

# Provisions for pensions and other post-retirement benefits

We have a number of defined benefit pension plans. The largest pension plans are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK which together account for 79 percent of our pension plan obligations. The benefits of these and other 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. Obligations under the defined benefit plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. Valuations of the obligations under the pension and other post-retirement plans are carried out regularly by independent qualified actuaries.

We also provide certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees.

The main changes in 2011 related to our pension and other post-retirement obligations concerned the AkzoNobel (CPS) Pension Scheme. The UK Government announced in July 2010 that inflation as measured by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) would be used to determine future statutory pension increases for private sector pension schemes. As CPI inflation is generally lower than RPI inflation, the anticipated lower pension payments for a large proportion of CPS pensioners reduced the defined benefit obligation by around €131 million in 2011 following a reduction of €58 million in 2010 when the change was applied to a smaller group of members.

## Movements in pensions and other post-retirement benefits

In € millions	Pensions		Other post-retirement benefits		Total	
	2010	2011	2010	2011	2010	2011
<b>Defined benefit obligation</b>						
<b>Balance at beginning of year</b>	(13,688)	(14,171)	(393)	(394)	(14,081)	(14,565)
Acquisitions/divestments/transfers	192	9	16	–	208	9
Curtailments	6	–	–	–	6	–
Settlements	15	16	–	–	15	16
Past service costs	(8)	(6)	3	(5)	(5)	(11)
Current service costs	(52)	(51)	(7)	(6)	(59)	(57)
Contribution by employees	(3)	(4)	(3)	(2)	(6)	(6)
Interest costs	(773)	(725)	(20)	(18)	(793)	(743)
Benefits paid	936	919	34	31	970	950
Actuarial gains/(losses)	(250)	(715)	4	(16)	(246)	(731)
Changes in exchange rates	(546)	(382)	(28)	(11)	(574)	(393)
<b>Defined benefit obligation at year-end</b>	<b>(14,171)</b>	<b>(15,110)</b>	<b>(394)</b>	<b>(421)</b>	<b>(14,565)</b>	<b>(15,531)</b>
<b>Plan assets</b>						
<b>Balance at beginning of year</b>	<b>11,821</b>	<b>13,122</b>	–	–	<b>11,821</b>	<b>13,122</b>
Acquisitions/divestments/transfers	(105)	(6)	–	–	(105)	(6)
Settlements	(14)	(16)	–	–	(14)	(16)
Contribution by employer	524	502	31	29	555	531
Contribution by employees	3	4	3	2	6	6
Benefits paid	(936)	(919)	(34)	(31)	(970)	(950)
Expected return on plan assets	691	684	–	–	691	684
Actuarial gains/(losses)	652	840	–	–	652	840
Changes in exchange rates	486	394	–	–	486	394
<b>Plan assets at year-end</b>	<b>13,122</b>	<b>14,605</b>	–	–	<b>13,122</b>	<b>14,605</b>
<b>Funded status</b>	<b>(1,049)</b>	<b>(505)</b>	<b>(394)</b>	<b>(421)</b>	<b>(1,443)</b>	<b>(926)</b>
Unrecognized net loss/(gain)	637	491	(6)	10	631	501
Unrecognized past service costs	4	5	(19)	(17)	(15)	(12)
Restriction on asset recognition	–	(3)	–	–	–	(3)
Medicare receivable	–	–	(6)	(4)	(6)	(4)
<b>Net balance sheet provisions</b>	<b>(408)</b>	<b>(12)</b>	<b>(425)</b>	<b>(432)</b>	<b>(833)</b>	<b>(444)</b>
<b>Recorded under</b>						
Provisions for pensions and other post-retirement benefits	(856)	(724)	(425)	(432)	(1,281)	(1,156)
Other financial non-current assets	448	712	–	–	448	712
<b>Total</b>	<b>(408)</b>	<b>(12)</b>	<b>(425)</b>	<b>(432)</b>	<b>(833)</b>	<b>(444)</b>

### Funded and unfunded pension plans

In € millions	2010	2011
Wholly or partly funded plans	13,792	14,812
Unfunded plans	379	298
<b>Total</b>	<b>14,171</b>	<b>15,110</b>

### Funded status in earlier years at December 31

In € millions	Pensions			Other post-retirement benefits		
	2007	2008	2009	2007	2008	2009
Defined benefit obligation	(4,628)	(11,468)	(13,688)	(286)	(441)	(393)
Plan assets	3,502	10,480	11,821	–	–	–
<b>Funded status</b>	<b>(1,126)</b>	<b>(988)</b>	<b>(1,867)</b>	<b>(286)</b>	<b>(441)</b>	<b>(393)</b>

### Actuarial gains and losses

In € millions	Pensions					Other post-retirement benefits				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
<b>Defined benefit obligation</b>										
Due to experience	90	(147)	331	(92)	(98)	(3)	(5)	5	23	11
Due to change in assumptions	166	1,624	(2,034)	(158)	(617)	6	5	(12)	(19)	(27)
<b>Plan assets</b>										
Due to experience	(29)	(1,445)	614	652	840	–	–	–	–	–
<b>Total</b>	<b>227</b>	<b>32</b>	<b>(1,089)</b>	<b>402</b>	<b>125</b>	<b>3</b>	<b>–</b>	<b>(7)</b>	<b>4</b>	<b>(16)</b>

### Net periodic costs

In € millions	Pensions		Other post-retirement benefits	
	2010	2011	2010	2011
Service costs for benefits earned during the period	(52)	(51)	(7)	(6)
Interest costs on defined benefit obligations	(773)	(725)	(20)	(18)
Expected return on plan assets	691	684	–	–
Amortization of unrecognized losses/(gains)	(36)	(31)	–	(2)
Amortization of past service costs	(7)	(6)	5	(2)
Change of restriction of asset recognition	–	–	–	–
Settlement/curtailment gain	6	1	–	–
<b>Total</b>	<b>(171)</b>	<b>(128)</b>	<b>(22)</b>	<b>(28)</b>

### Weighted average assumptions

In %	Pensions		Other post-retirement benefits	
	2010	2011	2010	2011
<b>Defined benefit obligation at year-end</b>				
Discount rate	5.4	4.6	4.9	4.4
Rate of compensation increase	4.6	3.7	–	–
<b>Net periodic pension costs</b>				
Discount rate	5.6	5.4	5.3	4.9
Rate of compensation increase	4.6	4.6	–	–
Expected return on plan assets	5.7	5.3	–	–

The remaining plans primarily represent defined contribution plans. This includes, among others, the AkzoNobel Pension Fund in the Netherlands. The ITP2 plan in Sweden is financed through insurance with the Alecta insurance company and is classified as a multi-employer defined benefit plan. AkzoNobel does not have access to sufficient information from Alecta to enable a defined benefit accounting treatment and hence it is accounted for as a defined contribution plan. Contributions in 2011 were €10 million (2010: €10 million). Alecta's target funding ratio in 2011 was 140% although the actual ratio at September 2011 stood at 113%. There are also a small number of multi-employer plans in the US in which AkzoNobel participates with annual contributions totalling less than €1 million. The expenses of plans classified as defined contribution plans in AkzoNobel totalled €154 million in 2011 (2010: €136 million).

Interest costs on defined benefit obligations for both pensions and other post-retirement benefits together with the expected return on plan assets in the net periodic costs table together comprise the net financing expenses on pensions and other post-retirement benefits of €59 million (2010: €102 million), the operating cost portion of which is disclosed in Note 5. The table below illustrates the weighted average life expectancy of the persons participating in the defined benefit pension plans.

#### Life expectancy

	At December 31	
In years	2010	2011
<b>Currently aged 60</b>		
Male	25.5	26.1
Female	27.9	28.5
<b>Currently aged 45, at age 60</b>		
Male	27.0	27.2
Female	29.2	29.5

#### Plan assets

The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans.

The primary objective with regard to the investment of pension plan assets is ensuring that each individual scheme has sufficient funds available to satisfy future benefit obligations. For this purpose so-called asset and liability management (ALM) studies are made periodically at each pension fund under responsibility of the fund managers. For each of the pension plans an appropriate mix is determined on the basis of the outcome of these ALM studies, taking into account the national rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities and real estate. At year-end, 2011 and 2010, plan assets did not include financial instruments issued by the company, nor any property occupied or other assets used by it. The weighted average pension plan asset allocation at year-end, 2011 and 2010, and the target allocation for 2012 for the pension plans by asset category are as follows:

#### Plan asset allocation

In %	Plan assets at December 31			Target
	2010	2011	2012	
Equity securities	16	15	14 – 16	
Long-term interest earning investments	73	73	73 – 75	
Real estate	2	2	1 – 3	
Other	9	10	8 – 10	
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	

At year-end 2011, an amount of £143 million (€170 million; 2010: £160 million or €186 million) remained in an escrow account on behalf of the AkzoNobel (CPS) Pension Scheme in the UK. The present minimum annual funding of this pension fund from the escrow account is £25 million. The current portion is included in trade and other receivables, and the non-current part in other financial non-current assets. For the latter see also Note 12.

Weighted average assumptions for the other post-retirement benefit plans were as follows:

#### Assumed healthcare cost trend rates at year-end

In %/year	2010	2011
Healthcare cost trend rate assumed for next year	6.7	6.6
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.8	4.0
Year that the rate reaches the ultimate trend rate	2019–2024	2019–2030

Assumed healthcare cost trend rates can have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

#### Sensitivity healthcare cost trends

In € millions	1% point increase	1% point decrease
(Increase)/decrease on total of service and interest cost	(2)	1
(Increase)/decrease on post-retirement benefit obligations	(15)	13

In the US, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees, as well as a federal subsidy to sponsors of post-retirement healthcare plans, which both began on January 1, 2006. We have recognized this reimbursement right as an asset under other financial non-current assets, measured at fair value amounting to €4 million at year-end 2011 (2010: €6 million).

#### Cash flows

We expect to contribute €484 million to our defined benefit plans in 2012. This amount includes a top-up payment of £135 million (€161 million) for the ICI Pension Fund and £100 million (€119 million) for the AkzoNobel (CPS) Pension Scheme of which £25 million (€30 million) will be paid out of an escrow account. For other post-retirement benefit plans our contribution for 2012 is expected to be €31 million.

In addition, we will contribute a further £200 million (€239 million) to the ICI Pension Fund in 2012 following the agreed termination of a £250 million (€298 million) asset-backed guarantee provided by wholly-owned subsidiary, ICI Receivables Funding Ltd.

#### Estimated benefit payments

In € millions	Pensions	Other post-retirement benefits
2012	960	32
2013	954	32
2014	959	31
2015	961	31
2016	972	31
2017 - 2021	4,919	143

The figures in the above table are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

We have contracts with several pension funds:

- At year-end 2011, AkzoNobel had a loan to the AkzoNobel Pension Fund in the Netherlands of €81 million (2010: €83 million).
- In recognition of a funding deficit in the ICI Pension Fund in the UK, the company has agreed to make top-up contributions of £135 million in 2012 and in 2013 followed by payments of £179 million in each year from 2014 to 2017.
- A subsidiary of the company, Imperial Chemicals Industries Limited has provided an asset-backed guarantee, via another wholly owned subsidiary, ICI Receivables Funding Ltd (ICI RF), specifically incorporated to provide the guarantee, for £250 million to support its commitment for the ICI Pension Fund. At year-end, the guarantee was backed by the cash balances of ICI RF of £225 million and the remainder by means of letters of credit. This asset-backed guarantee was terminated on January 30, 2012 with the transfer of £200 to the ICI Pension Fund.
- In recognition of a funding deficit in the AkzoNobel (CPS) Pension Scheme in the UK, the company has agreed to make top-up contributions of £75 million in each year from 2012 to 2018. In addition, contributions of at least £25 million will be paid each year from the escrow account until 2017 or the earlier date on which the escrow account is exhausted.
- In recognition of a funding deficit in the ICI Specialty Chemicals Fund in the UK, the company has agreed to make top-up contributions of £5 million in each year from 2012 to 2017.
- In recognition of a funding deficit in the J P McDougall Pension Scheme in the UK, the company has agreed to make top-up contributions of £2 million in each year from 2012 to 2018.
- In recognition of funding deficits at several pension plans in the US, the company has agreed to make top-up contributions of \$67 million in 2012.