Achieving our **medium-term ambitions**

Strategic ambitions

Value

Outgrow our markets: Delivered

- Improved market share in many key mature and high growth markets
- Opened our new €275 million Specialty Chemicals site in Ningbo, China
- In Performance Coatings, acquired the powder coatings activities of the Dow Chemical Company, and Changzhou Prime Automotive Paint Co., Ltd (to support our mid-market car refinishes business in China)
- In Decorative Paints, signed an agreement to become the primary paint supplier to Walmart in the US.

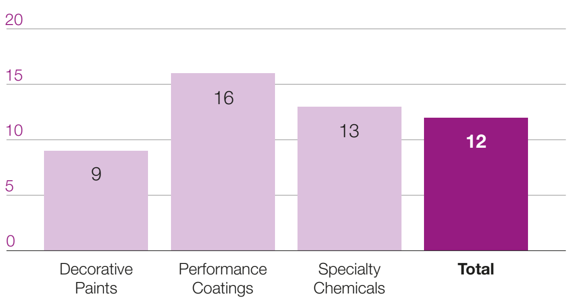
EBITDA margin > 14 percent: Delivered early

- Continued to manage gross margin percentage through pricing and procurement actions, despite challenging raw materials environment
- Completed delivery of €340 million of ICI synergies and almost all initiatives in our broader €200 million restructuring plan
- Achieved our 14 percent EBITDA margin target on an annual rolling basis in the second quarter of 2010.

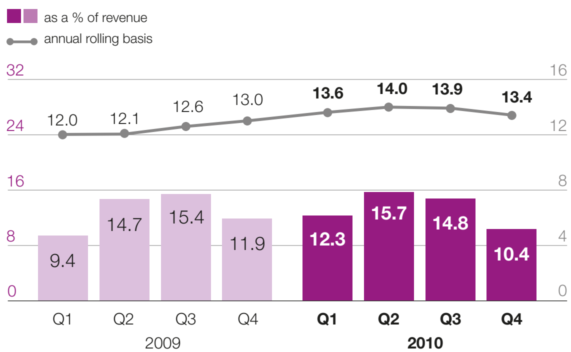
OWC improvement of 0.5 p.a: Delivering

- Delivered strong credit control, despite the financial crisis
- Continued to consolidate suppliers and harmonize terms and conditions to ensure sustainable improvement in days of payables
- Continued roll-out of SAP in Decorative Paints, which will enable further substantial improvements in inventory management
- Implemented a best practices reference guide to enable future reductions in OWC levels.

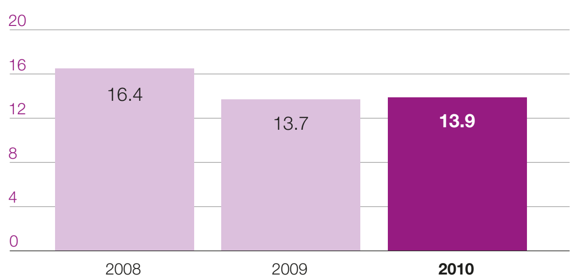
Revenue growth in %



EBITDA margin



Operating working capital as a % of revenue



The next chapter in leadership

In 2008, following the acquisition of ICI, we outlined a strategic vision to become the world's leading Coatings and Specialty Chemicals company. We also defined *both* value and values ambitions to support this overall vision, which are shown across this spead. These defined what we meant by leadership in value and values during a time when internally we were integrating ICI, and externally the market environment was uncertain at best.

Now that the market environment is improving, and we have completed the ICI integration, we have defined a new set of medium-term strategic ambitions, appropriate for the next chapter of our leadership story. These ambitions were announced in September 2010 and will form the basis for our reporting going forward. They are strongly oriented towards profitable growth and are outlined to the right.

Value Accelerated growth
- Grow to €20 billion in revenue
- Increase EBITDA each year, maintaining a 13 to 15 percent margin
- Reduce OWC percent of revenue by 0.5 per annum towards a 12 percent level
- Pay a stable to rising dividend

Values Sustainable growth
- Top quartile safety performance
- Top three position in sustainability
- Top quartile performance in diversity, employee engagement and talent development
- Top quartile eco-efficiency improvement rate

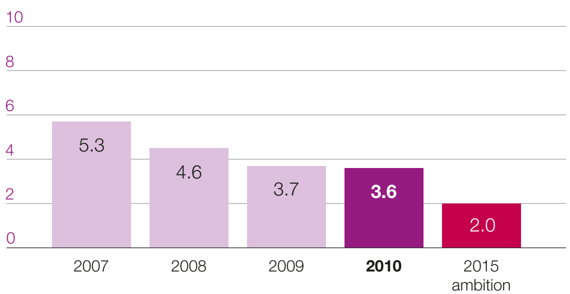
Values

Top quartile safety: Continued improvement required
- Demonstrated improvement, but not enough to reach our target
- Continued to roll-out behavior-based safety (BBS) program in a disciplined manner
- Implemented a full roll-out of safety leadership training.

Top three Dow Jones Sustainability Index: Delivered
- Ranked in the top three in the Chemicals index for the fifth year
- Demonstrated continued strong performance in risk and crisis management, Code of Conduct and environmental policy and management systems
- Improved in innovation management
- Future improvement required in operational eco-efficiency (i.e., carbon, water, waste) and people development aspects.

Step change in people development: Continued
- Implemented a full and reinvigorated training schedule
- Set stretching targets for executive diversity; will roll-out diversity and inclusion training for all employees from 2011
- Launched an externally benchmarked employee engagement survey to assess baseline performance
- Began to implement HR country organizations to harmonize procedures and facilitate intra-company capability transfer.

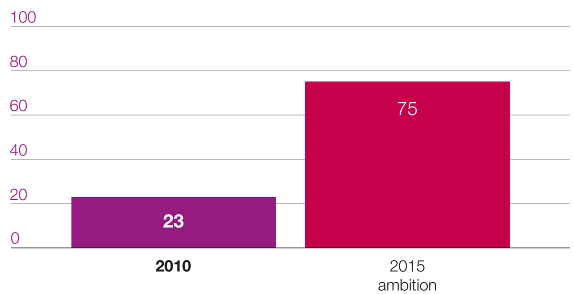
Total reportable injuries per million hours



DJSI position Chemicals sector

2006	2nd
2007	1st
2008	2nd
2009	2nd
2010	**2nd**

Employee engagement performance as percentile



Improving our **performance levels**

Context
Over the last few years, there have been two major phases in AkzoNobel's corporate strategy. The first, from 2003 to 2007, was strongly focused on portfolio transformation. This phase included a series of divestments designed to transform our position in Specialty Chemicals, as well as the sale of our human and animal healthcare businesses, the acquisition of ICI and the on-sale of the ICI Adhesives and Electronic Materials business to Henkel. We completed the final step in this process in 2010 with the sale of National Starch to Corn Products International.

The second phase, which ran from 2008 to 2010, was focused on integration and restructuring. During this period, we were primarily occupied with improving efficiency in the business for two main reasons – to capture the synergy potential from the ICI acquisition and to respond to the global economic downturn. Both of these agenda items were essentially completed in 2010. Specifically:

- With regard to the ICI integration, we have now completed almost all actions. We delivered €340 million in synergy savings by the end of 2010. This exceeds, and was achieved faster, than our initial ambition of €270 million by 2011. Beyond the top line numbers, within Decorative Paints, we have reduced:
  - Brands from 100 to 75 and will reduce to less than 50 by the end of 2012
  - Stock keeping units (SKUs) from more than 90,000 to 75,000 and will reduce to less than 60,000 by the end of 2012
  - Factories from 80 to 58 and will reduce to less than 50 by the end of 2012.
- With regard to restructuring, from 2008 to 2009, we promised €200 million in savings in partial response to the financial crisis. We over-achieved on this target, delivering €350 million by the end of 2009. During 2010, we continued our restructuring efforts in mature markets.

We have now started the next chapter of our strategy development, one of accelerated and sustainable growth. As has been the case throughout the two previous phases, the focus is on true leadership in Coatings and Specialty Chemicals. We continue to strongly believe that, to be the true leader, we must be the leader in terms of both value and values.

The strategic agenda today
Our new strategic agenda is firmly focused on delivering growth. This will be supported by a renewed emphasis on functional excellence and will continue to be balanced by a disciplined approach to cash management. These agenda items will be supported by continued focus on building and leveraging our Talent Factory, living the AkzoNobel values and embedding safety and sustainability in everything we do.

A description of 2010 activities and plans for 2011 for each strategic agenda item follows.

Strategic agenda

Innovate more to respond to global mega-trends and deliver on solution promises

Accelerate profitable growth through market share gain, margin management and industry consolidation, particularly in high growth countries

Deliver business models that **serve the needs of the mid-markets**

Drive functional and operational excellence, with focus on RD&I, supply chain, finance and HR

Manage capital and cash in a disciplined manner

Build and leverage our industry-leading Talent Factory

Live the AkzoNobel values by **creating a culture of confidence, cooperation and co-creation**

Embed safety and sustainability in everything we do

Innovate more

To achieve our growth ambitions, we need to focus our effors more on projects that yield bigger and better innovations – delivered faster. In 2010, we spent time developing a more focused portfolio of innovation projects and are already redirecting our investment to support these bigger innovations.

Increasingly, our innovation portfolio will be aimed at delivering solution promises that address global mega-trends. These concepts are explained below.

Global mega-trends

We are now completely aligned on the key underlying changes in the world that will drive our business, and indeed all businesses:

- **Population growth:** from 6.8 billion people today to more than 9 billion in 2050 is a strong driver for global demand.
- **Quality of life:** will improve for a new middle class of around 3 billion people emerging over the next 20 years.
- **Climate change:** will increase the need for energy efficiency and for low carbon and renewable energy resources.
- **Scarcity of natural resources:** will drive innovation; today we use the replenishment capacity of 1.4 planets.

Solution promises

These are conceptual responses to the challenges posed by the global mega-trends. They provide a framework which guides and energizes our innovation portfolio. For example, the combination of population growth and improved quality of life will mean that the world's population grows and wealth increases, with significant mid-market development in high growth economies. The solution promise that addresses this is "Serving the needs of the mid-market." To do this, we will need to deliver innovations that will provide customers with affordable, high quality products – at much lower cost.

Throughout this 2010 Report, you will find a series of case studies highlighting some of the innovations that we have already commercialized that make good on these solution promises. We are confident that we will continue to deliver exciting innovations that deliver increased market share and/or improved margins as we continue to redirect investment in R&D towards bigger innovation projects.

We're pleased with the progress we're making, but we also recognize that no one company or individual has a monopoly on the best ideas. That's why we're also open to the best ideas to grow our business – whether they're our own or someone else's. To find and access those ideas, we've developed a structured approach to open innovation which encourages outside parties to help us with solutions where we don't have the in-house knowledge, capabilities, or technology. We have already started to establish strategic partnerships in specific areas of mutual interest with key suppliers.

Solution promises

- **Serving the needs of the mid-market**
- **Developing products for well-being and identity**
- **Achiieving zero footprint**
- **Saving you time and effort**
- **Creating new horizons in functionality**

Accelerate profitable growth
It is safe to say that we face a wealth of growth opportunities in all parts of our business using our existing value propositions and business models. This is true in both mature markets and high growth markets.

- In mature markets, there is still considerable room for organic growth and even market share gain. A perfect example of this is our deal with Walmart in the US to become their primary paint supplier (see separate case study).

  A portfolio of interior and exterior paints has been developed which will be available in more than 3,500 Walmart stores nationwide. The agreement builds on our existing relationship with Walmart for paints in Puerto Rico and Canada, and for Liquid Nails adhesives in the United States.

  There is also room for industry consolidation. A good example of this was our acquisition of the former Rohm & Haas powder coatings activities from the Dow Chemical Company, which has significantly strengthened our global leadership in this market. Building this strong leadership position is important because powder coatings have an excellent sustainability profile, with lower water use and no VOC emissions.

- The growth picture is even brighter in the high growth markets of Asia, Latin America and Eastern Europe. We experienced strong top line growth in these markets in 2010, but even more encouragingly, also strong growth in market share and absolute EBITDA (earnings before interest, tax, depreciation and amortization).

  This growth is based largely on strong domestic growth in these markets. Capitalizing on the strong domestic growth potential in China was the main reason behind our major investment (€275 million) in our multi-site facility in Ningbo (see separate case study).

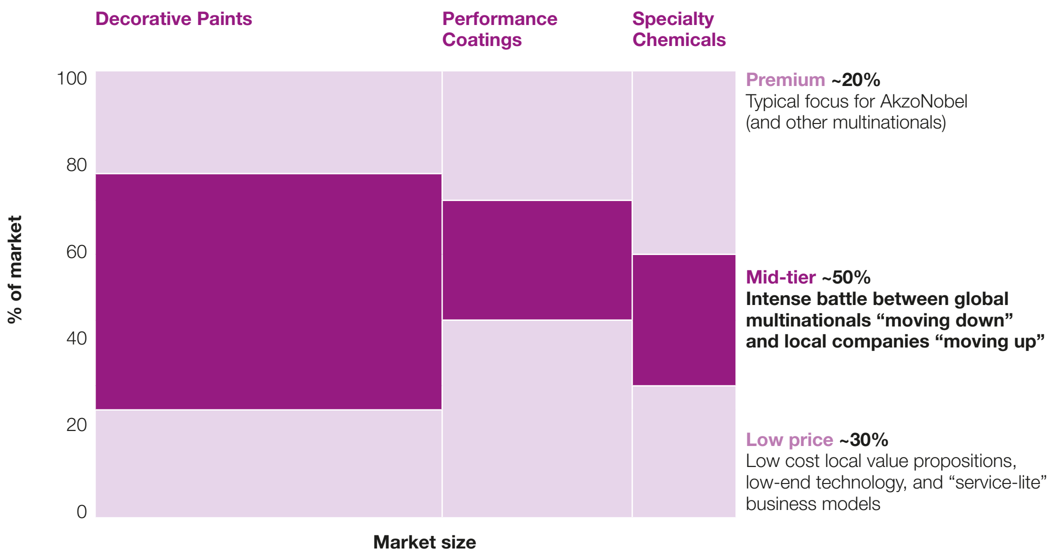
In 2011, our plan is to continue to grow through a combination of organic growth and bolt-on acquisitions in all parts of our business. In essence, our major challenge is to prioritize and ensure we constantly modulate our growth program to respond to somewhat uncertain market conditions. Doing this should allow us to move forward on our accelerated growth ambition, while still delivering appropriate levels of cash in the business.

Serve the needs of the mid-markets
Beyond growth opportunities that draw on our traditional strengths and value propositions, we see a significant additional opportunity in the mid-market. Traditionally, we have entered high growth markets with a premium positioning (as we did, for example, with our Dulux brand in India) and/or on the basis of existing mature market relationships (our Wood Finishes and Adhesives business in China, for instance).

Given the fact that the large and growing markets in these high growth economies still have a different profile in terms of absolute level of income, we recognize that we need to think differently with regard to mid-market value propositions. In particular, we need to ensure that we are able to provide product/service combinations that provide appropriate price and quality levels for our customers and reasonable margins for AkzoNobel. This goes beyond the specific product – in many cases it also means that we need to think differently about distribution and technical service levels.

This mid-market is hotly contested, with multinational competitors moving "down" and local competition moving "up" into this space. However, we recognize that in many of the high growth markets the mid-market is *the* market and ignoring it is not an option.

India market relevant for AkzoNobel, 2009



We will be pursuing the mid-market opportunity through both organic growth and small to medium bolt-on acquisitions. For example, we are currently aggressively pursuing the mid-market in Decorative Paints in China. We are doing this by extending our Dulux brand and building our controlled stores network by approximately 700 stores per year in tier two and tier three cities to support this growth. Our position in the Chinese mid-market will be further strengthened through small to medium acquisitions, such as the Changzhou Prime Automotive Paint Co., Ltd deal which we completed in 2010 (see separate case study).

Drive functional and operational excellence

Throughout our integration and restructuring period, we pursued a series of projects to incrementally increase efficiency in our support functions. This has undoubtedly improved our cost position and will stand us in good stead as volumes recover, but we recognize that further improvements in effectiveness and efficiency will require a different approach.

Historically, we have focused on a business unit structure and run both our front office and support functions in a fragmented manner. This has led to considerable market focus and success, but it has also led to sub-optimization of support activities. To reach the next level of performance, we now see the need and potential for more integration of these support functions. We will therefore be taking an approach which allows us to fully benefit from our scale.

We have decided to focus on four key areas for building functional excellence – Supply Chain (including Sourcing), Finance and Information Management (IM), Research Development and Innovation (RD&I) and Human Resources (HR) and Organizational Development (OD). The RD&I approach was covered in the Innovation initiative described earlier, while the HR/OD approach is outlined in the following Talent Factory initiative. Below is a summary of achievements and plans in the two remaining areas of Supply Chain/Sourcing and Finance/IM.

Supply Chain (including Sourcing)

We have successfully built the basics of an AkzoNobel-wide Sourcing program over the last few years, with strong results in terms of both cost control and security of supply. We are now stepping up to take a company-wide approach to the supply chain. This does not mean that we will be centralizing all of our sourcing, manufacturing and distribution activities. Instead, it means that we will be leveraging our expertise and scale to achieve both our value and values ambitions.

Specific areas of focus in 2010 and going forward in terms of supply chain have been around delivering on our safety ambitions and improving our eco-efficiency levels.

- While we know we must do better with regard to improving our safety performance, we are proud of what we have achieved so far. The implementation of a company-wide behavioral-based safety program is nearing completion and our safety leadership training program has now been completed for all managers. The latter is focusing on understanding risks, leadership, individual responsibility and the need for visibility or “walking the talk” for all our managers.

  In addition, local employee safety programs and training have been supplemented by a global e-learning module for all employees and new starters. Furthermore, a global AkzoNobel Safety Day was held in October, which included encouraging our employees to submit a pledge in which they promised to implement a simple solution to improve the safety of themselves or those around them. More than 14,000 responded.

  Despite these efforts, the total recordable injury rate remained around 3.6 in 2010, compared with 3.7 in 2009. We are still not at industry-leading levels and did not reach our target of 2.0 in 2010. This will continue to be an area of special focus in 2011.

- An additional area of focus will continue to be operational eco-efficiency, or using less resources to make and distribute our products. An example of the type of improvement we have made, and will continue to make, is the innovative use of energy at one of our Pulp and Paper Chemicals facilities in Sweden. Heated cooling water generated by the chlorate electrolysis process is now being used for district heating in the nearby municipality of Ånge. This displaces oil and biomass combustion in our business and reduces the CO2 emissions at the municipal burners by 1.8 tons of CO2 per capita in Ånge. It also reduces the heat load on the local river where the cooling water is discharged.

  Another example is that of our Surface Chemistry plant at Forth Worth in the US. We have reduced calcium sulfate waste from filter cake by 2,000 tons by improving the control of the neutralization process – which creates the calcium sulfate – and optimizing the filtration process.

  The improvements we have made are not limited to our Specialty Chemicals businesses. For example, an online energy management system at Decorative Paints’ Wapenveld site in Germany has helped to identify improvements in heating, lighting and compressed air use which have resulted in a 30 percent reduction in gas consumption in eight years, and a 12 to 15 percent reduction in electricity consumption in four years.

Beyond safety and operational eco-efficiency, additional areas of focus for 2011 in the Supply Chain function will be on process safety, product stewardship, raw material strategies and development of repeatable models to drive continuous improvement aimed at further optimization of the company’s overall manufacturing footprint.

Finance and Information Management (IM)

Over the last few years, we have invested significantly in both improving the control environment and increasing efficiency through restructuring and the integration of ICI. While this has led to a strong performance on governance and compliance in the Dow Jones Sustainability Index, as well as some incremental performance improvement, we still have significant opportunities for increased efficiency and effectiveness.

With this in mind, we launched a OneFinance initiative, which is designed to simplify our processes and systems, as well as focusing strongly on people and organization. We have already made some progress. In 2010, we successfully implemented a new SAP ERP system across many parts of the Decorative Paints organization and have completed the scoping for a similar single ERP approach in Car Refinishes. We are also working on several standardized enabling processes as we increasingly reduce multi-local complexity.

Manage capital and cash
We are keenly aware that while pursuing a growth agenda we must continue to carefully manage our balance sheet and cash position. This means we must ensure that we:

- Carefully prioritize and control investment, both in terms of fixed assets and acquisitions
- Control our absolute operating working capital growth, so that as we grow, the ratio of operating working capital to revenue continues to drop
- Provide a stable to growing dividend
- Examine all opportunities for improvement in "other" items, such as pensions and legacies.

In 2010, we had a good year in terms of cash management. Specifically, we completed our €275 million Ningbo investment on time and on budget, while still generating significant operating cash flow in our Specialty Chemicals business. We continued to improve our operating working capital management by developing a best practices toolkit. In addition, we sold our National Starch business for $1.3 billion, providing us with significant financial headroom going forward. Finally, we clarified our position with regard to dividends.

Build and leverage our industry-leading Talent Factory
We continue to believe it is just as important for us to attract, develop and retain great people as it is for us to develop, produce and distribute great products and services. We therefore continue to believe in the concept of a Talent Factory, which is every bit as important to us as our more traditional production factories. Our Talent Factory agenda includes a set of initiatives aimed at better people development and – to enable this – a series of activities designed to deliver improved human resources (HR) capabilities. In 2010, we made significant progress in both these areas.

In terms of people development, a particular area of improvement was in career development and training programs. With regard to our leadership pipeline, major developmental progress was achieved which involved several senior managers making cross-BU and/or cross-functional moves in both Performance Coatings and Specialty Chemicals. We also announced a number of changes in Specialty Chemicals that will take effect in 2011. These changes will grow our leaders as we grow our business.

With regards to HR capabilities, 2010 was an important year for us in terms of implementation of country organizations. Historically, our HR organization has been fragmented, with all business units and even many sub-business units having their own HR organization, which handled all activities from recruitment to development to compensation and benefits. We are now in the process of consolidating all activities within key countries to one shared AkzoNobel organization, beginning in the Netherlands and Sweden.

Once all activities have been brought together in each of the key countries, we will create a tri-partite organization, with centers of expertise, HR services centers, and HR "business partners". The centers of expertise will provide best practice knowledge to support HR "business partners", who apply this as required to support implementation of business-based strategies. HR services centers provide additional support as they carry out HR transactional activities in an efficient and effective manner.

These efficient and effective HR country organizations are required to support all key countries. However, they are arguably most important in the high growth markets. In 2010, we developed AkzoNobel country strategies for the key growth markets of Brazil, India and China. In early 2011, we will be developing a strategy for Russia. In each case, having an industry-leading Talent Factory in place is one of the most fundamental enablers to strategic success.

Creating a culture of confidence, cooperation and co-creation
As indicated earlier, AkzoNobel has historically been successful on the basis of having a strong entrepreneurial, customer-centric approach. However, this has had a downside in terms of creating an independent, fragmented culture which has been exacerbated by the large number of acquisitions over time. As we move beyond our restructuring and integration agenda into our accelerated and sustainable growth agenda, we recognize that this culture will not allow us to achieve our aspirations.

To facilitate the creation of a culture of confidence, cooperation and co-creation, we announced in 2010 that we will change our managerial approach and run the business through an Executive Committee. By having representatives of four of the key functional areas, the Executive Committee will drive common agendas and build capabilities while allowing the businesses to capture growth. Below the level of the Executive Committee, in each Business Area, we will take a much more operational management team approach to ensure that we are able to make good decisions with regard to prioritization of different activities.

The Executive Committee is not the only initiative in terms of culture change. In 2010, we also took a substantial step forward in terms of employee engagement. We fully rolled out our first ViewPoint Employee Engagement survey (in conjunction with Gallup), which allows us to benchmark our performance against a large number of other major business organizations. The results of our first survey indicated that we have significant room for improvement to get to a top quartile performance level. We are fully committed to improving and are in the process of carrying out meetings at all levels in the organization to determine what our next steps will be.

An additional important step in terms of cultural development is our Diversity and Inclusion initiative. We recognize that

AKZONOBEL AND THE MID-MARKET

The growing mid-market in China offers major investment opportunities in a key geographic region. Which is why our Car Refinishes business made a strategic move during 2010 to acquire Changzhou Prime Automotive Paint Co., Ltd.

Prime was one of China's largest vehicle refinish suppliers and a leader in the fast-growing mid-market segment. This sector is estimated to double in size within the next five years, during which time AkzoNobel plans to double its revenue in China to $3 billion.

Acquiring Prime not only gives us strong representation in one of China's most promising growth segments, but also gives Car Refinishes the opportunity to become the clear market leader in the attractive vehicle refinish mid-market.

The acquisition gives us access to superior products and new technologies – supported by strong brands and a loyal distributor base – enabling us to gain a competitive advantage in a market with sizeable potential where we previously had limited presence. Most of all, the addition of the new team in China underscores our commitment to serving our customers with the best people available.

Prior to the Prime acquisition, AkzoNobel was mainly active in China's premium and commercial vehicle refinish sector, represented by our Sikkens, Lesonal and Miluz brands.

with our growth aspirations, we must have more executives who are female, and who come from the high growth economies. This will be important to us going forward. We have set improvement targets in this area and have held our first series of workshops to develop action plans to achieve these targets. We also recognize that in order to deliver the best of AkzoNobel all day every day, we must create an environment which is inclusive. We have therefore developed an online training program which will be rolled out to everyone in the organization in 2011. This course makes it clear that we have set targets in terms of executive representation, but it will not deliver the required cultural change. To do that, we have to ensure that the environment brings out different points of view and ideas, and that we work collaboratively to deliver on these.

Embedding sustainability and safety

For many years, we have recognized that becoming the true leader in Coatings and Specialty Chemicals requires us to achieve leadership both in terms of value and values. Increasingly, we are recognizing that these things are not separate, nor are they separable. Achieving our growth aspirations means that we must produce and market products that use less of the Earth's resources throughout the full value chain. To achieve these growth aspirations, we must have a strong Talent Factory and diversity and inclusion levels that enable us to have the leadership we need in the high growth markets. Furthermore, top quartile operational effectiveness is based on top quartile performance in terms of cost, quality, service and safety levels, and in most cases, performance on these four metrics is inter-related.

Our current view on how safety and sustainability are embedded in all parts of the strategic agenda is explained on the right.

Embedding sustainability and safety

Innovate more: Value propositions for a resource constrained world

Accelerate profitable growth: Eco-premium solutions that deliver eco-footprint reduction across the value chain

Serve the needs of the mid-market: Solutions for people demanding both higher living standards and affordability

Drive functional and operational excellence: Safety, operational eco-efficiency, product stewardship, supplier visits

Manage capital and cash: Process safety and sustainable investment evaluation

Build and leverage our industry-leading Talent Factory: Employee engagement, development and training

Create a culture of confidence, cooperation and co-creation: Diversity and inclusion, partnerships, Community Program

How we embed sustainability and safety in the strategic agenda