

Akzo Nobel India Limited
Annual Report 2011-12



AkzoNobel
Tomorrow's Answers Today

The **power** of **1**

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The year was exciting, with plenty of developments, the most significant of them being, of course, the merger of three AkzoNobel group subsidiaries in India with Akzo Nobel India. This report embraces the 'Power of One'.

The power of



The 'Power of One' has different meanings for different people. Yet, it always signals a positive thought. For a company, the connotation is even stronger—here the power of many merges to form the power of one. And this is what has happened recently at Akzo Nobel India. Three Akzo Nobel subsidiaries, Akzo Nobel Coatings India Private Limited, Akzo Nobel Car Refinishes India Private Limited and Akzo Nobel Chemicals (India) Limited, merged with Akzo Nobel India to leverage the power of 'One AkzoNobel' and realise its vision for the future. The merger has made Akzo Nobel India a coatings and chemicals powerhouse. It has gained in size and portfolio. Therefore, the 'Power of One' is, suitably, the theme of our Annual Report this year. Herein, we focus on the significance of numbers, the facts and figures that highlight the growth of our Company.

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Chairman's statement

We have completed yet another successful year and along with my colleagues on your Board, I am grateful for the galvanising support we have received from our shareholders every step of the way. Our journey as Akzo Nobel India began in 2008 with Akzo Nobel N.V.'s acquisition of ICI, globally. And now, four years later, we have merged all AkzoNobel group businesses in India, becoming a much larger company with a coating for virtually every need.

Although the last year and the current one continue to present many challenges, we know that the potential for the paints business in India is high, propelled by the growth in the automobile and construction industries. With the Tier-II and Tier-III cities reaping the benefit of economic growth, there is even further scope for market penetration. The GDP growth projection of 6 to 6.5% for the year translates to a growth of 9 to 10% in the paints business in India. With Akzo Nobel India's increasing distribution capability and widening portfolio of products, we are well-positioned to participate in India's progressive development.

Prompted by the growth ambition of all our shareholders, Akzo Nobel India's Board recently completed the merger of three other AkzoNobel Group companies in India with Akzo Nobel India. During the process of the merger, the highest standards of corporate governance were applied. Now, as a merged entity, Akzo Nobel India has a stronger balance sheet and an expanded canvas of businesses. The strategy of the Company is being re-defined and the Board is closely monitoring its working and providing real-time supervisory guidance on all facets. Further, as a signal of confidence in the prospects of the Company, the Board has recommended an increase in the dividend to Rs 20 and proposed a share buyback programme at a price of Rs 920 per share through a tender offer.

I would like to emphasise the key pillars of governance in the Company; namely, accountability and transparency. We have robust systems and processes in place, operating with strong internal controls and multi-level checkpoints. Together this will ensure that the promises we make to our esteemed shareholders are delivered within the governance framework.

What gives us immense joy is that we have also been able to contribute meaningfully to the weaker sections of society. Akzo Nobel India is recognised as a value-based Company and our commitments lie deeply in the area of corporate social responsibility. This, along with our efforts to find sustainable solutions in all our products and processes, has provided us with the right framework to achieve results. Your continued support has enabled this success story.

We look to the future with both determination and confidence.

Nihal Kaviratne CBE



Managing Director's message

Dear Shareholders,

The year 2011-12 marked a significant change in the overall trajectory of our Company. And, with the recent merger, we have entered a completely new era of investment and growth. This promises to be an eventful journey, with the Power of 'One AkzoNobel' unleashed to its full potential.

A key enabler of our growth strategy is the merger of three Indian subsidiaries of Akzo Nobel N.V. with Akzo Nobel India. The assets and operations of Akzo Nobel Coatings India, Akzo Nobel Car Refinishes India and Akzo Nobel Chemicals (India) are now part of our Company. Hence Akzo Nobel India has the platform and the portfolio to leverage the power of 'One AkzoNobel' and realise its vision for the future. Indeed, the merger has given birth to an integrated coatings and chemicals powerhouse, with significant positions in several segments, namely, premium decorative, industrial and automotive coatings. We have also entered wood finishes business, thus positioning Akzo Nobel India as an end-to-end coatings solutions provider.

The merger has also given us the scale to compete on an equal footing in the market. We now operate with nine business lines and have access to several global brands and technologies. We have the portfolio and geographic presence to enter new markets. Further, we can also offer solutions to the diverse needs of varied institutional customers.

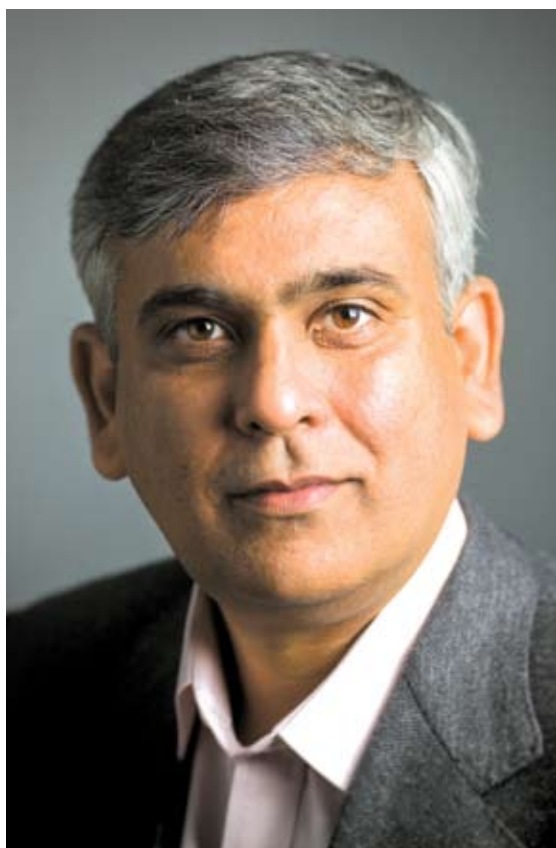
There have been some other major thrusts in our Company over the last year—one was building operating excellence in the businesses that we were already handling, that is, decorative paints, car

refinishes and surface chemistry. All three businesses demonstrated robust growth. Our Decorative Paints business showed strong volume and value growth. In the premium category, we launched DSS Colour Bright, Dulux Guardian and Velvet Touch Trends. These launches reinforce the credentials of Dulux as the brand that introduces high quality, innovative products that always value-add to consumer lifestyle. Our focus on mid-tier proved immensely successful with the launch of the mass-market, acrylic distemper, ICI Magik.

We also introduced the new brand identity of Dulux and the Ecosure certification on all packaging. We invested in media and the 'Apne Rang Chhalakne Do' campaign triggered Dulux's recognition as a leading name for home decoration, both in the interior and exterior segments.

Our Automotive coatings business continued to maintain a strong position in the Refinishes market. Even as the Sikkens Rapid Repair (SRR) suite of services is in increasing demand due to the encouraging market response, we have also launched two new mid-tier products this year, namely, Dynacoat and Miluz. Our Performance coatings business continued to secure many new accounts and we are steadily progressing in our journey towards becoming a coatings solutions provider for the Construction and Transportation sectors.

This year, our Chemicals business, based out of Mahad and Pune, won the National Safety award from FICCI and has been winning the National Safety Council awards for the last three years consecutively. We take



All of us now belong to India's most comprehensive Coatings and Chemicals company with a turnover of over Rs 2,000 crore. This is an exciting time to be a part of Akzo Nobel India; we have the scale and portfolio to take a leap in pursuit of our mission

our responsibility towards safety and sustainability very seriously. We enhanced our manufacturing capacity significantly with the commissioning of a 30 million litre facility in Hyderabad. Our Bangalore site has been strengthened with a new capacity for Coil Coatings being added to the existing range of Performance coatings. The number of our operating factory sites in our Company has gone up from three to five and we are adding one more integrated Greenfield site at Gwalior, for which we plan to invest up to Rs 150 crore over the next year.

In a year when raw material costs spiralled and foreign exchange rates fluctuated, our globally aligned procurement function ensured sourcing security and regularity of supplies. Moreover, long-term agreements with strategic vendors have already been put into place, thereby guaranteeing raw material availability. In spite of these efforts, we still continue to face cost and margin pressures.

As regards product formulation and technology, we are also bringing in models of excellence from AkzoNobel

globally. I want to emphasise that the focus on RD&I within our Company continues to be pivotal. Take the example of our International Research Centre in Bangalore; with 105 scientists, it is a valuable addition to our capabilities, enabling us to offer more innovative automotive product and colour solutions.

Our employees continue to remain at the core of our strategy because we know that we can only grow as fast as we grow our people. We continue to invest in people capability and in giving them opportunities to grow within different functions across business lines. At the World HRD Congress 2012, Akzo Nobel India has been acknowledged as one of the best overall talent management organisations of the year and that is a tribute to our committed efforts at growing our people.

I see the year ahead as being a challenging one; the road map has been defined. We now need to, as 'One AkzoNobel', work together to create history.

Amit Jain

Our Board of Directors



Left to right: Mr R Gopalakrishnan, Independent Director; Mr Amit Jain, Managing Director; Ms Sucheta Govil, Alternate Director to Mr Graeme Armstrong; Mr Nihal Kaviratne CBE, Non Executive Chairman; Ms Renu Sud Karnad, Independent Director; Mr Arvind Uppal, Independent Director and Mr Partha Sarathi Basu, Wholetime Director. Inset: Left to right: Dr Sanjiv Misra, Independent Director and Mr Graeme Armstrong, Non Executive Director.