

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 78 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 change in 2010 related to our pension and other post-retirement obligations was the divestment of National Starch, which is included within the acquisition/divestment/transfers line of the table on the next page. The figures included in relation to National Starch divestment were a €179 million reduction in the pension defined benefit obligation, a €90 million reduction in pension plan assets and an €11 million reduction in the other post-retirement benefit defined benefit obligation. Together with €40 million of unrecognized actuarial losses that were recognized as part of the divestment, the net balance sheet liability reduction for pensions and other post-retirement benefits was therefore €60 million.

Movements in defined benefit obligation and plan assets of pensions and other post-retirement benefits

In € millions	Pensions		Other post-retirement benefits	
	2009	2010	2009	2010
Defined benefit obligation				
Balance at beginning of year	(11,468)	(13,688)	(441)	(393)
Acquisitions/divestments/transfers	(32)	192	–	16
Curtailments	25	6	–	–
Settlements	197	15	–	–
Past service costs	(28)	(8)	48	3
Current service costs	(50)	(52)	(7)	(7)
Contribution by employees	(5)	(3)	(3)	(3)
Interest costs	(746)	(773)	(24)	(20)
Benefits paid	943	936	40	34
Actuarial gains/(losses)	(1,703)	(250)	(7)	4
Changes in exchange rates	(821)	(546)	1	(28)
Defined benefit obligation at year-end	(13,688)	(14,171)	(393)	(394)
Plan assets				
Balance at beginning of year	10,480	11,821	–	–
Acquisitions/divestments/transfers	31	(105)	–	–
Settlements	(217)	(14)	–	–
Contribution by employer	414	524	37	31
Contribution by employees	5	3	3	3
Benefits paid	(943)	(936)	(40)	(34)
Expected return on plan assets	596	691	–	–
Actuarial gains/(losses)	614	652	–	–
Changes in exchange rates	841	486	–	–
Plan assets at year-end	11,821	13,122	–	–
Funded status	(1,867)	(1,049)	(393)	(394)
Unrecognized net loss/(gain)	1,065	637	(4)	(6)
Unrecognized past service costs	4	4	(20)	(19)
Restriction on asset recognition	–	–	–	–
Medicare receivable	–	–	(5)	(6)
Net balance sheet provision	(798)	(408)	(422)	(425)
Recorded under:				
Provisions for pensions and other post-retirement benefits	(1,017)	(856)	(422)	(425)
Other financial non-current assets	219	448	–	–
Total	(798)	(408)	(422)	(425)

Funded and unfunded pension plans

In € millions	2009	2010
Wholly or partly funded plans	13,347	13,792
Unfunded plans	341	379
Total	13,688	14,171

Funded status in earlier years at December 31

In € millions	Pensions			Other post-retirement benefits		
	2006	2007	2008	2006	2007	2008
Defined benefit obligation	(5,760)	(4,628)	(11,468)	(292)	(286)	(441)
Plan assets	3,942	3,502	10,480	–	–	–
Funded status	(1,818)	(1,126)	(988)	(292)	(286)	(441)

The actuarial gains and losses on the defined benefit obligation and plan assets over the period 2006 – 2010 break down as follows:

Actuarial gains and losses

In € millions	Pensions					Other post-retirement benefits				
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010
Defined benefit obligations:										
Due to experience	2	90	(147)	331	(92)	74	(3)	(5)	5	23
Due to change in assumptions	(199)	166	1,624	(2,034)	(158)	19	6	5	(12)	(19)
Plan assets:										
Due to experience	214	(29)	(1,445)	614	652	–	–	–	–	–
Total	17	227	32	(1,089)	402	93	3	–	(7)	4

Net periodic cost

In € millions	Pensions		Other post-retirement benefits	
	2009	2010	2009	2010
Service costs for benefits earned during the period	(50)	(52)	(7)	(7)
Interest costs on defined benefit obligations	(746)	(773)	(24)	(20)
Expected return on plan assets	596	691	–	–
Amortization of unrecognized gains/losses	(12)	(36)	–	–
Amortization of past service costs	(23)	(7)	41	5
Change of restriction of asset recognition	(1)	–	–	–
Settlement/curtailment result	21	6	–	–
Total	(215)	(171)	10	(22)

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 2010 were € 10 million. Alecta's target funding ratio in 2010 was 140 percent. The expenses of plans classified as defined contribution plans in AkzoNobel totalled €136 million in 2010 (2009: €118 million).

Weighted average assumptions

In %	Pensions		Other post-retirement benefits	
	2009	2010	2009	2010
Pension benefit obligation at December 31:				
– Discount rate	5.6	5.4	5.3	4.9
– Rate of compensation increase	4.6	4.6		
Net periodic pension costs:				
– Discount rate	6.3	5.6	6.0	5.3
– Rate of compensation increase	3.5	4.6		
– Expected return on plan assets	5.2	5.7		

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	
	2009	2010
Currently aged 60:		
Male	25.3	25.5
Female	27.8	27.9
Currently aged 45, at age 60:		
Male	26.8	27.0
Female	29.1	29.2

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. On December 31, 2010 and 2009, 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, 2010 and 2009, and the target allocation for 2011 for the pension plans by asset category are as follows:

Plan asset allocation

In %	Plan assets at December 31		Target
	2009	2010	2011
Equity securities	17	16	15 – 18
Long-term interest earning investments	72	73	72 – 75
Real estate	2	2	0 – 3
Other	9	9	6 – 9
Total	100	100	100

At year-end 2010, an amount of £160 million (€186 million; 2009: £174 million or €195 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	2009	2010
Healthcare cost trend rate assumed for next year	5.8	6.7
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	3.8	3.8
Year that the rate reaches the ultimate trend rate	2015 – 2024	2019-2024

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	(1)	1
(Increase)/decrease on post-retirement benefit obligations	(12)	10

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 € 6 million at December 31, 2010 (December 31, 2009: € 5 million).

Cash flows

We expect to contribute € 525 million to our defined benefit pension plans in 2011. This includes additional top-up payments of £178 million (€206 million) for the ICI Pension Fund and £85 million (€99 million) for the AkzoNobel (CPS) Pension Scheme of which £25 million (€29 million) will be paid out of the escrow account. For other post-retirement benefit plans the contribution for 2011 is expected to be €32 million.

Expected benefit payments

In € millions	Pensions	Other post-retirement
2011	953	32
2012	937	32
2013	941	32
2014	948	32
2015	953	32
2016 – 2020	4,875	154