

Colours of Change

Akzo Nobel Pakistan Limited
Annual Report 2012



AkzoNobel

Tomorrow's Answers Today



Strategic ambitions

AkzoNobel's ambition for accelerated growth is closely linked with its ambitions to ensure that the growth is sustainable. Aiming to achieve top quartile safety and eco-efficiency performance provides a framework for our Health Safety & Environment (HSE) and Operational Eco Efficiency (OEE) management. This ambition extends from people health and safety to process safety, product safety, operational and value chain eco-efficiency and environmental liabilities management.

In order to meet its strategic ambitions, AkzoNobel has set challenging and achievable HSE and OEE targets for 2015, with yearly milestones for 2011 to 2014, and the 'Vision of ZERO' serious injuries and process incidents is being embraced.

Our goal is to increase stakeholder value by delivering sustainable solutions to our customers, which is crucial for the success of AkzoNobel Pakistan. To achieve this we require sustainable business operations in order to meet our needs today whilst protecting resources and rights for future generations.

Beliefs and Principles

We believe that continuous improvement in HSE and Product Stewardship performance is integral to providing business value, competitive advantage and sustainability. We believe that:

- All work-related injuries and illnesses are preventable. Therefore, we protect people on our sites, the community we operate in and the environment at large from accidental or deliberate harm, damage or loss
- All emissions of hazardous materials can be prevented and will progressively, as products and technologies develop, be reduced
- In order to achieve our goals and to ensure sustainable Business growth, we have to continuously improve our HSE performance through the leadership of line management, dedication of our staff and application of the highest professional standards in whatever we do
- Stakeholders have a right to information about our operations and HSE perfor-



mance, and we believe that transparency will promote and increase trust

HSE Management System

Our HSE policies are aligned with the Health Safety & Environment Policy of AkzoNobel and the local legislation. HSE Management System is also aligned with AkzoNobel HSE related Directives, and AkzoNobel HSE Standards. All HSE related systems are fully implemented to ensure safety and health of our employees and contractors.

The HSE Management System is split into the following seven areas:

1. Managing improvement
2. Health and safety of employees and contractors
3. Security of people and assets
4. Product stewardship
5. Emergency response and community awareness
6. Asset integrity and process safety
7. Site environmental protection & pollution prevention

Our HSE management systems are based on being proactive rather than reactive. Our Safety Leadership and Values drive contin-

ous improvement in our HSE performance. Prior Risk Assessment of activities, processes and products, defining and implementing appropriate controls are key to safe execution of activities at AkzoNobel Pakistan.



The above model is aligned with the requirements of OHSAS-18001 and ISO-14001 global standards.



Employees group photograph at the launch of Life Saving Rules campaign

Achievements during 2012

Operational Eco Efficiency Improvements

During 2012, a number of improvements have been carried out as an initiative to reduce environmental impact of our activities and products. Our performance against the Operational Eco Efficiency (OEE) targets that we had set for ourselves has been commendable.

Compared to the base year (2009) performance, a reduction of 8.5% has been achieved in energy consumption of per ton of product produced. The CO₂ footprint of our manufacturing activities has also been reduced by 2%.

Some of the key initiatives taken during 2012 for OEE improvements include:

i. Replacement of existing air compressors with energy efficient compressors

The site's existing inefficient compressors have been replaced with new inverter driven efficient compressors. These compressors conserve energy by lowering power consumption when there is low demand, and use on average, about 60% of the power consumed by the previous compressors.

ii. Ultrasonic detection of compressed air leakages

Compressed air is considered to be one of the most expensive utilities in any manufacturing environment and leaks not only generate noise but also cause financial losses. In order to conserve energy and ensure that compressed air is not wasted, the site has setup a regular monitoring regime of leakages using ultrasonic surveying. A number of humanly inaudible sources have been identified and rectified using this technique, thereby conserving the consumption of this utility.

Improvements in Products

Under Volatile Organic Compounds (VOCs) reduction plan for Decorative products, we have started replacing organic solvents with non-VOC solvents in a phased manner. For example, Optifilm is now in use as a replacement for Mineral Turpentine.

Also, in line with the AkzoNobel's policy, production of Chromate based products has been stopped and any redundant slob material is being disposed off through an Environmental Protection Agency (EPA) approved contractor.

TakeCare
Global Safety AkzoNobel



The Golden Principle:
Stop work if conditions or behavior are unsafe

Our Life-Saving Rules:

-  Work with a valid work permit when required
-  Use fall protection when working at height
-  Obtain a permit for entry into a confined space
-  Make sure moving machinery is guarded
-  Check equipment is isolated before work begins
-  Obtain authorization before disabling safety equipment
-  Wear a seatbelt in motor vehicles when provided
-  Do not use alcohol or drugs at work



CE with the Sprinkler installation team

HSE Initiatives and Safety Performance

i. Launch of Life Saving Rules under TakeCare Program

In line with our vision of “zero injuries” and the ambition of top quartile safety performance, we’ve initiated a number of programs under the “TakeCare” Campaign. Take Care is AkzoNobel’s global behavior based safety campaign. AkzoNobel has issued eight Life Saving Rules and one Golden Principal under the ambit of TakeCare which are now being fully incorporated by AkzoNobel Pakistan.

These rules were formally launched at AkzoNobel Pakistan on the Global Safety Day which was held during September 2012. Implementation plans have been finalized and are being implemented for full conformance by April 2013.

ii. Behavior Based Safety (BBS) Program

AkzoNobel Pakistan is a committed practitioner of Behavior Based Safety. The line managers routinely carry out workplace and job audits observing the employees carrying on their duties.

Recognition/appreciation of good performers and immediate counseling of employees exhibiting unsafe behaviors has resulted in improved HSE performance by the staff. This continuous improvement cycle prevents injuries at the workplace, and during 2012, there was no injury incident at our sites requiring treatment beyond first aid.



Automatic foam based sprinkler system

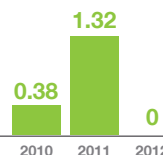
iii. Sprinklers installation at site

The Lahore site has strengthened its fire fighting capabilities by installing an automatic foam sprinkler system. Around 600 sprinklers have been installed covering sensitive processing and storage areas. The site maintains an active inventory of 10,000 liters of foam to immediately suppress any fire.

Our Safety Performance

At AkzoNobel Pakistan, our goal is to have zero injuries. Through the commitment of our teams and by successfully implementing our management systems, we were able to achieve this target during 2012.

TRIR



Total Reportable Injury Rate (TRIR):
Number of reportable Injuries (those requiring treatment beyond first aid) per million man-hours worked.

Corporate Social Responsibility

Giving back to our communities

Over the years, our commitment to the development of our country and our communities has always remained significant, and a guiding principle of the way we do business. We have a clear CSR policy:

We endeavor to ensure that we qualify as responsible corporate citizens by ensuring sustainable improvement in the lives of the communities we operate in.

Working to ensure a positive impact on our surrounding communities and society as a larger whole is something we as a company have focused on since our early days. We work to promote development and sustainable investment in various areas of social and community welfare. We're as committed to our communities as we are to our customers, shareholders and employees. Social responsibility is a way of life at AkzoNobel Pakistan. We recognize that we cannot have a healthy and growing business unless the communities we serve are healthy and sustainable.

At AkzoNobel Pakistan, we have a rich history of community investment that has evolved to meet the complexities and challenges of a developing society. We support a broad range of initiatives in the areas of health, education and environment protection as we believe they provide the fundamental building blocks for the development of society.

AkzoNobel Pakistan paints NICH, Karachi

In order to help enhance awareness for the cause of better healthcare for children, the employees of OBS, AkzoNobel and Network of Organization Working for Peoples with Disabilities, Pakistan (NOWPDP) painted the first floor of the National Institute of Child Health (NICH) in Karachi.

Salman Ahmed, a prominent musician and social activist, who performed for the young patients and appreciated the collective efforts of the companies, said that painting the first floor of the NICH would brighten up the environment for the visiting patients, while trying to generate a sense of responsibility to such vital institutions in our country.



Inauguration of computer lab donated to SOS



Promoting social and community welfare

During the interactive session, the motivational talks by the prominent personalities aimed to inspire the young volunteers to work harder for the benefit of the society, while the musical entertainment brought smiles to the faces and the families of the young patients.

AkzoNobel Pakistan donates computer lab to SOS Village

In September 2012, AkzoNobel Pakistan donated a total of 15 computers to its neighbor, the SOS Village and SOS Hermann Gmeiner School. These computers were set up in computer labs which will be used by the children at three locations; SOS Primary School, SOS Village Central, and Boys Youth Hostel. The company's Executive Team Members,



A group of volunteers adding colour to NICH



Volunteer employees and their families at Gulab Devi Hospital painting activity

along with the IT and Corporate Communications teams attended a ceremony at the SOS Primary School to unveil their newly set-up computer lab. Activities at the ceremony included a drawing competition for the primary school students, after which gifts were distributed to all participants. This endeavor was greatly appreciated by the administration, staff and students of the SOS Village.

Painting Gulab Devi Chest Hospital

In September 2012, volunteers from ICI Dulux and their families enthusiastically participated to add a splash of colour to the cardio thoracic ward at Ghulab Devi Chest Hospital, Lahore. This project was funded by AkzoNobel Pakistan's Executive Team Members, and was thoroughly appreciated by the hospital administration and patients as a good step towards making the environment better for the patients by brightening up the hospital space.

ICI Dulux Brightens Up Mayo Hospital

In April 2012, volunteers from ICI Dulux along with students from the National College of Arts and employees from BF Biosciences enthusiastically participated to add colour to the cancer ward at Mayo Hospital. The rundown cancer ward was completely transformed when its plain white walls were painted with vibrant colours which gave the ward a complete overhaul.

AkzoNobel Pakistan donates paint to Shaheen KG School

AkzoNobel Pakistan's CSR strategy is not limited to painting buildings only. One example of such is Shaheen KG School in Sheikhpura where we donated paint for furniture and black boards. The school is registered under the Voluntary Social Welfare Agencies and we have had a prior association with the institution since the year 2000. Even though the cost of paint donated was less than Rs. 15,000, the school management is very grateful to AkzoNobel Pakistan for its donation.



CE helps colour Mayo Hospital

Energy Efficiency

During the course of the past few years, the energy crisis in Pakistan has gone from bad to worse and the industrial sector has been adversely hit by this shortfall in energy. A direct consequence of this is a higher backup energy cost due to alternate sources of energy. However, being a responsible corporate citizen, AkzoNobel Pakistan has developed a plan to conserve energy in order to reduce both the burden on alternate fuels and the national grid. The action plan comprised of a wide array of actions covering a range of energy consumption centers.

The site has already moved away from conventional lighting and has installed highly efficient and long life induction lighting. Two of the warehouses on site have solar powered LED lighting systems. The office air-conditioning is linked with room occupancy thereby conserving energy by switching Air Conditioners off automatically when the room is vacant. AkzoNobel Pakistan also evaluated its standby generators operation scheme, and through proactive load management was able to realize 19% savings in fuel costs, during the course of 2012, by switching to a lower capacity generator during the silent hours.

The site also purchased and installed two highly efficient inverter driven compressors replacing the old screw compressors. An ROI of 2.75 years is envisaged against the investment, due to savings incurred on energy costs. These compressors also have a heat

recovery option utilization, which will further enrich the benefits of this project.

In collaboration with USAID and local vendors, AkzoNobel Pakistan has evaluated the efficiencies of the motors currently installed on site, and based on the evaluation, purchased about 50 high-efficiency motors. The expected installation of these motors is in H1 2013.

Savings in the form of reduced energy consumption are expected to yield a payback period of approximately 3 years once this project is completed.

The implementation of these and other similar actions is having an additional impact on reducing the organization's carbon footprint. Continued focus in this area is a testimony to our commitment to a sustainable future.

Being a responsible corporate citizen, AkzoNobel Pakistan has developed a plan to conserve energy in order to reduce both the burden on alternate fuels and the national grid.

Sustainability Performance



Our sustainability framework consists of economic, social & environmental performance



Operations team involved in compressor installation



A view of the inverter driven compressors installed

Business Performance

Decorative Paints

We work together to find and share better solutions before anyone else, making our products and services, the first choice of people who want the best.

Overview

Our mission is to Add Colour to People's Lives. We want to educate the world about the power of colour, whether it is in factories, schools or homes. Our knowledge of colour formulation and design principles helps us facilitate people around the world to decorate easily and frequently. We take pride in being the 'Let's Colour' people. Transforming the world and making it a more colourful place is at the heart of AkzoNobel Pakistan. Colour is what we breathe, what we live and who we are.

Drawing on a keen understanding of our consumer needs and the latest technologies, we aim to enrich people's lives by bringing visual delight and lasting care to their surroundings. The guiding principles of any ICI Dulux product are to deliver verifiable product performance. We work together to find and share better solutions before anyone else, making our products and services, the first choice of people who want the best.

ICI Dulux is the pioneer of Tinting Systems in Pakistan under the label of ICI Dulux Colour Solutions which offers over 2000 shades available all over Pakistan at designated dealer outlets. Colour consistency and quality is our forte and our customers can be confident that the colour they bring home is exactly what they paid for.

Challenges

The decorative paints industry continues to be challenged as a consequence of the overall economic slowdown resulting in slug-



gish residential construction and renovation. Further, the use of tokens – high value cash incentives – by nearly all competitors operating in the paint industry to incentivize painters to use their brands, continues to impact AkzoNobel brands where focus is more on quality and brand equity. The Competition Commission of Pakistan (CCP) has declared the practice of inserting tokens as deceptive marketing unless disclosed appropriately and efforts continue on part of our company to pursue the regulator to enforce compliance of its directives.

Highlights of the Year

Innovation & Sustainability

As the largest paint manufacturer in the world, we realize that a sustainable business needs to be responsible. While we provide leading innovation and services, we also make sure that our premium quality paint does not harm our consumers or damage the environment. Our most recent addition to the ICI Dulux umbrella is ICI Dulux Inspire Emulsion, a product that is eco-friendly, has near zero volatile organic compounds, is odour-less and is NPE (Nonylphenol Ethoxylates) free. With the wide range of trendy colours,



superior matt finish and high washability, this luxurious product will be found on most walls in your home. This follows our breakthrough launch of ICI Dulux Weathershield SunReflect last year, an exterior paint that reflects sun light making the exterior walls cooler.

Launch of Global Brand Identity

In 2012, we also got a new brand identity in the form of our unique 'Flourish' logo. The revamped image is powerful, inviting and makes a lasting impression on the customer. This will further reinforce our brand which will in turn emphasize the Let's Colour tag line. The Global Brand Identity has been launched worldwide, and has received a tremendous positive response.



Senior Managers at 'Be Inspired' seminar

Let's Colour Week

Once a year, people at ICI Dulux, give their colour DNA an extra boost by celebrating colour globally during the Let's Colour Week. It not only strengthens our mission of 'Adding Colour to People's Lives' but also helps spread our colour DNA externally and establish ourselves as a colour authority. This year in addition to inspiring internal stake holders, the outside people were also made to experience their belief in the power of colour. The message of what "Let's Colour" stands for communicated widely: the common belief in the power of colour, and the invitation to create brighter futures.

Let's Colour Projects

The Let's Colour projects are an important part of who we are - that's where we start to integrate our social work with our business. People in underprivileged positions are made to live a more colourful life. The biggest Let's Colour project for the year was the restoration of Lahore's iconic building, Tollinton Market. This cultural heritage landmark was restored by painting the dilapidated exterior of the building in an attempt to uplift the outlook of the classic architecture. Another project AkzoNobel Pakistan took part in during Let's Colour Week was when 250 children, from the Lahore Pre-School and Learning Alliance Lahore, experienced a day packed with colour, creativity, art, fun and frolic. The children were also dressed in blue; the 2013 colour of the year.

Launch of ColourFutures™ 2013

ICI Dulux launched ColourFutures™ 2013 at an exclusive seminar titled "Be Inspired".



Employees volunteering to colour Tollinton Market

The event brought together leading interior designers, architects, members of the Institute of Architects of Pakistan (IAP) and several homeowners. ColourFutures™ with a history that spans eight decades, is the company's ongoing worldwide colour trend research that provides international style and design trends for interiors and exteriors, which is translated into colour trend palettes. It is well recognized as a global authority in the development of colour trends. The 2013 Colour of the Year is Indigo Blue which gives us a sense of tranquillity and adds stability to our hectic lives. Indigo Blue is a striking statement colour associated with wisdom and honesty, which enhances the environment.

The launch of ColourFutures™ is one of the many events held throughout the year to engage consumers, architects and interior designers through which we reiterate our commitments, and promise to strengthen existing, time-tested partnerships, celebrate successes and support each other in the drive for Tomorrow's Answers Today™.

Transforming the world and making it a more colourful place is at the heart of AkzoNobel Pakistan. Colour is what we breathe, what we live and who we are.

Performance Coatings & Specialty Chemicals

Post demerger, Akzo Nobel Pakistan Limited has experienced positive winds of change, especially where synergies exist between the Automotive, Commercial Vehicles, Vehicle Refinishes, Marine & Protective Coatings and Specialty Chemicals businesses. These businesses successfully came together to add value to the organization while strengthening relationships with existing and new customers.

2012 has been an exciting year for the Performance Coatings & Specialty Chemicals (PC&SC) business, where our position in existing business segments was not only strengthened, but newer areas were also explored in collaboration with our regional teams. In the face of difficult market conditions, the business focused on new developments and grew its product portfolio in Pakistan. Moreover, the Business continued to reinforce its position in existing segments. Higher quality products and stronger techno-commercial service levels enabled the business to deliver value to its customers. Within the protective coatings segment not only gained market share in the traditional maintenance business segment, but also secured business in newer segments where high end, innovative Protective Coatings Technologies were commercialized in Oil and Gas, Potable water and Power segment with the support of our regional teams. New opportunities were tapped from within the globally leading protective coatings range 'International', to service specific and niche customer needs of the Performance and Protective Coatings markets. Opportunistic sales were also made in the Marine coatings & Packaging Coatings segments.

The Vehicle Refinishes (VR) segment faced some difficult market conditions in 2012 and remained focused on controlling costs



Specialty Chemicals Technical and Commercial Heads during their visit to Pakistan

throughout the year. A number of initiatives were taken to bring costs in line with levels required, given the market conditions. This segment also began exploring ways to penetrate deeper into the Pakistan VR market. The team is focused on strengthening its position in the premium 3S body shop segment. 'Sikkens', our flagship brand, has won acclaim over helping 3S body shop owners improve their profitability.

The business focused on the successful transition and launch of Specialty Chemicals (SC) in 2012. All milestones for this were successfully completed in a timely and effective manner. Regional technical and commercial team members also visited Pakistan with a number of visits to existing and potential customers. The local team has been set-up to service the needs of our valued Specialty Chemicals customers in Pakistan. The team aims to bring greater focus on customers and made significant strides towards this by aligning and integrating with our regional businesses.

The Performance Coatings & Specialty Chemicals business is successfully steering through an exciting time of change, where feasible new business opportunities and markets are being developed for our leading and technologically advanced solutions with the support of our global teams. These will add new colors for AkzoNobel Pakistan and the team hopes will propel the Business towards a brighter future.



AkzoNobel coatings being applied to motorcycle fuel tanks



Technical and commercial teams working together with the aim to meet and exceed customers' expectations

Corporate Governance & Compliance

AkzoNobel Pakistan's corporate governance structure is based on the company's articles of association, statutory, regulatory and other compliance requirements applicable to companies listed on the stock exchanges, complemented by several internal procedures. These procedures include a risk assessment and control system, as well as a system of assurances on compliance with the applicable laws, regulations and company's code of conduct.

Corporate Governance Statement

The Board of Directors is responsible for setting the goals, objectives and strategies the Company has to adopt and for formulating the policies and guidelines towards achieving those goals and objectives. The Board is accountable to the shareholders for the discharge of its fiduciary function. The management is responsible for the implementation of the aforesaid goals and strategies in accordance with the policies and guidelines laid down by the Board of Directors. In order to facilitate a smooth running of the day to day affairs of the Company, the Board entrusts the Chief Executive with necessary powers and responsibilities. The Board is also assisted by a number of sub-committees comprising mainly non-executive directors.

Code of Conduct & Speak up

Akzo Nobel Pakistan Limited has always held in high esteem the best practices of corporate governance and believes in widely propagating the values and the ethics for strict adherence by all the employees, contractors, suppliers and others while doing business for the Company. In order to apprise the employees of the Code of Conduct, the Company organizes training sessions and induction programs on a regular basis to ensure compliance at all levels. Besides this, every employee and director of the Company is required to sign, on an annual basis, a statement to the effect that he or she understands the Code of Conduct and that he or she abides by it at all times while doing business for the Company.

In order to facilitate strict adherence to the Code of Conduct, the employees also have access to a "Speak Up" program whereby

any employee can report any unethical dealing by any Company employee on a confidential basis either through telephone or e-mail. Complete anonymity of the person using this facility is assured and all complaints are thoroughly investigated either by the Company internally or by assigning it to the Internal Auditors. Results of the investigation are communicated to the complainant. Whole of this process is being looked after by the Audit Sub Committee of the Board.

Internal Control

Akzo Nobel Pakistan Limited has a sound system of internal control and risk management. The internal audit function which is mainly responsible for internal controls, has been outsourced to M/s Ernst & Young Ford Rhodes Sidat Hyder and reports directly to the Chairman of the Audit Sub Committee.

Insider Trading & Competition Law

The Company has a stringent policy on insider trading and securities transactions. The policy paper which is circulated to all the employees of the Company from time to time, divides the employees in certain categories on the basis of their position and involvement in day-to-day decision making process and access to price sensitive information. Certain senior executives and the finance staff are categorized as "Permanent Insiders", while "Executives" (as defined in the Code of Corporate Governance) some of whom may not be "Permanent Insiders", can deal in the Company's shares any time outside the closed period announced by the Company on the eve of the quarterly Board meetings. The "Permanent Insiders" can deal in the Company's shares only during the open period specifically announced by the Company immediately after the quarterly Board meetings and the announcement of financial results. This open period does not exceed 15 calendar days in each quarter from the date of announcement of the financial results. All such transactions are required to be reported to the Company Secretary within four days of execution of the transaction with relevant details of purchase/sale of shares.

As embodied in our Code of Conduct, Akzo Nobel Pakistan supports the principles of free

enterprise and fair competition. The Company competes vigorously but fairly with its competitors within the framework of applicable laws - all to provide better and increasingly useful products and more efficient services to our customers. All relevant employees are required to sign an additional declaration of compliance with the Competition Law. The Company continues to regularly hold training sessions to ensure compliance with competition laws for relevant employees.

AkzoNobel Pakistan has always held in high esteem the best practices of corporate governance and believes in widely propagating the values and the ethics for strict adherence by all the employees, contractors, suppliers and others while doing business for the Company.

Material Interests of Board Members

Directors are required to disclose, at the time of appointment and on an annual basis the directorships or memberships they hold in other corporations. This is in pursuance with Section 214 of the Companies Ordinance 1984, which also requires them to disclose all material interests. We use this information to help us maintain an updated list of related parties. In case any conflict of interest arises, we refer the matter to the Board's Audit Sub Committee.

Risk Management

The Company's documented and regularly reviewed procedures are designed to safeguard our assets, address risks facing the business, and ensure timely reporting to the Board and senior management

The Board has an overall responsibility for the risk management process. The Company's documented and regularly reviewed procedures are designed to safeguard our assets, address risks facing the business, and ensure timely reporting to the Board and senior management. We maintain a clear organizational structure with defined delegation of authorities. Our senior management takes the day to day responsibility for implementation of procedures; ongoing risk monitoring; and effectiveness of controls. On an ongoing basis, we monitor risks faced by the Company to ensure pertinent control arrangements.

Our risk and control procedures are supported through:

Internal Control Self Assessment

The Internal Control Self Assessment (ICSA) exercise was carried out by the Company in 2012 which assisted in the thorough assessment of controls to ensure a robust control structure. The senior management of the Company led this annual self assessment exercise. Existing controls were identified, assessed and documented with the help of the online Control Self Assessment Tool (CSAT). Weaknesses highlighted through this exercise were documented through action plans which clearly defined the corresponding actions to close the identified weaknesses in the system and processes. Action plans are fol-

lowed up rigorously to ensure that corrective action is timely taken for the effective functioning of controls.

Enterprise Risk Management

The Enterprise Risk Management (ERM) methodology is part of AkzoNobel's effort to clearly and structurally prioritize the risks affecting our operations and organizations, in order to focus the efforts on those risks that are not controlled in an acceptable manner. For this purpose, ERM workshops are conducted on a periodic basis. The purpose and goal of the ERM workshops is to identify, assess and develop responses to the main risks that are affecting or could in the future affect the Company in achieving its strategy and objectives (financial & non-financial). A cross-functional Executive Team identifies a detailed list of overall business risk exposures. This exercise is performed by all businesses and functions; and the main outcome of these workshops is the development of a current and complete risk profile upon which necessary action plans are developed to take, treat or transfer (3T's) the identified risks. These action plans are monitored on a regular basis.



Company Information

Board of Directors

| | | | |
|---------------|--------------------------|-----------------|---------------|
| Mueen Afzal | Chairman (Non-Executive) | James Thick | Non-Executive |
| Jehanzeb Khan | Chief Executive | Peter Tomlinson | Non-Executive |
| Bart Kaster | Non-Executive | Zia U Syed | Executive |
| Asad I A Khan | Non-Executive | | |

Audit Sub Committee

| | |
|---------------|--------------------------|
| Asad I A Khan | Chairman (Non-Executive) |
| Mueen Afzal | Non-Executive |
| Bart Kaster | Non-Executive |

Human Resource & Remuneration Sub Committee

| | |
|-----------------|--------------------------|
| Mueen Afzal | Chairman (Non-Executive) |
| Peter Tomlinson | Non-Executive |
| Jehanzeb Khan | Chief Executive |

Share Transfer Committee

| | |
|---------------|-------------------------|
| Jehanzeb Khan | Chief Executive |
| Zia U Syed | Chief Financial Officer |
| Saira Soofi | Company Secretary |

Chief Financial Officer

Zia U Syed

Company Secretary

Saira Soofi

Executive Management Team

| | | | |
|--------------------|---------------------------------|-------------------|---|
| Jehanzeb Khan | Chief Executive | Mohsin Raza Naqvi | Business Manager - Performance Coatings and Specialty Chemicals |
| Rizwan Afzal | Operations Manager | Imran Qureshi | Business Manager - Decorative Paints |
| Shahid Sultan Butt | Technical Manager (R&D) | Bashar Rasheed | Supply Chain Manager |
| Muddassir Khalid | Human Resource Business Partner | Zia U Syed | Chief Financial Officer |
| Fawad A A Mirza | Business Excellence Manager | | |

Bankers

Citibank N.A.
Deutsche Bank Limited A.G

Habib Metropolitan Bank Limited
United Bank Limited

Internal Auditors

Ernst & Young Ford Rhodes Sidat Hyder,
Chartered Accountants

External Auditors

KPMG Taseer Hadi & Co.,
Chartered Accountants

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Our Board of Directors



Mueen Afzal (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, Mueen Afzal is also the Chairman of Akzo Nobel Pakistan Limited. Mr. Afzal joined the Civil Service of Pakistan in 1964 and held important positions, including Finance Secretary in Balochistan (1981-1984) and in the Punjab (1984-1986). He was also the Economic Minister in the Pakistan Embassy, Washington, DC, USA (1987-1990), Health Secretary for the Government of Pakistan (1995-1996), Finance Secretary for the Government of Pakistan (1996-1998), and Secretary General, Finance and Economic Affairs from 1999-2002. Mr. Afzal was also awarded Hilal-e-Imtiaz for distinguished public service in 2002.

Mueen Afzal is also the Chairman of Pakistan Tobacco Company Limited & Sanjan Nagar Public Education Trust, Lahore and currently holds directorships of Murree Brewery Company Limited Rawalpindi, Pakistan Philanthropy Centre, Islamabad, Beaconhouse National University, Lahore, Children's Global Network, Islamabad, Karachi Education Initiative, Dawood Centre, Karachi.



Bart Kaster (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, Bart has been associated with the AkzoNobel Group since 1980, during which he has held senior positions and various business and corporate assignments in Europe and Asia. Bart is also a Director of AkzoNobel UK Limited, AkzoNobel Decorative Coatings Limited, ICI Limited, ICI Chemicals and Polymers Ltd and also chairman of Anholmen Fastighets AB, a Swedish AkzoNobel company.



Peter Tomlinson (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, Peter Tomlinson a graduate of University of York (UK) with a degree in Chemistry 1984, has held various sales and marketing management positions for Courtaulds PLC (UK) within Decorative and Yacht Coatings from 1984-1990. From 1990-1992, Peter acted as the General Manager Courtaulds Yacht Coatings (Italy). In the years 1992-2003 Peter held various General Management Operations/R&D & Commercial positions in AkzoNobel UK. Peter was the Aerospace General Manager, from 2003-2005, in AkzoNobel, The Netherlands. Moreover, Peter was also the SBU Director EMEA Marine & Protective Coatings (UK) 2005-2011 (board member of UK, German, French, Netherlands, Belgian & East Russian companies).

Currently since 2011 Peter is the Managing Director of AkzoNobel Middle East and on the board of management for International Paint (Gulf) LLC (UAE), International Paint Saudi Arabia Ltd (Saudi) and International Warba (Kuwait).



James Thick (Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 23, 2012, James Thick, a UK national, studied at Brunel University gaining a Bsc (hons) in Applied Chemistry before joining the company in 1988. He has held numerous roles in AkzoNobel and is currently Director Performance Coatings Middle East.

James Thick is currently also the Director of the following companies

International Paint (Gulf) LLC, International Paint Saudi Arabia Ltd., International Warba Coatings Co WLL and Akzo Nobel Powder Coatings FZE.



Asad I Khan
(Non-Executive)

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 21, 2012, Asad I. A. Khan an architect by profession graduated from the National College of Arts, Lahore and obtained a Master's degree in Architecture from the University of Illinois, Chicago. Asad joined NESPAK in 1985 and in 1999 he became the Vice President of NESPAK to head the Architecture and Planning Division Karachi. In 2009 Asad took charge as the President and Managing Director of NESPAK.

Asad brings with him 32 years rich and varied experience of architectural planning and design, interior design, landscape architecture, construction supervision and project management with a wide range of outstanding and often award-winning projects of national significance.

Asad is also an avid sportsman having represented Pakistan in various championships and is also the President of Sindh Golf Association.



Zia U Syed

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on May 21, 2012, Zia U Syed is also the Chief Financial Officer of Akzo Nobel Pakistan Limited appointed in May 2012. He joined ICI Pakistan in 1985 and over his 28 years of association with the company, he has worked for all the different businesses, in the capacity of finance manager. In addition to his extensive experience in the business partner role, he has also served in Corporate Finance roles such as Shared Services and Corporate Compliance.

Zia played a key role in the establishment of the Shared Services Function for HR and Finance at ICI, one of the first of its kind in Pakistan. He was also instrumental in implementation of AkzoNobel Corporate Directives on Compliance, Internal Control, Code of Conduct, Risk Management, Speak up, Assurance Process, etc.

Zia obtained his degree in Commerce from the University of Punjab and later took up a program in Accountancy at North London Polytechnic, London.



Jehanzeb Khan

Appointed to the Board of Directors of Akzo Nobel Pakistan Limited on August 29, 2011, Jehanzeb Khan, Chief Executive of AkzoNobel Pakistan Limited has a career that spans 29 years, with nearly a decade of experience in heading commercial enterprises.

His career started at ICI Pakistan, where after joining as a Management Trainee in 1983, he held various commercial positions before taking over the Paints Business in 2010. He led the team to demerge the Business from ICI Pakistan in 2012 and establish AkzoNobel Pakistan as a public listed company the same year.

He received his schooling from Burn Hall in Abbottabad, and has a BS in Auto Diesel Technology from the Oregon Institute of Technology in the US. He studied Business Administration at the Darden School, University of Virginia, graduating in 1981 with an MBA degree. Jehanzeb has attended several management programs including the Advanced Management Programs at INSEAD, France and the Strategic Leadership Program at Oxford University, UK.

Our Executive Management Team

The Executive Management Team comprises of commercial managers and departmental heads who meet regularly for strategic business planning, decision making and overall management of the Company.

(Left to right)

Bashar Rasheed
Supply Chain Manager

Shahid Sultan Butt
Technical Manager (R&D)

Fawad Mirza
Business Excellence Manager

Zia U Syed
Chief Financial Officer

Jehanzeb Khan
Chief Executive

Rizwan Afzal
Operations Manager

Muddassir Khalid
HR Business Partner

Imran Qureshi
Business Manager
Decorative Paints

Mohsin Raza Naqvi
Business Manager
Performance Coatings & Specialty Chemicals





Report of the Directors

For the year ended December 31, 2012

The Directors are pleased to present their report together with the audited financial statements of the Company for the year ended December 31, 2012.

Overview

2012 was the first full year of the Company subsequent to its demerger from ICI Pakistan Limited. Profit after tax for 2012 was almost in line with annualized profit of 2011.

Financial Performance

| Rs.m | 2012 | 2011 (For 6 months ended 31 December 2011) |
|--|-------|--|
| Turnover | 6,335 | 3,288 |
| Net Sales Income | 4,764 | 2,446 |
| Gross Profit | 1,571 | 800 |
| Operating Result | 243 | 155 |
| Profit Before Tax | 506 | 285 |
| Profit After Tax | 365 | 188 |
| Earnings Per Share (2011: annualized) - Rs | 7.87 | 8.08 |

Dividends

Your Directors are pleased to announce a recommendation for a final dividend of 78.6 per share for the full year 2012. The dividend is made up of two elements; a dividend paid out of earnings from normal trading amounting to Rs 2.50 per share and a special dividend amounting to Rs 76.10 per share, which is a non-recurring one-off payment. The special dividend is paid out of surplus cash arising from the demerger settlement as per the Scheme of Arrangement for the reconstruction of ICI Pakistan Limited sanctioned by the High Court of Sindh in May 2012.

Health, Safety and Environment – HSE

The Company achieved 2.1 million man-hours without any Lost Time Injury to employees and supervised contractors.

In 2012, your Company's focus remained on energy conservation resulting in a 7% reduction in energy usage over the year. Electrical safety remained a priority and improvement plans have been implemented to continue to make our workplace safer.

In line with AkzoNobel's policy, Akzo Nobel Pakistan Limited has ceased manufacturing of lead chromate based products to reduce the environmental impact of our products.

Business Performance

The paint industry continues to be challenged as a consequence of the overall economic slowdown resulting in sluggish residential construction and maintenance as well as weakened industrial activity. The year witnessed economic pressures as a result of the ongoing energy crisis and a poor law & order situation, exacerbated by political uncertainty and high inflation.

Production of the passenger car segment showed a sharp decline in H2 2012 due to the adverse impact of imposition of Euro II standards and a relaxation of duties on the import of used cars for resale in the country. However, the tractors segment grew primarily on the back of Punjab government's Green Tractor scheme.

The Company continued its focus on cost controls, new product development and customer engagement to mitigate the negative impact of lower volumes. Accordingly profit before tax for 2012 was Rs 506m while profit after tax was Rs. 365m which was almost in line with last year's annualized results.

Pursuing a policy of openness and transparency with customers, the Company decided to discontinue placement of tokens in paint cans which has negatively impacted volumes. We await enforcement by regulators in order to level the playing field. In such challenging times, the business continued to focus on its premium lines where the influence of tokens is comparatively low and on strengthening brand awareness to influence consumer preference for its brands.

Future Outlook

Economic growth is expected to remain slow in the short term as a result of the upcoming national elections and weakened industrial activity due to continuing energy shortages. However, your Company aims to counter unfavorable market conditions through engagement initiatives targeted towards key motivators and customers, through new business development and through effective cost and margin management.

Acknowledgment

The results of your Company are a reflection of the commitment and contribution by its strong pool of talented employees and the trust reposed in the Company by its customers, suppliers and service providers.

Auditors

The present auditors KPMG Taseer Hadi & Co., Chartered Accountants retire and being eligible have offered themselves for the reappointment with their partner in charge of audit, Mr. Kamran Iqbal Yousafi.

Compliance with the Code of Corporate Governance

As required under the Code Of Corporate Governance 2012, the Directors are pleased to state as follows:

- The financial statements, prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements

and any deviation from these has been adequately disclosed and explained.

- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the Listing Regulations.
- Key operating and financial data for the last two years is summarized on page F 53 and F 54.
- Outstanding taxes and levies are given in the Notes to the Financial Statements.
- The management of the Company is committed to good corporate governance and appropriate steps are taken to comply with best practices.

Investment in Retirement Benefits

The value of investments made by the staff retirement funds operated by the trustees of the funds, as per their respective un-audited financial statements for the year ended December 31, 2012, are as follows:

| | Value in Rs '000 |
|---|------------------|
| Akzo Nobel Pakistan Limited Management Staff Provident Fund | 150,708 |
| Akzo Nobel Pakistan Limited Management Staff Gratuity Fund | 88,136 |
| Akzo Nobel Pakistan Limited Management Staff Pension Fund | 69,269 |
| Akzo Nobel Pakistan Limited Management Staff Defined Contribution Superannuation Fund | 36,945 |
| Akzo Nobel Pakistan Limited Non Management Staff Provident Fund | 80,961 |

Directors' Attendance

During the year, 3 (three) Board of Directors, 2 (two) Audit Committee and 2 (two) HR & Remuneration Committee meetings were held. Attendance by each Director/CFO/Company Secretary was as follows:

| Name of Directors | | Board of Directors Attendance | Audit Committee Attendance | HR & Remuneration Committee Attendance |
|--|-------|-------------------------------|----------------------------|--|
| 1. Mr. Mueen Afzal | (iv) | 3 | 2 | 2 |
| 2. Mr. Peter Tomlinson | (iii) | 3 | - | 2 |
| 3. Mr. Asad I A Khan | (iv) | 3 | 2 | - |
| 4. Mr. James Thick | (iii) | 3 | - | - |
| 5. Mr. Jehanzeb Khan | | 3 | - | 2 |
| 6. Mr. Zia U Syed | (iv) | 3 | 2 | - |
| 7. Mr. Bart Kaster | (iii) | 2 | 2 | - |
| 8. Mr. Nasir Jamal Company Secretary | (i) | 1 | - | - |
| 9. Ms. Saira Soofi Company Secretary | (ii) | 2 | 1 | - |
| 10. Mr. Tariq Munir Secretary Audit Committee | (v) | - | 1 | - |
| 11. Mr. Muddassir Khalid Secretary HR & R Committee | | - | - | 2 |

- (i) Resigned w.e.f. July 13, 2012
(ii) Appointed w.e.f. July 13, 2012
(iii) Appointed w.e.f. May 23, 2012
(iv) Appointed w.e.f. May 21, 2012
(v) Resigned w.e.f. October 10, 2012

Leave of absence was granted to directors who could not attend some of the Board meetings.

Director's Training

Mr. Jehanzeb Khan has completed the certification for the Director's Training Program conducted by Pakistan Institute of Corporate Governance (PICG).

Pattern of Shareholding

A statement showing the pattern of shareholding in the Company along with additional information as at December 31, 2012 appears on page numbers F 55 and F 56.

ICI Omicron B.V. (an AkzoNobel Group Company) held 75.81% shares, while Institutions held 11.44% and individuals and others held the balance 12.75%.

The highest and the lowest market prices during 2012 were Rs. 131.00 and Rs. 77.01 per share respectively.

The Directors, CEO, CFO, Company Secretary and their spouses and minor children did not carry out any transaction in the shares of the Company during the year.



Mueen Afzal
Chairman / Director

Lahore
February 24, 2013



Jehanzeb Khan
Chief Executive

Statement of Compliance

with the Code of Corporate Governance.

For the year ended December 31, 2012

This statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of the stock exchanges for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code, after the listing of Company on all the three stock exchanges in Pakistan in July 2012, in the following manner:

1. The Company encourages representation of independent, non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

| Category | Names |
|------------------------|---|
| Independent Director | Mr. Mueen Afzal (Chairman) Mr. Asad I A Khan |
| Executive Director | Mr. Jehanzeb Khan Mr. Zia U Syed |
| Non-Executive Director | Mr. Bart Kaster Mr. James Thick Mr. Peter Tomlinson |

The independent directors meet the criteria of independence under clause i (b) of the Code of Corporate Governance.

2. The directors have confirmed that none of them is servicing as a director in more than seven listed companies, including Akzo Nobel Pakistan Limited.
3. All the resident directors of the Company are registered as taxpayer and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by that stock exchange.
4. Six casual vacancies occurred on the Board during the year. Three of them occurred on May 21, 2012 and three on May 23, 2012, which were filled up by the directors within 90 days of their occurrence.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The Board has developed a mission statement and is in the process of developing corporate strategy and significant policies of the Company. In the meantime the Company has adopted all significant policies applicable at the time of demerger.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of CEO, other executive directors and non executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter, after the listing of the Company in July 2012. Written notices of the Board meeting, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of

- the meetings were appropriately recorded and circulated.
9. The directors have been provided with copies of the listing regulations of the Karachi Stock Exchange Limited, Company's Memorandum and Articles of Association and the Code of Corporate Governance and they were all conversant with their duties and responsibilities. The Company will also arrange training programs for its directors in accordance with the 'Implementation deadline of Code of Corporate Governance 2012'.
10. There has been no new appointment of CFO, Company Secretary and Head of Internal Audit after the Code of Corporate Governance 2012 became effective. However, their remuneration and terms and condition of employment were duly approved by the Board.
11. The Directors' Report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code of Corporate Governance, after the listing of the Company in July 2012.
15. The Board has formed an Audit Committee. It comprises three members, all of whom are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter, after the listing of the Company in July 2012, prior to approval of interim results of the Company and as required by the Code of Corporate Governance.
17. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The Board has outsourced the internal audit function to M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the Code of Corporate Governance have been complied with after the listing of the Company in July 2012.



Mueen Afzal
Chairman / Director

Lahore
February 24, 2013



Jehanzeb Khan
Chief Executive

Review Report

to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

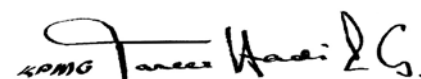
We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Akzo Nobel Pakistan Limited ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, sub-regulation (x) of Listing Regulation No. 35 notified by the respective Stock Exchanges where the Company is listed, requires the company to place before the Board of Directors for their consideration and approval of related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 31 December 2012.



Lahore

Date: 24 February, 2013

KPMG Taseer Hadi & Co.
Chartered Accountants
(Kamran Iqbal Yousafi)

