach to succession planning allowed the company to be in a position to announce the appointment of Mr. Vanlancker as CEO shortly after receiving Mr. Büchner's resignation. Upon recommendation from the Nomination Committee, the Supervisory Board designated Mr. Vanlancker as CEO and Chairman of the Board of Management, with full power and authority as a member of the Board of Management, in accordance with the Articles of Association of Akzo Nobel N.V., which provides for such designation until formal CEO appointment by shareholders. Mr. Vanlancker was formally appointed as a member of the Board of Management by shareholders at the EGM held on September 8, 2017.

During 2017, the Supervisory Board also discussed changes to the composition of the Executive Committee. The Supervisory Board discussed the re-appointment of Mr. Werner Fuhrmann to replace Mr. Vanlancker as Executive Committee member responsible for Specialty Chemicals. Mr. Fuhrmann was welcomed back to the company in August 2017 to head up Specialty Chemicals and lead on the separation. He subsequently resigned from the Executive Committee on January 2, 2018, due to the internal separation of Specialty Chemicals. The Supervisory Board also discussed and supported the CEO's appointment of Mr. David Allen as Chief Supply Chain Officer and member of the Executive Committee.

In August 2017, the CFO, Mrs. Maëlys Castella, resigned from the Board of Management due to health reasons. She is now on a leave of absence. The Supervisory Board appointed the Group Controller, Mr. Hans De Vriese, as interim CFO and member of the Executive Committee, which ensured continuity while the search for a CFO began. Following recommendation from the Nomination Committee, the Supervisory Board was pleased to nominate Mr. Maarten de Vries as CFO and member of the Board of Management with effect from January 1, 2018. Mr. De Vries' appointment was approved by shareholders at the EGM held on November 30, 2017.

The Supervisory Board also took the time to discuss its own composition and succession plans in order to ensure continued effectiveness. Discussions in this regard were also held with shareholders. These discussions led to the nominations of Mrs. Sue Clark and Mr. Patrick Thomas in August 2017, and of Mr. Michiel Jaski in October 2017, as members of the Supervisory Board. The appointments were approved at the EGM held on November 30, 2017, and the new Supervisory Board members have undergone a comprehensive induction to AkzoNobel – including one-on-one meetings with the CEO, CFO, and all other Executive Committee members. As the third term of Mr. Antony Burgmans as Chairman of the Supervisory Board of AkzoNobel ends in 2018, the Supervisory Board initiated a search for a new Chairman. The search was managed by the Nomination Committee, led by Mr. Byron E. Grote. As per best practice, Mr. Burgmans did not participate in the Nomination Committee's work in this regard. A thorough internal and external search was conducted, with the assistance of an independent and well-reputed search firm. The requirements of the Dutch Corporate Governance Code were considered throughout the process. Shareholders have been consulted and the Supervisory Board has nominated the best candidate for consideration by the shareholders at the Annual General Meeting of April 26, 2018. For further details, please refer to the notice of the AGM, which can be found on the corporate website.

Our continued commitment to offering the best conditions for employees was recognized by the Top Employers Institute, with the company receiving official certification in three of its key markets – Brazil, China (pictured) and the UK. The latest accreditation means AkzoNobel has now achieved Top Employer status for six years in a row in the UK and five consecutive years in China, while in Brazil it's the second year running.

The Supervisory Board has updated its skills matrix under recommendation from the Nomination Committee. The updated matrix can be found later in this section.

Supervisory Board evaluation

The Supervisory Board continued to engage in its own ongoing training during the year and received regular updates on corporate governance and requirements. An important preparatory aspect of this was the Supervisory Board evaluation, which 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 – unless it determines to do so more frequently – instead of an internal evaluation, the Supervisory Board undergoes an independent external assessment facilitated by a specialist consultant.

In 2016, the Supervisory Board underwent an evaluation by means of an external assessment of performance. During 2017, the Supervisory Board continued to improve on items highlighted during the external evaluation, including the approach to risk identification, governance structure, composition, succession and talent management.

In addition, during 2017 – as part of the selection process for the three newly appointed members of the Supervisory Board – an evaluation of the functioning and composition of the Supervisory Board, its committees and its individual members was carried out by the Supervisory Board. The Supervisory Board believes that these appointments enhance the performance and effectiveness of the Supervisory Board.

Financial statements and profit allocation

The financial statements of Akzo Nobel N.V. for the financial year 2017 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 – to the Supervisory Board for review and approval.

The financial statements, the report and management letter of the external auditors were discussed by the Audit Committee extensively with the external auditors, in the presence of the 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 2017 financial statements of Akzo Nobel N.V. form an adequate basis to account for the supervision provided (see the Consolidated financial statements). The Audit Committee monitors the follow-up by management of the recommendations made by the external auditors.

The Supervisory Board recommends that the AGM adopts the financial statements as presented in this Report 2017 and, as proposed by the Board of Management, the proposed total dividend for 2017 of €2.50 per common share outstanding. This represents an increase of 52% over the previous year and the third 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 €0.56 per common share – which was paid in November 2017 – be made payable on May 25, 2018. 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 2017 and the members of the Supervisory Board for their supervision in 2017.

During 2017, the Supervisory Board approved the proposal of the Board of Management to pay a special cash dividend of €4.00 per common share outstanding as advance proceeds from the separation of Specialty Chemicals. The distribution was paid wholly in cash on December 7, 2017.

Our International brand supplied a bespoke shade of its Toplac paint range for a pilot boat which escorts solo swimmers and relay teams across the English Channel. Asked to "think Lady Penelope from Thunderbirds," our color experts created a specially formulated pink marine coating which helped the owner of the vessel raise more than £13,000 for charity.

Audit Committee activities 2017 (see pages 78 and 79 for Timeline of key events)

Q1
- Review Q4 2016 financial statements and annual results
- Review annual report and accounts
- External audit report
- Review risk management and internal control
- Auditors' management letter
- Final dividend 2016
- HSE audit findings
- Review full-year compliance report
- Review five-year outlook and planning

Q2
- Review Q1 2017 financial statements
- Review year-to-date audit findings (report of internal audit)
- Review compliance cases year-to-date
- Follow up on management letter of PwC
- Review advisor fees
- Treasury and Investor Relations strategy review
- Pension funds update
- External audit plan 2017

Q3
- Review Q2 2017 financial statements
- Review five-year outlook and planning
- Implementation of elements of the Dutch Corporate Governance Code

Q4
- Review Q3 2017 financial statements
- Recommendation on interim dividend 2017
- Post CAPEX project reviews
- Information Management Strategy review (including cyber-security)
- Review compliance cases year-to-date
- Strategy review for tax
- Review 2018 outlook and budget
- Review audit findings year-to-date and hard close audit report
- Internal audit plan 2018
- Review of legal liability exposure report
- Review updates to IFRS and corporate governance standards
- Separation of Specialty Chemicals (dual-track process)
- Separation of Specialty Chemicals (including risks and carve-out)

Audit Committee

Mr. Grote has been chairman of the Audit Committee since his appointment in 2015. The other members of the Audit Committee in 2017 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 ten meetings during 2017. The attendance record of the members can be seen in the attendance chart on page 68. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings.

Audit Committee activities 2017

The table opposite provides an overview of relevant topics discussed and reviewed in meetings of the Audit Committee in 2017. In addition to the topics listed, the Audit Committee also reviewed and discussed the topics related to the events set out in the Timeline on pages 78 and 79.

External audit

PriceWaterhouseCoopers Accountants N.V., AkzoNobel's 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 the company financial statements and report.

The Audit Committee held independent meetings with the external auditors and critically reviewed and constructively challenged their audit approach, fees, risk assessment and audit plan for the year ahead. Other topics discussed included:

- The hard close, which was discussed with the intention of improving the 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, 2017
- The quality of the external audit
- Impact of new accounting rules

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 controls, its processes, outcomes, financial reporting and disclosures. Regular updates were received from auditors and functions in this regard, and the Audit Committee was provided with a comprehensive risk and internal control report during the year.

In addition, the Audit Committee reviewed the annual operational plan (including budget) and AkzoNobel's dividend proposals. Upon fulfilling its oversight responsibilities in relation to governance, risk management and internal control systems, the Audit Committee met regularly with senior executives. The General Counsel reported regularly to the Audit Committee on the company's compliance framework and compliance matters and activities, and on major litigation and liability exposures. The Internal Auditor reported to the Audit Committee on their assessment of the status of the system of governance, risk management and internal controls throughout 2017.

Business 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 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.

Separation of Specialty Chemicals

An important feature of the Audit Committee's work in 2017 has been its attention to the financial impact of the events set out in the Timeline on pages 78 and 79. In particular, the Audit Committee has reviewed and closely monitored the process for the separation of Specialty Chemicals, including assessing the associated risks and related mitigating actions and receiving regular financial updates. The Audit Committee reviewed and discussed the 2014-2016 Specialty Chemicals financial statements and demerger accounts. The Audit Committee is confident the separation process remains on track for April 2018. With regard to the dual-track process, the Audit Committee continues to carefully review and consider the preferred method for separating the Specialty Chemicals business, and will be involved in the assessment of the value of the Specialty Chemicals business that can be unlocked in either a private sale or a legal demerger.

Internal audit

The Internal Auditor presents all main audit findings to the Audit Committee and discusses the progress of the audit plan. During the year, the Audit Committee approved the internal audit plan and strategy of the Internal Audit function, and agreed on the budget and resource requirements for the function. The Audit Committee also met separately with the Internal Auditor during the year to discuss the results of the audits performed and the status of the follow-up on action plans identified. In 2017, 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 the annual financial statements, the Audit Committee reviewed the financial results. In addition, the Audit Committee reviewed and commented on the interim and final dividend proposals and on reports and press releases to be published. These were reviewed in addition to the work undertaken by the company's Disclosure Committee in

Artists from Argentina and Belgium used our Alba paint to help transform one of the biggest slums located in the heart of Buenos Aires. Various cultural events were also planned in the Saldías community, which brought more than 1,000 people together over the course of several days while the outdoor gallery was created.

reviewing the company's disclosure of potentially price sensitive information. Based on these discussions, advice was provided by the Audit Committee to the Supervisory Board with regard to the publications and disclosures, and to the interim and final dividends. All quarterly or 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 annual evaluation of its effectiveness and performance. In general, this process involves the Audit Committee undertaking a self-evaluation of its performance in conjunction with the Supervisory Board. Once every three years – unless it is decided to do so more frequently – the Audit Committee undergoes an independent external assessment of its effectiveness and performance, facilitated by a specialist consultant. In 2016, the Audit Committee underwent an external evaluation of its effectiveness and performance. During 2017, the Audit Committee continued to improve on the areas highlighted by the external assessment, including its role with regard to cyber-security and the relationship between the Audit Committee and the Board of Management.

As part of the selection process for the three newly appointed members of the Supervisory Board, a review of the functioning and composition of the Supervisory Board and its committees, including the Audit Committee, was carried out.

Remuneration Committee

The Remuneration Committee consists of four members, following the appointment of Mr. Sluimers as Remuneration Committee Chairman in June 2017 and the resignation of Ms. Baldauf in December 2017. The other members of the Remuneration Committee are Mr. Verwaayen, Dr. Kirby and Mr. Burgmans. The Remuneration Committee held seven meetings in 2017. The attendance record of the members can be seen in the previous Supervisory Board attendance chart on page 68.

Remuneration Committee main 2017 activities

The table below provides an overview of relevant topics discussed and reviewed in meetings of the Remuneration Committee in 2017.

Review management performance 2016

The work of the Remuneration Committee during the first quarter focused on performance for the year 2016 and the individual performance reviews of the Board of Management members and members of the Executive Committee. The Remuneration Committee assessed the adequacy of the peer group used for benchmarking purposes. Ahead of the nomination of Mr. Thierry Vanlancker as CEO and Mr. Maarten de Vries as CFO, the Remuneration Committee assessed and made recommendations to the Supervisory Board regarding the main elements of their respective contracts.

Remuneration policy review

In 2017, the Remuneration Committee reviewed the Remuneration policy to assess whether it was still aligned with the external market and the objectives of the company.

Remuneration Committee main 2017 activities

Q1	Q2 & Q3	Q4
• Review of management performance 2016 • Target setting 2017, including CEO targets • Review of management base salaries for 2017 • 2016 Remuneration report	• Remuneration policy review • Remuneration policy in 2016 (AGM 2017) • Retention mechanisms • Implementation of elements of Dutch Corporate Governance Code • Basic principles of Remuneration policy of Specialty Chemicals	• Forward-looking 2018 target-setting • Detailed scenario analysis • Review remuneration strategy, including LTI and STI plans • Remuneration policy of Specialty Chemicals

Following these discussions, the Remuneration Committee's recommendations have been provided to the Supervisory Board. For further details, reference is made to the Remuneration report.

Review management base salaries 2017

The appointments of the CEO and the CFO were focus areas for the Remuneration Committee in its assessment of base salaries. The Remuneration Committee provided recommendations on both the CEO and CFO base salaries ahead of their appointments. The base salaries will continue to be assessed in light of market conditions, the reward structures of peer group companies and performance. In addition, the Remuneration Committee considered the pay ratios within the company and how these compare with peer group companies.

The Remuneration Committee also reviewed the base salaries of 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 Note 23 of 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 2017. 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, the Remuneration Committee, together with the Supervisory Board, underwent an external evaluation. During 2017, the Remuneration Committee continued to improve on areas highlighted in the external review, including the maintenance of inter-committee dynamics.

As part of the selection process for the three newly appointed members of the Supervisory Board, a review of the functioning and composition of the Supervisory Board and its committees, including the Remuneration Committee, was carried out.

Nomination Committee

The Nomination Committee consists of four members, following the appointment of Mr. Grote as Nomination Committee member in April 2017 and the resignation of Ms. Baldauf in December 2017. During the year, the Nomination Committee was chaired by Ms. Baldauf, until she was succeeded by Mr. Burgmans in April. The other members of the Nomination Committee are Dr. Kirby and Mr. Verwaayen. The Nomination Committee held three meetings in 2017. The attendance record of the members of the Nomination Committee can be seen in the attendance chart on page 68.

Following the announcement in July 2017 that, barring any exceptional circumstances, Mr. Burgmans intends to retire as Chairman of the Supervisory Board upon completion of his third term in office in April 2018, a process was undertaken by the Nomination Committee to identify his successor. This process was led by Mr. Grote. Mr. Burgmans did not participate in the Nomination Committee's work in this regard, as is best practice. A thorough internal and external search was conducted, with the assistance of an independent and well-reputed search firm. The requirements of the Dutch Corporate Governance Code were considered throughout the process. Shareholders have been consulted and the Supervisory Board has nominated the best candidate for consideration by the shareholders at the Annual General Meeting of April 26, 2018. For further details, please refer to the notice of the AGM, which can be found on the corporate website.

Our Dulux paint was used to color and enliven the Sekanak Riverside neighborhood in Palembang, Indonesia. The project was part of an initiative designed to reinforce the government's move to beautify the city and develop Palembang as a tourist destination.

Nomination Committee main 2017 activities

Q1	Q2 & Q3	Q4
• Supervisory Board profile review • Supervisory Board succession planning • Board of Management succession planning	• Identification and nomination of Mrs. Clark for appointment to the Supervisory Board • Identification and nomination of Mr. Thomas for appointment to the Supervisory Board • Nomination of Mr. Thierry Vanlancker for appointment to the Board of Management at the EGM in September 2017	• Supervisory Board succession planning • Identification and nomination of Mr. Jaski for appointment to the Supervisory Board • Identification and nomination of Mr. Maarten de Vries for appointment to the Board of Management at the EGM in November 2017

Nomination Committee main 2017 activities

The table on the previous page provides an overview of relevant topics discussed and reviewed in meetings of the Nomination Committee in 2017. In addition to the topics listed, the Nomination Committee also reviewed and discussed the relevant topics related to the events set out in the Timeline on pages 78 and 79.

Board of Management and executive succession

Following the resignation of Mr. Büchner as CEO in July 2017, the Nomination Committee recommended to the Supervisory Board that Mr. Vanlancker be designated as CEO and Chairman of the Board of Management, with full power and authority as a member of the Board of Management, in accordance with the Articles of Association of Akzo Nobel N.V., which provides for such designation until formal CEO appointment by shareholders. Mr. Thierry Vanlancker was formally appointed as CEO and Chairman of the Board of Management by shareholders at the EGM held on September 8, 2017.

Supervisory Board skills and profiles

	A. Burgmans	P. Bruzelius	S. Clark	B. Grote	L. Hughes	M. Jaski	P. Kirby	D. Sluimers	P. Thomas	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	●	●	●	●	●	●	●	●	●	●
Investor relations	●	●	●	●		●		●	●	●
Manufacturing experience	●		●	●	●		●			
Supply chain/logistics experience	●			●			●			●
Social, environmental or sustainability experience	●	●	●	●	●		●	●		●
Finance expert	●	●		●	●			●		
Four or less external directorships	●	●	●	●	●	●	●	●	●	●
Dutch/EU national	●	●	●	●		●	●	●	●	●
Non-EU national				●	●					
Pensions experience								●		
Business-to-business sales experience	●						●			●
R&D experience	●			●	●	●	●			
Legal experience							●			●
Industrial/employment relations	●				●		●			
Risk management		●		●		●		●		
Consulting	●	●		●	●		●	●	●	●

The Nomination Committee's regular review of the company's succession plan allowed the company to be in a position to announce the appointment of Mr. Vanlancker as CEO shortly after receiving Mr. Büchner's resignation. During 2017, following the resignation of Mrs. Castella from the Board of Management for health reasons, the Nomination Committee initiated the search for a new CFO. The Nomination Committee was pleased to recommend to the Supervisory Board that Mr. Maarten de Vries be nominated for appointment as CFO and Board of Management member. Mr. De Vries was appointed as CFO and member of the Board of Management (effective January 1, 2018) by shareholders at the EGM held on November 30, 2017.

During 2017, the Nomination Committee was consulted and gave its advice regarding the following (re)appointments by the CEO to the Executive Committee: Mr. Werner Fuhrmann as Executive Committee member responsible for Specialty Chemicals; Mr. David Allen as Chief Supply Chain Officer; and Mr. Hans De Vriese as interim CFO.

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 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 accordingly.

During 2017, the Nomination Committee discussed the size, structure and composition of the Supervisory Board in order to determine appropriate criteria for the selection of candidates for Supervisory Board membership. An external search agency was engaged for the fielding of candidates for succession and nomination to the Supervisory Board. The agency employed a rigorous search process after first gaining a thorough understanding of the culture of AkzoNobel, its strategic ambitions, the specific leadership roles and competencies needed to meet those ambitions. Based on the results of these Nomination Committee discussions and the work of the external search agency, the Nomination Committee was able to recommend to the Supervisory Board the nomination of Mrs. Clark, Mr. Thomas and Mr. Jaski as new Supervisory Board members at the EGM of November 30, 2017.

In addition, during 2017 the search for a new Chairman was initiated. Following a thorough internal and external search, with the assistance of an independent and well-reputed search firm, the Nomination Committee was able to recommend to the Supervisory Board the nomination of a strong candidate for consideration by the shareholders at the Annual General Meeting of April 26, 2018. For further details, please refer to the notice of the AGM, which can be found on the corporate website.

The Supervisory Board has updated its skills matrix, as shown on the opposite page. The skills matrix, full details of the current Supervisory Board composition, the schedule of Supervisory Board succession and the profiles of the Supervisory Board members can also be found on the corporate 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, the Nomination Committee underwent an external evaluation. During 2017, the Nomination Committee continued to improve on areas highlighted during the external review.

As part of the selection process for the three newly appointed members of the Supervisory Board, a review of the functioning and composition of the Supervisory Board and its committees, including the Remuneration Committee, was carried out.

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 during what was an eventful 2017. In particular, the Supervisory Board would like to extend its sincere gratitude to Mr. Ton Büchner for his service to AkzoNobel and to wish him the very best for the future.

Amsterdam, March 7, 2018
The Supervisory Board

Timeline of key events in 2017

An overview of significant developments requiring substantial involvement from the Board of Management and the Supervisory Board.

March 2
Receipt of first PPG proposal

March 9
Rejection of first PPG proposal and announcement of review of strategic options to separate Specialty Chemicals

March 21
Receipt of second PPG proposal

March 22
Rejection of second PPG proposal

April 10
Elliott requests EGM (including agenda item to consider dismissal of AkzoNobel Chairman)

April 12
Rejection of Elliott's EGM request

April 19
Announcement of record profitability in Q1 results

Investor Day
Presentation of updated strategy to accelerate growth and value creation (including the separation of Specialty Chemicals)

April 24
Receipt of third PPG proposal

April 25
AGM

Rationale for rejection of Elliott's EGM request explained

May 6
Meeting between AkzoNobel and PPG

May 8
Rejection of third PPG proposal

May 9
Elliott begins proceedings at Enterprise Chamber requesting for inquiry, EGM and appointment of independent Supervisory Board member

May 29
Enterprise Chamber denies Elliott's request for interim measures

May 30
PPG sends letter to AkzoNobel with additional thoughts on third proposal

June 1
PPG withdraws proposal

Response letter from AkzoNobel to PPG

38 Supervisory Board meetings in total

Elliott: Elliott Advisors (UK) Ltd.
PPG: PPG Industries Inc.
York: York Capital Management Global Advisors Llc.
USS: Universities Superannuation Scheme Limited

July 7
Elliott and York commence EGM authorization proceedings at the Amsterdam District Court

July 19
Resignation of Ton Büchner as CEO and appointment of Thierry Vanlancker as CEO

July 24
USS proposes Supervisory Board nominee as agenda item for next EGM

July 25
Announcement of actions to improve shareholder relations, date set for EGM and publication of H1 results

Announcement of new structure for Executive Committee

July 27
Amsterdam District Court hearing

August 10
Amsterdam District Court denies Elliott's and York's EGM authorisation request

August 16
AkzoNobel reaches standstill agreement with Elliott

AkzoNobel nominates Sue Clark and Patrick Thomas as new Supervisory Board members

September 8
EGM – appointment of Thierry Vanlancker as member of the Board of Management and explanation of response to PPG's proposals

CFO Maëlys Castella goes on leave of absence, Hans De Vriese appointed interim CFO

Announcement of new management structure and measures to ensure delivery of 2020 financial guidance

September 19
Nomination of Maarten de Vries as CFO

October 18
Nomination of Michiel Jaski as Supervisory Board member and date set for EGM, including USS' proposal nominating a Supervisory Board member

Announcement of Q3 results

October 26
USS withdraws its Supervisory Board nominee

October 30
Confirmation of merger talks with Axalta

November 21
Confirmation of termination of merger talks with Axalta

November 30
EGM – appointments of Maarten de Vries as CFO and member of the Board of Management; and Patrick Thomas, Sue Clark and Michiel Jaski as Supervisory Board members. Approval for separation of Specialty Chemicals via legal demerger or private sale

December 7
Payment of €1 billion special dividend following approval of separation of Specialty Chemicals via legal demerger or private sale

December 31
Ready to deliver internal separation on January 1, 2018, and on track to complete the separation process as planned

JOZO has been adding a pinch of love to people's lives since 1929. Our long history has enabled us to master the skills of mining and grinding salt to perfection. Just a pinch of salt can turn a plate of food into a culinary experience.

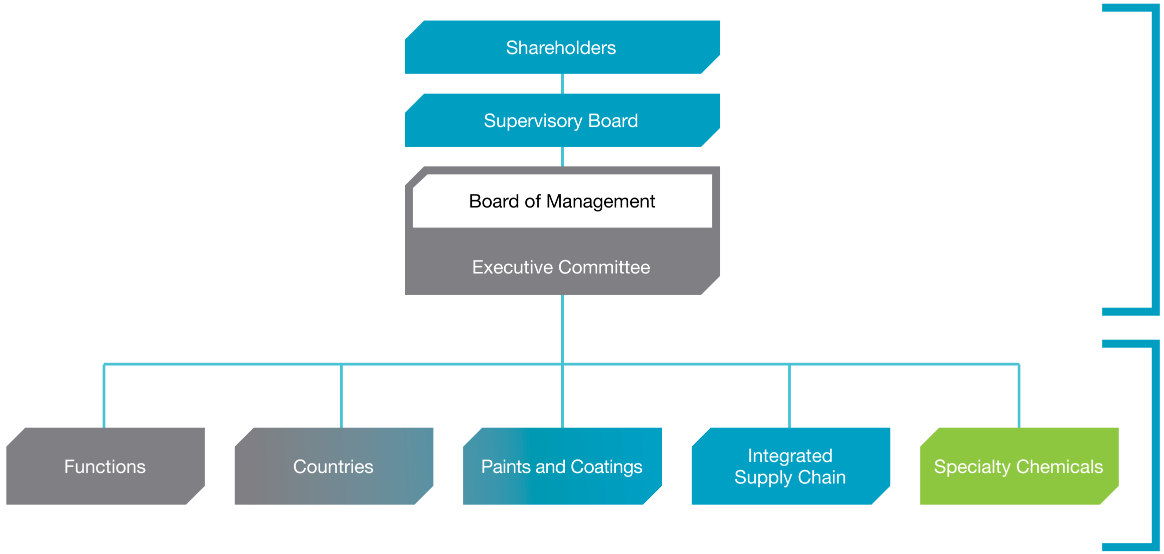
So we source from the best sources nature has to offer. Rebranded in 2017 to help consumers make the best choice and improve their taste experience, the range of JOZO products continues to evolve and contribute to a healthy lifestyle. From extra fine salt to big flakes, JOZO is your essential kitchen companion.

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.

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.



2017 organizational structure

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

The company's management and supervision are organized under Dutch law in a so-called two-tier system, comprising a Board of Management, solely composed of executive directors, and a Supervisory Board, solely composed of non-executive directors. The 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 Annual General Meeting of shareholders (AGM) for the performance of their functions.

Our corporate governance framework is based on the company's Articles of Association, the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code (the "Code"), and all applicable laws and regulations, including securities laws. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code are explained in accordance with the Code's "comply or explain" principle.

With the exception of those aspects of our governance which can only be amended with the approval of the AGM, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied, if this is considered to be in the 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 subsequent AGM.

In 2016, a revised version of the Code was published by the Corporate Governance Code Monitoring Committee (website: www.mccg.nl). The revised Code was implemented with effect from January 1, 2017, and provides for a more thematically oriented code, with greater focus on culture and long-term value creation. The company assessed the changes to the Code by establishing a working group – comprising internal experts from each function – to perform an in-depth review of the corporate governance framework and systems of the company in the context of compliance with the Code. A gap analysis was carried out by the working group highlighting certain areas or practices which required amendment. The gap analysis was reviewed by the Board of Management and the Supervisory Board and, upon recommendation from the working group, various revisions to current practices were implemented where required. In addition, the revised Code has been reflected in the Rules of Procedure of the Board of Management and of the Supervisory Board, which are both available on the corporate website.

Meetings with senior management around the world were high on the agenda for our new CEO, Thierry Vanlancker, during the year. This included a visit to Asia, when he met Dr. Lin Liangqi, President of AkzoNobel China.

Board of Management and Executive Committee

General

The Board of Management is entrusted with the management of the company. When it comes to the management of our business, 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 the Chief Financial Officer (CFO)), the Chief Operating Officer (COO), the Chief Supply Chain Officer, the General Counsel and the functional leader of Human Resources. This ensures functional, operational and commercial expertise is entrenched at the highest level in the organization. Among other responsibilities, the Board of Management defines the strategic direction. It establishes and maintains internal policies and procedures for effective risk management and control, manages the realization of the company's operational and financial targets, its sustainability performance and its pursuit of long-term value creation. In fulfilling their duties, Board of Management members are assisted by the Executive Committee and 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 SpeakUp! grievance mechanism and have established a Code of Conduct, directives, rules, guidelines and manuals incorporated in the company's Directives framework, in order to drive a culture of good governance, consistency and functional excellence. The values of good governance, sustainability and teamwork adopted by the Board of Management are incorporated in these documents. The Board of Management believes these values contribute to a culture focused on long-term value creation and actively encourages these values through leading by example. Company culture is regularly discussed with the Supervisory Board.

The Board of Management takes precedence; all Executive Committee decisions require a majority of the members of the Board of Management. The Board of Management can at all times decide to reserve decisions for the Board of Management. The members of the Board of Management remain 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 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 corporate 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.

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

Appointment

Board of Management members are appointed and removed from office by the AGM. This year, the Board of Management members were appointed by the EGM (Extraordinary General Meeting). The other members of the Executive Committee are appointed by the CEO, after consultation with the Supervisory Board. Board of Management members are appointed for a four-year term (or less), with the possibility of reappointment.

THE CEO LEADS THE EXECUTIVE COMMITTEE IN ITS OVERALL MANAGEMENT OF THE COMPANY

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.

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% of the outstanding share capital in order to be adopted at an AGM (or EGM).

AkzoNobel believes in the strength of diversity and in accordance with the Code, a Diversity Policy has been adopted for the composition of the Board of Management and Executive Committee. The objective of the Diversity Policy is to enrich the Board of Management's perspective, improve performance, increase member value and enhance the probability of achievement of AkzoNobel's goals and objectives. The Policy addresses concrete targets relating to diversity, including nationality, age, gender, education and work background. A consistent and structured approach is applied to succession planning for the Board of Management and Executive Committee, taking into account the implementation of the Diversity Policy. AkzoNobel currently diverges from the gender target of at least 30% female and at least 30% male Board of Management members. It is believed that due to the size and scale of the Board of Management (being only two members), this divergence is justified as it has ensured the best candidates for the roles were nominated by the Supervisory Board and appointed by shareholders.

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 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 member of the Executive Committee. Furthermore, an exception can be made for an executive joining the Executive Committee upon approval from the Supervisory Board. 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. Currently, no outside directorships are held by members of the Board of Management and Executive Committee.

In May, a tribute to Dutch footballer Johan Cruyff was unveiled in the Amsterdam neighborhood where he grew up. The mural, designed by Brazilian artist Paulo Consentino, was created using our Sikkens paint products.

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 2017, no transactions were reported under which a member of the Board of Management or Executive Committee had a conflict of interest which 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 which is 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 components of Board of Management remuneration, as well as the remuneration policy itself, are described in the Remuneration report and Note 23 of the Consolidated financial statements. The service contracts of the members of the Board of Management do contain change of control provisions. Further details can be found in the Remuneration report. The service contracts of the Board of Management are compliant with the Code. The main elements of these contracts are available on the corporate website.

Operational Control Cycle

To facilitate efficient management and oversight of operations, the Board of Management and Executive Committee have established an Operational Control Cycle (OCC), which is conducted once per month. The format of the OCC was updated in 2017 to accurately reflect organizational changes in order to ensure the highest level of corporate governance is applied throughout the organization. For the Paints and Coatings business, the OCC consists of a monthly Business Review Meeting, comprising the CEO, the CFO, the COO, the Chief Supply Chain Officer and the leadership of the Paints and Coatings business. For the Specialty Chemicals business, the OCC consists of an Operational Review Meeting comprising the CEO, the CFO and the leadership of the Specialty Chemicals business.

The other members of the Executive Committee have a standing invitation to these meetings. The meetings provide a forum for regular business and operational oversight, with a focus on commercial activities and supply chain processes.

Executive Committee meetings are frequently held following the Business Review Meeting and the Operational Review Meeting, at which the implementation of the company's strategy is discussed. The functional agendas of Sustainability, HSE&S, Human Resources, Commercial Excellence, Research and Development and Integrated Supply Chain are also discussed at these Executive Committee meetings. Additional meetings are held to discuss specific topics as required.

The Board of Management and Executive Committee have delegated authorities to individual Executive Committee members, to the Operational Review Meeting of Specialty Chemicals and to certain committees and councils.

In November, we opened our first regional Application Training Center in Dubai. The state-of-the-art facility will offer advanced training programs for customers, enabling them to build capacity and deepen their knowledge of paints and coatings. It will focus in particular on original equipment manufacturers and refinishers in industries as diverse as automotive and rail, aerospace and consumer electronics.

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 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 (HR), Sustainability, Operations, HSE&S, Procurement and Communications.

Progress regarding sustainability objectives, development, target-setting and implementation is reviewed quarterly by the Executive Committee, semi-annually by the Supervisory Board, and is verified annually by 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), the Corporate Secretary, the Group Controller, two senior business managers and Corporate Directors of Internal Audit, Compliance, HR and HSE&S. Other members may be added to the Committee at the discretion of the Executive Committee.

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

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

Disclosure Committee
The Board of Management has established a Disclosure Committee comprising the Director Legal Corporate, the Corporate Secretary, the Group Controller and the Director of Investor Relations. The task of the Disclosure Committee 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.

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 (available on the corporate website). The Rules of Procedure include the profile and the Charters of the Committees and set out the tasks and responsibilities of the Supervisory Board, as well as its operational processes.

Composition

The list of Supervisory Board members, including their biographies, can be found in the Leadership section. In compliance with the Dutch Civil Code, the Supervisory Board has a balanced composition, consisting of at least 30% female and at least 30% male members, reflecting the nature and variety of the company's businesses, their international spread and expertise in fields such as finance, economics, information technology (IT), societal, environmental and legal aspects of business, government and public administration. Consequently, the current members represent four 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 finance, economics, international business, general and strategic management, employment and industrial relations, risk management, IT, commercial management, business-to-business sales, research and development, manufacturing and the societal, environmental and legal aspects of business, government, investor relations and public administration. The Supervisory Board maintains a skills matrix, which provides an overview of the skills and experience of individual Supervisory Board members. The Supervisory Board skills matrix can be found in the Report of the Supervisory Board. In addition, in accordance with the Code, a Diversity Policy has been adopted for the composition of the Supervisory Board. The objective of the Diversity Policy is to ensure a balanced composition, taking account of nationality, age, gender, education and work background. During 2017, the Diversity Policy was implemented through the Supervisory Board's consistent and structured approach to succession planning. There are no divergences to report. The Diversity Policy can be found within the Supervisory Board's Rules of Procedures on the corporate website.

THE CURRENT MEMBERS REPRESENT FOUR NATIONALITIES AND HAVE A DIVERSE AND APPROPRIATE EXPERIENCE

When nominating and selecting new candidates for the Supervisory Board, the Supervisory Board profile and skills matrix, the requirements of the Act on Management and Supervision, and the principles and provisions of the Code, are taken into account.

Appointment

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures identical to those previously outlined for the members of the Board of Management. In accordance with the Code, the Rules of Procedure of the Supervisory Board have been updated such that Supervisory Board members are eligible for re-election once for a period not exceeding four years. Thereafter, members may be re-elected a second time for a period of two years. This period may be extended by two years at the most. In the event of a re-appointment after an eight-year period, reasons shall be given in the Report of the Supervisory Board. Terms of appointment are based on a rotation schedule, available on the corporate website.
In 2017, three appointments to the Supervisory Board were proposed to, and approved by, the Extraordinary General Meeting of shareholders held on November 30.

Induction and training

Following appointment to the Supervisory Board, new members receive a comprehensive induction tailored to their individual needs. This includes extensive briefings about all major business and functional aspects of the company and its corporate governance and compliance requirements. The induction includes meetings with the CEO, the CFO, all other Executive Committee members and relevant members of 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.

Independence of the Supervisory Board

Supervisory Board members are required to act critically and independently of one another, the Board of Management, 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% 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 2017, no transactions were reported under which a member had a conflict of interest which was of material significance to the company.

Remuneration

Supervisory Board members receive a fixed annual remuneration and attendance fee, which is determined by the AGM. More information on the remuneration of the members of the Supervisory Board can be found in Note 23 of the Consolidated financial statements.

Supervisory Board Committees

The Supervisory Board has established three permanent 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.

In 2017, the Supervisory Board also established a temporary committee – the Shareholders Relations Committee. Its role is to oversee the strengthening of AkzoNobel's relationship with shareholders and review relevant feedback from the investor community. The committee reports on its deliberations and findings to the full Supervisory Board. The Shareholders Relations Committee comprises Mr. Verwaayen (Chairman), Mr. Burgmans, Dr. Kirby and Mr. Grote, with three meetings being held in 2017. David Mayhew and the team at JP Morgan Cazenove have been appointed as advisors to this committee, with Mr. Lloyd Midwinter (AkzoNobel's Director of Investor Relations) acting as Secretary.

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, the Group Controller, the Corporate Director of Internal Audit and the lead partner of the external auditor attend all regular meetings. After most Audit Committee meetings, members hold a separate meeting with only the internal auditor present, 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.

AkzoNobel's color expertise was called upon to create a special gold custom coating for China's latest generation of high-speed trains. We supplied a bold new look for the sleek Fuxing CR400BF, which has been dubbed the Golden Phoenix (fuxing means rejuvenation). It's one of only two Fuxing trains to have been launched so far.

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 appointments by the CEO of Executive Committee members who are not also a member of the Board of Management. When selecting candidates for appointment to the Supervisory Board, account is taken of the Supervisory Board profile, the diversity requirements of the Dutch Civil Code and the Code, as well as the need for knowledge of the markets in which the company operates and insights from other markets and non-operational areas.

Remuneration Committee

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

Shareholders and the Annual General Meeting

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 corporate website. Matters proposed for consideration, approval or adoption are tabled as separate agenda items and explained in writing in advance of the meeting.

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 (re)election of members of the Board of Management and the Supervisory Board
- The remuneration of the members of the Supervisory Board
- Material changes to the remuneration policy of the Board of Management
- Other important matters, such as major acquisitions or the sale or demerger of a substantial part of the company, as required by law
- The authorization of the Board of Management to issue new 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.

Holders of common shares in aggregate representing at least 1% of the total issued capital may submit proposals for the AGM agenda. Such proposals must be adequately substantiated and must be submitted in writing, or electronically, to the company at least 60 calendar days in advance of the meeting. The draft minutes of the AGM (in Dutch) are made available on the company's corporate website within three months of the meeting date. The final and duly signed minutes are made available on the corporate website within six months after the meeting date.

Share classes

AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. Common shares are also traded over-the-counter on OTCQX in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2017, a total of 252,620,585 common shares and 48 priority shares had been issued. The company has been informed that by December 31, 2017, MFS Investment Management and Elliott Advisors (UK) Limited each held more than 5% 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 the Supervisory Board, as well as the right to approve amendments to the Articles of Association of the company. No cumulative preferred shares have been issued to date. Cumulative preferred shares merely have a financing function, which means if necessary, and possible, they will be issued at or near to the prevailing quoted price for common shares.

The AGM held on April 25, 2017, authorized the Board of Management for a period of 18 months after that date, or, if earlier, until the date on which the AGM again extends the authorization – 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% of the issued share capital, or 20% in case of a merger, acquisition or strategic alliance. The Board of Management was also given a mandate to acquire up to a maximum of 10% of the issued share capital of the company.

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 4.3.3 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 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 4.1.6 and 4.1.7 of the Code), while taking into account the relevant interests of the company and its affiliate enterprise and stakeholders.

Auditors

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

The external auditor attends the majority of Audit Committee meetings, as well as the meeting of the Supervisory Board at which the financial statements are adopted. During these meetings, the auditor discusses the outcome of the audit procedures and the reflections thereof in the auditors' report and the management letter. In particular, the key audit matters are highlighted. The auditor receives the financial information and underlying reports of the quarterly figures and can comment on 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 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. The AGM on April 29, 2014, appointed PricewaterhouseCoopers Accountants N.V. 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. These documents are available on the corporate website.

Internal Audit

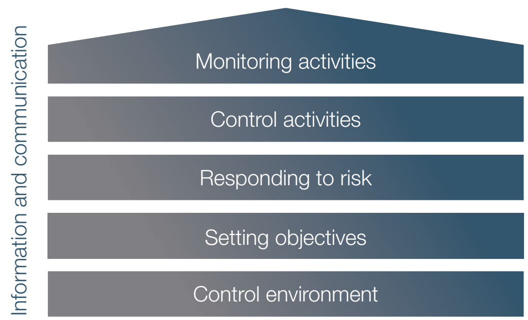
The Internal Audit function is mandated to provide the Board of Management, the Executive Committee and the Audit Committee with independent, objective assurance on the adequacy of the design and operating effectiveness of the internal control framework described below. The Corporate Director of Internal 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 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. (See 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 effectiveness of the company’s internal control framework (see diagram on this page). As in previous years, we continued to work on system-embedded controls, 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 an integrated department for Internal Control (IC) was established to optimize the InControl efforts across all businesses and functions. This included an IC office to centralize and standardize guidance, documentation and tooling and maintain internal and external relationships.

The AkzoNobel internal control framework



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

Share Dealing Rules and Rules on Disclosure Control

In accordance with Dutch law and regulations (including the European Market Abuse Regulation), the company maintains insider lists and exercises controls around the dissemination and disclosure of potentially price sensitive information. All employees and the members of the Board of Management, the Executive Committee and the Supervisory Board, are subject to the AkzoNobel Share Dealing Rules, which limit their opportunities to trade in AkzoNobel securities. Transactions in AkzoNobel shares carried out by Board of Management, Executive Committee and Supervisory Board members (including their closely associated persons) are, as and when required, notified to the Dutch Authority for the Financial Markets.

The Board of Management, Executive Committee and Supervisory Board members require authorization from the General Counsel prior to carrying out any transactions in respect of AkzoNobel securities, even in a so-called “open period”. In relevant cases, the General Counsel can prohibit carrying out transactions in respect of other companies’ securities. In addition, all employees, and in particular members of the Disclosure Committee, are subject to the AkzoNobel Rules on Disclosure Control.

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 our core principles. We are committed to conducting business in a lawful, fair and honest way and expect the same from our business partners. We have a robust compliance program which is focused on the risks most material to the company and its stakeholders.

In 2015, a multi-year compliance strategy was introduced. As a first step, we launched a new Code of Conduct and a Business Partner Code of Conduct, as well as relaunching our SpeakUp! grievance mechanism. In 2016, we enhanced the compliance organization by establishing more expert roles and appointing dedicated compliance and privacy managers and export control officers. We also strengthened our export control framework and developed a human rights program. In 2017, we introduced a business partner compliance program, conducted human rights due diligence and implemented a standardized process for privacy impact assessments on high risk personal data processing activities. Along the way, we further strengthened our integrity culture and enhanced the use of technology to support our compliance processes.

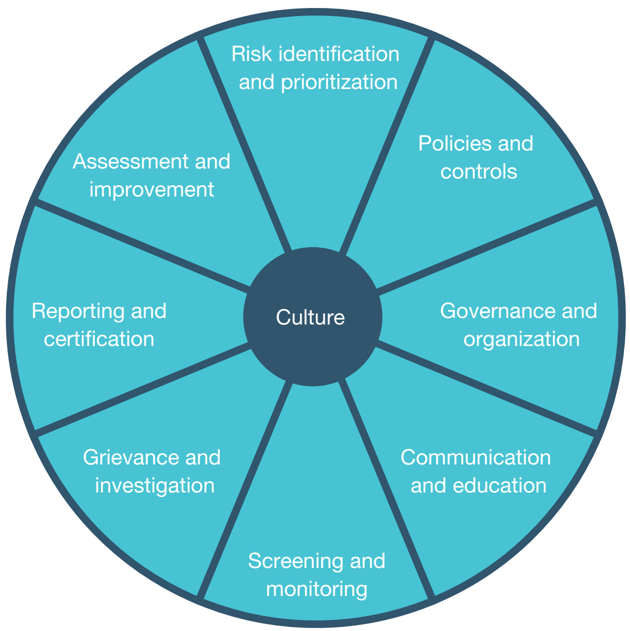
Risk identification and prioritization

We identify risks through monitoring legal developments, SpeakUp! grievance investigations, classroom training, internal control self-assessments, supplier self-assessments, internal audits, business partner audits and due diligence in our value chain. Identified risks are assessed through several processes, including Enterprise Risk Management (see page 31) and Compliance Risk Review. The latter is part of the annual Non-Financial Letter of Representation (NFLoR) process, which results in a review meeting between the business or functional leader, the Compliance Director, Legal Director and the responsible Executive Committee member, where potential compliance deficiencies, risks and improvement opportunities are reviewed.

In 2017, we enhanced the use of the Ecovadis self-assessment to identify compliance risks at key suppliers and performed due diligence into several supply chains to assess human rights risks (see page 186).

Due to its large product portfolio, international commerce with numerous trade partners and contact with authorities, the company's top three inherent compliance risks are in the fields of competition law, export control and anti-bribery.

Compliance framework



We have further strengthened our integrity culture and enhanced the use of technology

Important inherent compliance risks also exist in the fields of fraud, human rights and protection of data. Programs are in place to mitigate each of these risks.

Policies and controls

Our Code of Conduct and Business Partner Code of Conduct explain our three core principles of safety, integrity and sustainability to our employees and business partners and outline what we expect from them. Both are available in 32 languages. The two Codes are supplemented by internal rules and procedures – which are available to employees in our Directives Portal – and by agreements with our business partners. Employees are asked to confirm compliance with the Code of Conduct as part of their annual performance evaluation and business partners are asked to sign our Business Partner Code of Conduct or show they apply similar business principles.

In 2017, we redefined the company's legal compliance hard and soft controls and embedded them in the Internal Control Self-Assessment framework. We also improved our Directives Portal by adding functionality which shows the latest rule changes. As a result of our human rights program, we implemented new rules against discrimination and harassment in the workplace (see page 186). Additional guidelines on customer loyalty programs and competition law were also introduced.

Governance and organization

The Board of Management and Executive Committee are responsible for an effective compliance management framework across all AkzoNobel group entities, and for maintaining an integrity culture which supports long-term value creation. The Audit Committee supervises this responsibility on behalf of the Supervisory Board.

Corporate Compliance committees

The Executive Committee has appointed four corporate committees to oversee our compliance efforts: the Corporate Compliance Committee, the Sensitive Country Committee, the Human Rights Committee and the Privacy Committee. These committees consist of senior leaders from different disciplines in the organization, and meet on a quarterly basis. They each establish, monitor and assess the frameworks for which they are responsible. Their composition and responsibilities are explained on our corporate website.

Business Unit/Function committees and officers

Business and functional leadership is responsible and accountable for running business operations compliant with laws and company rules. Each business unit and large function has a Compliance Committee chaired by its Managing Director, and has appointed a member of its management team as its Compliance Officer. This committee plans to meet quarterly and is responsible for risk assessment and mitigation, implementation of compliance programs, ensuring employees are educated and for disciplinary measures in the event of violation of company rules. The Compliance Officer manages this on a day-to-day basis.

Compliance function

The Compliance function, led by the Compliance Director – reporting to the General Counsel – manages the compliance framework on behalf of the corporate compliance committees mentioned above. The Compliance function hosts the Codes of Conduct and Directives Portal, develops and communicates rules and guidance, manages the compliance training program, facilitates risk assessment, performs compliance due diligence, manages investigations, facilitates compliance self-assessment and reports on compliance to senior leadership. Its legal experts in the field of competition law, export control, anti-bribery, privacy and human rights provide legal advice, training and support. Its Compliance Managers support the BU/function Compliance Officers in managing the day-to-day compliance operations in the businesses and functions.

Internal Audit

The effectiveness of the Compliance framework is audited by the Internal Audit function. Following investigations, Internal Audit may also be engaged to conduct additional reviews to establish root causes.

Communication and education

Our core principles and rules are communicated to employees in several ways, including a comprehensive digital training program, classroom training and compliance communications. Communication and training programs serve two purposes – to educate employees on the rules that apply to their role, and to inspire them to apply high ethical standards in the choices they make.

Digital training

The Code of Conduct and Life-Saving Rules digital trainings are mandatory for every employee. Competition law, export control and sanctions, fraud, anti-bribery, information security and privacy digital trainings are mandatory for employees defined on the basis of their role. Digital training completion is monitored by the BU/function Compliance Committees on a quarterly basis. Digital trainings are periodically refreshed to increase engagement. In 2017, we introduced new digital trainings on information security (more than 38,000 employees) and competition law (over 15,000 employees). At the end of 2017, the completion rates for Code of Conduct and Life-Saving Rules were 90% and 87% respectively (82% and 78% in 2016), while the overall completion rate for all compliance digital trainings was 85% (82% in 2016).

Classroom training

Classroom training is provided on a variety of topics, including general compliance awareness training, the Code of Conduct, SpeakUp!, competition law, export control and sanctions, and discrimination and harassment.

Communication

The Compliance function issues newsletters and holds WebEx sessions on a quarterly basis. Bulletins on specific items of interest are also issued, and in 2017, subjects covered in these bulletins included conflict of interest, customer loyalty programs and privacy. In addition, the Compliance function started communicating (anonymized) examples of investigated violations and disciplinary sanctions through its newsletter. It also ensured that the importance of compliance was reflected in a variety of senior leadership business messages.

Compliance portal

A comprehensive Compliance web portal is available to employees containing guidance, templates and references on various compliance topics.

Screening and monitoring

We use several processes and tools to screen employees, business partners, activities and acquisition targets, supported by technology where possible. In 2016, we introduced an export control and sanctions screening tool across our businesses. This alerts us in the event of potentially sanctioned parties, sanctioned use or export license requirements. Use of this tool was expanded in 2017.

We also introduced a business partner screening process and tool in 2017. This requires high risk business partners – including key suppliers, parties in sanctioned countries, agents and toll manufacturers – to be screened for past violations and misconduct. Using the same tool, we also introduced a standardized process for the compliance screening and due diligence of acquisition targets and joint arrangement partners. In addition, we introduced a process and tool for assessing personal data processing activities for privacy compliance and documenting these activities in anticipation of the EU General Data Protection Regulation (GDPR), which comes into force in 2018.

Compliance of our operations and business partners is monitored in several ways. As part of the annual internal control self-assessment, compliance controls are tested and deficiencies are reported to higher management through the Internal Control Self-Assessment tool. In 2017, we enhanced the compliance controls in this tool and improved the logging and tracking of compliance-related actions. As a member of the Together for Sustainability platform, our key suppliers are monitored through the Ecovadis self-assessment program and through audits. We implemented amnesty programs for the acquired BASF Industrial Coatings and Disa Technology businesses, providing training to employees and urging them to inform us about past potential competition law violations.

Grievance and investigations

Our SpeakUp! grievance mechanism offers employees, business partners and members of the general public a confidential environment in which they can raise concerns relating to compliance with our Code of Conduct. We offer anonymous reporting and apply strict principles of confidentiality and non-retaliation. Reports are investigated on their merits, in accordance with investigation procedures that are available to everyone on our corporate internal and external websites. The investigations are conducted or managed by dedicated resources supervised by the Head of Investigations. Findings and recommendations are reported to the relevant Compliance Committee for decision-making. In 2017, we introduced sanction guidelines to further improve the consistency of decision-making.

In 2017, 129 SpeakUp! reports were received, 14 of which were of materiality level Category 1 and 115 of Category 2. In total, 17 of these 129 SpeakUp! reports were substantiated, leading to four dismissals.

Our privacy data breach reporting procedure has been amended to meet the requirements of the new EU General Data Protection Regulation (GDPR).

In 2017, Transparency International Netherlands studied the whistleblowing frameworks of 18 large Dutch listed companies. AkzoNobel's whistleblowing framework ranked second.

SpeakUp! reports

	2015	2016	2017
Total reports registered	224	324	261
Reports received through SpeakUp!	123	187	129
Safety	5	23	23
Integrity	41	64	53
Sustainability	77	100	53
SpeakUp! Paints and Coatings/ Specialty Chemicals[1]	98/25	162/25	104/25
SpeakUp! reports Category 1[2]/ Category 2	1/122	13/174	14/115
SpeakUp! reports (partially) substantiated/unsubstantiated/ referred[3]	28/64/-	38/84/16	17/80/2
Total number of dismissals resulting from SpeakUp! reports	5	16	4

[1] Corporate matters included in Paints and Coatings.
[2] Matters with a financial impact >€0.5 million, or involving senior management, or relating to competition law, anti-bribery or export control.
[3] Referred means: allegation not related to a Code of Conduct violation; investigation referred to other department.

Declaration and reporting

NFLoR

Every year, management verifies and confirms that they comply with laws and internal rules through the Non-Financial Letter of Representation (NFLoR) process. Exceptions must be reported and actions planned and documented. In 2017, this process was made more efficient. Detailed compliance controls listed in the NFLoR statement were embedded in the Internal Control framework and as such became part of the Internal Control Self-Assessment process performed by managers at different layers in the

A second Dulux Academy was opened in the UK in September, at our new paint plant in Ashington. The facilities are designed to help address skills shortages in the housing industry by upskilling decorators and training those new to the industry. Our first UK Academy was opened in Slough in 2016.

organization. Any deficiencies were documented and reported up through the process and tool. This information, along with audit findings, investigation data and test results from the Compliance function, informed the BU and functional leaders of material risks, deficiencies and areas for improvement to be disclosed in their NFLoR statements. The NFLoR statements, and the BU/function Compliance Risk Review results, were discussed at the NFLoR review meeting between the BU/function leader, the Compliance Director, Legal Director and the responsible Executive Committee member. The Executive Committee member then reported the results to the CEO and the General Counsel. The overall results were reported to the Executive Committee, Supervisory Board and internal and external auditor as part of the year-end Compliance Report. The results of this NFLoR process, in combination with the Internal Control Self-Assessment process and the internal audit results, form a basis for the Statement of the Board of Management in this Report 2017. Reported areas of attention include the need for additional competition law training to mitigate risk resulting from increased profit targets, environmental law developments and enforcement in China, external fraud attempts and cyber-attacks and preparing for the GDPR.

Individual declarations

Annually, employees confirm their awareness of, and compliance with, the Code of Conduct as part of their year-end performance evaluation. Each year, designated employees must also confirm compliance with competition laws and AkzoNobel's competition law policy as part of the Competition Law Compliance Declaration process. This reminds them of the rules and invites them to disclose any concerns. In 2017, the declaration was preceded by the launch of our new digital training and various other communications to improve understanding and engagement. In 2017, over 12,000 employees signed the declaration.

Reporting

To ensure that management is well informed, there are several compliance reporting procedures in the company. Quarterly, progress on compliance programs and actions, investigation findings and training completion are reported to the BU and function Compliance Committees. Monthly, the status of investigations is reported to the Finance Director and Legal Director. Also monthly, an update on compliance matters is reported in the Business Review Meeting. The General Counsel periodically reports to the Executive Committee and Audit Committee on important compliance matters, developments and initiatives. Mid-year and year-end, the General Counsel and Compliance Director submit a written report on material compliance matters, SpeakUp! data and progress on compliance programs to the Board of Management, Executive Committee and Supervisory Board. The results of the NFLoR form part of the year-end report.

Measurement and improvement

We measure the integrity culture in several ways. In 2017, we implemented compliance questions in our recruitment standards to better assess new recruits against AkzoNobel's ethical standards. To measure employee engagement, we have introduced pulse surveys, periodically inviting large groups of employees to answer a variety of questions. These include questions relating to compliance to measure the integrity culture. The results will feed into our compliance and audit programs.

In the first quarter of the year, the Compliance function analyzes the SpeakUp! data of the previous year and uses the results of this analysis as input for their compliance plan the following year.

Internal Audit performs compliance audits to test the effectiveness of the Compliance framework. In 2017, the Internal Audit function audited the Export Control framework, resulting in an overall positive opinion.

Performance of managers and executives is incentivized and measured in that one of the leadership behaviors against which they are evaluated is role-modelling the company's core principles. For executives, a portion of the long-term incentive is dependent on the company's performance in the Dow Jones Sustainability Index (DJSI), which includes evaluation of Code of Conduct and human rights practices.

In 2017, AkzoNobel regained its number one ranking in the Chemical industry on the DJSI. The scores on Code of Conduct and human rights improved and contributed to this success.

Remuneration report

This report describes our remuneration policy and the remuneration paid to members of the Board of Management in 2017.

The remuneration and 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 Board of Management members – is in line with 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 2017. 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% of base salary for the CEO and 65% of base salary for any other member of the Board of Management. The STI is linked to financial targets (70%) and to individual and qualitative targets of the members of the Board of Management (30%). 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% payout is made; and (iii) The performance level at which the maximum payout of 150% is made. STI awards in aggregate will not exceed

150% of base salary for the CEO, and 100% 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% 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% of the conditional grant of shares is dependent on the development in ROI during the performance period
- 30% of the conditional grant of shares is dependent on AkzoNobel's relative sustainability performance, measured as the company's average position in the DJSI ranking during the three-year performance period

For each of these performance criteria, the minimum vesting is zero percent and the maximum vesting is 150% 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, 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.

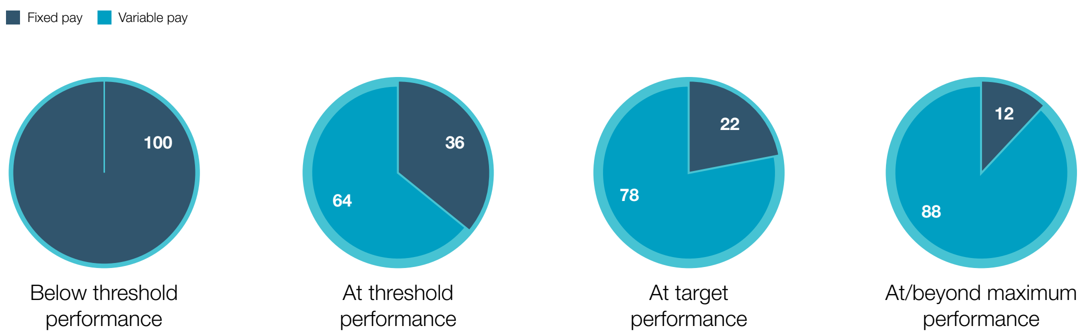
Other benefits

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

Claw back and value adjustment

The variable pay components are subject to the claw back and value adjustment provisions of the Dutch Civil Code.

CEO target pay mix 2017 in %



Loans

The company does not grant loans, advance payments or guarantees to its Board members.

Implementation of the remuneration policy in 2017

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 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.

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. In addition, the pay ratios are taken into account, comparing the on-target, annualized total compensation of the CEO with the average employee compensation.

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 2017, the peer group consisted of the following companies:

- Ahold Delhaize
- Air Liquide
- ASML
- DSM
- Henkel
- Ferro Corporation
- KPN
- LafargeHolcim
- Philips Lighting
- PPG Industries
- Randstad
- RELX Group
- RPM International
- Sherwin-Williams
- Sika
- The Linde Group
- Vopak
- Wolters Kluwer

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 2017. Mr. Büchner and Mrs. Castella stepped down from the Board of Management on July 19, 2017, and September 8, 2017, respectively. The service agreement with Mr. Büchner was terminated by mutual consent, while observing the contractual notice period of six months. Given the circumstances, the Supervisory Board found it appropriate and reasonable to provide a termination benefit in accordance with the remuneration policy and the Code, and to treat the unvested performance shares in line with our standard approach, which implies that the unvested shares granted during his active service will be retained, and the shares granted in the year of termination will be reduced time pro-rated. Mrs. Castella stepped down as CFO and went on leave of

Compensation Board of Management 2017

in €	Thierry Vanlancker[1] Chief Executive Officer	Ton Büchner[2, 8] Former Chief Executive Officer	Maëlys Castella[3] Former Chief Financial Officer
Base salary	429,300	950,500	440,900
Short-term incentive	471,300	986,500	282,200
Share awards[4]	282,600	2,148,900	626,600
Post-contract benefits[5]	71,700	435,800	66,100
Other emoluments[6]	13,700	39,400	78,600
Termination and other benefits[7]	–	925,000	–
Total remuneration	**1,268,600**	**5,486,100**	**1,494,400**

[1] As of July 19, 2017, which is the date Mr. Vanlancker was designated by the Supervisory Board as CEO, in accordance with the Articles of Association. He was formally appointed CEO by the shareholders at the EGM held on September 8, 2017.
[2] Stepped down from Board of Management on July 19, 2017.
[3] Until September 8, 2017. Compensation as Executive Committee member is reflected in Note 23 to the Consolidated financial statements.
[4] Costs relating to share awards (performance-related share plan and share-matching plan) are non-cash and relate to the expenses following IFRS 2.
[5] Post-contract benefits refers to payments intended for building up retirement.
[6] Other emoluments include employer's charges (social contributions) and other compensations, such as representation allowances, insurances, car arrangements and educational expenses.
[7] Termination and other benefits for Mr. Büchner refers to costs incurred in 2017 which will be paid in 2018 (severance payment, salary for first two months of 2018, allowances for advice and relocation).
[8] Additional charges of €1,120,000 are accrued which relate to taxation on excessive pay ("Belastingheffing excessieve beloningsbestanddelen").

absence for health reasons. As such, no leaving arrangement is in place. Mr. Vanlancker was designated as CEO on July 19, 2017, and his remuneration is accounted for effective from this date. The successor to the CFO, Mr. Maarten de Vries, was appointed effective January 1, 2018. See Note 23 of the Consolidated financial statements for more details.

The implementation of the remuneration policy in 2017 will be a separate agenda item at the 2018 AGM.

Base salary

The base salary of the CEO, Mr. Vanlancker, was determined at an annual base salary of €950,500, effective from his day of appointment, July 19, 2017.

Short-term incentive

The objectives of the short-term incentive in 2017 were to reward performance on ROI, EBIT, 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 short-term incentive elements (ROI, EBIT, 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 2017, the targets for ROI, EBIT, 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 2017 included goals set in relation to delivering on the company's communicated strategy.

ROI is calculated by determining the ratio of EBIT over 12 months average invested capital using reported numbers. EBIT was calculated as the number reported for IFRS purposes, in constant currencies. OCF was calculated as EBITDA minus the change in operating working capital and minus 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 2017, the performance against the targets set for ROI, EBIT, OCF, revenue growth and qualitative targets was as follows:

2017 performance on STI metrics

Metric	Payout as % of target
ROI	121
EBIT	110
OCF	77
Revenue	121

With regards to the qualitative targets, the CEO, Mr. Vanlancker, performed above target.

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 share plan

In line with the remuneration policy, vesting of 35% of the shares conditionally granted is linked to AkzoNobel's ROI performance. For the shares conditionally granted in 2015 under the performance share plan (in respect of which the performance period ended on December 31, 2017), the Supervisory Board set the ROI to be achieved by the end of 2017 as follows:

ROI performance range series 2015-2017

	Threshold	Target	Maximum
Vesting (as % of 35% of conditional grant)	50%	100%	150%
Target	14.0%	16.5%	19.0%

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 73% for this part of the long-term incentive.

For the 2015 conditional grant, 30% was linked to AkzoNobel's relative sustainability performance by taking the company's average position in the DJSI ranking. The following vesting scheme has been applied in respect of the conditional grants made in 2015:

Average position in DJSI 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 2015 to 2017 resulted in a vesting of 100% for this part of the long-term incentive.

For the 2015 conditional grant, the remaining 35% 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. During 2017, DuPont merged with Dow Chemical, while Valspar Corporation has been acquired by Sherwin-Williams. As the remaining performance period was relatively short, it was decided to measure their TSR performance until the day of delisting and then move with the average of the remaining peers.

Our high performance coatings helped power the Eindhoven University of Technology team to victory in the 2017 World Solar Challenge. Their vehicle, Stella Vie, won the Cruiser class in the 3,000-kilometer event held in Australia.

The following vesting scheme has been applied in respect of the conditional grants made in 2015:

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 2015 to 2017 resulted in fifth position within the ranking of the peer group companies. This ranking resulted in a vesting of 75% for this part of the long-term incentive.

Based on the company's combined ROI, sustainability and TSR performance, the final vesting percentage of the 2015 conditional grant – after including the dividend yield during the performance period (determined to be 13.27%) – equaled 92.65%. 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 2017 plan amounted to 27,300 for the CEO, Mr. Vanlancker.

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 in case of a change in control, the payout under the performance share plan will be 100% of all shares conditionally granted. 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.

Pay ratio

Pay ratios are taken into account, comparing the on-target, annualized total compensation of the CEO, Mr. Vanlancker, to the average employee compensation. The ratio is 58.6. The pay ratio would have been lower if calculated at the actual compensation granted to the CEO in 2017 due to the limited term in his new position.

Claw back and value adjustment

In 2017, there was no cause for a claw back or value adjustment by the Supervisory Board.

Shareholding requirements and share-matching

The table below summarizes the shares acquired by the relevant members of the Board of Management in 2017 that would, subject to the conditions of the share-matching plan, qualify for matching by the company. See also Note 23 of the Consolidated financial statements.

Qualifying shares

Board members	Qualifying shares acquired in 2017
Thierry Vanlancker	230

During 2017, we signed a strategic sustainability partnership with leading global container shipping company Maersk Line to reduce carbon emissions per container shipped by 10%. The agreement reflects the mutual ambition of both companies to jointly elevate sustainability in the maritime industry.

Shares obtained by members of the Board of Management under the performance 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 2017, the CEO, Mr. Vanlancker, held 460 shares, which is compliant with the remuneration policy's shareholding requirement, as he has a five-year period from the date of his first appointment to build up his full shareholding requirement.

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. The contributions are paid over the base salary in the current year. The contributions will therefore vary depending on the age of the Board member.

Board contracts

Agreements for members of the Board of Management are concluded for a period not exceeding four years. After the initial term, reappointments may take place for consecutive periods of up to four years each. The notice period by the Board member and by the company shall be subject to a six-month term. Members of the Board of Management normally retire in the year they reach the legal retirement age.

Remuneration policy for the next financial year

The Supervisory Board closely monitors whether the policy and its implementation are in line with the objectives of the company. The metrics applied for the STI in 2017 were ROI, EBIT, OCF, and revenue growth. In 2018, to align with our strategy, the Supervisory Board intends to add return on sales (ROS) to the list of financial metrics, from which the Supervisory Board annually chooses up to four financial metrics and determines their relative weighting.

For 2018, the Supervisory Board envisages choosing ROS and OCF, as these are identified in our strategic plan. The targets and ranges have been set at a challenging level, based on the company's strategic goals formulated during the year.

For the LTI, the Supervisory Board will review the current performance criteria that apply to the performance share plan and align them with our long-term strategic plan. The proposal for adjustment will be presented for approval at the 2018 AGM.

AkzoNobel on the capital markets

Held investor update in April 2017 to outline new strategy and update financial guidance.

Proposed dividend of €2.50 per share (up 52% on 2016) and special cash dividend of €4.00 per share, as advance proceeds for separation of Specialty Chemicals.

Two EGMs held during the year, to appoint Board of Management and Supervisory Board members, and to further explain AkzoNobel's response to the proposals made by PPG. Approval granted for the separation of Specialty Chemicals.

A strong case for investment

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

Close dialog with the capital markets

During the year, AkzoNobel was subject to three bids for a takeover by PPG, who subsequently withdrew their offer on June 1, 2017. In April, the company presented an investor update, which included 2020 guidance and details of a new strategy to accelerate growth and value creation by creating two focused businesses. Following shareholder approval for the separation of Specialty Chemicals, the company is on track for the completion of this process by April 2018. Subsequent management changes have taken place during the year. However, both the Investor Relations team and management have continued to attend conferences – as well as hold meetings with investors and analysts – while a program of meetings was arranged in the latter half of the year to introduce the new CEO. AkzoNobel also announced a range of measures during 2017 designed to strengthen and maintain a constructive dialog with its shareholders. This included the creation of a Supervisory Board committee for shareholder relations, with David Mayhew and team from JP Morgan Cazenove appointed as advisor for shareholder relations. These actions reinforce the fact that there has been intensive shareholder engagement, with a continued open and constructive dialog.

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 3.51% at year-end 2017. During the year, 232 million AkzoNobel shares were traded on Euronext Amsterdam (2016: 168 million). AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US.

See the table below for stock codes and ticker symbols:

Euronext ticker symbol	AKZA
ISIN common share	NL0000009132
OTC ticker symbol	AKZOY
ISIN ADR	US0101993055
Sedol code	5458314

Key share data

	2015	2016	2017
Year-end (share price in €)	61.68	59.39	73.02
Year-high (share price in €)[1]	74.81	64.74	82.64
Year-low (share price in €)[1]	55.65	50.17	59.11
Year-average (share price in €)	64.91	58.83	74.42
Average daily trade (in € millions)	44.1	38.8	67.4
Average daily trade (in millions of shares)	0.7	0.7	0.9
Number of shares outstanding at year-end (in millions)	249	252	253
Market capitalization at year-end (in € billions)	15.4	15.0	18.4
Net income per share (in €)	3.95	3.85	3.31
Dividend per share (in €)	1.55	1.65	2.50
Dividend yield (in %)[2]	2.5	2.8	3.4

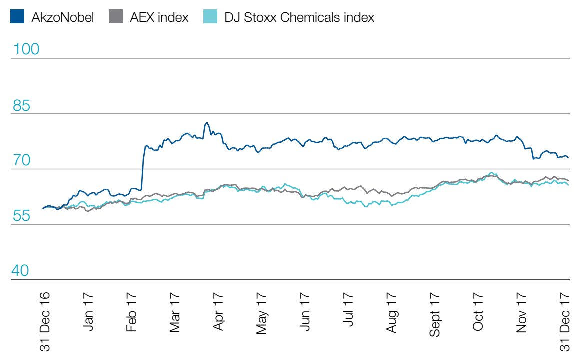
[1] Based on close value. [2] Based on year-end share price.

Share price performance 2017

Our share price increased 23% in 2017, outperforming 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 2017

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.

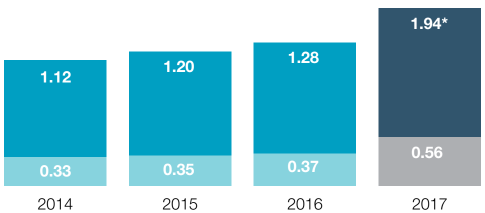
Total proposed dividend of €2.50 per share

The Board of Management proposes a total dividend of €2.50 per common share. AkzoNobel's shares will be trading ex-dividend as of April 30, 2018. In compliance with the listing requirements of Euronext Amsterdam, the record date for the final dividend will be May 2, 2018. The dividend as proposed to the 2018 Annual General Meeting of shareholders and, following adoption, will be payable as of May 25, 2018. Additionally, a special cash dividend of €4.00 per share, as advance proceeds for the separation of Specialty Chemicals, was paid on December 7, 2017. The dividend paid over the last four years, excluding the special cash dividend, is shown in the graph below.

Dividend paid in € per share

Interim dividend
Final dividend

Total 1.45	**1.55**	**1.65**	**2.50**
Increase 0%	+7%	+6.5%	+52%



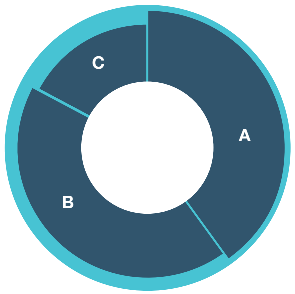
* Proposed.

Analyst recommendations

At year-end 2017, AkzoNobel was covered by 23 equity brokers, of which two were restricted. Recommendations were as follows (see diagram):

Analyst recommendations in %

A Buy	33
B Hold	53
C Sell	14



Broad base of international shareholders

AkzoNobel, which has a 100% free float, has a broad base of international shareholders. Based on an independent shareholder ID carried out in December 2017, the chart above right shows the geographical spread. Around 6% of the company's share capital is held by private investors, many of whom are resident in the Netherlands.

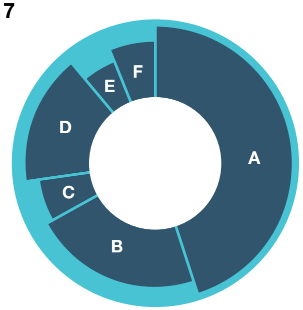
Approximately 9% of the company's share capital is held by sustainable and responsible investors.*

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

For further information please visit our website: akzonobel.com

Distribution of shares 2017

A North America	45
B UK/Ireland	22
C The Netherlands	6
D Rest of Europe	16
E Rest of world	5
F Undisclosed	6



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.

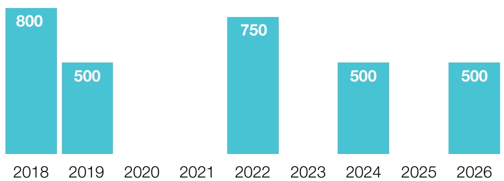
Rating agency	Long-term rating	Outlook
Moody's[1]	Baa1	Stable
Standard & Poor's[2]	A-	Negative

[1] Rating affirmed on November 22, 2017. [2] Rating affirmed on October 20, 2017.

Bonds

On November 6, 2017, a €500 million floating rate note (FRN) was launched with a maturity date of November 8, 2019. No bonds were repaid during the year. The next bond, a 4% €800 million bond, matures on December 17, 2018.

Debt maturity[1] in € millions (nominal amounts)



[1] At the end of 2017.

The origins of our Pulp and Performance Chemicals business can be traced all the way back to the late 1800s, when Alfred Nobel helped fund the setting up of an electro-chemical company in Sweden.

Fast forward a century or so and the business is a world leader in developing and delivering customized bleaching chemicals and systems, as well as colloidal silica solutions, expandable microspheres, and porous silica for purification of pharmaceuticals.

Six new product applications were launched and commercialized in 2017 within product brands for Levasil (colloidal silica), Expancel (expandable microspheres) and Kromasil. They will spur growth in catalysts, food packaging and the pharmaceutical industry.

Financial information

Financial statements

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Company financial statements

Other information

Consolidated statement of income

In € millions	Note		2016 *		2017
Continuing operations					
Revenue		9,434		9,612	
Cost of sales	4	(5,098)		(5,378)	
Gross profit			**4,336**		**4,234**
Selling expenses	4	(2,336)		(2,319)	
General and administrative expenses	4	(808)		(781)	
Research and development expenses	4	(257)		(270)	
Other results	4	(12)		(39)	
			(3,413)		**(3,409)**
Operating income			**923**		**825**
Financing income and expenses	6	(91)		(78)	
Results from associates and joint ventures	11	18		17	
Profit before tax			**850**		**764**
Income tax	7		(234)		(253)
Profit for the period from continuing operations			**616**		**511**
Discontinued operations					
Profit for the period from discontinued operations	2		436		393
Profit for the period			**1,052**		**904**
Attributable to					
Shareholders of the company			970		832
Non-controlling interests			82		72
Profit for the period			**1,052**		**904**
Earnings per share, in €					
Continuing operations					
Basic	8		2.15		1.76
Diluted	8		2.14		1.75
Discontinued operations					
Basic	8		1.72		1.55
Diluted	8		1.71		1.54
Total operations					
Basic	8		3.87		3.31
Diluted	8		3.85		3.29

* Represented to present the Specialty Chemicals business as a discontinued operations.

Consolidated statement of comprehensive income

In € millions	2016	2017
Profit for the period	**1,052**	**904**
Other comprehensive income		
Items that will not be reclassified to the statement of income:		
Post-retirement benefits	(748)	479
Income tax	151	(99)
Net effect	**(597)**	**380**
Items that may be reclassified subsequently to the statement of income:		
Exchange differences arising on translation of foreign operations	(104)	(535)
Cash flow hedges	59	16
Income tax	(43)	(9)
Net effect	**(88)**	**(528)**
Other comprehensive income for the period	**(685)**	**(148)**
Comprehensive income for the period	**367**	**756**
Comprehensive income attributable to		
Shareholders of the company	290	722
Non-controlling interests	77	34
Comprehensive income for the period	**367**	**756**

Consolidated balance sheet at December 31, before allocation of profit

In € millions	Note		2016		2017
Assets					
Non-current assets					
Intangible assets	9	4,413		3,409	
Property, plant and equipment	10	4,190		1,832	
Deferred tax assets	7	1,017		575	
Investments in associates and joint ventures	11	161		118	
Other financial non-current assets	12	558		1,201	
Total non-current assets			**10,339**		**7,135**
Current assets					
Inventories	13	1,532		1,094	
Current tax assets	7	59		62	
Trade and other receivables	14	2,787		1,964	
Cash and cash equivalents	18	1,479		1,322	
Assets held for sale	2	–		4,601	
Total current assets			**5,857**		**9,043**
Total assets			**16,196**		**16,178**
Equity and liabilities					
Equity					
Shareholders' equity	15	6,553		5,865	
Non-controlling interests	15	481		442	
Group equity			**7,034**		**6,307**
Non-current liabilities					
Post-retirement benefit provisions	16	1,380		643	
Other provisions	17	558		321	
Deferred tax liabilities	7	367		285	
Long-term borrowings	18	2,644		2,300	
Total non-current liabilities			**4,949**		**3,549**
Current liabilities					
Short-term borrowings	18	87		973	
Current tax liabilities	7	229		118	
Trade and other payables	19	3,475		2,794	
Current portion of provisions	16, 17	422		241	
Liabilities held for sale	2	–		2,196	
Total current liabilities			**4,213**		**6,322**
Total equity and liabilities			**16,196**		**16,178**

Consolidated statement of cash flows

In € millions	Note		2016 *		2017
Profit for the period		1,052		**904**	
Adjustments to reconcile earnings to cash generated from operating activities					
Amortization and depreciation	9, 10	606		607	
Impairment losses	9, 10	63		–	
Financing income and expenses	6	114		96	
Results from associates and joint ventures	11	(43)		(25)	
Pre-tax result on acquisitions and divestments	2	(31)		(34)	
Income tax	7	393		422	
Changes in working capital	20	1		(110)	
Changes in provisions	20	(507)		(477)	
Interest paid		(87)		(84)	
Income tax paid		(285)		(338)	
Other changes		15		8	
Net cash from operating activities			1,291		**969**
Capital expenditures	10	(634)		(613)	
Interest received		21		14	
Dividends from associates and joint ventures		23		11	
Acquisition of consolidated companies	2	(416)		(80)	
Proceeds from divestments		53		52	
Other changes		(26)		(22)	
Net cash from investing activities			(979)		**(638)**
Proceeds from borrowings	18	916		1,256	
Borrowings repaid	18	(776)		(345)	
Repurchase of shares		–		(160)	
Dividends paid		(336)		(1,187)	
Buy-out of non-controlling interests		(7)		–	
Net cash from financing activities			(203)		**(436)**
Net change in cash and cash equivalents of continued and discontinued operations			109		**(105)**
Net Cash and cash equivalents at January 1	18		1,317		1,441
Effect of exchange rate changes on cash and cash equivalents			15		(58)
Net cash and cash equivalents at December 31			1,441		**1,278**

* The cash flow statement shows the cash flows of continuing as well as discontinued operations.
The Notes of the Consolidated financial statements referred to include information on the continuing operations.

Consolidated statement of changes in equity

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve	Cumulative translation reserve [2]	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling-interests	Group equity
	Attributable to shareholders of the company							
Balance at January 1, 2016	**498**	**598**	**(42)**	**81**	**5,349**	**6,484**	**496**	**6,980**
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
Comprehensive income for the period	**–**	**–**	**45**	**(128)**	**373**	**290**	**77**	**367**
Dividend	5	149	–	–	(393)	(239)	(93)	(332)
Equity-settled transactions [1]	–	–	–	–	20	20	–	20
Issue of common shares	1	(1)	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	(2)	(2)	1	(1)
Balance at December 31, 2016	**504**	**746**	**3**	**(47)**	**5,347**	**6,553**	**481**	**7,034**
Profit for the period	–	–	–	–	832	832	72	904
Reclassification into the statement of income	–	–	(3)	–	–	(3)	–	(3)
Other comprehensive income	–	–	19	(497)	479	1	(38)	(37)
Tax on other comprehensive income	–	–	(4)	(5)	(99)	(108)	–	(108)
Comprehensive income for the period	**–**	**–**	**12**	**(502)**	**1,212**	**722**	**34**	**756**
Dividend	4	180	–	–	(1,471)	(1,287)	(73)	(1,360)
Equity-settled transactions [1]	–	–	–	–	37	37	–	37
Issue of common shares	2	(2)	–	–	–	–	–	–
Share repurchase	(5)	(155)	–	–	–	(160)	–	(160)
Balance at December 31, 2017	**505**	**769**	**15**	**(549)**	**5,125**	**5,865**	**442**	**6,307**

[1] Includes a tax credit of €3 million (2016: €3 million charge).
[2] The cumulative translation reserve related to Discontinued operations amounts to €169 million as per December 31, 2017.

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 (reported as Discontinued operations)

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

	Revenue from third parties		Group revenue		Amortization and depreciation		Identified items		Operating income		ROS *	
In € millions	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Decorative Paints	3,792	3,859	3,835	3,898	(134)	(121)	9	(17)	366	334	9.3	9.0
Performance Coatings	5,640	5,751	5,665	5,775	(140)	(148)	(24)	(1)	735	668	13.4	11.6
Corporate and other	2	2	(66)	(61)	(8)	(7)	10	(62)	(178)	(177)		
Continuing operations	**9,434**	**9,612**	**9,434**	**9,612**	**(282)**	**(276)**	**(5)**	**(80)**	**923**	**825**	**9.8**	**9.4**
Specialty Chemicals	4,760	4,961	4,783	4,985	(324)	(326)	–	–	629	689	13.2	13.8
Corporate and other discontinued operations	3	2	(20)	(22)	–	(5)	22	(49)	(33)	(118)		
Discontinued operations	**4,763**	**4,963**	**4,763**	**4,963**	**(324)**	**(331)**	**22**	**(49)**	**596**	**571**	**12.1**	**12.5**
Total	**14,197**	**14,575**	**14,197**	**14,575**	**(606)**	**(607)**	**17**	**(129)**	**1,519**	**1,396**	**10.6**	**10.5**

* ROS% is calculated as EBIT (operating income excluding identified items) as percentage of group revenue.

Information per Business Area

In € millions	Invested capital 2016	Invested capital 2017	Total assets 2016	Total assets 2017	Total liabilities 2016	Total liabilities 2017	Capital expenditures 2016	Capital expenditures 2017	ROI% * 2016	ROI% * 2017
Decorative Paints	2,595	2,705	4,511	4,318	1,687	1,513	107	112	12.8	12.5
Performance Coatings	2,713	2,869	4,674	4,691	1,811	1,638	159	129	29.4	23.4
Specialty Chemicals	3,494	3,570	4,755	4,699	1,315	1,582	356	363	17.9	19.1
Corporate and Other	1,464	430	2,256	2,470	4,349	5,138	12	9	–	–
Total	**10,266**	**9,574**	**16,196**	**16,178**	**9,162**	**9,871**	**634**	**613**	**15.0**	**15.1**
Of which Discontinued operations and held for sale										
Specialty Chemicals		3,570		4,699		1,582		363		19.1
Corporate and Other (discontinued operations and held for sale)		(41)		(98)		614		–		–
Total discontinued operations and assets held for sale		**3,529**		**4,601**		**2,196**		**363**		**17.1**
Total continuing operations		**6,045**		**11,577**		**7,675**		**250**		**13.9**

* ROI% is calculated as EBIT (operating income excluding identified items) 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. Invested capital for Discontinued operations and held for sale as well as Total includes the total assets (excluding cash and cash equivalents, investments in associates, the receivable from pension funds in an asset position) less current tax liabilities, deferred tax liabilities and trade and other payables reported within assets held for sale and liabilities held for sale.

Regional information

In € millions	Revenue by region of destination 2016	Revenue by region of destination 2017	Intangible assets and property, plant and equipment 2016	Intangible assets and property, plant and equipment 2017	Invested capital 2016	Invested capital 2017	Capital expenditures 2016	Capital expenditures 2017
The Netherlands	267	282	1,805	1,189	2,214	1,374	15	17
Other European countries	3,596	3,731	2,369	1,435	3,229	2,144	103	105
US and Canada	1,213	1,189	1,278	474	1,844	714	27	23
Latin America	850	900	500	268	721	348	20	23
Asia	2,956	2,937	2,539	1,772	2,064	1,296	106	73
Other regions	552	573	112	103	194	169	7	9
Total	**9,434**	**9,612**	**8,603**	**5,241**	**10,266**	**6,045**	**278**	**250**

Notes to the Consolidated financial statements

1 Note 1: Summary of significant accounting policies

General information

Akzo Nobel N.V. is a company headquartered in the Netherlands. The address of our registered office is Christian Neefestraat 2, Amsterdam. We have filed a list of subsidiaries, associated companies and joint ventures, drawn up in conformity with 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 2017
- How AkzoNobel created value in 2017
- 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 4 Operating income
- Financial information: Note 24 Financial risk management

The section Strategic performance provides information on the developments during 2017 and the results. This section also provides information on cash flow and net debt, capital expenditures, innovation activities and employees.

On March 7, 2018, 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 2017, such as amendments to IAS 7 “Cash flow statement”, IAS 12 “Income tax” as well as IFRS 12 “Disclosure of interests in other entities”, 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/held for distribution, 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. Assets and liabilities are classified as held for distribution if it is highly probable that the carrying value will be recovered through a legal demerger transaction within one year rather than through continuing use. When reclassifying assets and liabilities as held for sale/held for distribution, we recognize the assets and liabilities at the lower of their carrying value or fair value less selling costs. Assets held for sale/held for distribution are not depreciated and amortized but tested for impairment.

In case of discontinued operations, the comparatives in the Statement of income are represented. The balance sheet comparatives are not represented. The Consolidated statement of cash flows is not represented for discontinued operations. The cash flow statement of discontinued operations is separately disclosed in Note 2.

Alternative Performance Measures (Note 3)

Until 2016, AkzoNobel used the term Incidental items to refer to material items of income or expense. As from 2017, AkzoNobel has changed this term from Incidental items to Identified items. These Identified items (Alternative Performance Measures (APM) adjustments) relate to material items of income and expense arising from circumstances outside the normal course of business, such as acquisitions/divestments, realignment of strategy, impairments and legal items.

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)
- Discontinued operations and held for sale (Note 2)
- Income tax and deferred tax assets (Note 7)
- Impairment of intangible assets and property, plant and equipment (Note 9, 10)
- Post-retirement benefit provisions (Note 16)
- Provisions and contingent liabilities (Note 17)

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 2017, 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 reserve) 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 reserve (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		
	2016	2017	%	2016	2017	%
US dollar	1.052	1.197	(12.1)	1.107	1.129	(1.9)
Pound sterling	0.856	0.887	(3.4)	0.821	0.877	(6.4)
Swedish krona	9.562	9.850	(2.9)	9.471	9.629	(1.6)
Chinese yuan	7.339	7.801	(5.9)	7.368	7.621	(3.3)
Brazilian real	3.425	3.964	(13.6)	3.854	3.603	7.0

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 5, 16)

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 post-retirement benefits. Other charges and benefits recognized are reported in Operating income, unless recorded in Other comprehensive income.

Other employee benefits (Note 5, 17)

Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

Share-based compensation (Note 5)

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 shares with a corresponding increase in shareholders' equity. Amortization is accelerated in the event of earlier vesting.

Income tax (Note 7)

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 income tax is taken into account in the determination of deferred tax liabilities to the extend earnings are expected to be distributed by subsidiaries in the foreseeable future and AkzoNobel has control over dividend distribution. Deferred tax positions are not discounted.

Earnings per share (Note 8)

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 adjusted for the repurchased shares. 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 share plan and for the share-matching plan.

Adjusted earnings per share represents the basic earnings per share from continuing operations excluding identified items, amortization of intangible assets and income tax on these adjustments.

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.

Intangible assets (Note 9)

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 using the value in use method. 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. Research expenditures are recognised as an expense as incurred.

Property, plant and equipment (Note 10)

Property, plant and equipment are valued at cost less accumulated depreciation and impairment charges. Costs include expenditures that are directly attributable to the acquisition of the asset, including 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. The useful life of plant equipment and machinery generally ranges from ten to 25 years, and for buildings ranges from 20 to 50 years. Land is not depreciated. In the majority of cases residual value is assumed to be insignificant. Depreciation methods, useful lives and residual values are reassessed annually.

Costs of major maintenance activities are capitalized and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant and equipment are expensed in the period in which they occur.

We recognize conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

Impairments (Note 9, 10)

We assess the carrying value of intangible assets and property, plant and equipment whenever events or changes in circumstances indicate that the carrying 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.

Leases (Note 10, 18, 21)

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.

Associates and joint ventures (Note 11)

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.

Inventories (Note 13)

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of inventories are determined using weighted average cost.

Provisions (Note 17)

We recognize provisions when a present legal or constructive obligation as a result of a past event exists, it is probable that an outflow of economic benefits is required to settle the obligation and the amount can be reliably estimated. Provisions are measured at net present value. The increase of provisions as a result of the passage of time is recognized in the statement of income under Financing income and expenses.

Provisions for restructuring of activities 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 24)

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 12) and Trade and other receivables (Note 14)

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 18)

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 18, 24) and Trade and other payables (Note 19)

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 income and expenses. The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the 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 2018 and beyond have been assessed for their potential impact. The most important upcoming changes relate to IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with Customers" which will be adopted as per January 1, 2018. Another important upcoming change relates to IFRS 16 "Leases" which will be implemented as per January 1, 2019.

IFRS 9 "Financial Instruments"

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. AkzoNobel has decided to implement and adopt IFRS 9 as from January 1, 2018, when it becomes effective. In 2017, we completed the assessment of the impact of the standard, which is set out further below.

Transition method

AkzoNobel will adopt IFRS 9 as per January 1, 2018, and will not restate its 2017 comparative figures. The transition effect on equity as per January 1, 2018, is €3 million after tax.

Classification and measurement

The impact on the classification and measurement of financial assets is not significant.

The vast majority of Other financial non-current assets as well as the Trade and other receivables were measured at amortized cost, using the effective interest method, less any impairment losses. In accordance with IFRS 9, these Other financial non-current assets and Trade and other receivables will continue to be measured at amortized cost.

An amount of €32 million of the Other financial non-current assets and Trade and other receivables is recognized at fair value through profit and loss and relates to derivative financial instruments and securities. The classification and measurement of these financial assets will remain unchanged under IFRS 9.

AkzoNobel has certain minor equity investments, which are currently measured at their historic cost price. In accordance with IFRS 9, these equity investments will be measured at fair value through profit and loss. The impact of this change is insignificant.

Impairment model

IFRS 9 introduces a new impairment model, whereby recognition of an allowance for expected credit losses on financial assets is required, which deviates from the recognition of incurred credit losses under IAS 39. The new impairment model is applicable for debt instrument financial assets measured at amortized cost, for debt instrument financial assets measured at fair value through Other comprehensive income, for lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

Impact of adoption of IFRS 9 and IFRS 15

In € millions	As reported at December 31, 2017	Adjustments due to the adoption of IFRS 9	Adjustments due to the adoption of IFRS 15	Adjusted opening balance at January 1, 2018
Other reserves	5,865	(3)	(43)	5,819
Non-controlling interests	442	–	(5)	437
Total impact on group equity	**6,307**	**(3)**	**(48)**	**6,256**

As the IFRS 9 impairment model accelerates the timing of recognizing impairment losses, the implementation of IFRS 9 will lead to recognition of an additional impairment loss of €4 million as per January 1, 2018, mainly relating to trade receivables. The after tax-effect is a charge of €3 million.

IFRS 15 "Revenue from Contracts with Customers"

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.

Transition method

AkzoNobel will adopt IFRS 15 as per January 1, 2018 and will not restate its 2017 comparative figures. The transition effect on equity as per January 1, 2018, is €48 million after tax.

Sale of goods

The vast majority of the company's revenue is derived from delivery of goods, being paints, coatings and chemical products. Currently, revenue is recognized when the significant risks and rewards have been transferred to the customer, 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.

In accordance with IFRS 15, revenue should be recognized when the customer obtains control of the goods. Based on our assessment, we do not expect the application of IFRS 15 to result in a significant impact on our consolidated financial statements. We came to the same conclusion for the accounting treatment of variable consideration, including among others rebates, bonuses, discounts and payments to customers.

Equipment provided to customers

AkzoNobel regularly provides mixing machines, store interior and other assets to its customers in Decorative Paints and Performance Coatings at the start of a paint delivery contract. Currently, such assets are not treated as a separate performance obligation and their costs are expensed during the contract period.

Under IFRS 15, the delivery of such assets would qualify as a separate performance obligation. However, in most cases no revenue can be recognized at the moment of transfer of such assets. Although the paint delivery contracts do include target quantities to be purchased by the customer, for nearly all of these contracts such clauses legally do not qualify as a binding take-or-pay commitment for a minimum quantity to be acquired by the customer. Therefore, no revenue can be allocated to these assets when they are transferred.

The book value at December 31, 2017, of such assets amounted to €60 million and will be written-off in the January 1, 2018, opening balance sheet, which has an after-tax effect of €46 million.

Services

AkzoNobel provides certain technical services to its customers in Performance Coatings relating to coatings sold, after these products have been delivered. In addition, in certain instances AkzoNobel provides shipping and handling services after control over the products has transferred to the customer. So far, no revenue was attributed to such services and deferred until the services were provided to the customer.

In accordance with IFRS 15, such services are a separate performance obligation to which revenue should be allocated. Such revenue is to be recognized over time when the relating services are being provided. Therefore, an amount of €3 million (€2 million after tax) will be recognized as deferred revenue and contract liability for services still to be provided after December 31, 2017.

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	More details on impact are provided on the previous page.
IFRS 15 "Revenue from Contracts with Customers"	May 28, 2014	January 1, 2018	September 22, 2016	More details on impact are provided on the previous page.
IFRS 16 "Leases"	January 13, 2016	January 1, 2019	October 31, 2017	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 the impact of the application of IFRS 16 to be below 10 percent of total assets. 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.

Material subsidiaries

The Consolidated financial statements comprise the assets, liabilities, income and expenses of approximately 360 legal entities (including the entities reported as held for sale). 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 identified items) or based on qualitative aspects. Material subsidiaries included in the table are 100 percent owned, except for Akzo Nobel Swire Paints (Shanghai) Ltd., and meet these criteria.

Material subsidiaries related to continuing operations

Legal entity	Principal place of business/country of corporation
Akzo Nobel Coatings Inc.	United States
Akzo Nobel Swire Paints (Shanghai) Ltd.	China
Imperial Chemical Industries Limited	United Kingdom
International Paint LLC	United States
Akzo Nobel Coatings SPA	Italy

Material subsidiaries related to discontinued operations (The Specialty Chemicals business)

Legal entity	Principal place of business/country of corporation
Akzo Nobel Industrial Chemicals B.V.	The Netherlands
Akzo Nobel Pulp and Performance Chemicals AB	Sweden
Akzo Nobel Surface Chemistry LLC	United States
Akzo Nobel Surface Chemistry AB	Sweden
Akzo Nobel Functional Chemicals LLC	United States
Akzo Nobel Functional Chemicals B.V.	The Netherlands

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. In 2017, we finalized the purchase price allocation. The outcome thereof is reflected in the table below. The goodwill is fully allocated to the respective business unit in Performance Coatings.

Other acquisitions

Other acquisitions are deemed to be individually immaterial in respect to IFRS 3 disclosure requirements. In 2017, the other acquisitions include the acquisition of Disa Technology (Disatech), Flexcrete Technologies Ltd and the business of V.Powdertech Co., Ltd.

In 2016, Other acquisitions include the acquisition of the remaining 50 percent stake in EkO Peroxide LLC.

Divestments

In 2016 and 2017, no significant divestments occurred.

Discontinued operations and held for sale

The results and cash flows from discontinued operations in 2016 as well as 2017 and the assets and liabilities held for sale at December 31, 2017 almost completely relate to the Specialty Chemicals business.

In April 2017, AkzoNobel officially announced its decision to separate the Specialty Chemicals business, thereby creating two focused, high performing businesses - Paints and Coatings, and Specialty Chemicals. At the Extraordinary General Meeting of November 30, 2017, the shareholders approved the proposed separation of the Specialty Chemicals business from AkzoNobel through a private sale or a legal demerger. In the course of December non-binding offers were received in the private track.

As from December 22, 2017, the Specialty Chemicals business is classified as held for sale/held for distribution and discontinued operations, therefore the Consolidated Statement of Income shows the results of the Specialty Chemicals business as discontinued. The Specialty Chemicals business presented as held for sale and discontinued operations consists of the Business Area Specialty Chemicals and income and expenses which are directly attributed to the Specialty Chemicals business from Corporate and Other which will not be recognized on an ongoing basis by AkzoNobel.

The income and expenses from Corporate and Other included in discontinued operations mainly consist of:

- Employee benefit expenses related to employees who were identified to be employees of the Specialty Chemicals business starting in 2018 as part of the legal reorganization
- Information management costs such as application services or infrastructure costs that relate directly to the Specialty Chemicals business
- Other contract costs that relate directly to the Specialty chemicals business

The assets and liabilities held for sale include the assets and liabilities previously reported as part of Specialty Chemicals combined with assets and liabilities of Corporate and Other that have directly been attributed to the Specialty Chemicals business and are expected to be part of the disposal, consisting mainly of:

- Post-retirement provisions were allocated between the Specialty Chemicals business and the Paints and Coatings business based on headcount for obligations in relation to active employees and post-separation retention of liabilities and obligations to finance the post-retirement plans for inactive employees
- Environmental and sundry provisions if related to historical Specialty Chemicals sites and activities and intended to be included in the disposal

Recognized fair values at acquisition

In € millions	Provisional BASF's Industrial Coatings business	Final BASF's Industrial Coatings business	2017 Adjustments	Other acquisitions	Total 2017
Other intangibles	165	238	73	28	101
Property, plant and equipment	4	4	–	11	11
Inventories	18	24	6	4	10
Trade and other receivables	1	1	–	4	4
Cash and cash equivalents	–	–	–	3	3
Long-term debt	–	–	–	(3)	(3)
Provisions	(17)	(17)	–	(2)	(2)
Deferred tax assets/(liabilities)	(3)	6	9	(7)	2
Trade and other payables	–	(29)	(29)	(3)	(32)
Net identifiable assets and liabilities	**168**	**227**	**59**	**35**	**94**
Goodwill	221	167	(54)	51	(3)
Purchase consideration	**389**	**394**	**5**	**86**	**91**
Cash and cash equivalents acquired	–	–	–	(3)	(3)
To be received/(paid) in 2018 and later years	9	4	(5)	(3)	(8)
Net cash outflow	**398**	**398**	**–**	**80**	**80**

- Provisions for restructuring that relate to Specialty Chemicals employees

Cash and cash equivalents as well as debt positions of Specialty Chemicals are excluded from held for sale classification unless such items have been specifically designated as held for sale, e.g. in the case of specific local financing and debt related to finance leases held in relation to the Specialty Chemicals assets.

The assets and liabilities of the Specialty Chemicals business are recognized at their carrying value.

Separation costs

The costs related to the separation of Specialty Chemicals were reported as identified items in Corporate and other of discontinued operations and amounted to €67 million.

Employees

The average number of employees of the Specialty Chemicals business during the year was 9,700 of which 9,100 employees in Business Area Specialty Chemicals (2016: 9,000). At year-end 2017, Specialty Chemicals business employed 9,700 people of which 9,000 employees in Business Area Specialty Chemicals (2016: 9,000).

Discontinued operations

In € millions	2016	2017
Revenue	4,763	4,963
Cost of sales	(3,126)	(3,287)
Gross profit	**1,637**	**1,676**
Other expenses	(1,039)	(1,115)
Profit before tax	**598**	**561**
Income tax	(160)	(168)
Profit for the period after tax	**438**	**393**
Results related to discontinued operations in previous years	(3)	1
Tax related to discontinued operations in previous years	1	(1)
Profit for the period	**436**	**393**

Cash flows from discontinued operations

In € millions	2016	2017
Net cash from operating activities	714	691
Net cash from investing activities	(343)	(354)
Net cash from financing activities	(9)	323
Cashflows from discontinued operations	**362**	**660**

Assets and liabilities held for sale

In € millions	2017
Intangible assets	787
Property, plant and equipment	2,266
Financial non-current assets	205
Inventories	503
Receivables	840
Assets held for sale	**4,601**
Non-current liabilities	765
Short-term borrowings	341
Current payables *	1,090
Liabilities held for sale	**2,196**

* The Current payables include an amount of €21 million with respect to net current tax liability related to discontinued operations.

Specialty Chemicals business

	Revenue from third parties		Group revenue		Amortization and depreciation		Identified items		Operating income		ROS%	
In € millions	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Specialty Chemicals	4,760	4,961	4,783	4,985	(324)	(326)	–	–	629	689	13.2	13.8
Corporate and other *	3	2	(20)	(22)	–	(5)	22	(49)	(33)	(118)	–	–
Total	**4,763**	**4,963**	**4,763**	**4,963**	**(324)**	**(331)**	**22**	**(49)**	**596**	**571**	**12.1**	**12.5**

	Invested capital		Total assets		Total liabilities		Capital expenditures		ROI%	
In € millions	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Specialty Chemicals	3,494	3,570	4,755	4,699	1,315	1,582	356	363	17.9	19.1
Corporate and other *	–	(41)	–	(98)	–	614	–	–	–	–
Total	**3,494**	**3,529**	**4,755**	**4,601**	**1,315**	**2,196**	**356**	**363**	**17.9**	**17.1**

* Corporate and other includes elimination effects.

In presenting and discussing AkzoNobel's operating results, management uses certain alternative performance measures (APM) not defined by IFRS. These alternative performance measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. Alternative performance measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. 'EBIT' is an alternative term for the IFRS performance measure 'operating profit', whereby operating profit is adjusted for identified items. Where a non-financial measure is used to calculate an operational or statistical ratio, this is also considered an APM.

AkzoNobel uses APM adjustments to the IFRS measures to provide clear reporting on the underlying developments of the business. These APM adjustments may affect the IFRS measures operating income, net profit and the earnings per share. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the below table.

Alternative performance measures (APM)

			2016 [1]			2017
In € millions	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Operating income	923	596	1,519	**825**	**571**	**1,396**
APM adjustments to operating income						
- Post-retirement benefits	(103)	–	(103)	–	–	–
- Realignment of strategy [2]	–	–	–	42	67	109
- Acquisition costs	12	–	12		–	–
- Impairments	96	–	96	–	–	–
- Legal	–	–	–	38	(18)	20
- Divestments	–	(22)	(22)	–	–	–
Total APM adjustments (identified items)	5	(22)	(17)	**80**	**49**	**129**
Adjusted operating income (EBIT)	928	574	1,502	**905**	**620**	**1,525**
Profit for the period attributable to shareholders of the company	538	432	970	**443**	**389**	**832**
APM adjustments to operating income (identified items)	5	(22)	(17)	80	49	129
APM adjustments (identified items) to income tax	–	–	–	68	(5)	63
Total APM adjustments	5	(22)	(17)	**148**	**44**	**192**
Adjusted profit for the period attributable to shareholders of the company	543	410	953	**591**	**433**	**1,024**

[1] Represented to present the Specialty Chemicals business as discontinued operations.
[2] Includes costs of separation of the Specialty Chemicals business as well as costs related to the new strategy to create a focused high performing Paints and Coatings business.

4 Note 4: Operating income

EBIT (operating income excluding Identified items)

Full-year EBIT at €905 million (2016: €928 million) was impacted by higher raw material costs, partly compensated by increased selling prices, continuous improvement and cost control.

- Decorative Paints EBIT was 2% lower, due to adverse currency effects. Steep increases in raw material costs were offset by increased selling prices, continuous improvement and cost control
- Performance Coatings EBIT was 12% lower, impacted by higher raw material costs and lower volumes, partly compensated by continuous improvement and cost control
- EBIT in Other activities improved due to lower corporate costs, including one-off items, as well as lower pension and insurance related costs

Operating income

Full-year operating income was negatively impacted by identified items totalling €80 million, mainly related to the transformation of the Paints and Coatings organization and legal items. The identified items impacted operating income in Other activities as well as Decorative Paints and Performance Coatings.

In 2016, operating income was negatively impacted by identified items totalling €5 million, including acquisition and integration costs related to the Industrial Coatings business, asset impairments and adjustments to post-retirement provisions.

Costs by nature 2017

In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(506)	(2)	(113)	(4,757)	(5,378)
Selling expenses	(885)	(53)	(48)	(1,333)	(2,319)
General and administrative expenses	(358)	(12)	(29)	(382)	(781)
Research and development expenses	(186)	(7)	(12)	(65)	(270)
Other results	–	–	–	(39)	(39)
Total	**(1,935)**	**(74)**	**(202)**	**(6,576)**	**(8,787)**

Costs by nature 2016 *

In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(476)	(1)	(111)	(4,510)	(5,098)
Selling expenses	(815)	(48)	(54)	(1,419)	(2,336)
General and administrative expenses	(336)	(21)	(29)	(422)	(808)
Research and development expenses	(167)	(6)	(12)	(72)	(257)
Other results	–	–	–	(12)	(12)
Total	**(1,794)**	**(76)**	**(206)**	**(6,435)**	**(8,511)**

* Represented to present the Specialty Chemicals business as discontinued operations.

5 Note 5: Employee benefits

Salaries, wages and other employee benefits in operating income

In € millions	2016 *	2017
Salaries and wages	(1,467)	(1,515)
Post-retirement cost	(35)	(126)
Other social charges	(292)	(294)
Total	**(1,794)**	**(1,935)**

Average number of employees

Average number during the year	2016 *	2017
Decorative Paints	14,800	14,700
Performance Coatings	19,300	19,800
Corporate and other	2,100	1,700
Total	**36,200**	**36,200**

The average number of employees working outside the Netherlands was 33,600 (2016: 33,300).

Employees

At year-end	2016 *	2017
Decorative Paints	14,700	14,400
Performance Coatings	19,700	19,900
Corporate and other	1,900	1,400
Total	**36,300**	**35,700**

* Represented to present the Specialty Chemicals business as discontinued operations.

At year-end 2017, the number of employees decreased by 2% to 35,700 people (year-end 2016: 36,300 people).

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 2017 statement of income for share-based compensation amounted to €21.7 million and are included in salaries and wages (2016: €15.0 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 2017 was 348 (2016: 355).

The shares of the series 2014-2016 have vested and were delivered to the participants in 2017.

The 2015 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 2015-2017 series vested as follows:

- Our TSR performance over the period 2015-2017 resulted in a fifth position within the ranking of the peer group companies. This resulted in a vesting of 75 percent for this part of the long-term incentive
- Our ROI performance at the end of 2017 resulted in a vesting of 73 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 2015-2017 series vested for 81.80 percent (series 2014-2016: 66.49 percent), including dividend shares of 13.27 percent, the final vesting percentage amounted to 92.65 percent (series 2014-2016: 71.56 percent).

The share price of a common AkzoNobel share at year-end amounted to €73.02 (2016: €59.39). 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 for 35 percent based on a market condition (TSR) and for 65 percent based on non-market based performance conditions (ROI and RobecoSAM).

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 grant date (opening of first trading date from grant date), expected volatility (based on the share price development of the past three years of AkzoNobel), and risk-free interest rate (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

Fair value performance-related shares

Series	Opening share price per:	Fair Value	market condition (TSR) - 35%	non market based performance conditions - 65%	Share price	Expected volatility	Risk free interest rate
2016-2018	January 4, 2016	53.69	40.20	60.69	60.96	23.82%	-0.09%
2017-2019	January 2, 2017	52.42	40.14	59.03	59.03	23.94%	-0.12%
2017-2019 [1]	May 9, 2017	76.34	75.63	76.72	76.72	24.13%	-0.09%
2017-2019 [2]	July 28, 2017	77.16	78.88	76.23	76.23	23.77%	-0.08%
2016-2018 [3]	September 25, 2017	68.96	51.18	78.54	78.54	23.58%	-0.22%
2017-2019 [3]	September 25, 2017	81.80	87.85	78.54	78.54	23.58%	-0.17%

[1] Relates to additional share grant.
[2] Relates to modification accounting for shares held by Mr Büchner.
[3] Relates to modification accounting for shares held by Mr Büchner, related to the accelerated on-target vesting of the applicable series. The incremental fair value amounts to € 9.58 and €0 for the total award granted under respectively the 2016-2018 and the 2017-2019 program.

Performance-related shares

Series	Balance per January 1, 2017	Granted in 2017	Vested in 2017	Forfeited in 2017	Dividend in 2017	Balance at December 31, 2017	Vested on January 1, 2018
2014 - 2016	257,743	–	(257,743)	–	–	–	–
2015 - 2017	377,171	4,000	–	(73,820)	20,768	328,119	328,119
2016 - 2018	392,226	9,193	–	(17,010)	30,518	414,927	–
2017 - 2019	–	445,541	–	(32,521)	33,125	446,145	–
Total	**1,027,140**	**458,734**	**(257,743)**	**(123,351)**	**84,411**	**1,189,191**	**328,119**

incentive in AkzoNobel shares may have such shares matched by the company. The investment in Akzo Nobel N.V. shares in 2017 resulted in a total of 13,380 granted potential matching shares. During 2017, 6,205 potential matching shares were matched, and 4,130 were forfeited, leading to a total of 12,825 potential matching shares at December 31, 2017.

Fair value of matching shares

The fair value of the matching shares (€72.56) was based on the share price on the investment date, discounted for expected dividends over the holding period (2016: €59.43).

The parameters applied for the fair value calculations are: share price at purchase date of voluntary investment (April 19, 2017): €78.53; expected dividend yield: 2.60 percent.

For an overview of the matching shares outstanding for the members of the Board of Management as of December 31, 2017, we refer to Note 23.

6 Note 6: Financing income and expenses

Financing income and expenses

In € millions	2016 *	2017
Financing income	25	23
Financing expenses	(95)	(90)
Net interest on net debt	**(70)**	**(67)**
Other interest		
Financing expenses related to post-retirement benefits	6	(7)
Interest on provisions	(28)	(16)
Other items	1	12
Net other financing charges	**(21)**	**(11)**
Total financing income and expenses	**(91)**	**(78)**

* Represented to present the Specialty Chemicals business as discontinued operations.

Net financing expenses for the year were €78 million (2016: €91 million). Significant variances are:

- Net interest on net debt decreased by €3 million to €67 million (2016: €70 million), mainly due to lower financing expenses as a result of the repayment of a higher interest bond
- Net other financing charges decreased by €10 million to €11 million (2016: €21 million), mainly due to lower interest on provisions

The average interest rate used for capitalized interest was 2.6 percent (2016: 2.9 percent) and amounted to €2 million (2016: €4 million).

The average interest rate on total debt was 3.1 percent (2016: 3.4 percent).

7 Note 7: Income tax

Pre-tax income from continuing operations amounted to a profit of €764 million (2016: €850 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	2016 *	2017
Current tax expense for		
The year	(160)	(158)
Adjustments for previous years	12	56
Separation of Specialty Chemicals business	–	(1)
Total current tax expense	**(148)**	**(103)**
Deferred tax expense for		
US tax reform	–	(56)
Separation of Specialty Chemicals business	–	(32)
Origination and reversal of temporary differences and tax losses	(72)	(44)
(De)recognition of deferred tax assets	(17)	(12)
Changes in tax rates (excluding US tax reform)	3	(6)
Total deferred tax expense	**(86)**	**(150)**
Total	**(234)**	**(253)**

* Represented to present the Specialty Chemicals business as discontinued operations.

The total deferred tax charge, including discontinued operations was €182 million (2016: €120 million). The total tax charge, including discontinued operations, was €422 million (2016: €393 million).

Effective tax rate reconciliation

The effective income tax rate based on the statement of income is 33.1 percent.

Effective tax rate

in %	2016 *	2017
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	(2.0)	(1.0)
Weighted average statutory income tax rate	**23.0**	**24.0**
US tax reform	–	7.3
Separation of Specialty Chemicals business	–	4.2
Non-taxable (income)/expenses	2.2	0.7
(De)recognition of deferred tax assets	2.0	1.6
Non-refundable withholding taxes	2.1	1.8
Adjustment for prior years	(1.4)	(7.3)
Other	(0.4)	0.8
Effective tax rate	**27.5**	**33.1**

* Represented to present the Specialty Chemicals business as discontinued operations.

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, €280 million (2016: €321 million) is related to entities that have suffered a loss in either 2017 or 2016 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.

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 and in sofar the company is in control of dividend distribution. The expected net tax impact of the remaining differences for which no deferred tax liabilities have been recognized is €30 million.

Unrecognized deferred tax assets

In € millions	2016	2017
Tax losses and tax credits	172	193
Deductible temporary differences	203	171
Total	**375**	**364**

Deferred tax assets and liabilities

In € millions	2016	2017
Deferred tax assets	1,057	1,017
Deferred tax liabilities	(360)	(367)
Balance at January 1	**697**	**650**
Movement in deferred tax:		
Changes in exchange rates	(21)	(19)
Recognized in income	(120)	(182)
Recognized in equity/ Other comprehensive income	106	(105)
Classified as held for sale	–	(52)
Other	(12)	(2)
Balance at December 31	**650**	**290**
Deferred tax assets	1,017	575
Deferred tax liabilities	(367)	(285)

Expiration year of loss carryforwards

In € millions	2018	2019	2020	2021	2022	Later	Unlimited	Total
Total loss carryforwards	4	1	7	3	25	416	2,650	3,106
Loss carryforwards not recognized in deferred tax assets	–	–	(7)	(3)	(4)	(33)	(133)	(180)
Total recognized	**4**	**1**	**–**	**–**	**21**	**383**	**2,517**	**2,926**

Deferred tax assets and liabilities per balance sheet item

		December 31, 2016			December 31, 2017	
In € millions	Net balance	Assets	Liabilities	Net balance	Assets	Liabilities
Intangible assets	(358)	66	424	(368)	17	385
Property, plant and equipment	(45)	75	120	43	69	26
Post-retirement benefit provisions	309	313	4	177	179	2
Other provisions	107	208	101	47	59	12
Other items and tax credits	310	375	65	162	248	86
Tax loss carryforwards	702	702	–	593	593	–
Deferred tax assets not recognized	(375)	(375)	–	(364)	(364)	–
Tax assets/liabilities	**650**	**1,364**	**714**	**290**	**801**	**511**
Set-off of tax	–	(347)	(347)	–	(226)	(226)
Net deferred taxes	**650**	**1,017**	**367**	**290**	**575**	**285**

The income tax recognized in equity in 2017 includes the impact of derecognition of certain post-retirement benefits related deferred tax assets.

The income recognized in equity in 2016 includes the positive impact of the re-recognition of certain post-retirement benefits related deferred tax assets.

Income tax recognized in equity

In € millions	2016	2017
Currency exchange differences on intercompany loans of a permanent nature	(29)	(5)
Cash flow hedges	(14)	(4)
Share-based compensation	(3)	3
Post-retirements benefits	151	(99)
Total	**105**	**(105)**
Current tax	(1)	–
Deferred tax	106	(105)
Total	**105**	**(105)**

Profit for the period

In € millions	2016 *	2017
Profit before tax from continuing operations	850	764
Income tax	(234)	(253)
Profit from continuing operations	616	511
Profit for the period attributable to non-controlling interests	(78)	(68)
Profit for the period from continuing operations attributable to shareholders of the company	**538**	**443**
Profit for the period from discontinued operations	436	393
Discontinued operations attributable to non-controlling interest	(4)	(4)
Profit for the period attributable to shareholders of the company	**970**	**832**

* Represented to present the Specialty Chemicals business as discontinued operations.

Weighted average number of shares

Number of shares	2016	2017
Issued common shares at January 1	**248,976,428**	**252,176,412**
Effect of issued common shares during the year	1,937,945	1,513,199
Effect of share repurchase program	–	(2,054,481)
Shares for basic earnings per share for the year	**250,914,373**	**251,635,130**
Effect of dilutive shares		
For performance-related shares	1,054,797	1,626,796
For share-matching plan	16,468	12,825
Shares for diluted earnings per share	**251,985,638**	**253,274,751**

Earnings per share

in €	2016 *	2017
Continuing operations		
Basic	2.15	1.76
Diluted	2.14	1.75
Discontinued operations		
Basic	1.72	1.55
Diluted	1.71	1.54
Total operations		
Basic	3.87	3.31
Diluted	3.85	3.29

Adjusted earnings per share

Profit for the period from continuing operations

In € millions	2016 *	2017
Profit before tax from continuing operations	850	764
Identified items reported in operating income	5	80
Amortization of intangible assets	76	74
Adjusted income tax	(256)	(207)
Non-controlling interests	(78)	(68)
Adjusted profit from continuing operations attributable to shareholders of the company	**597**	**643**
Adjusted earnings per share (in €)	**2.38**	**2.56**

Profit for the period from total operations

In € millions	2016	2017
Profit before tax from total operations	1,448	1,324
Identified items reported in operating income	(17)	129
Amortization of intangible assets	124	120
Adjusted income tax	(431)	(395)
Non-controlling interests	(82)	(72)
Adjusted profit from total operations attributable to shareholders of the company	**1,042**	**1,106**
Adjusted earnings per share (in €)	**4.15**	**4.40**

* Represented to present the Specialty Chemicals business as discontinued operations. The earnings per share for total operations are not represented.

Intangible assets

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
Balance at January 1, 2016					
Cost of acquisition	1,423	2,260	1,071	409	5,163
Cost of internally developed intangibles	–	–	–	246	246
Accumulated amortization/impairment	(99)	(148)	(650)	(356)	(1,253)
Carrying value	**1,324**	**2,112**	**421**	**299**	**4,156**
Movements in 2016					
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
Total movements	**229**	**13**	**35**	**(20)**	**257**
Balance at December 31, 2016					
Cost of acquisition	1,652	2,290	1,204	399	5,545
Cost of internally developed intangibles	–	–	–	221	221
Accumulated amortization/impairment	(99)	(165)	(748)	(341)	(1,353)
Carrying value at December 31, 2016	**1,553**	**2,125**	**456**	**279**	**4,413**
Movements in 2017					
Acquisitions through business combinations	(3)	2	89	10	98
Investments – including internally developed intangibles	–	–	–	22	22
Divestments	–	–	–	(4)	(4)
Amortization	–	(12)	(67)	(42)	(121)
Classified as held for sale	(517)	–	(141)	(129)	(787)
Changes in exchange rates	(88)	(90)	(22)	(12)	(212)
Total movements	**(608)**	**(100)**	**(141)**	**(155)**	**(1,004)**
Balance at December 31, 2017					
Cost of acquisition	991	2,189	754	192	4,126
Cost of internally developed intangibles	–	–	–	160	160
Accumulated amortization/impairment	(46)	(164)	(439)	(228)	(877)
Carrying value at December 31, 2017	**945**	**2,025**	**315**	**124**	**3,409**

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 2017 and 2016, there were no purchase commitments for individual intangible assets. No intangible assets were registered as security for bank loans.

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 2017, 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 8.6 percent to 13.3 percent, with a weighted average of 9.7 percent.

Goodwill and other intangibles per segment

	Goodwill		Brands with indefinite useful lives		Other intangibles with finite useful lives		Total intangibles	
In € millions	2016	2017	2016	2017	2016	2017	2016	2017
Decorative Paints	40	40	1,928	1,845	228	194	2,196	2,079
Performance Coatings	954	905	–	–	372	425	1,326	1,330
Specialty Chemicals *	559	–	–	–	332	–	891	–
Total	**1,553**	**945**	**1,928**	**1,845**	**932**	**619**	**4,413**	**3,409**

* The goodwill and other intangible assets for Specialty Chemicals were classified as held for sale at year-end 2017 and are therefore not included in the goodwill and other intangibles at year-end 2017.

Sensitivity tests were performed for growth assumptions (a 50 percent reduction of the growth rate), EBITDA-margin development assumptions (a one percentage point decrease) and for the weighted average cost of capital (a one percentage point increase). All sensitivity tests individually confirm sufficient headroom in all businesses.

No impairment charges were recognized in relation to the annual impairment test, both in 2016 and 2017.

Average revenue growth rates

In % per year	2017-2022
Decorative Paints	4.2%
Performance Coatings	3.2%

Capital expenditures

- In Decorative Paints, we invested in increased asset integrity in both growth and mature markets, while continuing to invest in selected growth projects, such as the Ashington (UK) state-of-art paint factory, officially inaugurated in September 2017, and the Langfang plant in China
- In Performance Coatings, we invested heavily in capacity increase in emerging markets, and more moderately in mature markets. One example is the opening of the Changzhou powder coatings production facility in China, aimed at strengthening our leading position in North Asia; while continuing to invest in our new Powder Coatings site in Thane, India. Additionally, several efficiency improvement projects were carried out mostly in Europe
- In Specialty Chemicals, we invested in several asset integrity and efficiency improvement projects while continuing to invest in growth projects for specific segments, such as increasing capacity of Expancel production in Sweden and building a world-scale plant for monochloroacetic acid (MCA) as part of a joint arrangement with Atul in India. In 2017, we completed the expansion of our production in Mariager, Denmark, which supplies pharmaceutical-grade salt to the healthcare industry, increased capacity for sodium hydrosulfide (NASH) production in LeMoyne, US, initiated production of organic peroxides in Los Reyes, Mexico, and completed the plant expansion in Boxing, China

Impairments

In 2017, several small impairments and reversal of impairments were recognized, spread over all businesses. The impairments recognized in 2016, were mainly related to assets of Performance Coatings.

Property, plant and equipment

In € millions	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepay-ments on projects	Assets not used	Total
Balance at January 1, 2016						
Cost of acquisition	2,403	6,670	999	863	66	11,001
Accumulated depreciation/impairment	(1,257)	(4,851)	(757)	(74)	(59)	(6,998)
Carrying value	**1,146**	**1,819**	**242**	**789**	**7**	**4,003**
Movements in 2016						
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)
Total movements	**39**	**59**	**(9)**	**99**	**(1)**	**187**
Balance at December 31, 2016						
Cost of acquisition	2,529	6,987	1,052	976	57	11,601
Accumulated depreciation/impairment	(1,344)	(5,109)	(819)	(88)	(51)	(7,411)
Carrying value at December 31, 2016	**1,185**	**1,878**	**233**	**888**	**6**	**4,190**
Movements in 2017						
Acquisitions	9	2	–	–	–	11
Divestments	(11)	(4)	(2)	–	(3)	(20)
Capital expenditures	39	215	51	307	1	613
Transfer between categories	147	446	76	(669)	–	–
Depreciation	(75)	(335)	(75)	–	(1)	(486)
Impairments, including reversals	3	(1)	2	(4)	–	–
Classified as held for sale	(434)	(1,472)	(64)	(295)	(1)	(2,266)
Other	2	1	1	–	–	4
Changes in exchange rates	(66)	(102)	(10)	(36)	–	(214)
Total movements	**(386)**	**(1,250)**	**(21)**	**(697)**	**(4)**	**(2,358)**
Balance at December 31, 2017						
Cost of acquisition	1,488	1,901	925	193	7	4,514
Accumulated depreciation/impairment	(689)	(1,273)	(713)	(2)	(5)	(2,682)
Carrying value at December 31, 2017	**799**	**628**	**212**	**191**	**2**	**1,832**

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 €33 million (2016: €63 million) of which €32 million is related to Buildings and land.

In 2017, we entered into new financial leases of €5 million, which were reported in the line Other.

11 Note 11: Investments in associates and joint ventures

At year-end 2017, the carrying value of investments in associates amounted to €118 million (2016: €108 million) and in joint ventures amounted to €nil (2016 €53 million). The decrease in joint ventures compared with year-end 2016 is due to classifying the Specialty Chemicals business as held for sale at year-end 2017. In 2017, the results from associates amounted to a profit of €17 million (2016: €18 million).

No significant contingent liabilities exist related to associates.

The largest associate of AkzoNobel is Metlac S.p.a.. None of the associates are considered individually material to the group.

Profit and loss of our share in associates

In € millions	2016 *	Associates 2017
Condensed statement of income		
Revenue	110	114
Profit before tax	27	24
Profit from continuing operations	18	17
Other comprehensive income	–	–
Total comprehensive income	**18**	**17**

* Represented to present the Specialty Chemicals business as discontinued operations.

Balance sheet information of our share in associates and joint ventures

	Associates		Joint ventures	
In € millions	2016	2017	2016	2017
Condensed balance sheet				
Non-current assets	63	63	40	–
Current assets	84	104	33	–
Total assets	**147**	**167**	**73**	**–**
Shareholders' equity	108	118	53	–
Non-current liabilities	3	2	2	–
Current liabilities	36	47	18	–
Total liabilities and equity	**147**	**167**	**73**	**–**

12 Note 12: Other financial non-current assets

Other financial non-current assets

In € millions	2016	2017 *
Loans and receivables	135	131
Other than financial instruments	423	1,070
Total	**558**	**1,201**

* At year-end 2017 an amount of €55 million of Other financial non-current assets is classified as held for sale.

The loans and receivables include the subordinated loan of €91 million (2016: €90 million) granted to the Pension Fund APF in the Netherlands.

Other than financial instruments include an amount of €895 million related to pension plans in an asset position (2016: €220 million). For more information on post-retirement benefit provisions, see Note 16.

13 Note 13: Inventories

Inventories

In € millions	2016	2017 *
Raw materials and supplies	480	331
Work in progress	82	62
Finished products and goods for resale	970	701
Total	**1,532**	**1,094**

* At year-end 2017 an amount of €503 million of Inventories is classified as held for sale.

Of the total carrying value of inventories at year-end 2017, €35 million is measured at net realizable value (2016: €54 million). In 2017, €54 million was recognized in the statement of income for the write-down of inventories (2016: €66 million), while €19 million of write-downs were reversed (2016: €17 million) for continuing and discontinued operations. There are no inventories subject to retention of title clauses.

14 Note 14: Trade and other receivables

Trade and other receivables

In € millions	2016	2017 *
Trade receivables	2,272	1,700
Prepaid expenses	55	29
Tax receivables other than income tax	180	112
Receivables from associates and joint ventures	13	–
FX and commodity contracts	29	11
Other receivables	238	112
Total	**2,787**	**1,964**

* At year-end 2017 an amount of €834 million of Trade and other receivables is classified as held for sale.

Trade receivables are presented net of an allowance for impairment of €84 million (2016: €107 million). In 2017, €45 million of impairment losses were recognized in the statement of income (2016: €48 million), of which €42 million was related to continuing operations and €3 million was related to discontinued operations. An amount of €37 million was reversed (2016: €26 million), of which €32 million was related to continuing operations and €5 million was related to discontinued operations.

In 2016, Other receivables included the current part of the escrow account of the Akzo Nobel (CPS) Pensions Scheme in the UK amounting to €54 million, which was settled in 2017.

Ageing of trade receivables

In € millions	2016	2017
Performing trade receivables	2,058	1,505
Past due trade receivables and not impaired		
< 3 months	185	140
> 3 months	13	31
Impaired trade receivables	123	108
Allowance for impairment	(107)	(84)
Total trade receivables	**2,272**	**1,700**

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	2016	2017
Balance at January 1	**102**	**107**
Additions charged to income	48	45
Release of unused amounts	(26)	(37)
Utilization	(19)	(19)
Classified as held for sale	–	(6)
Currency exchange differences	2	(6)
Balance at December 31	**107**	**84**

The addition to and release of the allowance for impairment have been included in the statement of income under Selling expenses for continuing operations and under profit for the period from discontinued operations for the Specialty Chemicals business.

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 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
Total	**1,600,019,200**	**504,372,024**

Composition of share capital at year-end 2017

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	505,241,170
Total	**1,600,019,200**	**505,260,370**

Outstanding common shares

Number of shares	2016	2017
Outstanding at January 1	**248,976,428**	**252,176,412**
Issued in connection to performance-related shareplan and share-matching plan	676,073	405,231
Stock dividend	2,523,911	2,418,168
Share repurchase	–	(2,379,226)
Balance at December 31	**252,176,412**	**252,620,585**

Weighted average number of shares

Number of shares	2016	2017
Weighted average number of shares	**250,914,373**	**251,635,130**

For further details on weighted average number of shares, refer to Note 8.

Non-controlling interests

		2016		2017	
Group entity	Partner	%	Equity stake in € millions	%	Equity stake in € millions
Akzo Nobel Swire Paints (Shanghai) Ltd, Shanghai, China	Swire Duro (Holdings) Ltd, China	30.00	181	30.00	170
Akzo Nobel India Limited, Kolkata, India	Privately held, India	27.04	49	27.04	52
PT ICI Paints Indonesia, Jakarta, Indonesia	PT DWI Satrya Utama, Indonesia	45.00	31	45.00	28
Akzo Nobel Paints (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	Privately held, Malaysia	40.05	26	40.05	25
Akzo Nobel Swire Paints (Guanzhou) Limited, Guangzhou, China	Swire Duro (Holdings) Limited, Industrial Development Co. Ltd of Guanzhou, China	46.00	37	46.00	33
International Paint (Korea) Ltd, Busan, South-Korea	Noroo Holdings, South Korea	40.00	20	40.00	17
Akzo Nobel UAE Paints LLC, United Arab Emirates	Kanoo Group, United Arab Emirates	40.00	13	40.00	10
Akzo Nobel Kemipol A.S., Izmir, Turkey	Privately held, Turkey	49.00	18	49.00	17
International Paints Saudi Arabia, Saudi Arabia	Yousuf Bin Ahmed Kanoo Co. Ltd, Saudi Arabia	40.00	15	40.00	13
International Paints of Shanghai Co. Ltd, Shanghai, China	Huayi Fine Chemical Co. Ltd, China; China National Shipbuilding Equipment & Materials Corp.	49.00	12	49.00	5
Akzo Nobel Pakistan Limited, Karachi, Pakistan	Privately held, Pakistan	24.19	13	24.19	12
Akzo Nobel Oman SAOC, Muscat, Oman	Omar Zawawi establishment LLC, Oman	50.00	14	50.00	11
Others			52		49
Total			**481**		**442**

Subscribed share capital

For further details on subscribed share capital, refer to 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, refer to Note 5.

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 2017 final dividend of €1.94 per share, which would make a total 2017 dividend of €2.50 (2016: €1.65) per share, up 52 percent, excluding the €4.00 dividend per share paid in December 2017 as advanced proceeds related to the separation of the Specialty Chemicals business. 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 benefit plans, including healthcare or welfare plans. The largest defined benefit 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. Both plans are part of continuing operations. Other pension plans include the largely unfunded plans in Germany and the plans in the US, which will be split into continuing and discontinued operations, and certain other smaller plans in the UK, included in continuing operations. 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, where plans will be split into continuing and discontinued operations, and in the Netherlands, where the plan remains in continued operations.

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. The committee develops and maintains 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 investment strategies. 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 insurance (annnuity) policies, long-term interest-earning investments 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.

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.

Between 2014 and 2017, ICIPF and a smaller UK plan, the ICI Specialty Chemicals Pension Fund (ISCPF), have invested in annuity buy-in 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 2017, the Trustee of the ICIPF entered into three more annuity buy-in agreements with Scottish Widows Limited. Together they cover, in aggregate, £0.4 billion (€0.5 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 £67 million (€77 million). By purchasing bulk annuities, the ICIPF and ISCPF 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.

Of the costs recognized in the statement of income €38 million concerned continuing operations (2016: €67 million credit) and €22 million related to discontinued operations (2016: €22 million)

Remeasurement effects recognized in Other comprehensive income for continuing operations amounted to a €462 million gain (2016: €683 million loss) and for discontinued operations to a €24 million gain (2016: €56 million loss). Of the net cash flow €340 million was for continuing operations (2016: €369 million) and €47 million for discontinued operations (2016: €52 million).

The held for sale balance reflects a DBO of €883 million, plan assets of €278 million and an asset restriction amount of €1 million.

Reconciliation balance sheet

			2016			2017
In € millions	DBO	Plan assets	Total	DBO	Plan assets	Total
Balance at the beginning of the period	**(16,960)**	**16,080**	**(880)**	**(16,935)**	**15,671**	**(1,264)**
Statement of income						
Current service cost	(55)	–	(55)	(53)	–	(53)
Past service cost	109	–	109	12	–	12
Settlements	10	(9)	1	–	–	–
Net interest (charge)/income on net defined benefit (liability)/asset	(523)	513	(10)	(394)	375	(19)
Cost recognized in statement of income	**(459)**	**504**	**45**	**(435)**	**375**	**(60)**
Remeasurements						
Actuarial gain/(loss) due to liability experience	122	–	122	213	–	213
Actuarial gain/(loss) due to liability financial assumption changes	(2,624)	–	(2,624)	33	–	33
Actuarial gain/(loss) due to liability demographic assumption changes	6	–	6	223	–	223
Actuarial loss due to buy-in	–	(637)	(637)	–	(77)	(77)
Return on plan assets greater/(less) than discount rate	–	2,394	2,394	–	94	94
Remeasurement effects recognized in Other comprehensive income	**(2,496)**	**1,757**	**(739)**	**469**	**17**	**486**
Cash flow						
Employer contributions	–	421	421	–	387	387
Employee contributions	(2)	2	–	(2)	2	–
Benefits and administration costs paid from plan assets	946	(946)	–	982	(982)	–
Net cash flow	**944**	**(523)**	**421**	**980**	**(593)**	**387**
Other						
Acquisitions/divestments/transfers	(3)	(2)	(5)	(5)	7	2
Changes in exchange rates	2,039	(2,145)	(106)	599	(556)	43
Total other	**2,036**	**(2,147)**	**(111)**	**594**	**(549)**	**45**
Balance at the end of the period	**(16,935)**	**15,671**	**(1,264)**	**(15,327)**	**14,921**	**(406)**
Asset restriction			(4)			(4)
Net balance sheet provision			**(1,268)**			**(410)**
In the balance sheet under						
Other financial non-current assets			220			895
Post-retirement benefit provisions			(1,380)			(643)
Current portion of provisions			(108)			(56)
Held for sale			–			(606)
Net balance sheet provision			**(1,268)**			**(410)**

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 2017 were €8 million (2016: €7 million). Alecta's target funding ratio in 2017 was 140 percent. The most recently quoted ratio at December 2017 stood at 154 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 €156 million (€88 million continuing operations, €68 million discontinued operations) in 2017 (2016: €152 million; €81 million continuing operations, €71 million discontinued operations).

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 €163 million (2016: €990 million) and Other post-retirement benefit plans €247 million (2016: €278 million).

DBO at funded and unfunded pension plans

In € millions	2016	2017
Wholly or partly funded plans	16,311	14,784
Unfunded plans	346	296
Total	**16,657**	**15,080**

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.

Administrative expenses

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 €12 million (2016: €15 million), which are included in Operating income, all concerning continuing operations. In addition, we directly incurred asset management expenses of €6 million (2016: €9 million), which have been included in Other comprehensive income.

Plan assets

	2016		2017	
In € millions	Total	Percentage of total	Total	Percentage of total
Equities	1,091	7	964	6
Debt - fixed interest government bonds	768	5	1,022	7
Debt - index-linked government bonds	1,782	11	2,183	15
Debt - corporate and other bonds	915	6	1,016	7
UK buy-in annuity policies	8,357	53	8,030	54
Cash and cash equivalents	593	4	170	1
Other	2,165	14	1,536	10
Total	**15,671**	**100**	**14,921**	**100**

Interest costs

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 €19 million (€7 million continuing operations, €12 million discontinued operations) (2016: €10 million; €6 million credit continuing operations, €16 million charge discontinued operations), see Note 6.

Plan assets

The equities and government bond debt assets in the table below have quoted prices in active markets, although most are held through funds comprised of such instruments which are not actively traded themselves. The UK buy-in annuity policies are unquoted plan assets. The other categories of plan assets include certain assets that are not quoted in active markets. Such unquoted securities totaled €1,045 million (2016: €971 million) and include investments in real estate, totaling €340 million (2016: €322 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 €895 million (2016: €220 million) and fully concern continuing operations. The increase in 2017 was primarily due to €259 million of top-up pension contributions and €417 million of net actuarial gains in the relevant plans. These assets could be recognized under IFRIC 14 because economic benefits are available in the form of future refunds from the plan or reductions in future contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

Key figures and assumptions by plan

In € millions or %	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	2016 Total	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	2017 Total
Percentage of total DBO	61%	21%	16%	2%		61%	21%	16%	2%	
Defined Benefit Obligation	(10,317)	(3,623)	(2,717)	(278)	(16,935)	(9,298)	(3,283)	(2,499)	(247)	(15,327)
Fair value of plan assets	10,317	3,818	1,536	–	15,671	9,609	3,810	1,502	–	14,921
Plan funded status	–	195	(1,181)	(278)	(1,264)	311	527	(997)	(247)	(406)
Restriction on asset recognition	–	–	(4)	–	(4)	–	–	(4)	–	(4)
Amounts recognized on the balance sheet	**–**	**195**	**(1,185)**	**(278)**	**(1,268)**	**311**	**527**	**(1,001)**	**(247)**	**(410)**
Percentage of total current service cost	16%	18%	62%	4%		14%	20%	62%	4%	
Current service cost	9	10	34	2	55	7	10	34	2	53
Employer contributions	217	73	109	22	421	184	91	92	20	387
Discount rate	2.5%	2.5%	2.3%	3.4%	2.5%	2.4%	2.5%	2.4%	3.4%	2.5%
Rate of compensation increase	1.4%	1.4%	1.8%	–	1.6%	1.4%	1.4%	2.2%	–	1.8%
Inflation	3.3%	3.3%	2.0%	–	3.1%	3.2%	3.2%	1.9%	–	3.0%
Pension increases	3.0%	2.3%	2.0%	–	2.7%	3.0%	2.2%	1.9%	–	2.6%
Healthcare cost trend rate for next year				5.1%	5.1%				5.0%	5.0%
Rate to which cost trend rate is assumed to decline				4.0%	4.0%				4.0%	4.0%
Year that rate reaches the ultimate trend				2024	2024				2024	2024
Life expectancy (in years)										
Currently aged 60										
Males	27.1	27.0	25.6	26.2	26.8	26.8	26.4	25.6	26.1	26.5
Females	29.6	29.5	28.6	28.3	29.4	28.3	28.7	28.6	28.2	28.4
Currently aged 45, from age 60										
Males	28.4	28.4	27.2	27.4	28.2	28.0	27.6	27.2	27.3	27.8
Females	31.1	31.0	30.2	29.5	30.9	29.5	29.9	30.1	29.4	29.7

Cash flows

In 2018, we expect to contribute €269 million (2017: €367 million) to our defined benefit pension plans. We expect to pay a further €19 million (2017: €20 million) for other post-retirement benefit plans. No allowance is made for any special one-off contributions that may arise in relation to new de-risking opportunities.

The figures in the table below are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

Future benefit payments

In € millions	Pensions	Other post retirement benefits
2018	970	19
2019	964	19
2020	972	18
2021	978	18
2022	986	17
2023-2027	5,058	77

Cash flows

	Pensions				Other post-retirement benefits			
	2017		2018		2017		2018	
In € millions	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
Regular contributions	56	36	54	35	14	6	14	5
Top-ups	270	5	178	2	–	–	–	–
Total	**326**	**41**	**232**	**37**	**14**	**6**	**14**	**5**

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 99 percent of pensioner liabilities (2016: 96 percent) and 82 percent of total liabilities at ICIPF (2016: 76 percent). The longevity hedge contract covers 58 percent of pensioner liabilities (2016: 66 percent) and 36 percent of total liabilities at CPS (2016: 38 percent).

Sensitivity of DBO to change in assumptions 2017

In € millions	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total
Discount rate: 0.5% decrease	606	276	185	13	1,080
Price inflation: 0.5% increase *	313	148	104	-	565
Life expectancy: one year increase from age 60	645	107	103	10	865
Healthcare cost trend rate: 0.5% increase	–	–	–	4	4
Maturity information					
Weighted average duration of DBO (years)	12.9	16.4	14.5	10.2	13.8

* The sensitivity to price inflation assumption includes corresponding changes to all inflation-related compensation increases, pensions in payment and pensions in deferment.

Key plan details for the two largest pension plans [1]

	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	Normally every three years	Normally every three years
Latest completed valuation	March 31, 2014	March 31, 2015
Funding deficit [2] at latest completed valuation	£850 million (€959 million)	£84 million (€95 million) including the escrow account
Recovery plan	£125 million (€141 million) per annum in 2018 to 2021, paid in January each year	£21 million (€24 million) per annum in 2018 and 2019, with £13 million (€15 million) in 2020, paid in March each year
Next funding review	March 31, 2017	March 31, 2017
Asset allocation at March 31, 2017		
Matching:	93%	61%
Return seeking:	7%	39%
	Buy-in annuity contracts cover 99% of pensioner liabilities and 79% of total liabilities	The longevity hedge contract covers 58% of pensioner liabilities and 36% of total liabilities
Membership at March 31, 2017		
Active	267	467
Deferred	8,129	7,986
Pensioner	42,933	18,712
Total	51,329	27,165

[1] Amounts in euro are a convenience translation using the December 31, 2017, exchange rate.
[2] Based on local valuation regulations.

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 €103 million at year-end 2017 (2016: €252 million). The provision has been discounted using an average pre-tax discount rate of 1.8 percent (2016: 2.0 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.

Movements in other provisions

In € millions	Restructuring of activities	Environmental costs	Sundry	Total
Balance at January 1, 2017	**133**	**252**	**487**	**872**
Additions made during the year	48	18	63	129
Utilization	(52)	(39)	(127)	(218)
Amounts reversed during the year	(18)	(15)	(45)	(78)
Unwind of discount	1	6	12	19
Acquisitions/divestments	–	–	2	2
Classified as held for sale	(19)	(105)	(61)	(185)
Changes in exchange rates	(2)	(14)	(19)	(35)
Balance at December 31, 2017	**91**	**103**	**312**	**506**
Non-current portion of provisions	11	81	229	321
Current portion of provisions	80	22	83	185
Balance at December 31, 2017	**91**	**103**	**312**	**506**

Sundry provisions and other contingent liabilities

Sundry provisions relate to a variety of provisions, 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 1.2 percent (2016: 2.1 percent) has been used.

A number of claims against AkzoNobel are pending, all of which are contested. We are also involved in legal disputes and disputes with tax authorities in several jurisdictions. AkzoNobel has provided various indemnities and guarantees in respect of past divestments to the relevant purchasers and their permitted assigns (if applicable), which in general are capped in time and/or amount (in proportion to the value received). The provided guarantees and indemnities have varying maturity periods. AkzoNobel has received various claims under such indemnities and guarantees. In some instances, AkzoNobel has been named as a direct defendant despite the divestments.

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 (€56 million) and other provisions (€185 million) adds up to €241 million (2016: €422 million), as reflected in the balance sheet.

Discount rates

The discount rates used in calculating the provisions recognized at December 31, 2017 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 down or up, respectively of €13 million on the provisions recognized at December 31, 2017.

Analysis of net debt by category

In € millions	2016	2017
Bonds issued	2,531	2,237
Other borrowings	113	63
Long-term borrowings	**2,644**	**2,300**
Current portion of long-term borrowings	45	805
Debt to credit institutions	38	156
Other	4	12
Short-term borrowings	**87**	**973**
Total borrowings	**2,731**	**3,273**
Cash and cash equivalents	(1,479)	(1,322)
Net debt	**1,252**	**1,951**

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 24.

Bonds issued

In € millions	2016	2017
4% 2011/18 (€800 million)	797	–
2 5/8% 2012/22 (€750 million)	743	745
1 3/4% 2014/24 (€500 million)	497	497
1 1/8% 2016/26 (€500 million)	494	494
3mE + 2/10% 2017/19 (€500 million) *	–	501
Total	**2,531**	**2,237**

*3-months Euribor plus 2/10% floored at zero percent.

The average effective interest rate of the bonds outstanding at year-end 2017 was 2.1 percent (year-end 2016: 2.6 percent).

Aggregated maturities of long-term borrowings

In € millions	2019 – 2022	After 2022
Bonds issued	1,246	991
Other borrowings	22	41
Total	**1,268**	**1,032**

Long-term borrowings

We have a €1.8 billion multi-currency revolving credit facility, which was extended in 2017 by one additional year to 2022. 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 2017 and 2016, this facility has not been drawn.

At year-end 2017 and 2016, none of the borrowings was secured by collateral.

In November 2017, a floating rate note was issued with a nominal value of €500 million maturing in 2019 at a coupon of 3-months EURIBOR plus 0.20 percent mark-up, floored at zero percent.

Financial lease liabilities are included in Other borrowings and aggregated €40 million (2016: €70 million). An amount of 5 million (2016: €9 million) will mature within one year, €18 million will mature in the period 2019 through 2022 and €17 million after 2022.

Net debt

in € millions	Long-term	Short-term	Cash	Net debt
Net debt equivalents at January 1, 2016	**2,161**	**430**	**(1,365)**	**1,226**
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
Net debt at year-end 2016	**2,644**	**87**	**(1,479)**	**1,252**
Net cash from operating activities	–	–	(969)	(969)
Net cash from investing activities	–	–	638	638
Proceeds from borrowings	501	755	(1,256)	–
Borrowings repaid	–	(345)	345	–
Transfers from long-term to short-term	(812)	812	–	–
Dividends	–	–	1,187	1,187
Movements bankoverdrafts and short term bank loans	–	11	(11)	–
Buyback of shares	–	–	160	160
Held for sale	(45)	(341)	–	(386)
Changes in exchange rates	(5)	(6)	62	51
Other changes	17	–	1	18
Net debt at year-end 2017	**2,300**	**973**	**(1,322)**	**1,951**

Short-term borrowings

In December 2018, a bond of €800 million will mature. This bond is classified as a short-term borrowing.

We have US dollar and euro commercial paper programs in place, which can be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had €112 million commercial paper outstanding at year-end 2017 (2016: €nil).

Cash and cash equivalents

In € millions	2016	2017
Cash on hand and in banks	925	815
Short-term investments	554	507
Included under cash and cash equivalents in the balance sheet	**1,479**	**1,322**
Debt to credit institutions *	(38)	(44)
Total per cash flow statement	**1,441**	**1,278**

* The debt to credit institutions does not include the €112 million commercial paper outstanding at year-end 2017.

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 24.

At December 31, 2017, an amount of €11 million in cash and cash equivalents was restricted (2016: €30 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

Held for sale

Net debt classified as held for sale amounts to €386 million and relates to items that have been specifically designated as held for sale, e.g. specific local financing and debt related to finance leases held in relation to the Specialty Chemicals assets. For more information on discontinued operations and held for sale, see Note 2.

19 Note 19: Trade and other payables

Trade and other payables

In € millions	2016	2017 *
Suppliers	2,137	1,624
Amounts payable to employees	418	269
FX and commodity contracts	10	8
Taxes and social security contributions	243	181
Customer-related payables	272	252
Dividends	30	201
Payable to associates and joint ventures	2	–
Other liabilities	363	259
Total	**3,475**	**2,794**

* At year-end 2017 an amount of €951 million of Trade and other payables is classified as held for sale.

20 Note 20: Cash flow

Operating activities in 2017 resulted in cash inflows of €969 million (2016: €1,291 million).

Changes in working capital per cash flow statement

In € millions	2016	2017
Trade and other receivables	(11)	(225)
Inventories	16	(166)
Trade and other payables	(4)	281
Total	**1**	**(110)**

Changes in provisions per cash flow statement

In € millions	2016	2017
Post-retirement provisions	(442)	(293)
Restructuring provisions	(13)	(21)
Environmental and sundry provisions	(52)	(163)
Total	**(507)**	**(477)**

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.

21 Note 21: Commitments

Purchase commitments for property, plant and equipment amount to €21 million (2016: €22 million) of which €14 million is related to the Specialty Chemicals business (discontinued operations).

Lease payments during 2017 amounted to €211 million (2016: €223 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	2016	2017
Payments due within one year	172	166
Payments between one and five years	338	306
Payments due after more than five years	212	210
Total	**722**	**682**

An amount of €307 million of the total commitment for operational lease contracts is related to the Specialty Chemicals business (discontinued operations).

Guarantees related to associates and joint ventures at year-end 2017 totaled €5 million (2016: €5 million). All of these guarantees are related to the Specialty Chemicals business.

22 Note 22: Related party transactions

We purchased and sold goods and services to various related parties in which we hold a 50 percent or less equity interest (associates and joint ventures). Such transactions were conducted at arm's length with terms comparable with transactions with third parties.

During 2017, 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 held by members of the Supervisory Board or Board of Management, refer to Note 23. In the ordinary course of business, we also have transactions with various organizations with which certain members of the Supervisory Board or Executive Committee are associated. All related party transactions were conducted at arm's length. 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, refer to Note 12, 14 and 16. For receivables from and payables to related parties, refer to Note 14 and 19.

23 Note 23: Remuneration of the Supervisory Board and the Board of Management

Total compensation to key management personnel amounted to €21.1 million (2016: €14.5 million). An amount of €10.1 million relates to short-term employee benefits (2016: €8.6 million); €1.2 million to post-contract benefits and other post-contract compensation (2016 €1.1 million); €7.9 million to share-based compensation (2016: €4.8 million); and €1.9 million related to payments upon termination of employment (2016 €nil 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 of the Netherlands.

Shares held by the members of the Supervisory Board

Number of shares at year-end	2016	2017
Antony Burgmans	551	551
Peggy Bruzelius	500	500
Sue Clark	–	–
Byron E. Grote *	2,008	2,000
Louis Hughes	548	548
Michiel Jaski	–	–
Pamela Kirby	–	–
Dick Sluimers	–	–
Patrick Thomas	–	–
Ben Verwaayen	–	–

* In the form of ADRs.

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.

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. The service agreement with Mr. Büchner was terminated by mutual consent, while observing the contractual notice period of six months. Given the circumstances, the Supervisory Board found it appropriate and reasonable to provide a termination benefit in accordance with the remuneration policy and the Code, and to treat the unvested performance shares in line with our standard approach, which implies that the unvested shares granted during his active service will be retained, and the shares granted in the year of termination will be reduced time prorated. Mrs. Castella stepped down as CFO and went on leave of absence for health reasons. As such, no leaving arrangement is in place.

2016 performance on STI metrics

Metric	Payout as percentage of target
ROI	127%
OPI	127%
OCF	111%
Revenue	0%

2017 performance on STI metrics

Metric	Payout as percentage of target
ROI	121%
EBIT	110%
OCF	77%
Revenue growth	121%

Supervisory Board

In €	Total remuneration 2016	Remuneration	Attendance fee	Committee allowance fees	Employer's charges	Total remuneration 2017
Antony Burgmans, Chairman	165,000	130,000	20,000	19,400	–	169,400
Sari Baldauf [1]	107,500	65,000	15,000	20,000	–	100,000
Peggy Bruzelius	113,800	65,000	15,000	20,000	16,200	116,200
Byron E. Grote, Deputy Chairman [2]	105,800	78,000	17,500	38,800	–	134,300
Louis Hughes	116,200	65,000	35,000	20,000	–	120,000
Pamela Kirby [3]	57,050	65,000	20,000	15,000	–	100,000
Dick Sluimers	87,500	65,000	–	30,000	–	95,000
Ben Verwaayen	91,200	65,000	15,000	15,000	–	95,000
Sue Clark [4]	–	5,400	2,500	–	–	7,900
Patrick Thomas [4]	–	5,400	5,000	–	–	10,400
Michiel Jaski [4]	–	5,400	–	–	–	5,400
Total	844,050	**614,200**	**145,000**	**178,200**	**16,200**	**953,600**

[1] Until December 1, 2017.
[2] Deputy Chairman as of October 18, 2016.
[3] As of May 1, 2016.
[4] As of November 30, 2017.

Short-term incentive

The short-term incentives for 2017 are linked to ROI (20 percent), EBIT (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 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, housing 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 2017 remuneration. These contributions are paid on base salary only. For Mr. Büchner, the contributions are paid over the base salary in the current year and the short-term incentive related to that year.

Termination benefits

Termination benefits include costs that have been incurred in 2017 relating to leaving arrangements.

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 5.

Board remuneration 2016

In €	Salary	Short-term incentives *	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
Total	**1,523,300**	**1,398,600**	**127,100**	**508,400**	**1,547,900**	**5,105,300**

* This concerns the short-term incentive amounts over 2016 to be paid in 2017.

Board remuneration 2017

In €	Salary	Short-term incentives [4]	Other short-term benefits	Post-contract compensation	Share-based compensation	Termination and other benefits	Total remuneration
Thierry Vanlancker [1]	429,300	471,300	13,700	71,700	282,600	–	1,268,600
Ton Büchner [2,5,6]	950,500	986,500	39,400	435,800	2,148,900	925,000	5,486,100
Maëlys Castella [3]	440,900	282,200	78,600	66,100	626,600	–	1,494,400
Total	**1,820,700**	**1,740,000**	**131,700**	**573,600**	**3,058,100**	**925,000**	**8,249,100**

[1] As of July 19, 2017.
[2] Stepped down from Board of Management on July 19, 2017.
[3] Until September 8, 2017. Compensation as Executive Committee member is reflected in Note 23.
[4] This concerns the short-term incentive amounts over 2017, be paid in 2018.
[5] The €925,000 relates to severance payment, salary for first two months of 2018, allowances for advice and relocation.
[6] Additional charges of €1,120,000 are accrued which relate to taxation on excessive pay ('Belastingheffing excessieve beloningsbestanddelen').

Number of performance-related shares

	Series	Balance at January 1, 2017	Granted in 2017	Vested in 2017	Forfeited in 2017	Dividend in 2017	Balance at December 31, 2017	Vested on January 1, 2018
Thierry Vanlancker	2017 – 2019	–	27,300	–	–	2,189	29,489	–
Ton Büchner	2014 – 2016	15,958	–	(15,958)	–	–	–	–
	2015 – 2017	23,594	–	–	(4,095)	1,348	20,847	20,847
	2016 – 2018	24,008	–	–	–	1,925	25,933	–
	2017 – 2019		33,900	–	(20,717)	1,057	14,240	–
Maëlys Castella	2015 – 2017	16,044	–	–	(2,785)	917	14,176	14,176
	2016 – 2018	15,638	–	–	–	1,254	16,892	–
	2017 – 2019	–	23,100	–	–	1,853	24,953	–

Performance-related shares

With regard to the performance-related shares granted to the members of the Board of Management in 2015, the final vesting percentage of the series 2015-2017 equaled 81.8 percent (series 2014-2016: 66.49 percent), including dividend shares 92.65 percent (series 2014- 2016: 71.56 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 Mr. Büchner, the shares purchased in 2014 under the applicable share matching plan were matched by the company following the Supervisory Board's decision recognizing consistent and sustainable performance.

Shares held by the Board of Management

Number of shares at year-end	2016	2017
Thierry Vanlancker *	–	460

* As of September 8, 2017 member of the Board of Management.

Number of potential matching shares

	Year of share investment	Potential match	Matched in 2017	Forfeited in 2017	Balance at year-end 2017
Thierry Vanlancker	2017	230	–	–	230
Ton Büchner	2014	2,450	(2,450)	–	–
	2015	2,252	–	–	2,252
	2016	1,529	–	(1,529)	–
	2017	2,601	–	(2,601)	–
Maëlys Castella	2015	305	–	–	305
	2016	1,354	–	–	1,354
	2017	1,161	–	–	1,161

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 2017, we had €1.3 billion available as cash and cash equivalents (2016: €1.5 billion), see Note 18. In addition, we have a €1.8 billion multi-currency revolving credit facility, which was extended in 2017 with one additional year to 2022. 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 2017 and 2016, this facility had not been drawn. We have US dollar and euro commercial paper programs in place, which can be used to the extent that

Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
At December 31, 2016			
Borrowings	78	816	1,767
Interest on borrowings	75	191	65
Finance lease liabilities	9	30	31
Trade and other payables	3,465	–	–
Fx contracts (hedges)			
Outflow	1,949	–	–
Inflow	(1,955)	(3)	–
Other derivatives			
Outflow	–	–	–
Inflow	4	2	–
Total	**3,625**	**1,036**	**1,863**
At December 31, 2017			
Borrowings	968	1,250	1,015
Interest on borrowings	70	147	38
Finance lease liabilities	5	18	17
Trade and other payables	2,786	–	–
Fx contracts (hedges)			
Outflow	1,996	–	–
Inflow	(1,996)	–	–
Other derivatives			
Outflow	–	–	–
Inflow	–	–	–
Total	**3,829**	**1,415**	**1,070**

the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had €112 million commercial paper outstanding at year-end 2017, at year-end 2016 we had no commercial paper outstanding. 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 14. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets in the balance sheet.

At year-end 2017, the credit risk on consolidated level was €3.4 billion (2016: €4.4 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 €366 million at year-end 2017 (2016: €289 million).

Foreign exchange risk management

Trade and financing transactions

We operate in a large number of countries, where we have clients and suppliers, many of whom are outside of the local functional currency environment. This creates currency exposure which is partly netted out on 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.

Hedged notional amounts at year-end

In € millions	Buy 2016	Sell 2016	Buy 2017	Sell 2017
US dollar	112	473	94	455
Pound sterling	281	48	186	48
Swedish krona	490	22	420	27
Chinese yuan	12	62	6	163
Other	284	331	286	471
Total	**1,179**	**936**	**992**	**1,164**

Investments in foreign subsidiaries, associates and joint ventures

During 2017, net investment hedge accounting was applied on hedges of certain net investments in foreign operations which were hedged with forward exchange contracts. During 2017, these hedges were fully effective.

At year-end 2017, no hedges of net investments in foreign operations were outstanding.

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 2017, the fixed/floating rate of our outstanding bonds shifted from 100 percent fixed at year-end 2016 to 55% percent fixed at year-end 2017. During 2017, we have not used any interest rate derivatives.

Capital risk management

Our objectives when managing capital are to safeguard our ability to satisfy our capital providers and to maintain a capital structure that optimizes our cost of capital. For this we maintain a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Moody's and Standard & Poor's. The capital structure can be altered, among others, by adjusting the amount of dividends paid to sharehol ders, return capital to capital providers, or issue new debt or shares.

In November 2017, a floating rate note was issued with a nominal value of €500 million maturing in 2019 at a coupon of 3-months EURIBOR plus 0.20 percent markup, floored at zero 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 at year-end 2017 amounted to 0.40 (2016: 0.55) based on AkzoNobel total operations figures. 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 are calculated as the 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, securities in Other financial non-current assets 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 the bonds issued included in our long-term and short-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 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 €110 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.

Fair value per financial instrument category

			Carrying value per IAS 39 category			
In € millions	Carrying amount	Out of scope of IFRS 7	Loans and receivables/financial liabilities measured at amortized cost	At fair value through profit or loss	Total carrying value	Fair value
2016 year-end						
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
Total financial assets	**4,824**	**598**	**2,664**	**1,562**	**4,226**	**4,247**
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
Total financial liabilities	**6,206**	**1,033**	**5,163**	**10**	**5,173**	**5,391**
2017 year-end						
Other financial non-current assets	1,201	991	190	20	210	228
Trade and other receivables	1,965	141	1,813	11	1,824	1,824
Cash and cash equivalents	1,322	–	–	1,322	1,322	1,322
Total financial assets	**4,488**	**1,132**	**2,003**	**1,353**	**3,356**	**3,374**
Long-term borrowings	2,300	35	2,265	–	2,265	2,387
Short-term borrowings	973	5	968	–	968	1,001
Trade and other payables	2,794	599	2,187	8	2,195	2,195
Total financial liabilities	**6,067**	**639**	**5,420**	**8**	**5,428**	**5,583**

Sensitivities on financial instruments at year-end 2017

Sensitivity object	Sensitivity	Hypothetical impact
Foreign currencies: We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end.	A 15 percent (2016: 10 percent) strengthening of the euro versus US dollar	Profit: €15 million (2016: profit €11 million), Other comprehensive income profit €4 million (2016: profit €2 million)
	A 10 percent (2016: 20 percent) strengthening of the euro versus the pound sterling	Profit: €1 million (2016: profit €3 million)
	A 5 percent (2016: 10 percent) strengthening of the euro versus Swedish krona	Profit: €nil (2016: profit €1 million)
	A 10 percent (2016: 5 percent) strengthening of the euro versus Chinese yuan	Loss: €4 million (2016: €nil)
Interest rate: We perform interest rate sensitivity analysis by applying an adjustment to the interest rate curve prevailing at year-end. This adjustment is based on observed changes in the interest rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all interest bearing assets and liabilities.	A 100 basis points increase of EURIBOR interest rates	Loss: €13 million (2016: €nil)
	A 100 basis points increase of US LIBOR interest rates	Profit: €1 million (2016: €nil)
	A 100 basis points increase of GBP LIBOR interest rates	Profit: €nil million (2016: €nil)

25 Note 25: Subsequent events

On January 1, 2018, AkzoNobel internally separated the Specialty Chemicals business through an organizational split of operations and functions and by the legal transfer of all assets, liabilities and employees (including contracts) allocated to the Specialty Chemicals business, apart from some delayed transfers, to a standalone group of companies under Akzo Nobel Chemicals Holding B.V., a wholly owned subsidiary of Akzo Nobel N.V.. Effective as of January 1, 2018, Akzo Nobel N.V. and Akzo Nobel Chemicals Holding B.V. entered into a Master Separation Agreement and a set of ancillary and service level agreements, together effectuating the internal separation and providing a framework for the relationship between AkzoNobel and the Specialty Chemicals group going forward.

Company financial statements

Statement of income

In € millions	Note		2016		2017
Other income		58		109	
Gross profit			58		109
General and administrative expenses		(43)		(91)	
			(43)		(91)
Operating income			15		18
Financing income and expenses	B	(33)		(32)	
Net income from subsidiaries, associates and joint ventures		988		839	
Profit before tax			970		825
Income tax			–		7
Net income			970		832

Balance sheet as of December 31, before allocation of profit

In € millions	Note		2016		2017
Assets					
Non-current assets					
Financial non-current assets	C	11,366		11,496	
Total non-current assets			11,366		11,496
Current assets					
Short-term receivables	D	229		80	
Cash and cash equivalents	F	641		111	
Total current assets			870		191
Total assets			12,236		11,687
Equity and liabilities					
Equity					
Subscribed share capital		504		505	
Additional paid-in capital		746		769	
Cash flow hedge reserve		3		15	
Other legal reserves		272		232	
Cumulative translation reserves		(47)		(549)	
Actuarial gains and losses		(2,840)		(2,460)	
Other reserves		7,032		6,655	
Undistributed results		883		698	
Shareholders' equity	E		6,553		5,865
Non-current liabilities					
Long-term borrowings	F	5,431		4,389	
Total non-current liabilities			5,431		4,389
Current liabilities					
Short-term borrowings	F	36		929	
Other current liabilities	G	216		504	
Total current liabilities			252		1,433
Total equity and liabilities			12,236		11,687

Movements in shareholders' equity

In € millions	Subscribed share capital	Additional paid-in capital	Legal reserves: Cash flow hedge reserve	Legal reserves: Other legal reserves	Legal reserves: Cumulative translation reserves	Actuarial gains & losses	Other reserves	Undistributed results	Shareholders' equity
Balance at January 1, 2016	498	598	(42)	313	81	(2,243)	6,387	892	6,484
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
Comprehensive income	**–**	**–**	**45**	**–**	**(128)**	**(597)**	**–**	**970**	**290**
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)	–
Balance at December 31, 2016	**504**	**746**	**3**	**272**	**(47)**	**(2,840)**	**7,032**	**883**	**6,553**
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	(502)	–	–	–	(502)
Changes in fair value of derivatives	–	–	12	–	–	–	–	–	12
Post-retirement benefits	–	–	–	–	–	380	–	–	380
Net income	–	–	–	–	–	–	–	832	832
Comprehensive income	**–**	**–**	**12**	**–**	**(502)**	**380**	**–**	**832**	**722**
Dividend	4	180	–	–	–	–	(1,011)	(460)	(1,287)
Equity-settled transactions	–	–	–	–	–	–	37	–	37
Issue of common shares	2	(2)	–	–	–	–	–	–	–
Share repurchase	(5)	(155)	–	–	–	–	–	–	(160)
Acquisitions and divestments	–	–	–	–	–	–	–	–	–
Addition to other reserves	–	–	–	(40)	–	–	597	(557)	–
Balance at December 31, 2017	**505**	**769**	**15**	**232**	**(549)**	**(2,460)**	**6,655**	**698**	**5,865**

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 23 of the Consolidated financial statements.

B Note B: Financing income and expenses

Financing income and expenses

In € millions	2016	2017
Financing income	27	21
Financing expenses	(58)	(53)
Other items	(2)	–
Total	**(33)**	**(32)**

C Note C: Financial non-current assets

Movements in financial non-current assets

	Subsidiaries			
In € millions	Share in capital	Loans *	Other financial non-current assets	Total
Balance at January 1, 2016	**8,379**	**2,834**	**97**	**11,310**
Acquisitions/capital contributions	37	–	–	37
Divestments/capital repayments	–	–	(2)	(2)
Net income from subsidiaries	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
Balance at December 31, 2016	**8,277**	**2,994**	**95**	**11,366**
Acquisitions/capital contributions	1,555	–	5	1,560
Divestments/capital repayments	–	–	(2)	(2)
Net income from subsidiaries	839	–	–	839
Post-retirement benefits	379	–	–	379
Equity-settled transactions	29	–	–	29
Loans granted	–	611	–	611
Repayment of loans	–	(2,361)	–	(2,361)
Changes in exchange rates	(510)	(16)	–	(526)
Dividends received	(399)	–	–	(399)
Other changes	(1)	–	1	–
Balance at December 31, 2017	**10,169**	**1,228**	**99**	**11,496**

* Loans to these companies have no fixed repayment schedule.

For Other financial non-current assets a level 3 fair valuation method (discounted cash flow) was used to determine the fair value resulting in a deviation between the fair value and the carrying value of €18 million and in a fair value balance for other financial non-current assets of €117 million. For information on valuation methods, see Note 24 of the Consolidated financial statements.

D Note D: Short-term receivables

Short-term receivables

In € millions	2016	2017
Receivables from subsidiaries	189	50
FX contracts	22	11
Other receivables	18	19
Total	**229**	**80**

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 2017 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 2017 or 2016.

Of the Shareholders' equity of €5.9 billion, an amount of €5.1 billion (2016: €5.8 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law. The cash flow hedge reserve is 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 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 €24 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates and joint ventures after 1983, to the extent that there are limitations for AkzoNobel to arrange profit distributions.

Unrestricted reserves at year-end

In € millions	2016	2017
Shareholders' equity at year-end	6,553	5,865
Subscribed share capital	(504)	(505)
Subsidiaries' restrictions to transfer funds	(188)	(147)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(23)	(24)
Cash flow hedge reserve	(3)	(15)
Unrestricted reserves	**5,774**	**5,113**

Dividend

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €200 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 €632 million (to be increased by dividend on shares issued in 2018 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €2.50 per share (up 52 percent), of which €0.56 was paid earlier as an interim dividend. The final dividend of €1.94 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 25, 2018.

F Note F: Net debt

Long-term-borrowings

For the fair value of the bonds issued, refer to Note 24 of the Consolidated financial statements.

We estimated the fair value of the bonds issued 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 fair value of the bonds included in long-term and short-term borrowings was €2.366 million. For information on valuation methods, see Note 24 of the Consolidated financial statements.

We have a €1.8 billion multi-currency revolving credit facility, which was extended in 2017 by one additional year to 2022. 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 2017 and 2016, this facility has not been drawn.

At year-end 2017 and 2016, none of the borrowings was secured by collateral.

Short-term borrowings

In December 2018, a bond of €800 million will mature. This bond is classified as a short-term borrowing.

Analysis of net debt by category

In € millions	2016	2017
Bonds issued	1,788	1,492
Debt from subsidiaries	3,643	2,897
Other borrowings	–	–
Long-term borrowings	**5,431**	**4,389**
Current portion of debenture loans	–	799
Current portion of other long-term borrowings	30	–
Short-term loans	6	130
Short-term borrowings	**36**	**929**
Total borrowings	**5,467**	**5,318**
Cash and cash equivalents	(641)	(111)
Net debt	**4,826**	**5,207**

Bonds issued

In € millions	2016	2017
4% 2011/18 (€800 million)	797	–
1 3/4% 2014/24 (€500 million)	497	497
1 1/8% 2016/26 (€500 million)	494	494
3-months EURIBOR+0.2% 2017/19 (€500 million)	–	501
Total	**1,788**	**1,492**

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 €112 million commercial paper outstanding at year-end 2017, at year-end 2016 we had no commercial paper outstanding.

Cash and cash equivalents

Cash and cash equivalents

In € millions	2016	2017
Cash on hand and in banks	264	111
Short-term investments	377	–
Total	**641**	**111**

G Note G: Other current liabilities

Other current liabilities

In € millions	2016	2017
Payables to subsidiairies	51	134
Payables to associates and joint ventures	1	3
FX contracts	10	8
Debt related to pensions	7	6
Other suppliers	30	68
Other liabilities	117	285
Total	**216**	**504**

H Note H: Financial instruments

At year-end 2017, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.0 billion (year-end 2016: €1.2 billion), while contracts to sell currencies totaled €1.2 billion (year-end 2016: €0.9 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 24 of the Consolidated financial statements.

I Note I: Contingent liabilities

Akzo Nobel N.V. is parent of the group's fiscal unity in the Netherlands, and is therefore liable for the liabilities of said fiscal unity 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 2017, aggregating €0.7 billion (2016: €0.7 billion), are included in the Consolidated balance sheet. Additionally, at year-end 2017, guarantees were issued on behalf of consolidated companies for an amount of €1.6 billion (2016: €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 21 of the Consolidated financial statements. Guarantees relating to associates and joint ventures amounted to €5 million (2016: €5 million).

Note J: Auditor's fees

Our auditor, PwC the Netherlands, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements, mainly the following other audit services to the company and its controlled entities: statutory audit of a controlled entity, audits in relation to the planned separation of the Specialty Chemicals business and audits in relation to the legal demerger.

Fees PricewaterhouseCoopers

In € millions	In the Netherlands	Network outside the Netherlands	Total
			2017
Audit of the financial statements	3.6	6.1	9.7
Other audit services	7.6	2.6	10.2
Tax services	–	–	–
Other non-audit services	–	–	–
Total	**11.2**	**8.7**	**19.9**

Fees PricewaterhouseCoopers

In € millions	In the Netherlands	Network outside the Netherlands	Total
			2016
Audit of the financial statements	3.4	5.6	9.0
Other audit services	–	0.2	0.2
Tax services	–	–	–
Other non-audit services	–	–	–
Total	**3.4**	**5.8**	**9.2**

Other information

Proposal for profit allocation

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €200 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 €632 million (to be increased by dividend on shares issued in 2018 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €2.50 per share, of which €0.56 was paid earlier as an interim dividend. The final dividend of €1.94 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 25, 2018.

Amsterdam, March 7, 2018

The Board of Management
Thierry Vanlancker
Maarten de Vries

The Supervisory Board
Antony Burgmans
Peggy Bruzelius
Sue Clark
Byron Grote
Louis Hughes
Michiel Jaski
Pamela Kirby
Dick Sluimers
Patrick Thomas
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 2017

Our opinion

In our opinion:

- Akzo Nobel N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017 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 Part 9 of Book 2 of the Dutch Civil Code; and
- Akzo Nobel N.V.'s company financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 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, 2017;
- the following statements for 2017: 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 balance sheet as at December 31, 2017;
- the 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 Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 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.

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

Independence

We are independent of Akzo Nobel N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties'(Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

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 is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

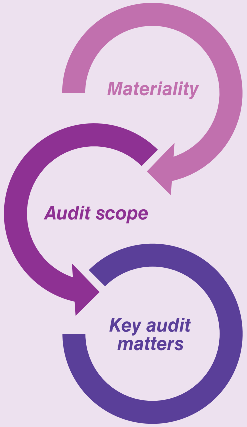
The financial year 2017 was characterised by management's announcement in April 2017 for plans to separate the Specialty Chemicals Business. The company received approval of the EGM on 30 November 2017 to proceed with the separation through either a legal demerger or private sale. Furthermore, management concluded that the Specialty Chemicals Business will be reported in accordance with IFRS 5 – 'Non-Current Assets Held for Sale and discontinued operations' in the 2017 consolidated financial statements. Further details of the implications of this event are described in the section on key audit matters.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements also taking into account the aforementioned separation plans for the Specialty Chemicals Business. In particular, we considered where the Board of Management made important judgements; 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 and the related higher inherent risk of material misstatement in the valuation of goodwill and other intangibles with indefinite useful lives, valuation of the post-retirement benefit provisions and accounting for and valuation of income tax positions (including the impact of the US tax reform), we considered these to be key audit matters as set out in the key audit matter section of this report. In addition, we identified the application of IFRS 5 for the Specialty Chemicals Business as a new key audit matter this year as this accounting treatment is complex, non-recurring and it materially impacts the financial statements. Last year we also included a key audit matter related to the transition to a new auditor which is no longer applicable this year.

Other areas of focus, that were not considered to be key audit matters were the disclosures relating to the transition in 2018 from accounting standard IAS 18 – ‘Revenue’ to IFRS 15 ‘Revenue from contracts with customers’, and from IAS 39 - ‘Financial Instruments’ to IFRS 9 ‘Financial Instruments, environmental-, sundry- and legal provisions, the overall impact of the planned separation on our audit including understanding of management’s separation process, as well as information technology general controls (‘ITGCs’). The ITGC’s 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 fraud due to management override of internal control, including evaluating whether there was evidence of bias by the Board of Management that may represent a risk of material misstatement.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a paints and performance coatings company and a producer of specialty chemicals. We also included specialists or experts in the areas of tax, pensions, IT, treasury and valuations on our team.

The outlines of our audit approach were as follows:



Materiality
- Overall materiality: €70 million

Audit scope
- We conducted audit work at 44 components in 14 countries
- Site visits by the group team were conducted in 8 countries – US, China, Sweden, UK, Brazil, Germany, Singapore and the Netherlands
- Audit coverage: 71% of consolidated revenue, 72% of consolidated total assets and 75% of consolidated profit before tax

Key audit matters
- Specialty Chemicals Business recorded as Held for sale and disconinued operations (IFRS5)
- Impairment testing of goodwill and other intangibles with indefinite useful lives
- Valuation of post-retirement benefit provisions
- Valuation of deferred tax assets and uncertain tax positions

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’.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, 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, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Materiality

Overall group materiality	€70 million (2016: €65 million)
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 5% of total profit before tax for continued and discontinued operations, and excluded separation related identified items.
Rationale for benchmark applied	We used profit before tax from continued and discontinued operations as the primary benchmark 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. We excluded separation related identified items as these are non-recurring and are not representative of normal operating results.
Component materiality	To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €8 million and €60 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above €3.5 million (2016: €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. The financial information of this group is included in the consolidated financial statements of Akzo Nobel N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

The group audit includes the following individual financially significant component: Decorative Paints Europe & Africa. Thirty components, including the aforementioned significant component, were subjected to audits of their complete financial information as those components are material to the group. Twelve components were subjected to specific risk-focussed audit procedures as they include significant or higher risk areas. Additionally, two components were selected for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. In total, in performing these procedures, we achieved the following coverage on the financial line items (which include both continued and discontinued operations, as well as assets held for sale):

Decorative Paints	71%
Performance Coatings	72%
Specialty Chemicals	75%

None of the remaining components represented more than 1% of total group revenue or total group assets. 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.

The group consolidation, financial statement disclosures and a number of complex items are controlled and monitored centrally by Akzo Nobel N.V. and are audited by the group engagement team at the head office. These include impairment testing of goodwill and other intangibles with indefinite useful lives, valuation of post-retirement benefit provisions, valuation of deferred tax assets and uncertain tax positions, assets held for sale / discontinued operations, environmental-, sundry- and legal provisions, share based payments, treasury, IT and the Akzo Nobel N.V. standalone entity.

The group team also performed central procedures over the controls performed by the Business Areas and other central functions, where relevant for our audit. This included: Business performance review controls and indirect entity level controls, such as a Code of Conduct, relevant code of conduct trainings and a whistle-blower policy.

For all other components we used component auditors who are familiar with the local laws and regulations to perform the audit work. For all components in scope we performed hard close audit procedures on the interim October balance sheet positions and results. These hard close audit procedures include substantive audit work on material balances and transactions at group level as well as components in scope for our group audit.

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 visits the component teams on a rotational basis. The most significant components are visited every year and other components are visited depending on specific considerations which include amongst others audit observations, specific risks identified or other major events. In the current year the group engagement team visited the component teams and local management in the US, China, Sweden, UK, Brazil, Germany, Singapore and the Netherlands and conference/video calls were held with 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 reviewed selected working papers of the component teams and performed 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 been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, 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 separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

Key audit matters

Key audit matter	How our audit addressed the matter
Specialty Chemicals Business recorded as Held for sale and Discontinued Operations (IFRS5) **Note 2** In April 2017 Akzo Nobel N.V. announced their plans to separate the Specialty Chemicals Business and received the approval of the EGM on November 30, 2017 to proceed with the separation through either demerger or private sale. Management concluded that the Specialty Chemicals Business will be reported in accordance with IFRS 5 – 'Non-Current Assets Held for Sale and discontinued operations' in the 2017 consolidated financial statements. The application of IFRS 5 'Non-Current Asset Held for Sale and Discontinued operations' is significant to our audit because the assessment of the classification is complex, the transaction and its accounting is non-routine and involves significant management judgements. These include, amongst others, the date of classification of the non-current assets as held for sale, the identification of the disposal group and the presentation of its results as discontinued operations. As a result of these conclusions, there are requirements around the valuation of the assets of the disposal group and presentation in the consolidated financial statements and disclosure notes, the identification of income and expenses allocated to the Specialty Chemicals Business, assumptions and estimates made with regard to the allocations, and adjustments to be recorded (e.g. central cost allocations, seizing of depreciation and amortization).	Our audit procedures included, among others, an evaluation of the client's conclusions on the classification of the disposal group as held for sale and the results of the Specialty Chemicals Business as discontinued operations. This included evaluating whether the Specialty Chemicals Business classifies as one disposal group, assessing the valuation of the assets of the disposal group as the lower of the carrying amount and fair value less cost to sell, the presentation of the assets in the financial statements and the date as of which the Specialty Chemicals Business is classified as held for sale. In addition we evaluated the presentation of the results of the Specialty Chemicals Business as discontinued operations, the allocated income and expenses including assumptions and estimates made with regard to the allocation, as well as the adjustments recorded relating to central cost allocations and reversal of depreciation and amortization. We have made use of technical accounting specialists as part of our audit.
Impairment testing of goodwill and other intangibles with indefinite useful lives **Note 9** As at December 31, 2017 the Company's Goodwill and other intangibles with indefinite useful lives are valued at €3.3 billion (of which €0.5 billion is classified as held for sale). The key assumptions and sensitivities are disclosed in note 9 to 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 judgement 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. This is consistent with prior year. 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.	Our procedures included, among others, evaluation of the assumptions and methodologies used in the annual impairment test prepared by the company, an assessment of the mathematical accuracy of the calculations and a reconciliation to the 2018 five year outlook as approved by the Board of Management. 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, amongst 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 assessed the adequacy of the company's disclosures in note 9 to the consolidated financial statements and in particular the key assumptions to which the outcome of the impairment test is most sensitive.
Valuation of post-retirement benefit provisions **Note 16** The Post-retirement benefit provisions consist of defined benefit obligations (€15.3 billion, of which €0.9 billion is classified as held for sale) offset by plan assets (€14.9 billion, of which €0.3 billion is classified as held for sale). 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. Management procedures over the Post-retirement benefit provisions, specifically the procedures on the DBO, the de-risking transactions during the year, and updates to the assumptions were significant to our audit because the assessment process is complex, involves significant management judgement and is based on actuarial assumptions, including discount rates, compensation increase, expected inflation rates, mortality tables and indexation percentages, as disclosed in note 16 to the consolidated financial statements. This is consistent with prior year. Technical expertise is required to determine the amounts and significant de-risking transactions that have occurred.	We evaluated the Board of Management's actuarial assumptions, specifically the changes in assumptions applied in the UK, the valuation methodologies used 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 to the UK pension plans and we verified the appropriate accounting. We also assessed the adequacy of the company's disclosure in note 16 to the consolidated financial statements.
Valuation of deferred tax assets and uncertain tax positions **Note 7** 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 new developments (e.g. the US Tax reform and impact of the separation of the company). The company's disclosures concerning income taxes are included in note 7 to the consolidated financial statements.	Our 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 projected revenue growth and margin development based on the 2018 five year outlook as approved by the Board of Management, the probability of future cash outflows of the uncertain tax positions identified by the company and the impact of the planned separation on the business projections. We also assessed the applicable local fiscal regulations and developments, in particular those related to changes in the statutory income tax rate (e.g. the US Tax reform) and of the statutes of limitation since 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. In addition, we also focused on the adequacy of the company's disclosures on deferred tax assets and uncertain tax positions and assumptions used.

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 to the financial statements;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;
- other parts of the annual report: How AkzoNobel performed in 2017, 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 the information that is required by Part 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 Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 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 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Akzo Nobel N.V. on April 19, 2014 by the Supervisory Board following the passing of a resolution by the shareholders at the annual meeting held on April 29, 2014 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 2 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The non-audit services that we have provided to the company and its controlled entities in addition to the audit, for the period to which our statutory audit relates, are disclosed in note J to the financial statements.

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 Part 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, March 7, 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R. Dekkers RA

Appendix to our auditor's report on the financial statements 2017 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 judgement 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. In this respect we also issue an additional report to the Supervisory Board in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

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.

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	2008 [1]	2009	2010 [2]	2011	2012	2013	2014	2015	2016 [8]	**2017**
Revenue	15,415	13,028	13,605	14,604	15,390	14,590	14,296	14,859	9,434	9,612
EBIT [6]	1,315	1,131	1,325	1,154	972	897	1,072	1,462	928	905
Operating income	(577)	855	1,293	1,157	(1,198)	958	987	1,573	923	825
Financing income and expenses	(232)	(405)	(329)	(311)	(205)	(200)	(156)	(114)	(91)	(78)
Results from associates and joint ventures	25	21	25	24	13	14	21	17	18	17
Income tax	(260)	(141)	(176)	(241)	(203)	(111)	(252)	(416)	(234)	(253)
Profit for the period from continuing operations	**(1,044)**	**330**	**813**	**629**	**(1,593)**	**661**	**600**	**1,060**	**616**	**511**
Discontinued operations	23	32	58	(59)	(436)	131	18	6	436	393
Non-controlling interests	(65)	(77)	(83)	(64)	(63)	(68)	(72)	(87)	(82)	(72)
Net income, attributable to shareholders	**(1,086)**	**285**	**788**	**506**	**(2,092)**	**724**	**546**	**979**	**970**	**832**
Common shares, in millions at year-end	231.7	232.3	233.5	234.7	239.0	242.6	246.0	249.0	252.2	252.6
Dividend [4]	417	325	320	304	214	210	212	222	239	1,287
Number of employees at year-end	60,000	54,700	55,600	52,020	50,610	49,600	47,200	45,600	36,300	35,700
Average number of employees	61,300	56,300	55,100	51,100	52,200	50,200	48,200	46,100	36,200	36,200
Employee benefits	3,022	2,955	2,980	2,765	3,018	2,950	2,824	2,728	1,794	1,935
Average revenue per employee (in €1,000)	251	231	247	286	295	291	297	322	261	266
Average operating income per employee (in €1,000)	(9)	15	23	23	(23)	19	20	34	25	23
Ratios										
ROS [7]	8.5	8.7	9.7	7.9	6.3	6.1	7.5	9.8	9.8	9.4
ROI [7]	14.1	9.0	11.6	10.0	8.2	9.0	10.9	14.0	14.4	13.9
Net income in % of shareholders' equity	–[3]	3.7	8.8	5.6	–[3]	12.9	9.5	15.1	14.8	14.2
Employee benefits in % of revenue	19.6	22.7	21.9	18.9	19.6	20.2	19.8	18.4	19.0	20.1
Interest coverage [5]	–[3]	2.1	6.8	4.7	–[3]	5.1	8.6	16.2	13.2	12.3
Per share information										
Net income	(4.38)	1.23	3.23	2.04	(8.82)	3.00	2.23	3.95	3.87	3.31
Adjusted earnings per share		2.06	3.71	3.10	2.55	2.62	2.81	4.02	4.15	4.40
Shareholders' equity	32.21	33.47	38.48	39.25	24.12	23.06	23.53	26.04	25.99	23.22
Highest share price during the year	57.11	46.52	47.70	53.74	49.75	56.08	60.77	74.81	64.74	82.64
Lowest share price during the year	22.85	26.01	37.18	29.25	35.16	42.65	47.63	55.65	50.17	59.11
Year-end share price	29.44	46.40	46.49	37.36	49.75	55.71	57.65	61.68	59.39	73.02

[1] Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.
[2] Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.
[3] Not meaningful as operating income and net income were losses.
[4] Cash dividend paid to shareholders of AkzoNobel.
[5] Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.
[6] EBIT = operating income excluding identified.
[7] ROS and ROI have been restated and are based on EBIT instead of operating income.
[8] Represented to present the Specialty Chemicals business as discontinued operations.

Consolidated balance sheet

In € millions	2008 [1]	2009	2010 [2]	2011	2012	2013	2014	2015	2016	2017
Intangible assets	7,172	7,388	6,568	7,392	4,454	3,906	4,142	4,156	4,413	3,409
Property, plant and equipment	3,357	3,474	3,191	3,705	3,739	3,589	3,835	4,003	4,190	1,832
Financial non-current assets	1,848	1,783	2,105	2,664	2,628	2,219	2,148	2,125	1,736	1,894
Total non-current assets	**12,377**	**12,645**	**11,864**	**13,761**	**10,821**	**9,714**	**10,125**	**10,284**	**10,339**	**7,135**
Inventories	1,781	1,441	1,482	1,924	1,545	1,426	1,545	1,504	1,532	1,094
Receivables	2,977	2,666	2,740	3,035	2,789	2,622	2,831	2,810	2,846	2,026
Cash and cash equivalents	1,595	2,128	3,133	1,635	1,752	2,098	1,732	1,365	1,479	1,322
Assets held for sale	4	–	–	–	921	203	66	–	–	4,601
Total current assets	**6,357**	**6,235**	**7,355**	**6,594**	**7,007**	**6,349**	**6,174**	**5,679**	**5,857**	**9,043**
Shareholders' equity	7,463	7,775	8,397	9,031	5,764	5,594	5,790	6,484	6,553	5,865
Non-controlling interests	450	470	525	529	464	427	477	496	481	442
Total equity	**7,913**	**8,245**	**8,922**	**9,560**	**6,228**	**6,021**	**6,267**	**6,980**	**7,034**	**6,307**
Provisions	2,072	1,919	1,958	2,392	2,677	1,938	2,143	1,865	1,938	964
Long-term borrowings	2,341	3,641	2,727	3,035	3,388	2,666	2,527	2,161	2,644	2,300
Other non-current liabilities	715	674	556	541	434	389	412	360	367	285
Total non-current liabilities	**5,128**	**6,234**	**5,241**	**5,968**	**6,499**	**4,993**	**5,082**	**4,386**	**4,949**	**3,549**
Short-term borrowings	1,338	384	904	494	662	961	811	430	87	973
Current liabilities	3,510	3,220	3,575	3,782	3,632	3,438	3,634	3,716	3,704	2,912
Current portion of provisions	845	797	577	551	455	601	494	451	422	241
Liabilities held for sale	–	–	–	–	352	49	11	–	–	2,196
Total current liabilities	**5,693**	**4,401**	**5,056**	**4,827**	**5,101**	**5,049**	**4,950**	**4,597**	**4,213**	**6,322**
Average Invested capital [3,5]	9,311	12,578	11,467	11,537	11,817	10,007	9,871	10,475	6,422	6,494
Capital expenditures	534	513	534	658	826	666	588	651	634	613
Depreciation [5]	453	424	435	419	463	472	477	487	206	202
OWC	2,359	1,691	2,016	1,891	1,572	1,384	1,418	1,385	1,405	927
Net debt	2,084	1,897	500	1,894	2,298	1,529	1,606	1,226	1,252	1,951
Ratios										
Equity/non-current assets	0.64	0.65	0.75	0.69	0.58	0.62	0.62	0.68	0.68	0.88
Inventories and receivables/current liabilities	1.36	1.28	1.18	1.31	1.19	1.18	1.20	1.16	1.18	1.07
Operating working capital as % of revenue [4]	16.5	13.7	13.9	13.2	10.7	9.9	10.1	9.7	10.2	10.2

[1] Continuing operations from ICI are included as from 2008. The 2008 figures have not been restated for the National Starch divestment.
[2] Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.
[3] Restated to current definition as from 2010.
[4] Operating working capital is measured against four times fourth quarter revenue.
[5] 2016 is represented to present the Specialty Chemicals business as discontinued operations.

Business Area statistics

In € millions	2008	2009 [1]	2010	2011 [2]	2012	2013	2014	2015	2016	2017
Decorative Paints										
Revenue	5,006	4,573	4,968	4,201	4,297	4,174	3,909	4,007	3,835	3,898
EBIT	401	298	336	237	108	199	248	345	357	351
Operating income	(669)	133	275	235	(2,012)	398	248	345	366	334
ROS [4]	8.0	6.5	6.8	5.6	2.5	4.8	6.3	8.6	9.3	9.0
Average invested capital [3]	6,515	6,169	4,908	5,032	4,701	2,896	2,824	2,959	2,783	2,803
ROI [4]	6.2	4.8	6.8	4.7	2.3	6.9	8.8	11.7	12.8	12.5
Capital expenditures	120	112	154	155	206	171	143	158	107	112
Average number of employees	24,600	22,900	21,800	17,100	17,200	16,800	15,500	15,100	14,800	14,700
Average revenue per employee	203	200	228	246	250	248	252	265	259	265
Average operating income per employee	(27)	6	13	14	(117)	24	16	23	25	23
Performance Coatings										
Revenue	4,575	4,112	4,786	5,170	5,702	5,571	5,589	5,955	5,665	5,775
EBIT	467	492	503	456	542	525	545	792	759	669
Operating income	444	433	487	458	542	525	545	792	735	668
ROS [4]	10.2	12.0	10.5	8.8	9.5	9.4	9.8	13.3	13.4	11.6
Average invested capital [3]	2,010	1,868	2,063	2,267	2,499	2,463	2,480	2,692	2,586	2,860
ROI [4]	23.2	26.3	24.4	20.1	21.7	21.3	22.0	29.4	29.4	23.4
Capital expenditures	89	61	87	116	123	143	143	147	159	129
Average number of employees	21,000	20,200	20,600	21,300	21,700	21,300	21,000	19,700	19,300	19,800
Average revenue per employee	218	204	232	243	263	262	266	302	294	292
Average operating income per employee	21	21	24	22	25	25	26	40	38	34
Specialty Chemicals										
Revenue	5,687	4,359	4,943	5,335	5,543	4,949	4,883	4,988	4,783	4,985
EBIT	605	490	655	628	524	418	508	578	629	689
Operating income	130	422	604	622	500	297	508	609	629	689
ROS [4]	10.6	11.2	13.3	11.8	9.5	8.4	10.4	11.6	13.2	13.8
Average invested capital [3]	3,797	3,435	3,464	3,406	3,678	3,609	3,442	3,540	3,507	3,598
ROI [4]	15.9	14.3	18.9	18.4	14.2	11.6	14.8	16.3	17.9	19.1
Capital expenditures	305	319	273	365	484	346	297	331	356	363
Average number of employees	12,900	11,400	11,100	11,300	11,800	10,600	10,000	9,300	9,000	9,100
Average revenue per employee	441	382	445	472	470	467	488	536	531	548
Average operating income per employee	11	37	54	55	42	28	51	65	70	76

[1] Excluding National Starch, divested in 2010.
[2] Restated to present Decorative Paints North America as a discontinued operation.
[3] From 2010 restated to current definition.
[4] ROS and ROI have been restated and are based on EBIT instead of operating income.

Regional statistics

In € millions	2013	2014	2015	2016 [1]	2017
The Netherlands					
Revenue by destination	765	762	693	267	282
Revenue by origin	1,600	1,662	1,563	404	423
Capital expenditures	94	72	102	15	17
Average invested capital	1,175	1,631	2,154	1,497	1,528
Number of employees [2]	5,300	5,000	4,900	2,600	2,500
Germany					
Revenue by destination	1,176	986	1,036	399	460
Revenue by origin	1,143	920	903	470	598
Capital expenditures	87	106	52	12	10
Average invested capital	736	764	854	468	662
Number of employees [2]	3,100	2,300	2,100	1,400	1,500
Sweden					
Revenue by destination	473	436	414	164	162
Revenue by origin	1,411	1,289	1,329	389	408
Capital expenditures	38	40	55	9	9
Average invested capital	471	428	542	60	104
Number of employees [2]	3,000	2,900	2,700	1,200	1,100
UK					
Revenue by destination	887	947	1,011	808	777
Revenue by origin	948	950	1,109	972	891
Capital expenditures	74	74	91	43	39
Average invested capital	1,314	1,008	833	755	746
Number of employees [2]	3,700	3,600	3,500	3,300	3,200

In € millions	2013	2014	2015	2016 [1]	2017
Other European countries					
Revenue by destination	3,531	3,341	3,226	2,225	2,332
Revenue by origin	2,330	2,246	2,062	1,739	1,823
Capital expenditures	66	57	60	39	47
Average invested capital	1,406	1,117	1,024	675	700
Number of employees [2]	8,000	7,700	7,300	6,700	6,600
US and Canada					
Revenue by destination	2,155	2,193	2,494	1,213	1,189
Revenue by origin	2,287	2,306	2,644	1,298	1,257
Capital expenditures	62	68	100	27	23
Average invested capital	1,739	1,778	1,949	1,037	864
Number of employees [2]	5,000	4,800	4,600	3,000	2,900
Latin America					
Revenue by destination	1,553	1,485	1,483	850	900
Revenue by origin	1,282	1,252	1,210	791	840
Capital expenditures	83	45	34	20	23
Average invested capital	713	707	679	378	391
Number of employees [2]	4,500	4,400	4,100	3,100	2,900
China					
Revenue by destination	1,643	1,730	1,828	1,435	1,494
Revenue by origin	1,690	1,814	1,960	1,456	1,493
Capital expenditures	104	75	115	53	32
Average invested capital	1,330	1,380	1,683	897	787
Number of employees [2]	7,400	7,400	7,500	6,200	6,000

In € millions	2013	2014	2015	2016 [1]	2017
Other Asian countries					
Revenue by destination	1,733	1,739	1,968	1,521	1,443
Revenue by origin	1,463	1,438	1,613	1,442	1,392
Capital expenditures	40	34	31	53	41
Average invested capital	612	600	671	561	625
Number of employees [2]	7,100	6,900	6,700	6,600	6,800
Other regions					
Revenue by destination	674	677	706	552	573
Revenue by origin	436	419	466	473	487
Capital expenditures	18	17	11	7	9
Average invested capital	178	159	87	94	87
Number of employees [2]	2,500	2,200	2,200	2,200	2,200

[1] Represented to present the Specialty Chemicals business as discontinued operations.
[2] At year-end.

The long maritime heritage of our International brand – which stretches back more than a century – continued in 2017 with the launch of various products. This included extending the popular Interstores marine coatings range by introducing a new Alkyd Primer.

The product is compatible with most AkzoNobel marine coatings topcoat options. As one of the world's leading suppliers of marine coatings, we continue to innovate and bring more sustainable products to customers around the world.

Sustainability statements

Additional sustainability information

In this report

Our website (akzonobel.com/sustainability) includes additional information on processes, detailed data and contacts.

This Sustainability statements section of the Report 2017 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

Introduction

For AkzoNobel, sustainability means delivering long-term value for all our stakeholders. It underpins our purpose and brand, our core principles and our employee value proposition. It's our driver for growth, innovation and productivity.

Sustainable business imperatives

We aim to create continuing value for AkzoNobel stake-holders in social, environmental and economic terms, creating a bridge between the Sustainable Development Goals (SDGs) of the United Nations and our own business imperatives – value selling and resource productivity.

- **Value selling** – we are innovating to give our customers choice and competitive advantage through product portfolios designed to bring tangible benefits and deliver positive social and environmental impact (see page 170)
- **Resource productivity** – we are creating a culture of care for all materials used, eliminating waste and reducing variable cost. Increased resource productivity in our operations and supply chain makes us more competitive and sustainable (see page 172)

Accountability

The Executive Committee has responsibility for incorporating the sustainability agenda in the company strategy and monitoring the performance of each business through the Operational Control Cycle. Accountability for delivery lies with the leaders of the businesses and functions and their management teams. Significant sustainability aspects material to the company are reviewed annually, with input from internal and external stakeholders (see Managing sustainability).

We use key indicators to track our progress in delivering on the sustainable business imperatives. The Resource Efficiency Index (Note 4) demonstrates how AkzoNobel is delivering more from less, driving margin growth which has been decoupled from resource constraints, thereby reducing short-term costs and long-term risks. We have established continuous value improvement processes in every function, supported by external benchmarks. In 2017, AkzoNobel returned to the number one ranking in the Chemicals industry on the Dow Jones Sustainability Index (DJSI).

We equip all employees to ensure they can contribute to making our businesses more sustainable and include this responsibility in personal targets and remuneration. Since 2009, the long-term incentive for our executives has been linked to AkzoNobel's DJSI ranking. We will include sustainability in the personal objectives and incentives of all employees from 2018 onwards.

Value creation

AkzoNobel is working in all regions on early detection of long-term societal needs which shape our innovation, including resource scarcity. These insights bring new business opportunities, support swift business adaptation and enable first mover advantage.

We drive our sustainable business imperatives through our products, programs, processes and partnerships. The following are some practical examples, including how they contribute to the global development agenda, represented by the UN SDGs (those most relevant to AkzoNobel are shown above).

Products: Coatings which improve the energy efficiency of old buildings*

Our new Dulux Trade Plus range was devised after listening to the needs and future ambitions of our customers and consumers. Comprised of a ThermaCoat+ system for interior walls and a SmartShield+ solution for exteriors, the products were specially developed to help improve energy efficiency in older buildings – cutting heat loss through walls, delivering energy savings and improving comfort levels.

Homeowners and businesses in developed markets lose millions of euros every year due to heat loss through uninsulated solid walls, which waste up to 45% of heating energy. Because much of our old housing stock will continue to exist for decades, AkzoNobel has developed solutions that can improve the energy performance in older buildings.

*Contributes to SDGs: 3 7 11 13

Products: Paint which absorbs pollutants*

Dulux Forest Breath is a unique paint range sold in China which can capture and neutralize pollutants, as well as color and protect interior walls. It's also lower in volatile organic compounds (VOCs). Forest Breath helps improve indoor air quality by capturing formaldehyde and benzene from the atmosphere. By using silver ion, it can kill germs and bacteria to create a healthier home environment, and it is mold resistant.

In collaboration with EY, we have been able to quantify, in monetary terms, the contribution that our products and programs make to society (see Managing sustainability). For Forest Breath, this could be the reduction of negative health impacts due to less formaldehyde inhalation. We discovered that the health benefits amounted to €5 million in 2017 (based on sales of the product in China.) This project has shown that it is possible to put a monetary value on the positive social impact that our products can bring. The implications of this assessment go far beyond the current assessments of product performance. We are replicating the approach for other products and plan to integrate social impact into various parts of our business, such as our innovation activities.

*Contributes to SDGs: 3 11

Products: Water-based ultraviolet (UV) coatings which help increase capacity and reduce process damage*

Our UV-cured water-based coatings for wood coatings have been designed to help reduce our customers' overall process costs. The fast-curing formulations contain virtually no VOCs and allow the most compact of line set-ups. The rapid curing means items are ready to be stacked or assembled in as little as six minutes after the coating has been applied. This gives manufacturers unrivalled handle ability and reduces damage from in-process scuffs and knocks.

Water-based UV coating customers gain environmental and social benefits by minimizing VOC emissions and keeping ahead of regulatory requirements, without the cost and complexity of operating VOC abatement systems. As well as reducing environmental impact, this solution ultimately allows our customers to increase capacity, which is frequently dictated by regulatory permits surrounding VOCs. Water-based UV coatings are currently available in the kitchen cabinet, building products and furniture market segments. It's another example of a ground-breaking innovation which is transforming our industry and increasing the current and future competitiveness of our customers.

*Contributes to SDGs: 3 12 13

Processes: Emission modeling which improves well-being*

We have developed a VOC modeling tool which enables our factories to manage and reduce their VOC emissions in the most cost-effective way. This will allow us to stay ahead of increasingly stringent regulation which places limits on VOC emissions. Reducing VOC emissions also has clear environmental and health benefits. The tool has been piloted at five sites, with plans in place to roll it out across the company in 2018.

*Contributes to SDGs: 3 12 13

Partnerships: Circular chemistry which creates jobs*

AkzoNobel initiated the Waste-to-Chemistry consortium, a flagship project which acts as a catalyst in the transition towards a bio-based and circular economy. Spanning the value chain, this unique partnership comprises Air Liquide, AkzoNobel, Enerkem, the Port of Rotterdam and the City of Rotterdam, the Province of Zuid Holland and Innovation Quarter. Together, we plan to divert waste streams from landfill and incineration, and convert them into valuable chemical building blocks. Deployment of an innovative gasification technology will enable the efficient and cost-effective conversion of waste into methanol, thereby avoiding consumption of fossil fuels and reducing CO_2 emissions by at least 250,000 tons per year.

AkzoNobel plans to convert the waste-derived methanol into dimethylether and chloromethanes – key products supplied by our Industrial Chemicals business – which will allow us to offer more sustainable products to our customers. The newly available resources and generated knowledge will also enable new plants and spin-offs, strengthening the regional economic structure. In addition, the plant will create shared social value by having a direct impact on employment – there will be 50 direct and 200 indirect new jobs created – and tax revenues in the region.

*Contributes to SDGs: 9 12 13 17

Programs: Community investment bringing color to people's lives*

Color has an impressive transformational power and, as demonstrated by our "Let's Colour" program in Brazil (see Note 11), it can leave a lasting legacy. This is evidenced in particular by the work of our Coral brand in helping and inspiring residents of the Santa Marta favela in Rio de Janeiro.

In 2017, we used the Santa Marta program as a pilot, taking initial steps to measure the social value creation of our programs, in cooperation with EY. The objective of the project was to strengthen decision-making regarding future community investments, as we believe that insight into social needs will help us to better design our programs. We acquired first order of magnitude estimates based on well-being valuation, calibrated to the local situation. We now aim to standardize the valuation methodology (see Managing sustainability).

*Contributes to SDGs: 11 17

Value selling

1 Note 1: Sustainable products

We work closely with customers to deliver solutions that will make their business more sustainable, while delivering economic value to all parties in the chain. We are assessing our entire product range in sustainability terms to help customers make choices that deliver competitive advantage and also benefit society.

Sustainable product portfolios

We constantly assess and reshape our product portfolio to drive innovation and offer competitive advantage to customers. Transparent monitoring of margin by product category guides business decision-making.

We assess the full range of products and are collaborating with industry peers to develop a standardized categorization methodology.

Our portfolio approach promotes the use of safer and more sustainable products. We take action to manage harmful substances in advance of legislation, future-proofing our products against changes in regulations. We have set ourselves stretching targets for the amount of revenue and margin growth that should come from solutions with a sustainability benefit for our customers, versus the mainstream product solutions in the market.

Product portfolio assessment

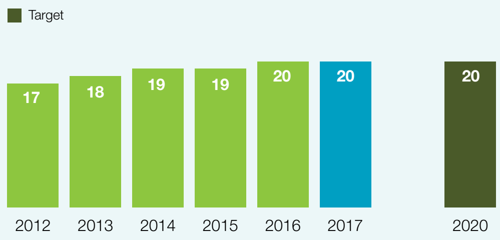
Eco-premium	Better than mainstream solutions
Eco-performer	Mainstream with sustainable features
Performer	Equivalent to mainstream
Transformer	Potential future risks are anticipated
Priority	Current risks are known and managed

More than 21% of our products met the eco-performer criteria in 2017, having clear sustainability features and being at least as good as mainstream alternatives. Another 20% of the total portfolio met the more demanding criteria of the eco-premium category and we aim to maintain a sustainable 20% of eco-premium revenue through 2020.

Eco-premium solutions differentiate AkzoNobel, matching the standard offerings in all respects and exceeding them in at least one of the following parameters: energy efficiency; use of natural resources and raw materials; land use; emissions and waste; safety risks; toxicity; health and well-being. Products are assessed across their lifecycle and benchmarked against current competitor solutions, making it a moving target.

The eco-premium portfolio is dynamic as 3% of revenue has ceased to be classified as eco-premium due to competitive offerings having caught up. At the same time, new solutions have been introduced to the portfolio, also accounting for 3% of revenue.

Eco-premium solutions with downstream benefits
in % of revenue



Eco-premium solutions with downstream benefits per Business Area

in % of revenue	2014	2015	2016	2017
Decorative Paints	27	28	28	27
Performance Coatings	15	15	16	17
Specialty Chemicals	17	17	19	19

VOC in products

As a result of our ongoing ambition to move towards zero VOCs, our Decorative Paints and Performance Coatings portfolios are undergoing a transformation towards a range of products that are lower in their VOC content.

Decorative Paints is focusing on a multi-year program to lead the market to water-based trim and wood product ranges. Our overall paints and coatings portfolio showed a decrease of 13% in average VOC content in 2016[1], compared with the baseline position of 2009. Due to the divestment of businesses with very low VOC products, the like-for-like reduction for AkzoNobel over this period was 25%.

[1] The annual metrics for VOC in products are assessed in the second quarter of the following year, which is why the figures referred to the year 2016 instead of 2017.

2 Note 2: Better lives

We believe innovation creates long-term impact when it responds to market and social needs. We are engaging our people (Note 8) to deliver products (Note 1) and programs (Note 11) that improve lives by fulfilling the needs of the societies we work in.

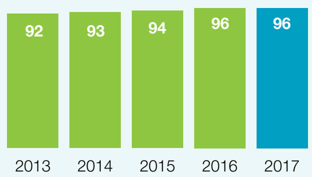
To better understand and quantify our social value creation, we developed a systematic approach in collaboration with EY (see Value creation and Managing sustainability). In addition, we actively participate in social impact valuation platforms, such as the Impact Valuation Roundtable and the World Business Council for Sustainable Development's Social and Natural Capital Protocol.

3 Note 3: Customer service

Delivery

We monitor our service reliability in terms of timely delivery to the customer's premises, aiming to be consistently higher than 95%. In 2017, service performance was 96%.

Delivery Efficiency Index
in %



Responsiveness

Satisfactory handling of customer complaints is an integral part of our quality system. Measures include response times and use of social media. In Decorative Paints, we launched a new cloud-based solution which is integrated with our customer relationship management (CRM) system, increasing response speed and quality.

Expectations

Business change is driven by a deeper understanding of customer needs obtained through market research, customer discussions, focus groups and targeted surveys. Results are integrated into the CRM system.

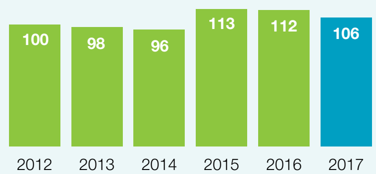
4 Note 4: Resource Efficiency Index

The Resource Efficiency Index demonstrates how AkzoNobel is driving margin growth which has been de-coupled from resource constraints, thereby reducing short-term costs and long-term risks. The index is defined as gross margin divided by cradle-to-grave carbon footprint – reported as an index using 2012 as the baseline year.

We selected gross margin as an indicator of added value as it is comparatively stable and captures the financial effects of innovations and commercial improvements. Carbon footprint is an important indicator of resource productivity across our value chains. The Resource Efficiency Index is therefore an integrated indicator of our business imperatives – value selling and resource productivity.

In 2017, our volume grew in all areas. We also acquired an industrial coatings business from BASF. As a result, our carbon footprint increased slightly, even though our emissions per ton of product went down. Combined with a lower gross margin, the Resource Efficieny Index equaled 106 compared with the 2012 baseline of 100.

Resource Efficiency Index
gross margin/CO_2(e) indexed



Resource Efficiency Index is gross margin divided by cradle-to-grave carbon footprint, expressed as an index. The index is set at 100 for 2012, since this is the baseline year for our strategic sustainability objectives.

Resource productivity

5 Note 5: Supplier engagement

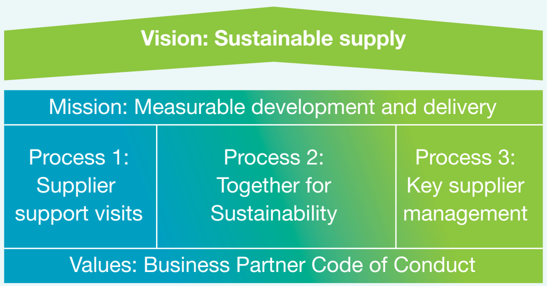
AkzoNobel is driving resource productivity to make the most of valuable raw materials, reducing environmental impact, while strengthening our business.

Initiatives to improve material efficiency, right-first-time and first quality production throughout our operations are integrated in the AkzoNobel Leading Performance System (ALPS). By focusing on resource productivity, ALPS drives an explicit value agenda, as well as long-term operational excellence, engaging all our operations employees in common goals. This systematic approach drives increased raw material efficiency and reduces waste, while better planning processes help to reduce slow-moving and obsolete stocks. We use a range of best practice manufacturing indicators to monitor progress, as well as the operational eco-efficiency parameters (see Note 7).

In order to make the most productive use of resources, especially raw materials, we work closely with suppliers, identifying and minimizing supply chain risks, creating value through continuous improvement and seeking out collaboration and joint development opportunities to ensure a secure and sustainable supply of products.

Supplier segmentation

We have segmented suppliers based on an assessment of their performance, our business relationship and potential risks and opportunities. One segment includes suppliers in emerging markets who require special attention for labor conditions, environmental performance, business integrity and security of supply of raw materials. The other segment includes suppliers with a high level of spend, dependency, or potential for partnership, joint innovation and collaboration on long-term sustainability initiatives. In 2017, supplier segmentation was integrated into the Supplier Management process under the ALPS Source program.



Supplier sustainability framework

Our supplier sustainability framework supports continuous improvement and delivery of our shared goals. The foundation is AkzoNobel's Code of Conduct for business partners, while the framework includes processes for supplier support visits, Together for Sustainability (TfS) assessment and key supplier management.

Business Partner Code of Conduct

Suppliers sign the code to confirm their compliance with environmental, social and governance requirements. Signatories cover 97% of the product related (PR) spend and 86% of the non-product related (NPR) spend.

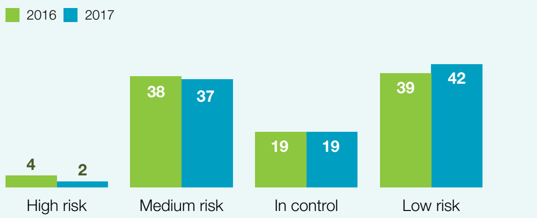
Supplier support visits

This well-established program – designed to develop suppliers in emerging markets with particular risks – is now an integral part of our supplier selection, strategy and collaboration processes.

Together for Sustainability (TfS)

TfS assessments and audits facilitate proactive supplier risk management in the chemical industry. AkzoNobel verifies its own activities against industry best practice, and achieved the EcoVadis Gold recognition level for the third time in 2017.

Risk developments in % of suppliers



6 Note 6: Carbon positive

Key performance indicators – supplier management

	2013	2014	2015	2016	2017
Product related[1] suppliers signed Business Partner CoC[2] (% of spend)	96	98	98	99	97
NPR[3] suppliers signed Business Partner CoC[2] (% of spend)	83	80	81	86	86
Suppliers on SSV[4] program since 2007	392	432	455	136	160
Third party online sustainability audits (TfS)[5]	–	539	724	1053	1274
Third party on-site sustainability audits (TfS)[5]	–	20	65	166	262
Supplier Sustainability Balanced Scorecard	–	–	2	37	97

1 Product related = Raw materials and packaging.
2 Business Partner Code of Conduct.
3 Non-product related.
4 Supplier support visits, supplier numbers rebaselined in 2016.
5 Includes TfS shared assessments/audits, cumulative.

TfS assessment of our suppliers covered more than 63% of spend in 2017, while the average score improved by 3%, including a positive impact on the human rights score.

The diagram on the previous page shows suppliers assessed by EcoVadis with risk levels set by AkzoNobel based on the supplier's EcoVadis score. The proportion of "low risk" suppliers is increasing as a result of our improvement activities during the year.

Key supplier management

Our key supplier management process focuses on suppliers with whom we have: contractual relationships; opportunities for meaningful value creation; partnerships or joint innovation projects; or who have a material impact on our upstream carbon footprint. In 2017, the number of suppliers in this group increased from 35 to 150, representing 80% of our upstream carbon footprint. Key suppliers work with us on a balanced scorecard assessment of their sustainability maturity level based on fulfilling the minimum TfS score criteria and aligning on annual improvement objectives, including carbon footprint reduction. The scorecard now also includes KPIs on energy, waste, water and circular raw materials. From 2018, KPIs will include human rights.

ALPS Source

In 2017, under ALPS Source, we introduced our Supplier Management process, which measures supplier performance on quality, delivery, innovation and sustainability.

AkzoNobel is taking steps towards a positive carbon balance. We see carbon footprint reduction as an important measure of climate impact and protection, and also as a proxy indicator of resource productivity – how efficiently we and our supply chain partners are using raw materials and energy in our products and operations.

Climate change

Climate change is one of the biggest challenges that will shape the way we do business, both now and in the decades to come. We support the Paris Agreement reached at COP21 of keeping the global average temperature increase well below 2°C above pre-industrial levels and pursuing efforts to limit temperature rise to below 1.5°C.

To support the transition to a low carbon economy and help reduce our industry's dependence on fossil fuels, we have committed to carbon neutrality by 2050. We also joined the RE100 initiative, emphasizing our commitment to source 100% renewable energy by 2050.

Carbon pricing

We introduced carbon pricing into relevant investment decisions, and merger and acquisition initiatives, to drive further awareness of the environmental and future economic impact of major decision-making. It also enables us to make more informed decisions and strengthen our sustainable business portfolio. Alongside the base case for any investment, we routinely include the impact of a cradle-to-grave carbon footprint cost at a price of €50 per ton. With many countries discussing different schemes to put a price on carbon as part of their legally binding COP21 carbon reduction targets, carbon pricing enables sustainability leaders to de-risk their businesses. In 2017, we included carbon pricing in seven major appropriation requests submitted to the Executive Committee.

Avoided emissions

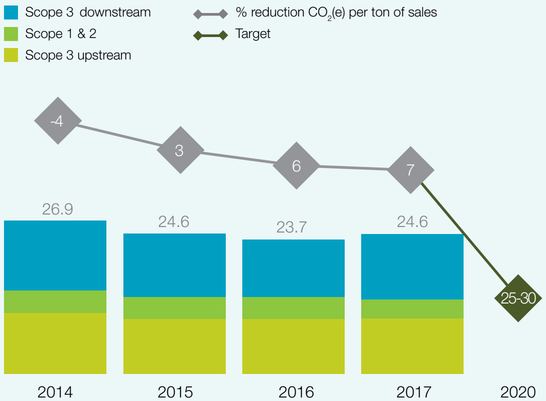
To support our growth agenda, we focus on creating positive value for our customers. We develop and sell solutions that help customers avoid energy use and carbon emissions, such as Dulux Trade Plus products, as described in the Introduction to this section. Using the avoided emissions guidelines we developed together with the International Council of Chemical Associations and the World Business Council for Sustainable Development, we have started to evaluate the amount of carbon emissions society avoids by using the solutions we have developed, compared with mainstream solutions. First results show these avoided emissions add up to nine million tons of CO_2, compared with our total product cradle-to-grave footprint of 24.6 million tons.

Our target is to reduce our product cradle-to-grave carbon footprint by 25-30% per ton of sales between 2012 and 2020, including the impact from VOC emissions. We intend to achieve this through innovation, technology and energy management, by switching to renewable energy and bio-based materials. Because we measure carbon footprint on a cradle-to-grave basis, collaboration with suppliers and customers is crucial for our success.

In 2017, we were able to further reduce our carbon footprint per ton sold, more than offsetting the impact of the Industrial Coatings business acquired from BASF. Our cradle-to-grave footprint per ton of sold product is now 7% lower than the 2012 baseline.

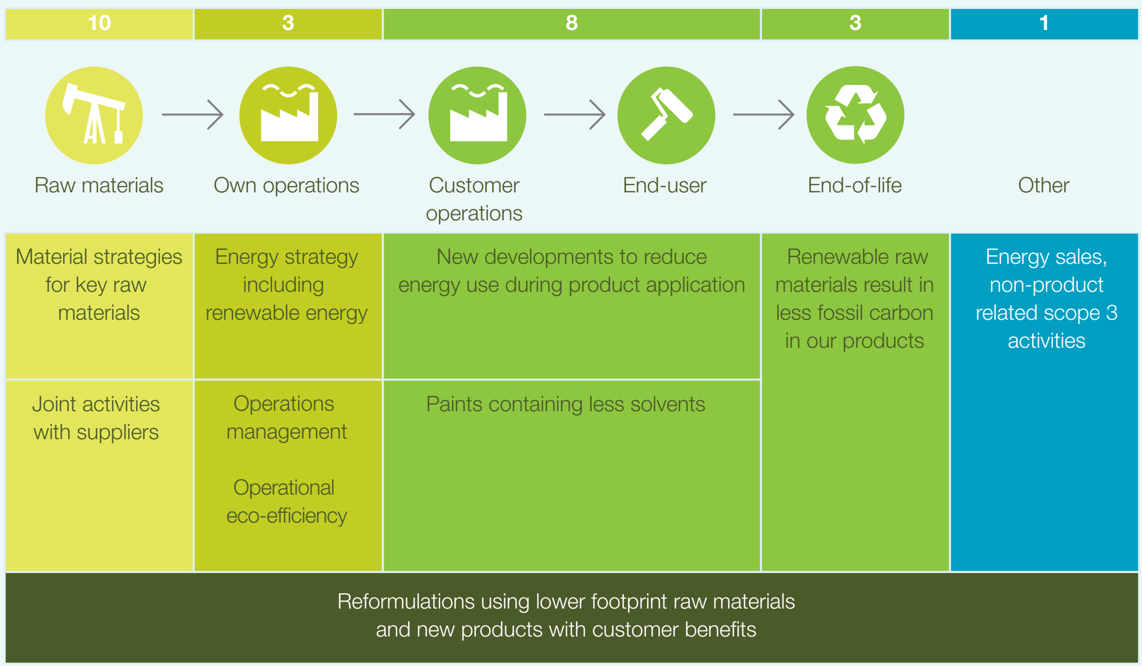
Our share of renewable energy continues to improve. Emissions from our own operations are 9% lower than in 2016. We continued our work with suppliers and have increased sales of paints with a lower carbon footprint in Asia. As volumes grew, our total product footprint increased to around 24.6 million tons of CO_2(e), which is 11% lower than 2012. Without the BASF acquisition, our absolute cradle-to-grave footprint would have been approximately equal to that in 2016, while the reduction of footprint per ton from the 2012 baseline would have been approximately 10%.

Cradle-to-grave product carbon footprint
in million tons of CO_2(e) and % reduction per ton of sales



The 25-30% target applied to the combined businesses of AkzoNobel in 2017. AkzoNobel Paints and Coatings and the separated Specialty Chemicals companies will review and set their own individual targets in due course.

AkzoNobel carbon footprint in million tons CO_2(e)



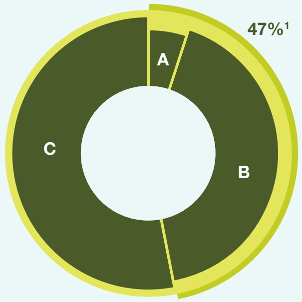
Cradle-to-grave product carbon footprint

Total in million tons CO_2(e) and reduction per ton of sales

	2014	2015	2016	2017
AkzoNobel				
Scope 3 upstream	10.7	9.7	9.5	9.7
Scope 1 & 2[1]	4.0	3.8	3.7	3.4
Scope 3 downstream	12.2	11.1	10.5	11.5
Total	26.9	24.6	23.7	24.6
% reduction per ton of sales	-4	3	6	7
Decorative Paints				
Total	3.9	3.6	3.7	3.7
% reduction per ton of sales	0	4	9	16
Performance Coatings				
Total	13.6	12.3	11.6	12.6
% reduction per ton of sales	-2	-2	-2	-5
Specialty Chemicals				
Total	9.4	8.6	8.4	8.2
% reduction per ton of sales	-2	6	9	15

[1] Scope 1 and 2 includes emissions from our facilities and our own transport, including VOCs.

Total volume of raw materials in % per source

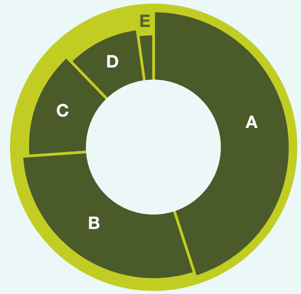


[1] 11% of organic raw materials are from renewable sources.

A	Renewable raw materials (bio-based)	5
B	Fossil-derived materials (petrochemicals)	42
C	Inorganic materials (e.g. salt, minerals, clays)	53

Total energy in % by source

A	Renewable energy	45
B	Natural gas	29
C	Coal	14
D	Nuclear	10
E	Other fossil fuels	2



Renewable energy

in % of total electricity, heat and energy use	2015	2016	2017	Ambition 2020
Renewable electricity (%)	44	46	52	–
Renewable heat (%)	16	17	22	–
Renewable energy (%)	38	40	45	45

A detailed breakdown of our greenhouse gas emissions, including scope 3 and scope 2 location-based emissions, is available on our website.

The illustration on the previous page highlights the impact of our main initiatives on different areas of our value chain:

- Raw materials that have a lower footprint and are bio-based or recycled
- Improved energy efficiency and fuel mix for our energy-intensive operations (see Note 7)
- Improvements in formulation to reduce product footprint, particularly during customer application (see Note 1)

Raw materials contribute around 40% to our cradle-to-grave product carbon footprint. Bio-based or recycled materials can, in most cases, offer an option to reduce this 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.

We partnered with Advanced Biochemical (Thailand) Co., Ltd. (ABT) and EY to develop a new online tool which can track the use of bio-based raw materials in products for end customers. The new system, called ProBioTracker, will be the first tool ever to use e-certification to track bio-based content along the value chain.

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 diagrams above detail our energy mix and renewable energy use. We made good progress on some key programs and initiatives during 2017 in order to increase the use of renewables in our energy supply and decrease our carbon footprint. The proportion of renewable energy in our operations is now 45%, which is already at our 2020 ambition level.

AkzoNobel drives resource productivity by increasing raw material efficiency, reducing energy consumption and achieving decreases in the generation of waste streams, emissions to water and emissions to air. Our efforts benefit the planet, as well as our business performance, as they simultaneously ensure our license to operate, reduce our environmental footprint and reduce operational costs.

We use our company-wide continuous improvement program ALPS (AkzoNobel Leading Performance System) to drive the agenda. We continuously measure progress on a range of operational eco-efficiency indicators and, on a quarterly basis, we report internally on our performance and continuous improvement, and define actions for further improvement. Specific projects (currently 639 in total) are included in the AkzoNobel Tracker, which monitors financial benefits and environmental impact.

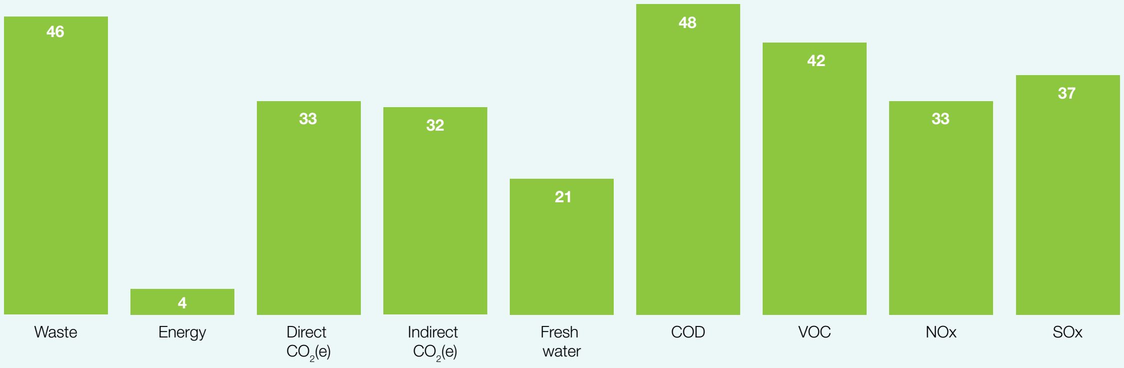
Great results have been achieved on operational eco-efficiency since the start of this ongoing program in 2009. The eco-efficiency footprint was reduced by 31%, while improvements on the individual parameters were also significant.

Material efficiency

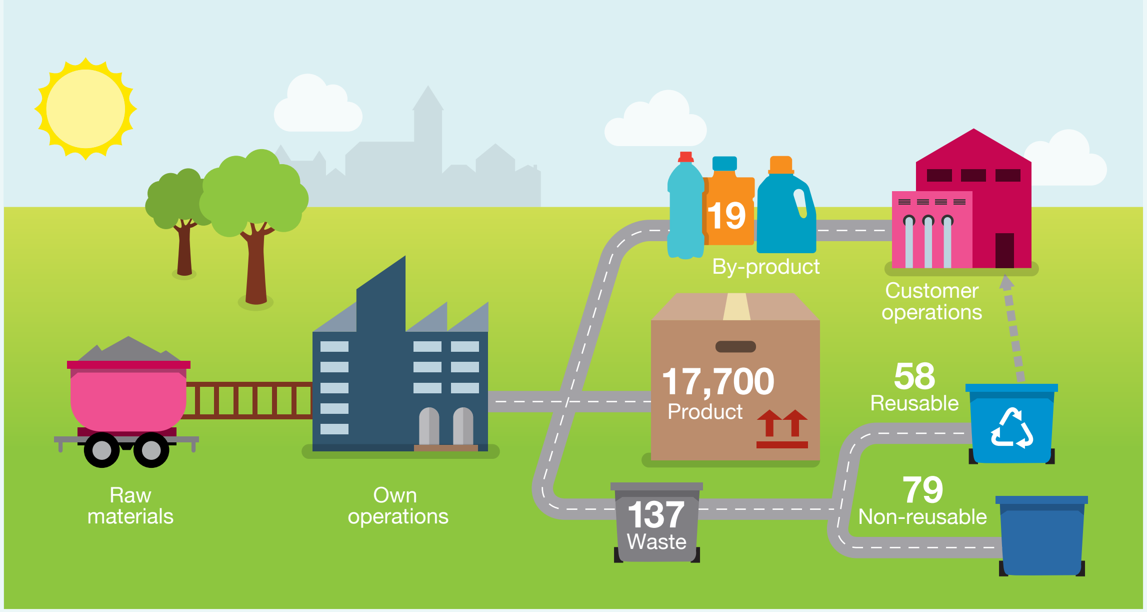
AkzoNobel has increased its focus on material efficiency and is maximizing the conversion of raw materials into final product by solving the root cause of the losses. This will not only reduce the amount of waste and waste water – as well as the carbon related to our raw materials upstream – but will also help our bottom line.

At Decorative Paints, the material efficiency program was continued, focusing on a better conversion of raw materials into final products, for example by recycling wash water, including recycling the paint captured in the washing process.

Improvement of each of the eco-efficiency parameters per ton of production (% vs 2009)



Raw material flow in kilotons



Performance Coatings continued its global material efficiency program for all businesses, focusing on yield improvement in production. A wide variety of smaller projects (more than 200) has resulted in savings of €10 million.

Specialty Chemicals converted some of its waste streams into valuable by-products, in line with the concept of the circular economy.

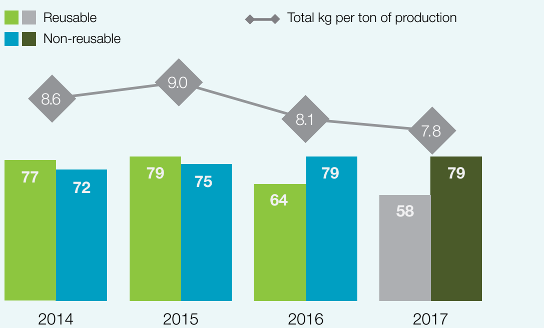
Waste

Effective waste management helps to increase raw material efficiency in our manufacturing operations, while reducing both our environmental footprint and costs. AkzoNobel has moved the focus from managing and reducing total "end of pipe" waste to also eliminating waste by increasing material efficiency throughout the manufacturing process, among other initiatives.

Our ambition is to drive towards zero waste to landfill in the coming years. A program with concrete projects is being implemented to support this ambition. The first priority is to reduce the hazardous waste to landfill, and both this and the total waste to landfill reduced by 8% and 13% respectively in 2017.

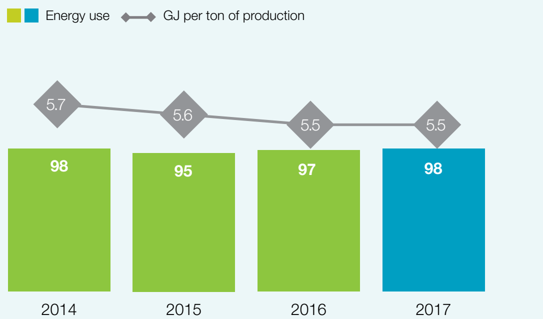
Total waste volume and waste per ton of production generated were down by 4% and 5% respectively in 2017. Hazardous waste per ton of production decreased by 5%. The significant reduction in waste in 2017 was achieved by many specific material efficiency activities in a large number of sites around the globe.

Total waste in kilotons

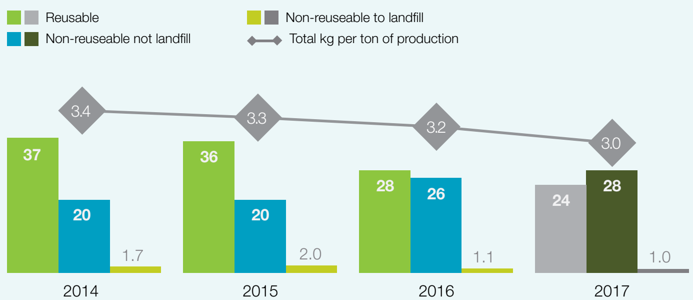


Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard.

Energy use in 1000 TJ



Hazardous waste in kilotons

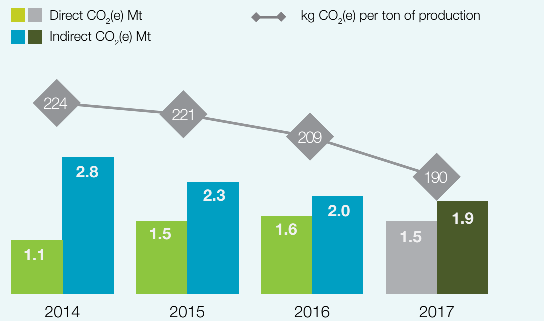


Hazardous waste is waste that is classified and regulated as such, according to the national, state or local legislation in place.

Energy and greenhouse gas emissions

Energy use per ton of production flattened, while absolute energy consumption in 2017 was up 1% compared with 2016, in line with a change in product mix and volume changes. In 2017, 57% (122 out of 214) of our sites improved their relative footprint with regard to energy use compared with 2016, while 78 sites are using 100% renewable electricity (14 new in 2017).

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 (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 GHG emissions per ton of production decreased by 9% in line with the absolute GHG emissions decrease of 9%.

Local air quality

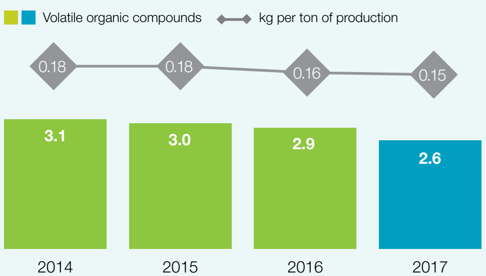
Air monitoring from AkzoNobel operations is focused on volatile organic compounds (VOC) and NOx and SOx emissions, with emissions being monitored and controlled as required.

Volatile organic compounds (VOC)

All our businesses manage VOC emissions from operations, in line with national (e.g. in China) 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 operational eco-efficiency program, while our Research, Development and Innovation groups are working on projects to reduce the solvent content of our products (see Note 1).

VOC emissions per ton of production and total VOC emissions decreased by 11% and 10% respectively in 2017.

Volatile organic compounds in kilotons



We measure halogenated and non-halogenated organic compounds discharged to air.

NOx and SOx

NOx and SOx emissions may have a significant impact on local air quality because of their potential contribution to acidification and smog formation. The emissions of these gases are very limited for Paints and Coatings (less than 1% for both NOx and SOx).

Both NOx emissions per ton of production and total emissions decreased 10%. Optimization of our Delesto unit in Delfzijl, the Netherlands, resulted in a reduction of more than 20%, reducing the impact by over 100 tons.

SOx emissions (from process emissions and energy) were down by 22%, with a significant decrease achieved in LeMoyne, US, due to the start-up of an SO_2 recovery unit.

NOx and SOx emissions

in kilotons	2014	2015	2016	2017
NOx	1.3	1.7	1.6	1.5
NOx kg/ton	0.08	0.10	0.09	0.08
SOx	3.7	3.8	5.2	4.1
SOx kg/ton	0.22	0.22	0.30	0.23

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.

Ozone depleting substances

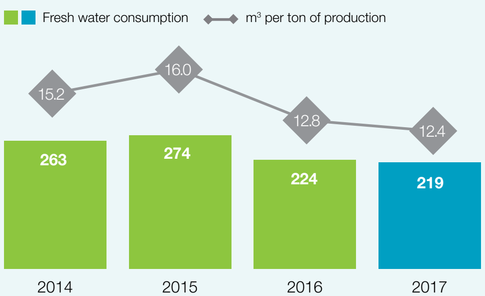
Emissions of ozone depleting substances are at a very low level, 0.8 tons (2016: 1.8 tons). They are mainly due to Freon22 from maintenance in older air conditioning and cooling units, which are replaced when appropriate.

Fresh water availability

Sustainable water supply is essential to life and the sustainability of our business. AkzoNobel relies on water for raw material production, product formulation and manufacturing, power generation, cooling, cleaning, transportation and the effective use of certain products. Currently, 87% of our fresh water intake is from surface water, while 84% is used for cooling, which is only slightly heated before being returned to the original source.

We manage water consumption and its related risks using a fresh water risk assessment tool, completed by each manufacturing site. The tool assigns risk levels to water sources, supply reliability, efficiency, quality of discharges, compliance and social competitive factors. In total, 94% of our sites have sustainable fresh water management in

Fresh water use in million m^3



Fresh water use is the sum of the intake of groundwater, surface water and potable water.

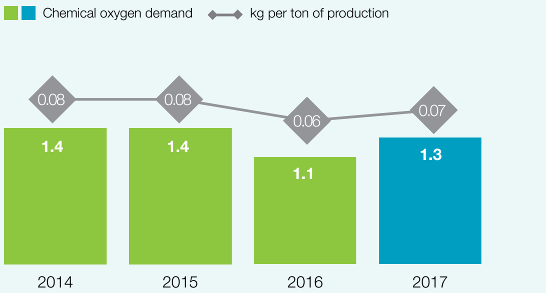
place, as measured by the risk assessment tool. In 2017, all new sites and sites in at-risk areas identified by the previous tool were reassessed.

Total fresh water use and fresh water use per ton of production were down by 2% and 3% respectively. By subtracting the water used for cooling purposes from the total fresh water use, our net water use is calculated and this decreased by 5%.

Waste water

In total, 95% of the chemical oxygen demand (COD) is caused by only 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 increased to 0.07 kg/ton, whereas the total COD load increased to 1.3 kilotons. Although some sites reduced their emissions per ton in 2017 (such as Stockvik in Sweden), increased volumes, change in product mix and process changes in our polysulfides plant in Greiz (Germany) led to a net increase.

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.

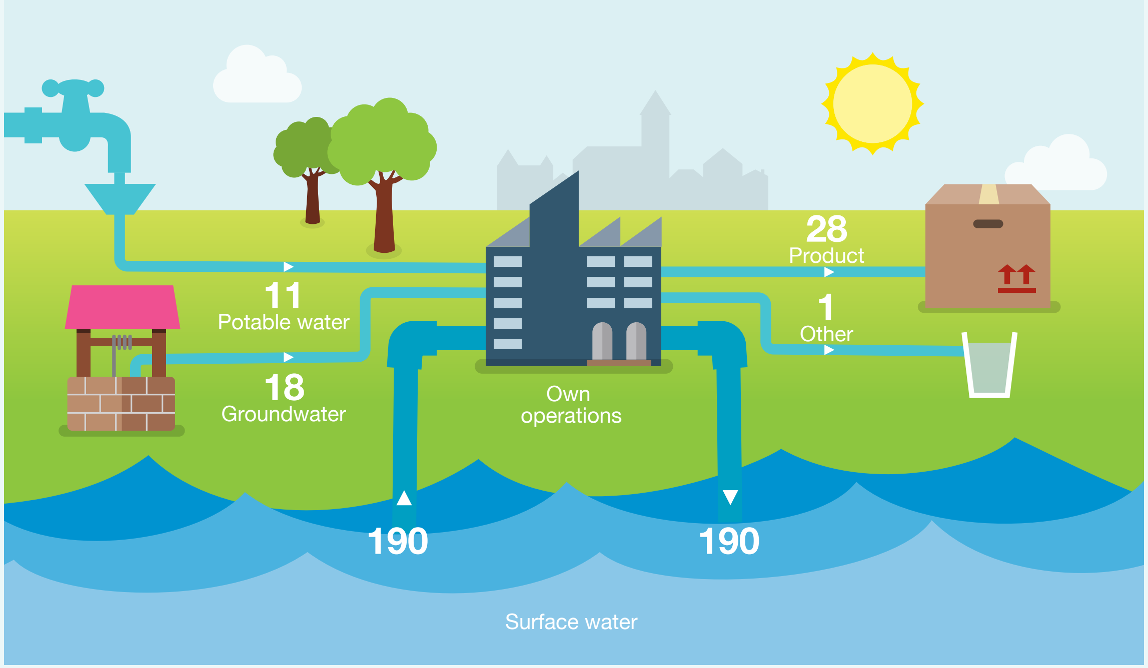
Soil and groundwater remediation

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 a liability will materialize and the cost can be reasonably estimated. We have set aside an additional €18 million, which we believe is sufficient for the sites where we have ownership or responsibility. See Note 17 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.

Water flow in million m³




VOLVO OCEAN RACE
AWLGRIP
AWLGRIP

THE ULTIMATE TEST OF PERFORMANCE

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There can't be a global sporting event more suited to AkzoNobel than the Volvo Ocean Race. A perfect fit for the company's strong maritime heritage and long association with the sea, it's the perfect showcase for the company's market-leading products and expertise.

That's why we became the official coatings supplier to the Volvo Ocean Race Boatyard for the 2017-18 edition. It means the entire fleet of Volvo Ocean 65 racing boats is coated with the company's International and Awlgrip range of products.

The company developed unique, eye-catching custom colors for every team in the race, and the partnership will ensure that the boats continue to look their best and withstand the ultimate test of performance as they battle through the toughest oceans on the planet.

Once a leg ends, technical staff from the company's Yacht business is on hand to offer advice and support to the shore crew application teams. They have access to a purpose-built paint storage unit which is available at each stopover and includes all the International and Awlgrip coatings used on the entire fleet. It features the materials needed to carry out everything from a small repair through to a complete repaint of the boats.

"We're there to give technical support to the Boatyard application teams, offer advice on workable solutions and answer any questions we may face at the time," explains Gareth Thomas, Technical Support Team Manager at AkzoNobel's Specialty Coatings business. "It really is a matter of having the answers there and then, minimizing any delay as the turnaround for the boats is very tight."

And while the products used on each boat need to be able to withstand whatever Mother Nature chooses to throw at them, it's the glossy, colored finish that everyone can see all the time – so this requires continual maintenance to ensure the boats always look good.

"Each boat is a giant marketing tool and as such corporate colors and designs are incredibly important," continues Gareth. "This required very specific color matching and we often had to match challenging print references. Fortunately, color matching is something AkzoNobel is very good at, and the on-site container and mixing rack we have available in the Boatyard enables us to mix all the colors we've developed for the teams right there on the spot."

The striking livery on the team AkzoNobel yacht combines eight custom mixed colors in an intricate design, which took around 1,400 man hours to apply. It also features metallic and pearl effects, which help it to stand out.

AkzoNobel's sustainability agenda is integral to our employee value proposition. By focusing on the success and sustainability of the business, we attract, retain and motivate our employees. Sustainability is our core principle, defining who we are and what we stand for.

Productivity and ROI of human capital

	2015	2016	2017
Human capital ROI ratio	1.58	1.57	1.49
Return on human capital investment (%)	54	56	53

The company's Integrated Talent Management programs are a vital investment in our human capital – the skills and knowledge of employees – to ensure that we are equipped to drive the company's growth and profitability.

Workforce planning

Workforce planning is a mandatory process at strategic and operational levels to develop the organization in line with the future needs of each business, and sets the basis for our budgeting, recruitment, development and talent management processes.

As part of workforce planning, we identify critical roles and focus on the succession planning of these roles to ensure business continuity. To sustain and improve our talent pipeline, we are focusing on the identification and development of our internal talent through frequent management reviews and targeted individual development plans. In 2017, internal promotions at executive level were at 74%, up from 61% the previous year.

Attracting and retaining talent

We are proud to have been externally recognized as a leading employer in many of our key countries, including Brazil, China, France, UK, the Netherlands and Sweden.

In 2017, overall employee turnover was 12% (2016: 11%), while the voluntary turnover was 6% (2016: 7%). This puts us close to the chemical industry benchmark of APQC (10% overall turnover) and the Asian benchmark (AkzoNobel 14%, compared with the 14% benchmark). High potential employee turnover totaled 5%. Although up by one percentage point from 2016, this can be seen as a positive achievement in light of the business context.

Capability building

We are focused on building the functional and leadership capabilities needed to support sustainable, profitable growth. During 2017, we identified the required competencies for our key commercial roles and simplified and updated the competency and development frameworks for Communications, Finance, Human Resources, Research, Development and Innovation and Customer Service.

Human capital ambitions

	2014	2015	2016	2017	Ambition 2020
Employee engagement score (0 – 5 scale)	3.97	4.03	4.17	3.95*	4.20
Female executives (in %)	17	19	19	19	25
Female executive potential pool (in %)	24	25	30	28	30
Executive vacancies filled internally (in %)	68	58	61	74	70
High potential turnover (in %)		6	4	5	<5

*2017 engagement data covers August to December and was gathered for the first time through regular Pulse surveys instead of a single annual survey.

Throughout 2017, around 2,000 people managers participated in the Leadership Essentials program, which develops the leadership behaviors that are incorporated in our performance management system.

Diversity and inclusion

AkzoNobel is developing an increasingly engaged, diverse and capable workforce which can deliver our vision of leading performance in the markets in which we operate. We believe it's also important that our management teams reflect the diversity of our overall workforce, because inclusive and diverse teams are better able to understand customer needs and innovate to meet their requirements.

Diversity and inclusion principles have been embedded in our people management processes and leadership training. We continue to analyze and look to close the 8% gap between the average male and female salary at executive level. Analysis showed that only 0.3% of the 8% overall gap can be attributed to gender, while the rest of the gap can be attributed to other factors such as function, age, salary grade and country of work.

Engaged employees

In response to the change agenda in the company, we launched a continuous process for surveying employee feedback in August 2017. A random sample of employees participated in short bi-weekly surveys. These regular "Pulse" surveys are helping management respond more quickly to employee needs during this period of transition.

The Pulse results for August to December 2017 show strong adherence to our core principles, a commitment to deliver quality and strong relationships at work. In view of the significant organizational changes we experienced, employees also expressed a sense of uncertainty and concerns about job security. Our leadership development curriculum has been adjusted to enable managers to provide stronger change leadership by acknowledging uncertainties and engaging with individuals about their development needs.

Restructuring and separation

We continued to restructure our business in 2017 to align with our company strategy. The primary focus was on the further implementation of our Global Business Services (GBS) organization and creating two focused, high performing businesses. As part of the change process, we use employee and customer sounding boards to gather feedback from the organization and our internal customers.

AkzoNobel strives to deliver leading performance in health, safety, environment and security (HSE&S) with a vision to deliver zero injuries, waste and harm through operational excellence.

The strategic priorities set by the Executive Committee for 2017-2020 are to drive:

- Continuous improvement of HSE&S processes to achieve leading maturity levels
- The implementation of the HSE&S management systems to achieve zero losses of primary containment and zero regulatory actions
- A commitment-based HSE&S culture and embed operational excellence to achieve our vision of zero injuries, waste and harm

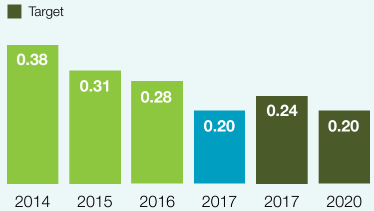
During 2017, AkzoNobel made progress in delivering on each of these priorities, once again reducing the number of injuries suffered by employees and contractors, and ranking best-in-class for health and safety in the Chemicals industry on the Dow Jones Sustainability Index. In 2017, AkzoNobel received the Responsible Care® Award from the Association of International Chemical Manufacturers in China.

People safety

The number of reportable injuries reduced by 27% compared with 2016, while the injury rate is now at the target level set for 2020 (0.20). Lost time injuries and contractor injuries also continued to reduce.

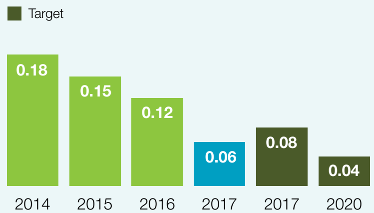
In total, 77% of our locations have been reportable injury-free for more than a year. The overall downward trend in reportable injuries is in line with the increased maturity level in the implementation of our company safety programs, including the Life-Saving Rules, the continued implementation of the AkzoNobel HSE&S Common Platform programs and the drive for a commitment-based safety culture.

Employee 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 200,000 hours worked. In line with OSHA guidelines, temporary workers are reported with employees, since day-to-day management is by AkzoNobel. Contractors are managed by their own companies.

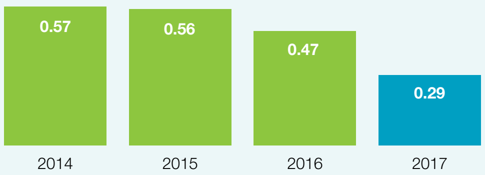
Employee lost time injuries injury rate



The lost time injury rate (LTIR) is the number of injuries resulting in a lost time case per 200,000 hours worked. Temporary workers are reported together with employees since day-to-day management is by AkzoNobel.

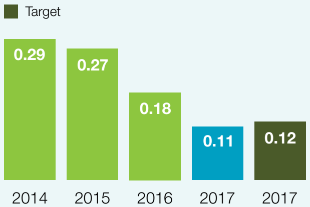
Focus on contractor safety was further increased in 2017. The safety of both employees and contractors was improved by the introduction of standardized practices for safe working throughout the company, as well as standardized contractor management and evaluation procedures. The downward overall trend in TRR extended to the TRR for contractors, which also decreased 39%. The lost time injury rate was down 36%. There was one contractor fatality during the year at a construction project in India, caused by a fall from height. Prior to 2017, there had been no employee or contractor fatalities for five years.

Contractors total reportable injuries injury rate



The contractor total reportable rate (TRR) is the number of contractor injuries, including fatalities, resulting in a lost time case, restricted work or requiring medical treatment by a competent medical practitioner per 200,000 hours worked.

Contractors lost time injuries injury rate



The contractor lost time injury rate (LTIR) is the number of contractor injuries resulting in a lost time case per 200,000 hours worked.

A maturity self-assessment has been designed and implemented in order to drive continuous improvement in behavior-based safety at all manufacturing sites.

Process safety

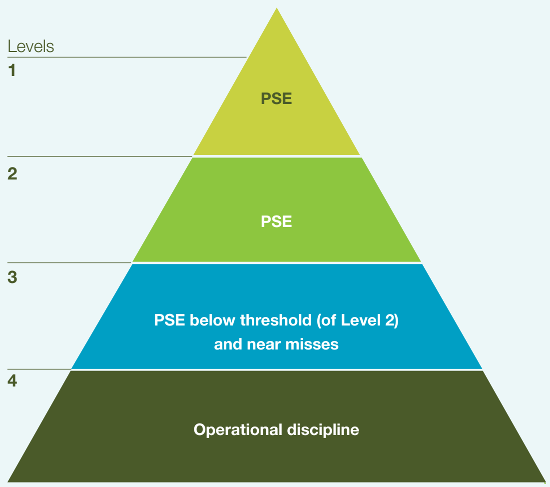
AkzoNobel has developed a process safety management (PSM) framework for all operations, following industry standards and best practices.

Implementation of the framework at site level is phased according to inherent risk. During 2017, a self-assessment tool and independent validation process was developed and rolled out for the first 43 sites. The next 75 sites completed implementation of their improvement plans according to schedule and will be validated in 2018. The remaining sites are on track to complete implementation of their PSM plans by the end of 2018.

Process safety performance indicators are aligned with international best practice. A loss of primary containment (LoPC) is the main process safety indicator at manufacturing sites, with two levels of severity. As a leading indicator, we also measure process safety events (PSEs), which are minor leaks or occurrences that could lead to more severe LoPCs.

In 2017, we raised awareness and improved reporting of the process safety indicators. The total number of LoPC 1 and 2 reduced by 7% in 2017, compared with 2016. The number of LoPCs classified as Level 1 (highest severity) in 2017 was 21. The increase is partly a result of the improved reporting. Overall Level 1 and Level 2 LoPCs were below 2016. The number of PSE Level 3 (minor spills and leaks, which are readily controlled on site and have no regulatory notification requirement) has increased, illustrating the desire to report, investigate and learn from these process safety near misses, which creates more opportunity for learning and prevention.

Process safety pyramid



Process safety events

	2016	2017
Loss of primary containment Level 1	16	21
Loss of primary containment Level 2	122	108
Process safety event Level 3	3,422	4,856

Product stewardship

During 2017, all businesses used the AkzoNobel Product Stewardship Continuous Improvements Tool (PSCIT) to assess the level of maturity in the eight key elements of product stewardship, following the principles of Responsible Care® and Coatings Care®. The maturity assessments showed an overall increase in level from 6.5 in 2016 to 7.6 in 2017, indicating a continuous improvement over the year.

Priority substance management

In 2017, we continued with our proactive approach to the review and management of hazardous substances in our products and processes through our priority substance process. When the US Environmental Protection Agency

(EPA) listed the first ten chemicals to be fully risk assessed under the 2016 update of the US Toxic Substances Control Act (TSCA), AkzoNobel had already evaluated nine of the ten substances and taken action to prohibit or control their use. We received recognition for our approach this year when the US EPA named AkzoNobel's Surface Chemistry business as 2017 Safer Choice Partner of the Year in the Innovators category.

In 2017, we identified, reviewed and prioritized issues for advocacy, including endocrine disrupting substances, nanomaterials, respiratory and skin sensitizers (substances causing an allergic reaction), scientifically appropriate classification for TiO_2, and volatile organic compounds in China. Meanwhile, Chemical Watch's Business Guide to Safer Chemicals (third edition), featured AkzoNobel's Priority Substance Program in an entry entitled "Program drives safer products".

Health

As well as ensuring a safe working environment, healthy working conditions and managing illness-related absenteeism, AkzoNobel also fosters employee health and well-being as part of the company health strategy and occupational health program. Examples include industrial hygiene programs at site level and the promotion and use of our health risk appraisal tool, the Wellness Checkpoint. The online Wellness Checkpoint questionnaire is used by an increasing number of employees and their families. By the end of 2017, more than 18,200 people had joined the program since its launch in 2008. During 2017, a further 5% of employees joined.

Employee health

	2014	2015	2016	2017
Occupational illness rate	0.24	0.14	0.06	0.04
Wellness Checkpoint use	>15,000	>16,200	>17,400	>18,200

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.

Security

Security at AkzoNobel is focused on securing people, information, assets and critical business processes against willful security risks on-site and while traveling. The level of standardization of procedures, processes and training for personnel dealing with security at all of our facilities will continue to increase.

A central security committee with functional representatives coordinates the main pillars of security: personnel security, facilities, Information Management (IM) security, travel security and intellectual property. The readiness of our security processes is assured via internal assessments, internal audits, and security drills. In 2017, the definitions of security incidents were improved and communicated throughout the organization. In 2017, 69 security incidents were reported globally, which is the same frequency as 2016. Theft and vandalism represent the highest remaining event sub-types (similar to normal society).

HSE&S management

AkzoNobel has a leading HSE&S management system driving continuous improvement through operational excellence in all aspects of HSE&S management, including procedures, training, self-assessments, annual improvement planning and independent internal audit, as well as promoting learning across the organziation. Our common processes require each site and business unit to develop their own safety improvement plan annually. Sites that are lagging in performance receive additional support from the central HSE&S organization.

As a major global manufacturer, AkzoNobel can potentially impact the lives of millions of people directly or indirectly. We therefore aim to make a positive impact through our products and programs.

We are committed to respecting human rights in our operations and value chains and expect the same from our business partners, supporting them where needed.

Governance

Our commitment is led from the top. The Executive Committee is responsible for ensuring that the company operates in line with our core principles of safety, integrity and sustainability. Since 2016, a cross-functional Human Rights Committee (reporting to the Executive Committee) has been in place, with responsibility for implementing and maintaining the company's human rights framework. The Compliance function oversees day-to-day human rights compliance.

Initial salient issues

During 2017, we studied possible impacts on the human rights of people across our value chain, building on the salient issues initially identified in 2016 (health and safety; working conditions; discrimination and harassment; under-age labor).

To obtain stakeholder input, the following actions have been taken:

- **Stakeholders:** We validated and strengthened our human rights program through meetings with external and internal stakeholders (other than shareholders), including:
  - Meetings with NGOs, human rights experts, sustainable investors, peer companies, government bodies and other organizations to learn from their perspectives, knowledge and experiences

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

– Human rights expert meeting, which was attended by almost 20 experts from the academic world, trade unions, government, industry associations, investors, NGOs and peer companies
– Numerous randomly selected employees from different roles, seniority levels, regions, businesses and departments were asked to share their views on what they view as potential impacts on human rights by AkzoNobel, or by others across our value chain
– Two human rights workshops were held with colleagues in China and India to identify potential impacts on human rights at regional level

- **Supply chains**
  We conducted due diligence research into several raw material supply chains that are considered high risk in terms of impacting human rights, particularly with regard to health and safety, working conditions and under-age labor. The current raw materials in scope are barite, cobalt dryers, copper, cotton linters, mica pigments, palm oil, talc and tin. For example, we are engaging with our first-tier suppliers of pearlescent pigments that contain mica to partner on mapping the supply chain back to the mine of origin, and to make sure that sufficient due diligence is done on potential human rights abuses in the supply chain
- **Sanitary working conditions**
  We have included a sanitary review in our HSE&S audits process using the WASH pledge questionnaire. In total, 37 locations have been assessed, of which 90% scored satisfactory, with no residual high risks to the health and safety and sanitary working conditions of our employees
- **Working hours**
  We have identified opportunities for improvement on overtime management in Germany and Brazil, where local teams have worked on the assessment and mitigation of overtime issues. Overtime incidents have decreased by 50% in Germany, and by 60% in Brazil
- **Discrimination and harassment**
  An extensive analysis (using internal SpeakUp! and Wellness Checkpoint data) was carried out on discrimination and harassment to identify the potential size of the issue, trends and root causes. New company rules on discrimination and harassment and bite-size trainings have been introduced to create further awareness

Salient issues - review

Based on the information and insights gathered in 2017, the Human Rights Committee re-evaluated the salient issues which were initially identified. Potential human rights impacts were prioritized by their severity and likelihood. Our salient issues were adjusted as reflected below, with the following actions:

- Health and safety in our value chain and connected communities:
  – Business partners: We expect from our business partners the same level of care for the health and safety of their employees working for us. We will continue the study into our high risk raw material supply chains and continue to improve our supplier assessment and evaluation framework
  – Sale of products: Because of the nature of our products, we acknowledge there is an inherent risk of impacting the human rights of the end-users of our products. In 2018, we will continue with our proactive approach to the review and management of hazardous substances in our products (see Note 9)
  – Communities: In 2018, we will conduct a study into the impact we have on communities surrounding our locations
- Working conditions for employees and our business partners:
  – Business partners: We will continue to assess and monitor working conditions at our business partners using our supplier assessment and evaluation framework and the new business partner compliance framework
  – Own operations: In 2018, the focus of due diligence actions will be on decent working hours and living wages
- Discrimination and harassment in our operations:
  – We will continue with the implementation of the mitigating actions (rules, training, coaching) and measure effectiveness (develop track mechanism)
- Modern slavery in our supply chain:
  – We will continue due diligence on high risk raw material supply chains

Grievance mechanism

We promote a feedback culture through communication and training. An open atmosphere helps to 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. The results are reported annually (see Compliance and integrity management).

For full details and progress information on our human rights framework, please visit: www.akzonobel.com/humanrights

With 60% of our products connected to infrastructure, transportation and living, AkzoNobel is a key player in the process of ongoing urban transformation.

During 2017, we carried out 332 (2016: 307) social projects with a total budget spend of about €3 million (2016: €4 million). In total, 4,821 (2016: 6,480) AkzoNobel volunteers supported the projects with 33,873 (2016: 44,498) volunteer hours. Our products also provide a meaningful contribution to society – we supplied 148,237 (2016: 173,334) liters of paint for our social projects during the year. We could not have done this alone, so we set up strategic partnerships at a cost of around €1.5 million to help amplify our efforts.

Let’s Colour

Our global “Let’s Colour” program is an active expression of our belief in the power of paint to improve people’s lives.

During 2017, we launched two new NGO partnerships. AkzoNobel and SOS Children’s Villages joined forces to use education and renovation to drive a positive impact on youth unemployment. The partnership aims to reach the young people of SOS Children’s Villages with our “Let’s Colour” program and professional training through the company’s painter academies around the world. The partnership kicked off with four countries in 2017 (Brazil, Indonesia, Nigeria and South Africa) and will expand to include six new countries in 2018.

Meanwhile, people living in more than 23 countries around the world have benefited from the partnership between AkzoNobel and global peace movement MasterPeace. This involved painting 141 “Let’s Colour” Walls of Connection, transforming them into bridges that connect people. The walls were painted in 31 cities, in collaboration with 399 artists and 5,259 people involved in the painting process, including 259 AkzoNobel volunteers.

In 2017, our employees took part in a total of 185 (2016: 99) “Let’s Colour” projects.

Community RePaint

Every year, millions of liters of perfectly good paint are thrown away. The average household has 17 tins of paint sitting in garages or sheds, whereas potentially up to 65% of it could be good enough for reuse. Our Community RePaint initiative works across the Netherlands, Belgium and the UK, collecting leftover reusable paint and re-distributing it to communities, charities and people in need.

Dulux Academy

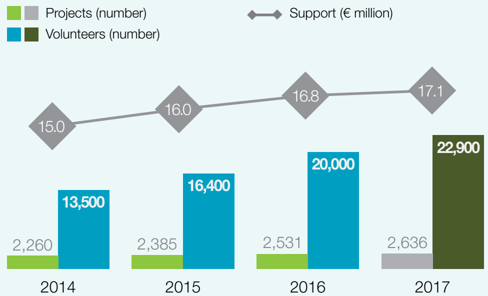
Employability is recognized as being a main driver for strong communities. This is something we are addressing in the UK, where there are massive skills shortages in the housing industry. Launched in 2016 and based at our site in Slough, the Dulux Academy is helping to address this shortage by upskilling decorators and training those new to the industry. Since opening, more than 3,000 individuals have been trained, which means the Dulux Academy is on track to train 10,000 decorators and apprentices by 2020. Building on this success, in September we opened a second Dulux Academy in the UK, based at our new paint plant in Ashington.

Community Program

Since it started in 2005, AkzoNobel’s Community Program has enabled thousands of employees around the world to contribute to society in a meaningful way. It encourages them to give hands-on support to sustainable projects, for which the program provides financial assistance.

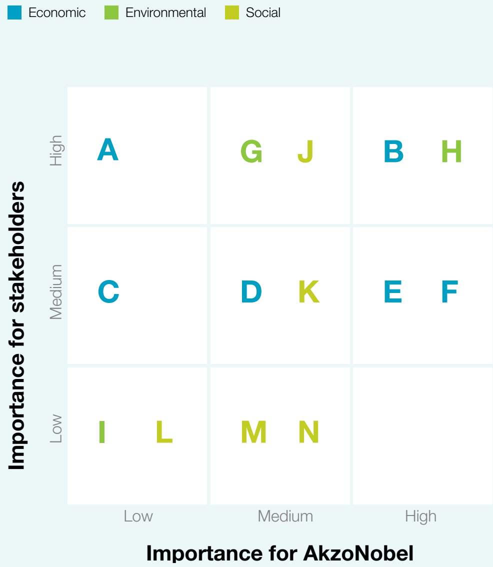
Cumulative Community Program involvement

Cumulative data, since 2005



Managing sustainability

Materiality matrix



Topic	Section of the report
A Material scarcity	Risk management
B Value selling	Value selling
C Fair taxes	Financial information Note 7: Income tax
D Integrity	Compliance and integrity management
E Economic performance	Strategic performance
F Supplier sustainability	Note 5: Supplier sustainability
G Climate strategy	Note 6: Carbon positive
H Resource productivity	Resource productivity
I Biodiversity	Corporate website
J Safety	Note 9: Safety
K Human rights	Note 10: Human rights
L Community involvement	Note 11: Programs
M Employee value	Note 8: Employees
N Stakeholder engagement	Managing sustainability

Monitoring progress

We use key indicators to track our progress in delivering on the sustainable business imperatives of our sustainability agenda, with a baseline year of 2012:

- Sustainable growth is measured through the Resource Efficiency Index
- One of the measures for resource productivity has been our cradle-to-grave carbon footprint per ton of sales
- We measure the eco-premium segment of our sustainable product portfolios – the products and solutions that meet functional needs and also provide better environmental or social benefits for customers than market alternatives

Management accountability

The Executive Committee has responsibility for incorporating the sustainability agenda in the company strategy and monitoring the performance of each business through the Operational Control Cycle.

The Sustainability Council advises the Executive Committee on new developments, performance and the integration of sustainability into management processes. The Council, which meets quarterly, is chaired by the CEO and includes the COO, Chief Supply Chain Officer, Chief Human Resources Officer and representative Business and Functional Directors. The Corporate Director of Sustainability reports directly to the CEO.

Reporting principles

Our reporting principles are based on the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines, supported by internally developed guidelines. Our complete reporting principles can be found on our website, in addition to an index of the GRI G4 indicators and a summary of our UN Global Compact communication of progress.

Creating shared value across three dimensions

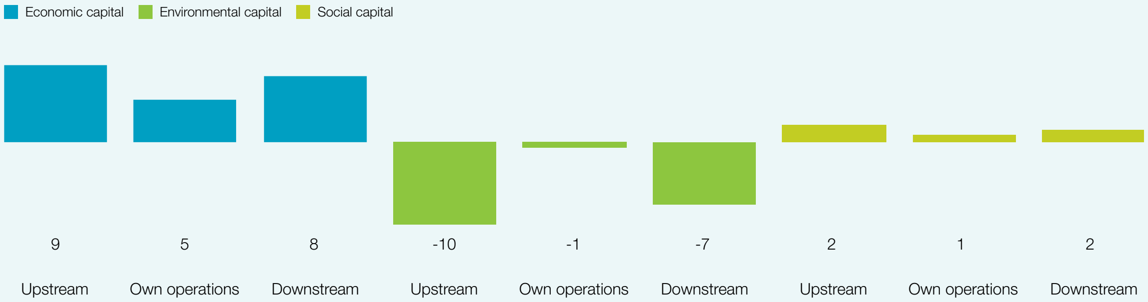
Our shared value approach is reflected in the three-dimensional profit and loss analysis (3D P&L), measuring value in economic, environmental and social terms. Our longer term strategic investment decision-making can benefit from this analysis. We have used scientific, publicly available methodologies for our assessment.

In 2017, we updated the 3D P&L assessment (see table at the top of next page). We continue to work with others to further develop methodologies and agree on common approaches.

Impact valuation

We have worked with EY to analyze “impact pathways” from what a program or product does to its desired social goals, starting with the impact driver (see Value creation in the Introduction to this section). In the Santa Marta example (shown on the next page), that first step on the pathway is professional skills training or renovation and painting activities. For Dulux Forest Breath (also shown opposite), it is the reduction of indoor exposure to formaldehyde.

Economic, environmental and social value in € billion (estimated)



Theory of change

Input	Activity	Output	Outcome/impact
Santa Marta project			
25k liters of paint >1,800 volunteers	53 "Let's Colour" task forces activated	400 houses painted 50 painters trained	68% of inhabitants claimed improved self-esteem/self-confidence Well-being effects due to (employment) training The overall social well-being impact is estimated to be in the range of €1-10 million
Forest Breath project			
Resources Time Money	Use of absorbing functionality components in Dulux Forest Breath to create ability to absorb formaldehyde to reduce exposure to humans	Millions of liters of paint sold to Chinese market in 2017 with ~0,06kg active substance (absorbing functionality components) per room painted	Reduced exposure to formaldehyde due to active substance for ~6 years Reduction of negative health impacts due to less formaldehyde inhalation. Dulux Forest Breath leads to positive monetized health impact of ~€5 million based on paint sold in 2017 in China

The second step on the impact pathway is the societal outcome, including the direct effects of the business activities. For "Let's Colour", societal outcomes are the improvement of skills and self-esteem, and increased (self) employability opportunities. For Dulux Forest Breath, it's the availability of the active substance to clean the air in painted rooms and so reduce the exposure of residents to formaldehyde and other organic pollutants.

The outcomes then result in the third step on the pathway – the societal impacts – which are changes in society resulting from the activities. For "Let's Colour", this could be changes in the well-being of individuals and communities. For Dulux Forest Breath, it's the reduction of formaldehyde inhalation. Using macro-economic data, we were able to quantify in monetary terms the positive impact that our products and programs brought to society in 2017.

Stakeholder engagement

We engage proactively with our stakeholders in order to learn from them and to collaborate. Our key stakeholders are employees (Note 8), suppliers (Note 5), customers (Note 3), communities (Note 11), governments and NGOs, industry associations and investors.

Governments and NGOs

We have been a signatory of the UN Global Compact since 2004 and a partner of the Caring for Climate platform. 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. We are a member of organizations such as the World Business Council for Sustainable Development (WBCSD), Forum for the Future and the Dutch Sustainable Growth Coalition.

The UN Sustainable Development Goals (SDGs)

We contribute to the global development agenda by focusing on those SDGs where we can have the biggest impact, in line with the SDG Compass guide for business. Our main focus is on SDGs 11 and 17, as well as SDGs 3, 7, 9, 12 and 13.

Within the WBCSD, we are co-leading the development of a road map for the chemicals sector to contribute to the realization of the SDGs.

Investors

Following 2017 reviews, AkzoNobel is included in a number of leading sustainability indices: DJSI World, FTSE4Good, MSCI, ACWI ESG Leaders Index and Global Sustainability and SRI Index, Vigeo ESG indices and the Ethibel Sustainability Index (ESI) Excellence Global.
We were awarded CDP Climate A- and recognized as a clear leader in the Chemical sector in CDP investor report.
We retained our Gold rating at EcoVadis, our OEKOM prime status and we remain an industry leader according to Sustainalytics.

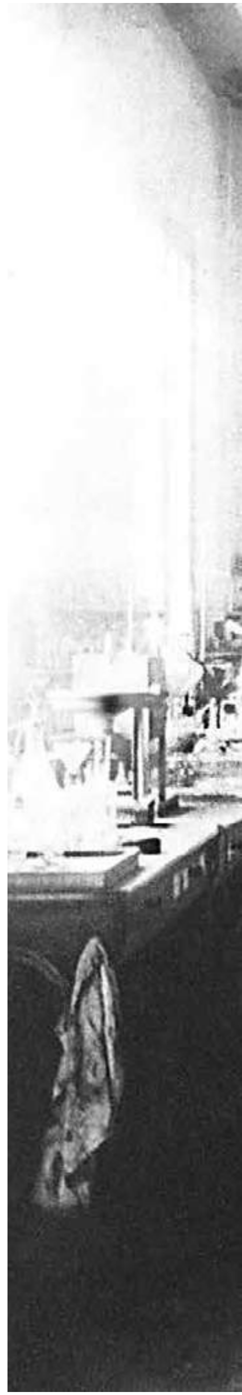
United Nations Sustainable Development Goals

Assessment of AkzoNobel contribution

● Main ● Intermediate ● Minor

		Supply chain and operations	Products	Programs
1	No poverty	Minor		
2	Zero hunger		Minor	
3	Good health and well-being	Minor	Intermediate	
4	Quality education	Intermediate		Minor
5	Gender equality	Intermediate		
6	Clean water and sanitation	Intermediate	Minor	
7	Affordable and clean energy	Main	Intermediate	
8	Decent work and economic growth	Main		Minor
9	Industry, innovation and infrastructure	Intermediate	Main	
10	Reduced inequalities	Intermediate		
11	Sustainable cities and communities		Main	Main
12	Responsible consumption and production	Main	Main	
13	Climate action	Main	Main	
14	Life below water	Minor	Minor	
15	Life on land	Minor	Minor	
16	Peace, justice and strong institutions	Minor		
17	Partnerships for the goals	Main		Main

More than a century after Alfred Nobel's death, his legacy of invention continues to inspire. In addition to his own laboratory in Sweden, he also used one in San Remo, Italy (pictured). AkzoNobel has come a long way since our founding father diligently worked in this laboratory, but we are still driven by innovation and great ideas.



Assurance report of the independent auditor

To: Supervisory Board and Board of Management of Akzo Nobel N.V.

Our conclusion
Based on our review, nothing has come to our attention that causes us to believe the sustainability information included in the Report 2017 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, 2017, in accordance with the applied reporting criteria developed by AkzoNobel

Our opinion
In our opinion, the paragraphs "Monitoring progress" and "Management accountability" in the section "Managing sustainability" are prepared, in all material respects, in accordance with the applied reporting criteria developed by AkzoNobel.

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 2017.

We have reviewed the sustainability information for the year ended December 31, 2017, as included in the following sections in the Report 2017 (hereafter: "the sustainability information") of AkzoNobel:
- Compliance and integrity management
- Sustainability statements

Additionally, we have audited the paragraphs "Monitoring progress" and "Management accountability" in the section "Managing sustainability".

The links to external sources or websites in the sustainability information are not part of the Sustainability statements audited by us. We do not provide assurance over information outside of this sustainability information.

The basis for our conclusion and opinion

We conducted our assurance engagement in accordance with Dutch law, including the Dutch Standard 3810N "Assurance engagements on corporate social responsibility reports" (Assurance-opdrachten inzake maatschappelijke verslagen), a specified Dutch standard based on the International Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information. This assurance engagement is aimed at providing a combination of limited assurance on the sustainability information and reasonable assurance on the "Monitoring progress" and "Management accountability" paragraphs in the "Managing sustainability" section. Our responsibilities under this standard are further described in the section "Our responsibilities for the assurance engagement of the sustainability information" of this assurance report.

We believe the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

Independence and quality control
We are independent of AkzoNobel in accordance with the "Code of Ethics for Professional Accountants, a regulation with respect to independence" (Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten - ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct" (Verordening gedrags- en beroeps-regels accountants - VGBA).

We apply the "detailed rules for quality systems" (Nadere voorschriften kwaliteitssystemen) 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.

Reporting criteria
AkzoNobel developed its reporting criteria, as disclosed in AkzoNobel's Reporting Principles 2017. The information in scope of this assurance engagement needs to be read and understood in conjunction with the reporting criteria as disclosed in the Reporting Principles 2017. 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.

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 criteria as defined in AkzoNobel's Reporting Principles 2017, including the identification of stakeholders and the definition of material topics. The choices made by the Board of Management regarding the scope of the sustainability information and the reporting policy are summarized in the section "Managing sustainability". 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 error.

Our responsibilities for the assurance engagement of the sustainability information
Our responsibility is to plan and perform an assurance engagement to allow us to obtain sufficient and appropriate assurance evidence to provide a basis for our conclusion and opinion.

Our procedures to support our conclusion are aimed at obtaining limited assurance. 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 assurance engagement. The assurance obtained in review engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in assurance engagements aimed at obtaining reasonable assurance.

The procedures to support our opinion on the "Monitoring progress" and "Management accountability" paragraphs in the "Managing sustainability" section of the sustainability information have been performed with a high, but not absolute level, of assurance. This means we may not have detected all material misstatements.

Misstatements may arise due to irregularities, including fraud or error, and 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 sustainability information. The materiality affects the nature, timing and extent of our assurance engagement and the evaluation of the effect of identified misstatements on our conclusion and opinion.

Procedures performed
We have exercised professional judgement and maintained professional scepticism throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our main review procedures include, among others:
- Performing an external environment analysis and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the organization
- Identifying and assessing the risks of material misstatement of the sustainability information, whether due to errors or fraud, designing and performing review procedures responsive to those risks, and obtaining review evidence that is sufficient and appropriate to provide a basis for our conclusion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Evaluating design/implementation of reporting systems and processes related to the sustainability information
- Developing an understanding of internal control relevant to the assurance engagement to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of the company's internal control
- 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 estimates made by management and related disclosures in the sustainability information
- Evaluating the overall presentation, structure and content of the sustainability information, including the disclosures
- Evaluating whether the sustainability information represents the underlying transactions and events free from material misstatement
- Interviewing management (or 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, carrying out internal control procedures on the data and consolidating the data in the sustainability information
- Joining internal audit of Health, Safety and Environment management at production sites in Delfzijl (Netherlands)
- An analytical review of the data and trends submitted for consolidation at corporate level
- Reviewing internal and external documentation to determine if 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 2017 not in scope for this assurance report
- Assessing whether the sustainability information has been prepared in accordance with the AkzoNobel sustainability reporting criteria
- Reviewing relevant work of the Internal Audit function

In addition to the above, we performed the following assurance procedures on the paragraphs "Monitoring progress" and "Management accountability" in the section "Managing sustainability" of the sustainability information:
- Corroborating information disclosed in this note through multiple interviews with selected staff from the company
- Testing operating effectiveness of relevant key controls related to how AkzoNobel manages its sustainability agenda
- Corroborating supporting documentation to determine whether the information in this note is substantiated adequately, such as management meeting agendas and minutes and internal management information.

Amsterdam, March 7, 2018
PricewaterhouseCoopers Accountants N.V.
Original has been signed by R. Dekkers RA

Sustainability performance summary*

* Including discontinued operations.

Economic

Area		2013	2014	2015	2016	2017	Ambition 2020
Product/service							
Eco-premium solutions with downstream benefits	% of revenue	18	19	19	20	20	20
VOC in product (reduction from 2009)	% reduction	7	5	9	13	n/a	–
Customer delivery efficiency index		92	93	94	96	96	–
Supplier management							
Product related[1] suppliers signed Business Partner Code of Conduct[2]	% of spend	96	98	98	99	97	–
NPR[3] suppliers signed Business Partner Code of Conduct	% of spend	83	80	81	86	86	–
Suppliers on SSV[4] program since 2007	number	392	432	455	136[3]	160	–
Third party online sustainability assessments (TfS)[5]	cumulative	–	539	724	1053	1274	–
Third party on-site sustainability audits (TfS)[5]	cumulative	–	20	65	166	262	–
Supplier Sustainability Balanced Scorecard	number	–	–	2	37	97	–

Social

Area		2013	2014	2015	2016	2017	Ambition 2020
Employees							
Employee numbers (FTE)	number	49,600	47,200	45,600	46,000	45,400	–
Employee engagement score	0-5 scale	3.88	3.97	4.03	4.17	3.95**	>4.20
Female executives	%	16	17	19	19	19	25
Female executive potential pool	%	28	24	25	30	28	30
Executive vacancies filled internally	%	75	68	58	61	74	70
High potential turnover	%	–	–	6	4	5	<5
Community Program investment	€ millions	1.0	1.0	1.0	0.8	0.3	–
People, process and product safety							
Fatalities employees	number	0	0	0	0	0	0
Total reportable injury rate employees/temporary workers	/200,000 hours	0.46	0.36	0.31	0.28	0.20	0.20
Lost time injury rate employees/temporary workers	/200,000 hours	0.26	0.18	0.15	0.12	0.06	0.04
Occupational illness rate employees	/1,000,000 hours	0.14	0.24	0.14	0.06	0.05	–
Total illness absence rate employees	%	2.1	2.1	2.1	2.0	2.1	–
Fatalities contractors (temporary workers plus independent)	number	0	0	0	0	1	0
Total reportable injury rate temporary workers/contractors	/200,000 hours	0.70	0.57	0.56	0.47	0.29	–
Distribution incidents	number	48	52	49	43	37	–
Loss of primary containment (Level 1)[6]	number	–	–	–	16	21	–
Regulatory actions (Level 4)	number	0	0	0	0	1	0
Priority substances with management plan	%	62	82	100	33[7]	66[7]	100[7]
HSE management							
Safety incidents (Level 3)	number	0	1	0	0	1	0
Safety incidents (Level 1, 2, 3)	number	14	15	12	2	3	–
Management audits plus reassurance audits	number	56	63	57	57	48	–

** 2017 engagement data covers August – December and was gathered for the first time through regular Pulse surveys instead of a simple annual survey.

Environmental

Area		2013	2014	2015	2016	2017	Ambition 2020
Value chain/Product carbon footprint							
Total CO_2(e) emissions (cradle-to-grave)[8]	million tons	26.5	26.9	24.6	23.7	24.6	–
reduction per ton of product sales (from 2012)	%	2	-4	3	6	7	25–30
Carbon footprint (own operations)	millon tons	3.9	3.8	3.8	3.7	3.4	<4.6
Renewable energy (own operations)	%	31	34	38	40	45	45
Renewable raw materials	% organic RM	13	13	11	12	11	–
Maintain natural resources/fresh air							
Operational eco-efficiency footprint measure (% reduction from 2009)	footprint measure	24	24	23	28	31	40 (2017)
Total energy consumption	1000TJ	99	98	95	97	98	–
per ton of production	GJ/ton	5.6	5.7	5.6	5.5	5.5	–
Direct CO_2(e) emissions (scope 1)	million tons	1.1	1.1	1.5	1.6	1.5	–
per ton of production	kg/ton	64	63	87	94	84	–
Indirect CO_2(e) emissions (scope 2)	million tons	2.8	2.8	2.3	2.0	1.9	–
per ton of production	kg/ton	158	161	133	115	106	–
VOC emissions	kiloton	3.1	3.1	3.0	2.9	2.6	–
per ton of production	kg/ton	0.17	0.18	0.18	0.16	0.15	–
NOx emissions	kiloton	1.3	1.3	1.7	1.6	1.5	–
per ton of production	kg/ton	0.08	0.08	0.10	0.09	0.08	–
SOx emissions	kiloton	4.6	3.7	3.8	5.2	4.1	–
per ton of production	kg/ton	0.26	0.22	0.22	0.30	0.23	–
Fresh water use	million m^3	265	263	274	224	219	–
per ton of production	m^3/ton	14.9	15.2	16.0	12.8	12.4	–
COD emissions	kiloton	1.4	1.4	1.4	1.1	1.3	–
per ton of production	kg/ton	0.08	0.08	0.08	0.06	0.07	–
Manufacturing sites with sustainable fresh water	%	85	89	93	93	94	–
Raw material efficiency							
Total waste	kiloton	161	149	155	143	137	–
per ton of production	kg/ton	9.0	8.6	9.0	8.1	7.8	–
Total non-reusable waste	kiloton	65	72	75	79	79	–
per ton of production	kg/ton	3.6	4.1	4.4	4.5	4.5	–
Hazardous waste total	kiloton	62	58	57	55	53	–
per ton of production	kg/ton	3.5	3.4	3.3	3.2	3.0	–
Hazardous waste non-reusable	kiloton	17	22	22	27	29	–
per ton of production	kg/ton	1.0	1.2	1.3	1.6	1.6	–
Hazardous waste to landfill	kiloton	1.9	1.7	2.0	1.1	1.0	–
per ton of production	kg/ton	0.11	0.10	0.12	0.06	0.06	–

[1] Product related = Raw materials and packaging.
[2] Business Partner Code of Conduct.
[3] Non-product related.
[4] Supplier support visits supplier number rebaselined in 2016.
[5] Includes TfS shared assessments/audits, cumulative.
[6] Definition change 2016.
[7] Phase 2 started in 2016.
[8] Reported from 2012. Includes impact from VOC emissions.

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Financial calendar

2018

April 24

Report for Q1 2018

April 26

Annual General Meeting of shareholders

April 30

Ex-dividend date of 2017 final dividend

May 2

Record date of 2017 final dividend

May 3 – 17

Election period cash or stock dividend

May 18

Determination of exchange ratio

May 25

Payment date of cash dividend and delivery of new shares

July 18

Report for Q2 2018

October 17

Report for Q3 2018

2019

February 13

Report for the full-year 2018 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_2(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 identified items.

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_2, NOx and SOx, 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_2, CO, CH_4, N_2O and HFCs, which have a global warming impact. We also include the impact of VOCs in our targets.

HSE&S
Health, safety, environment and security.

Identified items
Identified items 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 rate (LTIR)
The number of lost time injuries per 200,000 hours worked. Full definitions are in the Sustainability statements section.

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.

OPI margin
Operating income as a percentage of revenue.

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% 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 200,000 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 shareholders. The relative TSR position reflects the market perception of overall performance relative to a reference group.

VOC
Volatile organic compounds.

We welcome feedback on our Report 2017. You can contact us as follows:

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Disclaimer

In this Report 2017, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units. In this publication the terms “AkzoNobel” and “the company” refer to Akzo Nobel N.V. and its consolidated companies in general. The company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Business performance”, they mainly refer to the business concerned.

Safe harbor statement

This Report 2017 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 forecast 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, as well as the separation of Specialty Chemicals. Stated competitive positions are based on management estimates, supported by information provided by specialized external agencies.

Integrated Report 2017

AkzoNobel’s annual financial report has been combined with the sustainability report into one Report 2017. The Report 2017 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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DENIM DRIFT

Color of the Year 2017

HEART WOOD

Color of the Year 2018

AkzoNobel

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

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