

Provisions for pensions and other post-retirement benefits

We have a number of defined benefit pension plans. The largest plans by far are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK. 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 by independent actuaries.

We also provide certain healthcare and life insurance benefits for most of our retired employees, mainly in the US and the Netherlands. We accrue for the expected costs of providing such post-retirement benefits during the years that the employee renders the necessary services.

The main changes in 2008 related to our pension obligations were:

- The obligations for pensions and other post-retirement benefits have increased substantially due to the acquisition of ICI on January 2, 2008.
- In July 2008, we settled our pension obligations in Sweden with Alecta for an amount of €115 million, which resulted in a net curtailment and settlement loss of €10 million before tax, including wage taxes.
- We settled a dispute on a post-retirement healthcare plan in the Netherlands and incurred additional costs of €28 million. In 2007 we already incurred additional costs of €66 million.

The table below shows a summary of the changes in the pension and the other post-retirement benefit obligations and plan assets for 2008 and 2007.

Movements in provisions for pension and other post-retirement benefit obligations

IN € MILLIONS	PENSIONS		OTHER POST-RETIREMENT BENEFITS	
	2008	2007	2008	2007
Defined benefit obligation				
Balance at beginning of year	(4,628)	(5,760)	(286)	(292)
Acquisitions/divestments	(11,477)	579	(136)	43
Settlements/curtailments	136	22	-	5
Plan amendment	(21)	(6)	(28)	(66)
Service costs	(76)	(76)	(7)	(7)
Contribution by employees	(7)	(8)	(2)	(2)
Interest costs	(827)	(271)	(24)	(16)
Benefits paid	968	306	47	20
Actuarial gains/(losses)	1,477	256	-	3
Changes in exchange rates	2,987	330	(5)	26
Defined benefit obligation at year-end	(11,468)	(4,628)	(441)	(286)
Plan assets				
Balance at beginning of year	3,502	3,942	-	-
Acquisitions/divestments	11,093	(441)	-	-
Settlements	(111)	(1)	-	-
Contribution by employer	560	343	45	20
Contribution by employees	7	8	2	-
Benefits paid	(968)	(306)	(47)	(20)
Expected return on plan assets	802	247	-	-
Actuarial gains	(1,445)	(29)	-	-
Changes in exchange rates	(2,960)	(261)	-	-
Plan assets at year-end	10,480	3,502	-	-
Funded status	(988)	(1,126)	(441)	(286)
Unrecognized net loss/(gain)	35	82	(11)	(11)
Unrecognized past service costs	-	-	(13)	(15)
Restriction on asset recognition	(34)	-	-	-
Medicare receivable	-	-	(32)	(35)
Net balance pension provisions	(987)	(1,044)	(497)	(347)
Recorded under				
- Provisions for pensions and other post-retirement benefits	(1,129)	(1,044)	(497)	(347)
- Other financial non-current assets	142 ¹	-	-	-
Total	(987)	(1,044)	(497)	(347)

¹ Pension prepayments for an amount of €34 million are not recognized as they do not meet the recognition criteria of IAS 19 and IFRIC 14.

Funded and unfunded pension plans

IN € MILLIONS	2008	2007
Wholly or partly funded plans	11,145	4,269
Unfunded plans	323	359
Total	11,468	4,628

Funded status in earlier years

IN € MILLIONS	PENSIONS			OTHER POST-RETIREMENT BENEFITS		
	DECEMBER 31, 2006	DECEMBER 31, 2005	DECEMBER 31, 2004	DECEMBER 31, 2006	DECEMBER 31, 2005	DECEMBER 31, 2004
Defined benefit obligation	(5,760)	(5,510)	(8,975)	(292)	(508)	(514)
Plan assets	3,942	3,596	6,781	–	–	–
Funded status	(1,818)	(1,914)	(2,194)	(292)	(508)	(514)

The difference between the actual and the expected return on plan assets was a loss of €1,445 million in 2008, a loss of €29 million in 2007, a gain of €214 million in 2006, of €736 million in 2005 and of €228 million in 2004. The 2008, 2007 and 2006 actuarial gains and losses on the defined benefit obligation break down as follows:

Actuarial gains and losses

IN € MILLIONS	PENSIONS			OTHER POST-RETIREMENT BENEFITS		
	2008	2007	2006	2008	2007	2006
Due to experience	(147)	90	2	(5)	(3)	74
Due to change in assumptions	1,624	166	(199)	5	6	19
Total	1,477	256	(197)	–	3	93

Net periodic pension cost

IN € MILLIONS	PENSIONS		OTHER POST-RETIREMENT BENEFITS	
	2008	2007	2008	2007
Service costs for benefits earned during the period	(76)	(76)	(7)	(7)
Interest costs on defined benefit obligations	(827)	(271)	(24)	(16)
Expected return on plan assets	802	247	–	–
Amortization of unrecognized losses/(gains)	(32)	(4)	–	–
Amortization of past service costs	(20)	–	(25)	(63)
Change of restriction of asset recognition	31	–	–	–
Settlement/curtailment gain	(4)	26	–	5
Total	(126)	(78)	(56)	(81)

The remaining plans primarily represent defined contribution plans. This includes, among others, the AkzoNobel Pension Fund in the Netherlands. Expenses for these plans totaled €112 million in 2008 (2007: €140 million).

Weighted average assumptions for pensions

IN PERCENTAGES	PENSIONS		OTHER POST-RETIREMENT BENEFITS	
	2008	2007	2008	2007
Pension benefit obligation at December 31:				
- Discount rate	6.3	5.7	6.0	5.8
- Rate of compensation increase	3.5	4.4		
Net periodic pension costs:				
- Discount rate	5.8	4.9	5.8	5.6
- Rate of compensation increase	4.4	4.2		
- Expected return on plan assets	6.0	6.4		

The table below illustrates the weighted average life expectancy of the persons participating in the defined benefit pension plans.

Life expectancy

IN YEARS	AT DECEMBER 31,	
	2008	2007
Currently aged 60		
Male	26.8	26.7
Female	28.8	29.4
Currently aged 45 at age 60		
Male	25.4	25.3
Female	27.5	27.9

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 quoted equity securities, long-term interest-earning investments and real estate. On December 31, 2008 and 2007, 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 December 31, 2008 and 2007, and the target allocation for 2009 for the pension plans by asset category are as follows:

Plan asset allocation

IN PERCENTAGES	TARGET ALLOCATION	PERCENTAGE OF PLAN ASSETS AT DECEMBER 31,	
		2008	2007
Equity securities	20-25	23	47
Long-term earning interest investments	70-75	72	39
Real estate	1-5	2	8
Other	0-3	3	6
Total	100	100	100

At year-end 2008, an amount of £184 million (€189 million; 2007: £198 million or €269 million) has been placed on an escrow account on behalf of the AkzoNobel (CPS) Pension Scheme in the UK. The minimum annual funding of this pension fund from the escrow account is £25 million. The amount on the escrow account does not qualify as plan asset under the definition of IAS 19 and therefore it is not included in the plan asset numbers as disclosed in this note. The current portion is included in other short-term receivables, and the non-current part in other financial non-current assets.

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

Weighted average assumptions

IN PERCENTAGES/YEAR		
	2008	2007
Assumed healthcare cost trend rates at December 31:		
- Healthcare cost trend rate assumed for next year	6.3	8
- Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.0	5
- Year that the rate reaches the ultimate trend rate	2014-2016	2014

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 PERCENTAGE POINT INCREASE	1 PERCENTAGE POINT DECREASE
(Increase)/decrease on total of service and interest cost	(1)	1
(Increase)/decrease on post-retirement benefit obligations	(17)	16

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. On December 31, 2008, this value was €32 million (December 31, 2007: €35 million).

Cash flows

We expect to contribute €304 million to our defined benefit pension plans in 2009. This includes additional payments of £172 million for the ICI Pension Fund and £25 million for the AkzoNobel (CPS) Pension Scheme paid out of the escrow amount, both in the UK. For other post-retirement benefit plans the contribution for 2009 is expected to be €42 million.

Expected benefit payments

IN € MILLIONS	PENSIONS	OTHER POST-RETIREMENT BENEFITS
2009	836	42
2010	825	37
2011	831	36
2012	820	36
2013	827	35
2014-2017	4,219	157