

Akzo Nobel India Limited

Annual Report 2009-10



AkzoNobel

Tomorrow's Answers Today



KEEPS YOUR HOME UPTO
5°C COOLER.*



WITH SUNREFLECT TECHNOLOGY



*Up to 5°C cooler surface. Application on select climates only. For more details, please refer to the WeatherShield data card or WeatherShield online colour guide.

Dulux[®]

Dulux[®]
super
Smooth

So smooth. So beautiful.



Rich Matt Premium Emulsion

Our Values



AkzoNobel
Tomorrow's Answers Today

The beliefs that underpin our business

Our values define what we are and what we aim to be. They reflect the way we should operate both internally and externally. And they're summed up in the line 'Tomorrow's Answers Today'.

We believe in:

- **Focusing on our customers' future first**
- **Embracing entrepreneurial thinking**
- **Developing the talents of our people**
- **The courage and curiosity to question**
- **Integrity and responsibility in our actions**

These values give us standards to measure ourselves by, particularly in our dealings with customers, suppliers, our own people and the wider world. The values have real meaning for us and the way we behave.

Tomorrow's Answers Today



AkzoNobel
Tomorrow's Answers Today

AkzoNobel, the largest paint company in the world, is all set to re-invent the paints industry with its foray in the Indian market. ICI India, the maker of Dulux and Duco range of paints, is now AkzoNobel India and this change was brought in with a new sense of energy and purpose by the Company.

True to its philosophy, 'Tomorrow's Answers Today', AkzoNobel is committed to providing the best possible solutions to its consumers and pre-empt the need of the industry. The change in identity is just the beginning of a wave of strategic investments that AkzoNobel plans to make in people, practices and new ways of marketing.

To formally announce the transition, the Company launched a campaign to reach out to all its stakeholders across India. This transition does not just mean a change in the visual identity of the Company, but also marks a strategic transformation in the Company's culture, people, processes and business practices, thereby aligning itself with the global best practices of AkzoNobel.

The transition will entail a host of changes for the Company, with an emphasis on innovation and technology. This thrust is reflected in the three recent product launches : Dulux WeatherShield SunReflect which brings global technology for the first time in the Indian market, Dulux Velvet Touch Colours of the World collection and Dulux Super Smooth, all of which bring forth a unique proposition to the consumer.

Improving the Company's visibility by providing an innovative retail experience to the consumer is a priority for AkzoNobel. Dulux has a sizeable number of branded outlets across India and the in-shop visual merchandising in these stores ensures the retail journey of the consumer in



the shop is informative and engaging along with building value to the dealer. The superior retail experience is manifest in the trademark Dulux Decorator Centres. Dulux, which pioneered the concept of these modern retail initiatives, provides a complete painting solutions experience to the consumer through its Decorator Centres. These outlets offer a world-class ambience to the consumers, where they can experience the brand offering and get a one stop offering for painting with the help of trained colour consultants.



Working through strengthening relationships and enhancing partner profitability is one of the core agendas of AkzoNobel. Currently, the Company has a Contractor partner programme that focuses on building contractor capability. In this programme, the Company partners with contractors to help them enhance their productivity through various products and tools. The Company also encourages active dialog with the paint dealers and retailers to enhance their profitability.

As with the rest of the world, AkzoNobel plans to align its strategy and execution with its global agenda of sustainability. Globally, AkzoNobel is committed to the cause of the environment, something that is reflective in its agenda of offering eco-friendly paints. The practice has been replicated in AkzoNobel India. Dulux is the first paint brand in India that complies with stringent European norms on lead content, apart from not containing any added benzene and chromium. In fact, AkzoNobel has constantly occupied top slots in the Dow Jones Sustainability Index. Globally, AkzoNobel has undertaken Carbon Value Assessment, analyzing and developing products with much lower ecological footprint than the markets in which they operate. Many of AkzoNobel's products have much lower ecological impact compared to other players in the paints market. It is also working towards reducing CO₂ emission by 15% by 2015.



AkzoNobel India is committed to spearhead the evolution in the paint industry and contribute as much as possible to the community, its consumers and all its partners. As part of its campaign, the Company will engage in painting community spaces and transforming them. A start has been made and AkzoNobel India hopes to carry on with your support and add colour to people's lives.

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AkzoNobel

Tomorrow's Answers Today

BOARD OF DIRECTORS

CHAIRMAN

Mr Aditya Narayan

MANAGING DIRECTOR

Mr Amit Jain (w.e.f. 1 June 2009)

Mr Rajiv Jain (upto 31 May 2009)

DIRECTORS

Mr A J Britt (upto 30 June 2009)

Ms Kerris Bright (upto 29 April 2010)

Mr R Gopalakrishnan

Ms Renu S Karnad

Mr Nihal Kaviratne CBE

Dr Sanjiv Misra (w.e.f. 14 May 2010)

Mr M R Rajaram (upto 31 October 2009)

Mr M V Subbiah (upto 19 June 2009)

COMPANY SECRETARY

Mr R Guha

REGISTERED OFFICE

Geetanjali Apartment, 1st Floor,
8-B, Middleton Street, Kolkata 700071
Tel : 033-22267462 Fax: 033-22277925

CORPORATE OFFICE

10th Floor, DLF Plaza Tower
DLF Qutab Enclave, Phase-1
Gurgaon 122002
Tel : 0124-2540400
Fax : 0124-2540849

WEBSITE

www.akzonobel.co.in

KEY COMMITTEES OF THE BOARD

Audit Committee

Ms Renu S Karnad (Chairperson)

Mr R Gopalakrishnan

Mr Nihal Kaviratne CBE (w.e.f. 15 May 2009)

Dr Sanjiv Misra (w.e.f. 14 May 2010)

Remuneration and Nominations Committee

Mr Nihal Kaviratne CBE (Chairman)
(w.e.f. 15 May 09)

Mr R Gopalakrishnan

Ms Renu S Karnad

Dr Sanjiv Misra

Shareholders/Investors Grievance Committee

Mr Aditya Narayan (Chairman)

Mr Amit Jain (w.e.f. 17 July 2009)

Mr Rajiv Jain (upto 31 May 2009)

Mr M R Rajaram (upto 31 October 2009)

AUDITORS

B S R & Associates

BANKERS

Citibank NA

Deutsche Bank AG

HDFC Bank Limited

Hongkong & Shanghai Banking Corpn.

Standard Chartered Bank

State Bank of India

REGISTRAR AND SHARE TRANSFER AGENT

C B Management Services (P) Ltd

P-22, Bondel Road

Kolkata 700019

Tel : 033-22806692-94 / 40116700

Fax : 033-22870263

Email : rta@cbmsl.com

DIRECTORS' REPORT

Your Directors have pleasure in presenting their report for the year ended 31 March 2010.

BUSINESS ENVIRONMENT

After a sluggish start, the Indian economy picked up momentum in the second half of the year under review. The estimated GDP growth in 2009-10 was over 7% (previous year 6.7%); the Index of Industrial Production also indicates a growth of around 10% in 2009-10, against previous year's 2.8%. The Union Budget for 2010-11 has, as widely anticipated, partially withdrawn some of the 'stimulus measures' introduced in 2008-09 in the wake of improvement in economic environment, besides re-adjusting corporate tax rates. A road map for implementing the new Direct Taxes Code and the Goods and Services Tax with effect from 1 April 2011 has also been laid out. RBI's macro economic forecast for the fiscal year 2010-11 is a GDP growth at 8% with an upward bias, assuming normal monsoon and moderate inflation. The credit policy announced by the RBI in April 2010 factors in the above outlook and has initiated measures to adjust interest rates to contain inflationary pressures.

FINANCE AND ACCOUNTS

Total income for the year at Rs 10,433m was up by 5% while the PBT at Rs 2,000m grew by 12% over the previous year. PAT for the year at Rs 1,593m is however not comparable with the previous year's Rs 2,946m because of exceptional items. Keeping in view the current year's performance and other relevant factors, the Board has recommended a dividend of Rs 16.00 per share for the year 2009-10 (same as in the previous year) which will be paid after the approval of the members at the forthcoming Annual General Meeting.

The performance highlights for the year are: (Rs million)

	<u>2009-10</u>	<u>2008-09</u>
Total Income	<u>10,433</u>	<u>9,963</u>
Operating Profit (PBDIT)	<u>2,198</u>	<u>1,967</u>
Depreciation	<u>(212)</u>	<u>(213)</u>
Interest income (net)	<u>14</u>	<u>38</u>
Profit before tax from operations	<u>2,000</u>	<u>1,792</u>
Exceptional items	<u>-</u>	<u>1,995</u>
Profit before tax	<u>2,000</u>	<u>3,787</u>
Tax	<u>(407)</u>	<u>(841)</u>
Profit after tax	<u>1,593</u>	<u>2,946</u>

The appropriations from the profit are as follows:

Balance in Profit & Loss Account brought forward from previous year	<u>5,924</u>
Profit after tax for the year	<u>1,593</u>
Total available for appropriation	<u>7,517</u>

Appropriations

Transfer to General Reserve	<u>(760)</u>
Proposed Dividend (net)	<u>(588)</u>
Tax on Dividend	<u>(98)</u>
Balance carried to Balance Sheet	<u>6,071</u>

No public deposits were accepted by the Company during the year. Unclaimed dividends amounting to Rs 3m were remitted into the Investor Education and Protection Fund of the Central Government as required under section 205C of the Companies Act, 1956.

SIGNIFICANT DEVELOPMENTS

After obtaining all necessary approvals, the name of the Company has been changed to Akzo Nobel India Limited. This change reflects the alignment of your Company with the AkzoNobel Group which had acquired Imperial Chemical Industries PLC (ICI) worldwide.

SHARE BUYBACK

The share buyback through market operations, approved by the members on 19 December 2008 was closed on 18 December 2009, after buying back a total of 1.38m shares, constituting 3.6% of the pre-buyback paid up capital of the Company, spread over two financial years 2008-09 and 2009-10. The premium paid over the face value of the shares bought back during the year and other costs of the buyback amounting to Rs 684m have been adjusted against General Reserve. In addition, as required under the Companies Act 1956, a Capital Redemption Reserve of Rs 12m has been created by adjustment to the General Reserve.

MANAGEMENT DISCUSSION & ANALYSIS

Paints

Your Company's Paints business segment consists of Decorative and Refinish businesses. In the early part of the financial year, the business took a cautious approach to protect its profitability. Segment sales for the year grew 4% while segment profit grew by 26%, on the back of savings in raw materials costs, improved mix and innovation.

In Decorative Paints business, your Company continued to invest in Retail Modernization which was started last year under the brand Dulux Decorator Centre. A new initiative for improving your Company's visibility in the retail segment called Visual Merchandising was launched during the year, providing world class visibility elements to its dealers to differentiate their outlets.

In Refinish Paints business, your Company initiated focus on new emerging segment 'Mid Tier PU' and revamped the Brand Strategy for 'Eterna' with clear

market segmentation. The business continued its focus on demand generation through programmes like 'The Great Finishers Club', colour workshops and training in colour matching skills for painters.

Having created a strong growth platform in the previous year, the outlook for the business segment in the new financial year is positive in the backdrop of revived economic conditions. The government's thrust on infrastructure development and the extension of the interest subsidy scheme on small individual housing loans is likely to improve the sentiments in the real estate sector, which in turn could help the paints industry.

The business segment has positioned itself to target growth ahead of market in the next few years and has been building capability for taking advantage of new opportunities. The key aspects of the growth strategy are to place customers' interests first and empower its people, besides operating in a sustainable manner. However, volatility in crude oil prices and exchange fluctuations may adversely impact input costs, which will be addressed through innovation and value creation plans.

Others

This segment consisting of the trading operations in Surface Chemistry and National Starch products registered a sales growth of 6% and profit growth of 18% over the previous year.

RESPONSIBLE CARE - HEALTH, SAFETY, ENVIRONMENT & SECURITY ('HSE&S') AND CORPORATE SOCIAL RESPONSIBILITY ('CSR')

HSE&S

Your Company continued to sustain its high standards of HSE&S performance, returning yet another year with no major injury or incidents. The integrated HSE&S system has stabilized and is being used uniformly across the organization. Your Company continued to drive its sustainability objectives by taking up challenging targets for energy, water and waste reduction in all its plants. Your Company has also become a member of the TERI-BCSD (Business Council for Sustainable Development) to participate in issues related to sustainable development and to promote leadership in environmental management and social responsibility. No occupational illness was reported during the year.

CSR

During the year under review, your Company encouraged a number of CSR initiatives in the neighbouring communities in partnership with NGOs for improving children's awareness on health, safety and

environment. Your Company's efforts won recognition from AkzoNobel Group with a second prize in the Global Community Programs 2009 Best Practices Competition for the project 'A self-sustaining home for street children'.

CONSERVATION OF ENERGY, RESEARCH, DEVELOPMENT & INNOVATION

Your Company's performance on energy and waste reduction continued to improve ahead of targets. Your Company continues to use its research and development base to bring to the consumers new products with improved performance features and products for special applications.

Particulars in respect of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, pursuant to section 217(1)(e) of the Companies Act, 1956, are given in **Annexure I** to this report.

INFORMATION TECHNOLOGY

Your Company continued to invest in upgrading its Information Technology systems to enhance competitive advantage.

With a view to improve operational effectiveness and efficiency, AkzoNobel's proven global SAP solution called 'SATURN' has been implemented at all sites across Paints business. The new system provides a single end-to-end platform to facilitate management decision making and enable deployment of advanced integrated functionalities in future.

The data network has been completely revamped and upgraded to provide high-speed links at all sites to ensure the connectivity and quality of service required to run all the relevant applications.

HUMAN RESOURCES

Cordial relations with employees prevailed at all the Company locations during the year. The total number of employees on the rolls of the Company as at 31 March 2010 was 873.

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this report. However, as per the provisions of Section 219(1)(b)(iv) of the Act, the report and Accounts are being sent to the members excluding the aforesaid information. Any member interested in obtaining such particulars may write to the Company Secretary.

INTERNAL CONTROL SYSTEMS

The Company has an effective Risk Management framework, which helps the Board to monitor the exposure and state of controls in the key business processes. Your Company has well-established procedures for internal control commensurate with its size and operations. The

DIRECTORS' REPORT

organization is appropriately staffed with qualified and experienced personnel for implementing and monitoring the internal control environment. The internal audit function is adequately resourced and reports to the Audit Committee.

CORPORATE GOVERNANCE

Annexure II to this report summarizes the details of compliance with the Corporate Governance norms outlined in clause 49 of the Listing Agreements with National Stock Exchange and Bombay Stock Exchange.

DIRECTORS

Mr M V Subbiah resigned from the Board with effect from 20 June 2009. Mr. A J Britt resigned from the Board with effect from 1 July 2009. In the casual vacancy caused by Mr. Britt's resignation, Ms Kerris Bright was appointed as a Director with effect from 1 July 2009; she has since resigned from the Board with effect from 30 April 2010. Dr Sanjiv Misra joined the Board with effect from 14 May 2010 in the casual vacancy caused by the resignation of Ms Kerris Bright. Mr M R Rajaram stepped down from the Board with effect from 1 November 2009.

Mr R Gopalakrishnan and Dr Sanjiv Misra, Directors, will be retiring by rotation at the forthcoming Annual General Meeting and are eligible for re-appointment.

The Board wishes to place on record its deep appreciation of the contribution of Mr. M V Subbiah, Mr A J Britt, Mr M R Rajaram and Ms Kerris Bright during their respective tenures as members of the Board.

AUDITORS

M/s B S R & Associates retire as the Auditors of the Company at the conclusion of the forthcoming Annual General Meeting and being eligible have offered themselves for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- a) in the preparation of the Annual Accounts, the applicable accounting standards have been followed;

- b) they have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of
 - the state of affairs of the Company as on 31 March 2010; and
 - the profit for the year ended on that date;
- c) they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) they have prepared the annual accounts on a going concern basis.

Cautionary Statement

Some of the statements in this report, describing the Company's objectives and expectations expressed in good faith, may constitute 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ materially from those, in the event of changes in the assumptions/market conditions.

ACKNOWLEDGMENT

The Directors wish to convey their gratitude and appreciation to all the employees of the Company for their valuable contribution during the year. They also wish to place on record their appreciation to the Company's customers, shareholders, investors, bankers, agents, suppliers, distributors and other business associates for their cooperation and support.

On behalf of the Board

Gurgaon
14 May 2010

A NARAYAN
Chairman