

---

October 20, 2011

---

## Investor update Q3 2011 results



---

# Agenda

---

- **AkzoNobel at a glance**
- **Strategic ambitions**
- **Performance improvement program**
- **Q3 2011 value highlights**
- **Q3 2011 innovation highlights**
- **Financial review**

# AkzoNobel key facts

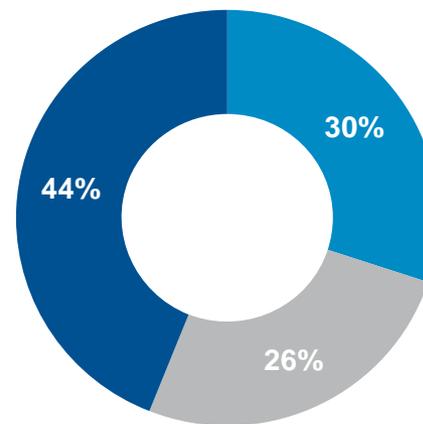
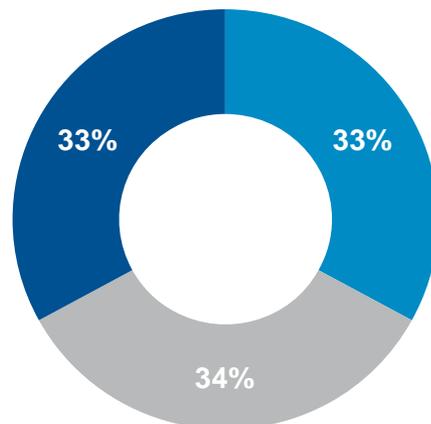
## 2010

- Revenue €14.6 billion
- 55,590 employees
- EBITDA: €2.0 billion\*
- Net income: €0.8 billion
- 39 percent of revenue from high growth markets
- A leader in sustainability



Revenue by business area

EBITDA\* by business area



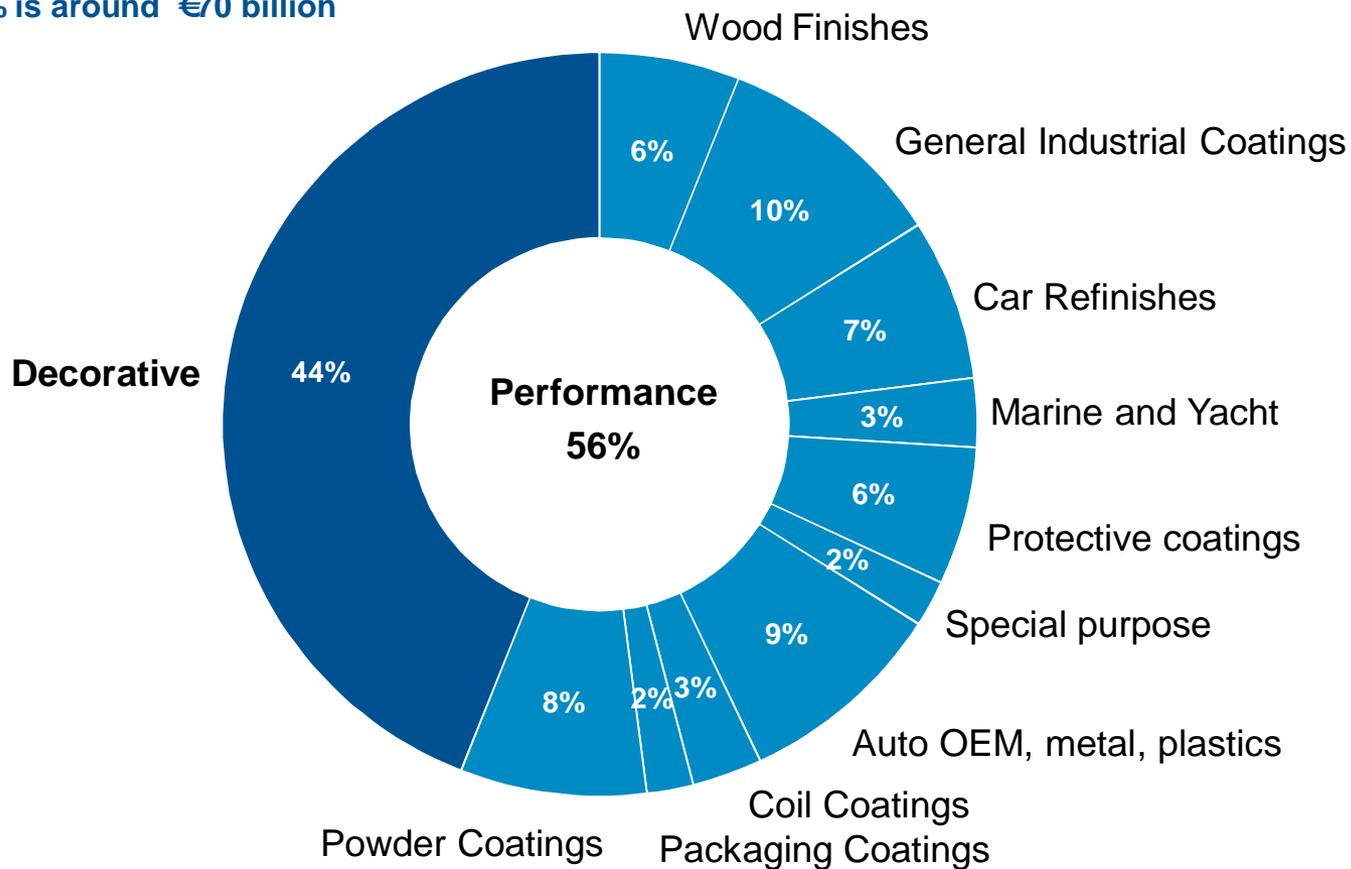
- Performance Coatings
- Decorative Paints
- Specialty Chemicals

\* Before incidentals



# The global paints and coatings market is around €70 billion

% of market  
100% is around €70 billion

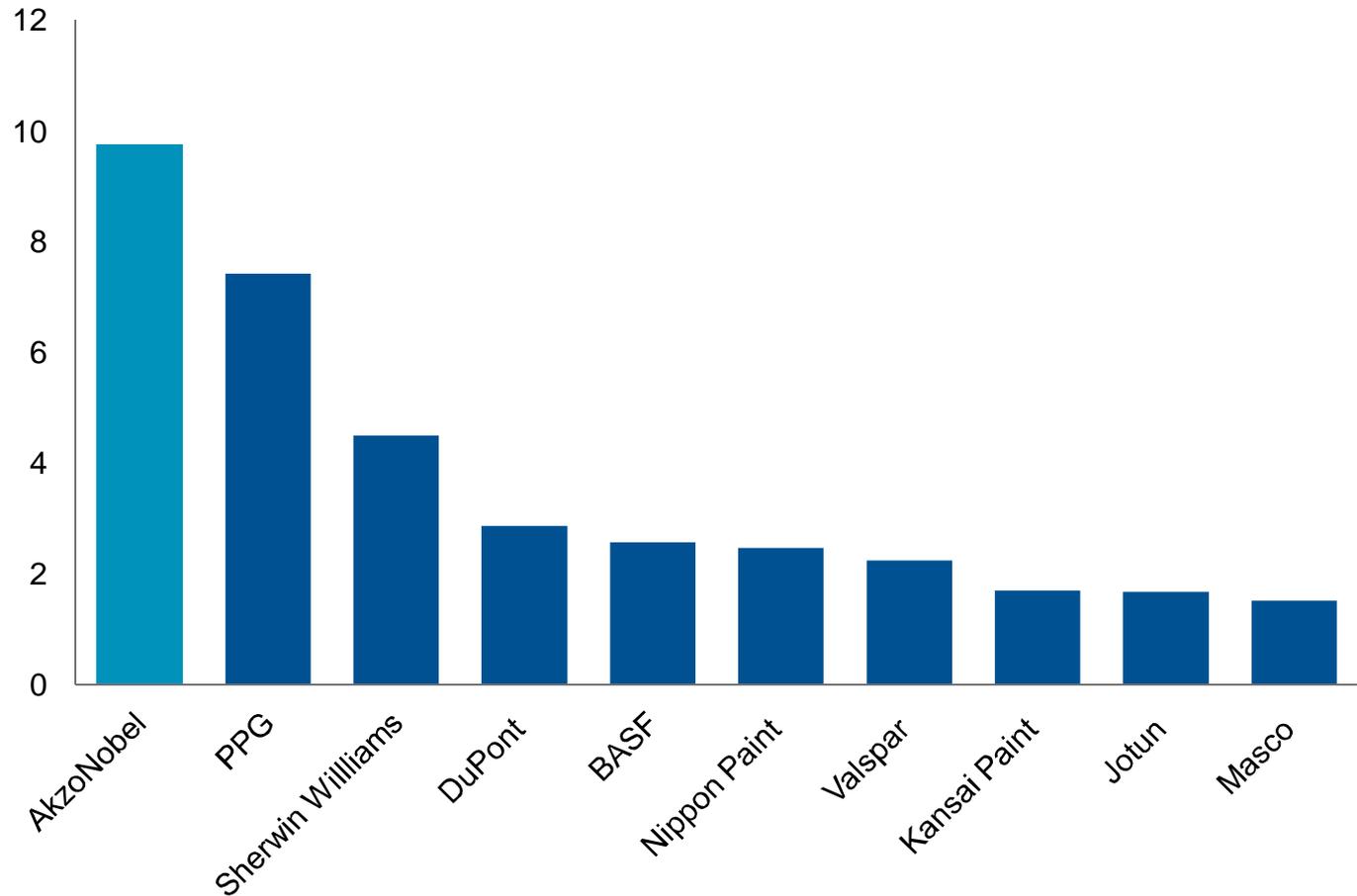


Source: Company Reports



# AkzoNobel is the world's largest coatings supplier

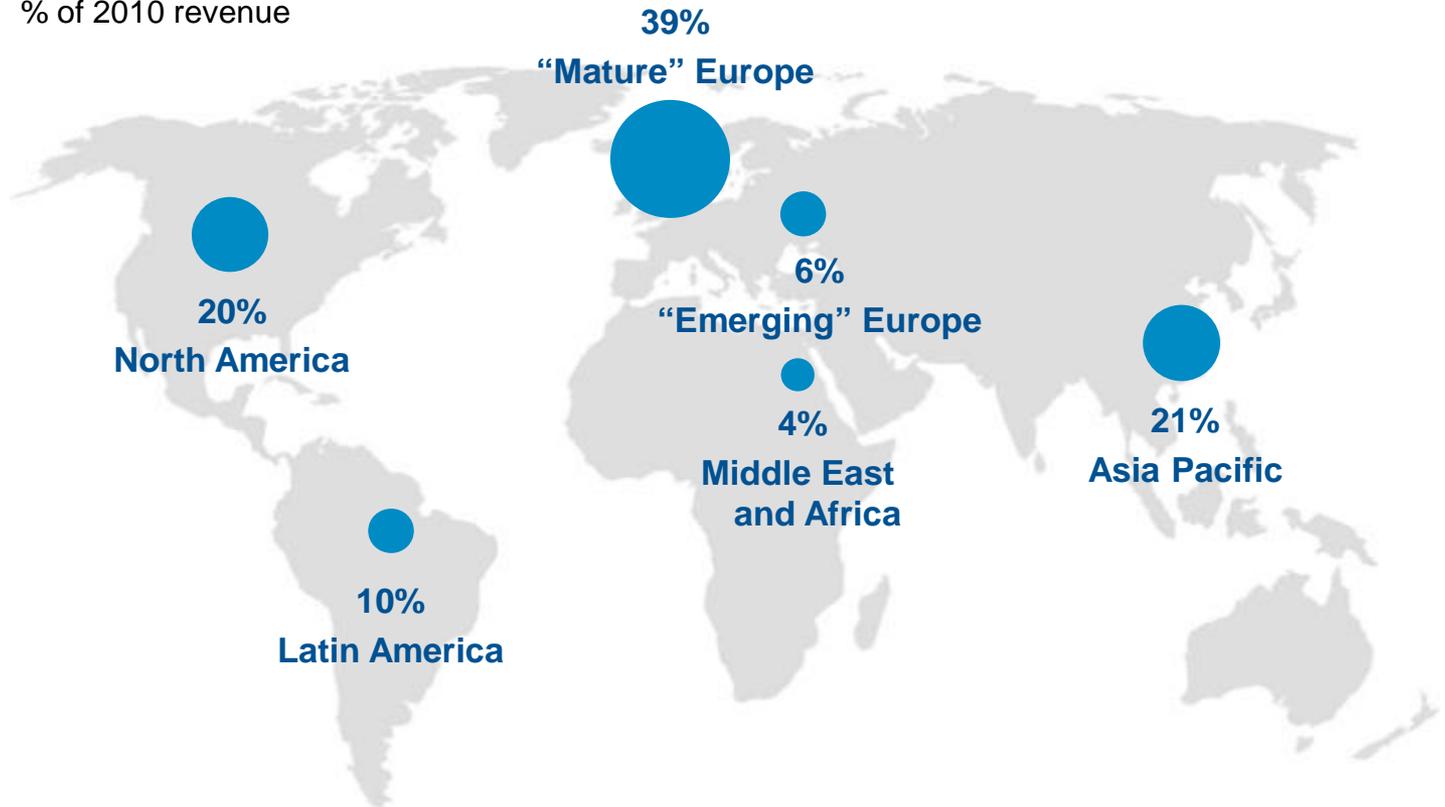
2010 revenue in € billion



# Excellent geographic spread of both revenue and profits

High growth markets are important (39% of revenue)

% of 2010 revenue

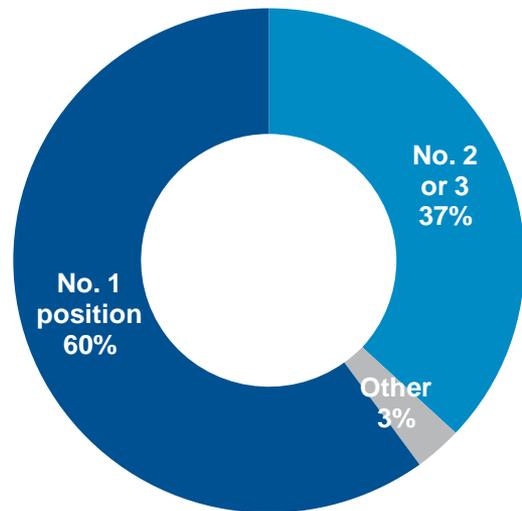


High growth markets' profitability is above average



# Leading positions and strong brands

## 2010 Revenue by market position



## Some of our strong brands



27% of Decorative Paints



23% of Performance Coatings



18% of Specialty Chemicals



# Successful customer focus

## Dulux® Weathershield SunReflect™

Lowers the temperature of external walls by up to 5° C and reduces the need for air conditioning by reflecting up to 90 percent more infrared radiation than comparable exterior paints.



## Compozil® Fx

A wet end management system for the largest and fastest paper machines. Top quality paper can be produced more efficiently and economically with a reduced environmental impact.



## Colour Click®

A web image tool based on unique technology to help consumers accurately choose colors to match and coordinate with their home environment.



## Autoclear® LV Exclusive

A high gloss clear coat paint for car refinishing. Based on proprietary resin technology, it is not only highly resistant to scratches and easy to apply, it features remarkable self-healing properties when exposed to gentle heat.



---

# Strategic ambitions

---

# Our strategic ambition

The world's leading  
coatings and specialty chemicals company



# Our medium term strategic goals

## Value Accelerated growth

- Grow to €20 billion revenues
- Increase EBITDA each year, maintaining 13-15 percent margin
- Reduce OWC/revenues by 0.5 p.a. towards a 12 percent level
- Pay a stable to rising dividend

- Top quartile safety performance
- Top 3 position in sustainability
- Top quartile performance in diversity, employee engagement, and talent development
- Top quartile eco-efficiency improvement rate

## Values Sustainable growth



# How we will expand in both mature and high growth markets

---

## Organic growth

- Expand focus from high to mid-market segments
- Fueling growth in high growth markets

## Innovation pipeline

- Spend of around 2.5 percent of revenue makes us the clear leader of our peers in absolute spend
- Emphasis on bolder, focused, sustainable innovation

## Acquisitions

- Wide range of opportunities
- All business areas qualify
- Value created in less than three years



---

## **Aspirations for high growth markets (currently around 40 percent of our revenue)**

---

### **Double revenues in China**

- Grow from \$1.5 to \$3 billion of revenues
- Already the biggest paint, coatings and specialty chemicals company in China

### **Create significant footprint in India**

- Grow from €0.25 to €1 billion in revenue
- Increasing footprint for all business areas

### **Outgrow the competition in Brazil**

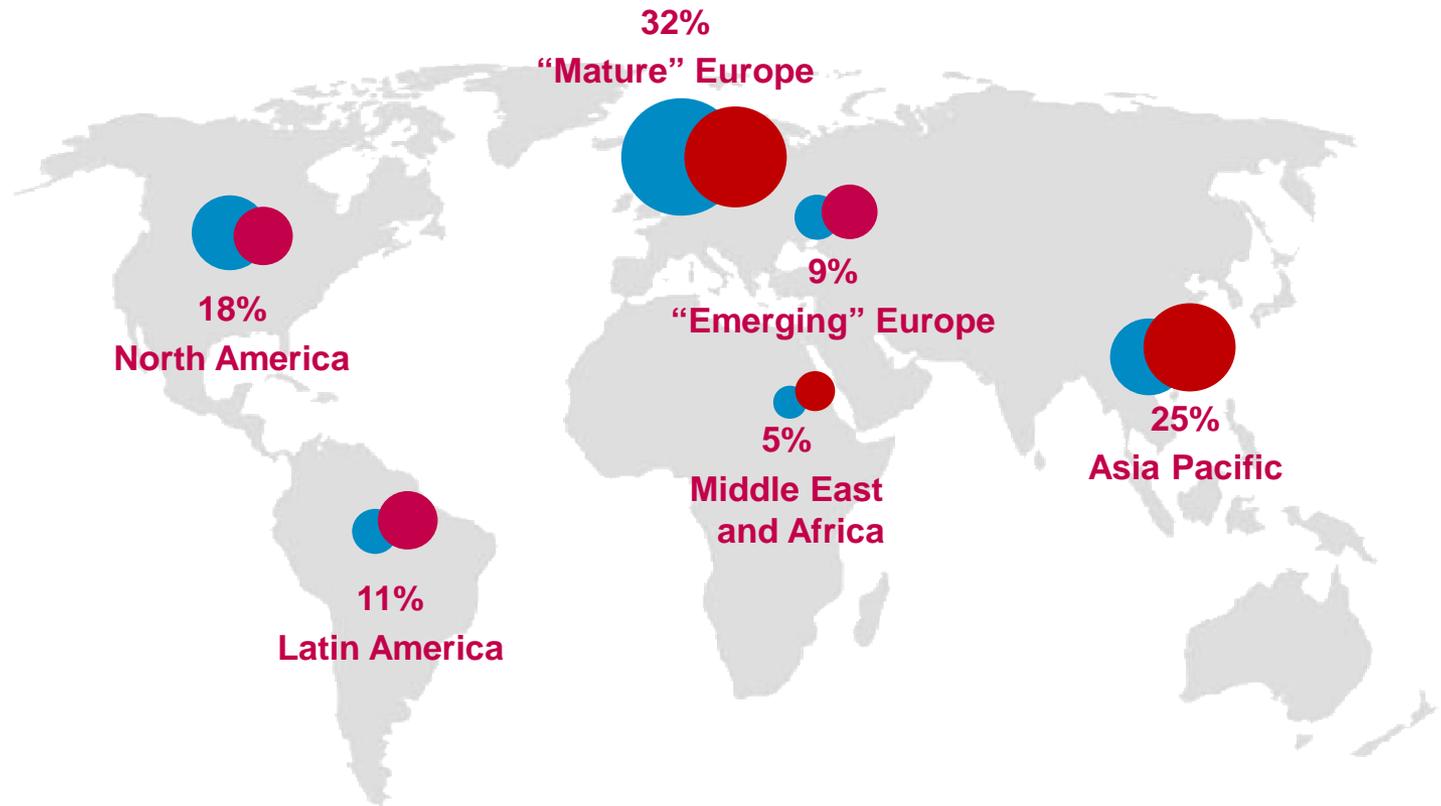
- Grow from €0.75 to €1.5 billion in revenue
- Become clear market leader in all our activities

### **Expand in the Middle East**



# High growth markets will become significantly more important

% of revenue, indicative



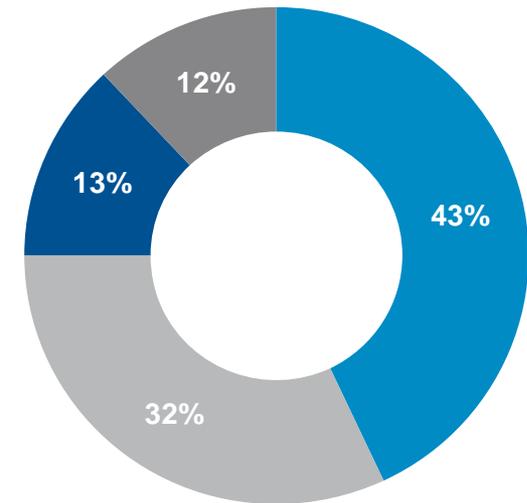
High growth markets will be around 50% of revenue in this decade

# Exciting RD&I pipeline with innovative solutions for key market segments

## How innovation will support our growth agenda:

- Functional solutions in key market segments
- Increase spend in big R&D
- >15 percent of revenue from “breakthrough” innovations\*
- >30 percent of revenue from eco-premium solutions\*\*

## Revenue by key market segment



- Residential construction
- Consumer goods
- Non-residential construction
- Transport

\* Major innovations that result in a significant competitive advantage

\*\* Higher eco-efficiency than competing comparable product



# Clear sustainability focus

## Accelerated sustainability strategy will deliver:

- Safety at 2.0 injuries per million hours
- 30 percent of revenue from eco-premium solutions
- Sustainable fresh water management
- 30 percent eco-efficiency improvement
- 10 percent carbon footprint reduction (20-25 percent by 2020)
- 20 percent of executives will come from high growth economies
- Key supplier partnerships will deliver footprint reduction

Embed **safety and sustainability** in everything we do



---

# Performance improvement program

---

# The next step in the evolution of AkzoNobel



- Divestiture of fibers and pharma
- Restructuring of chemicals portfolio
- Acquisition of ICI
- Building global scale in paint and coatings
- Onward sales of National Starch completed

- Integration of ICI
- €340 million structural synergies achieved by Q2 2010
- Footprint rationalized, key people retained
- More than €200 million in cost savings from restructuring

- New Value and Values growth strategy Sept. '10
- Performance improvement program logical next step
- Combination of driving operational excellence and restructuring underperforming parts of the business



# Stepping up operational and functional excellence

## Underpin our growth and margin objectives

- Enhance our ability to grow
- Expected to bring us at or above the mid-point of our 13-15 percent EBITDA margin guidance.

## Deliver structural competitive advantage

- Leveraging scale, simplify support structures, reduce cost base
- Transfer best practices, standardize key processes
- Restructuring of underperforming parts of the portfolio

## Full EBITDA impact of €500 million in 2014

- Expected total incidental costs €425 million
- 2012: €200 million EBITDA, incidental costs of €200 million
- Reporting on program deliverables every six months



# A comprehensive program

- **Comprehensive – all functions, all businesses**
  - Margin management, R&D and restructuring (~50%)
  - Supply Chain and Sourcing projects (~40%)
  
- **Improvements implemented over three years (2012 to 2014)**
  
- **All business areas contribute to delivering the €500 million**
  - >40 percent Decorative Paints
  - >30 percent Performance Coatings
  - Close to 25 percent Specialty Chemicals

	Decorative Paints	Perf. Coatings	Specialty Chemicals
Finance			
Information Management			
Research, Dev't & Innov.			
Human Resources			
Integrated Supply Chain			
Margin Management			
Academy			



# Performance improvement initiatives examples

**Supply Chain – Creating a sustainable, customer-driven supply chain that operates at world-class safety, operational and customer service levels:**

- Improve the efficiency of all of our 225 factories
- Reduce the cost of warehousing and transportation

**RD&I – Delivering bigger, bolder, better and faster innovation by focusing on four key areas:**

- Rationalizing RD&I's footprint in Europe and North America
- Reducing the number of raw materials we use
- Improving the efficiency of our manufacturing processes
- Linking customers' needs more effectively to our research activities

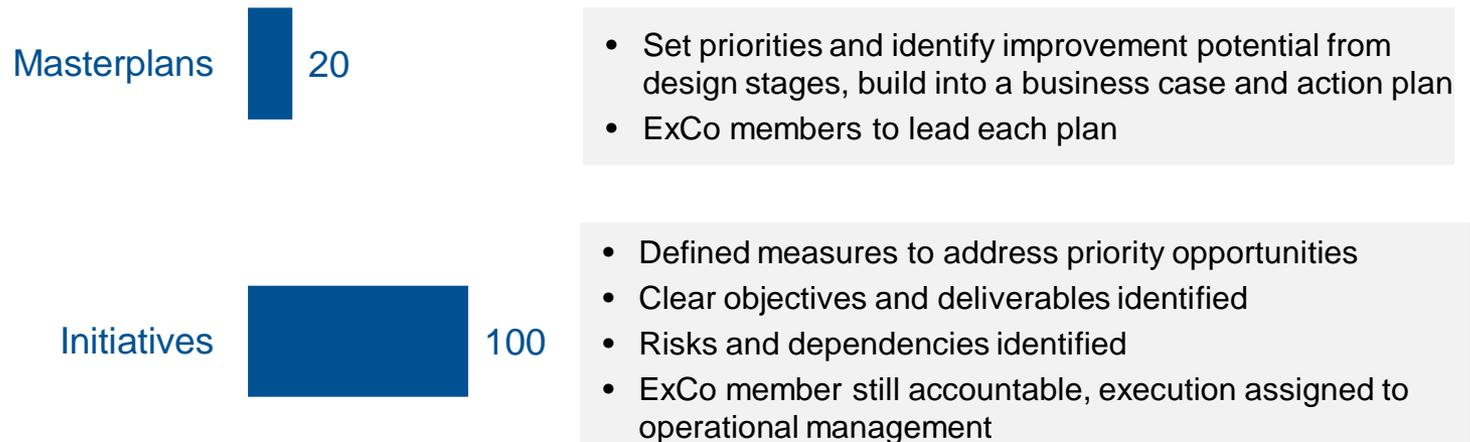
**Decorative Paints – Restructuring will continue in mature markets:**

- In North America and Europe, focus will be placed on reducing product complexity, optimizing distribution and increasing employee productivity



# Organization and governance

- Joint responsibility of the Executive Committee, led by CEO Hans Wijers
- The Executive Committee Support Office (ESO) will operate the implementation to track progress, intervene where necessary and support the overall program



---

# Q3 2011 Value highlights

---

## Q3 2011 highlights

- Revenue up 5 percent driven by pricing actions to offset raw material cost inflation
- Weaker economic conditions and continued raw material price inflation impact results, particularly in Decorative Paints
- EBITDA\* decreased to €507 million (2010: €574 million)
- Net income from continuing operations €148 million (2010: €217 million)
- Adjusted EPS €0.91 (2010: €1.19)
- Interim dividend of €0.33 per share declared, up 3 percent
- Major performance improvement program launched to deliver €500 million EBITDA in 2014

\* Before incidentals

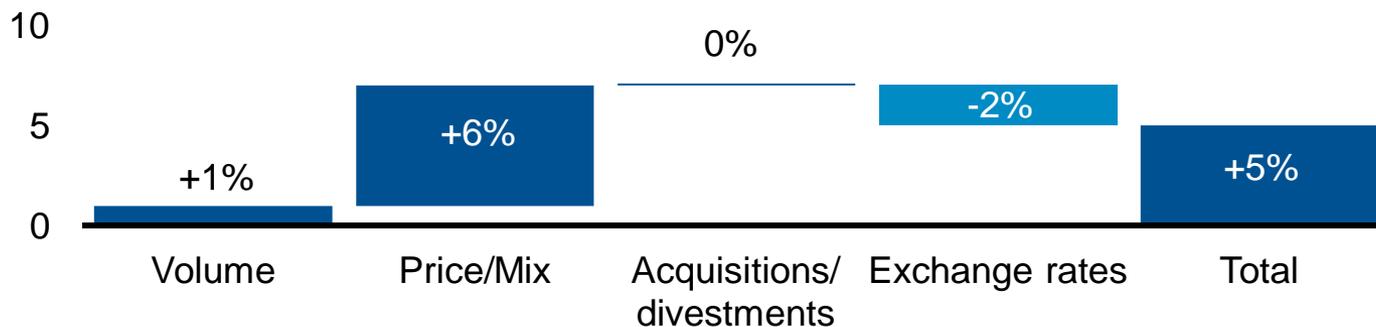


# Q3 2011 revenue and EBITDA

€ million	Q3 2011	Δ%
Revenue	4,051	5
EBITDA*	507	(12)

Ratio, %	Q3 2011	Q3 2010
EBITDA* margin	12.5	14.8

## Revenue development Q3 2011 vs. Q3 2010



\* Before incidentals

■ Increase ■ Decrease



## Summary – Q3 2011 results

<i>€ million</i>	Q3 2011	Q3 2010
EBITDA*	507	574
Amortization and depreciation	(155)	(146)
Incidentals	(51)	(47)
Net financing expense	(70)	(70)
Minorities and associates	(9)	(13)
Income tax	(74)	(81)
Discontinued operations	1	21
<b>Net income total operations</b>	<b>149</b>	<b>238</b>
Net cash from operating activities	409	378

<i>Ratio</i>	Q3 2011	Q3 2010
EBITDA* margin (%)	12.5	14.8
Adjusted earnings per share (in €)	0.91	1.19

\* Before incidentals



## Q3 2011 incidentals

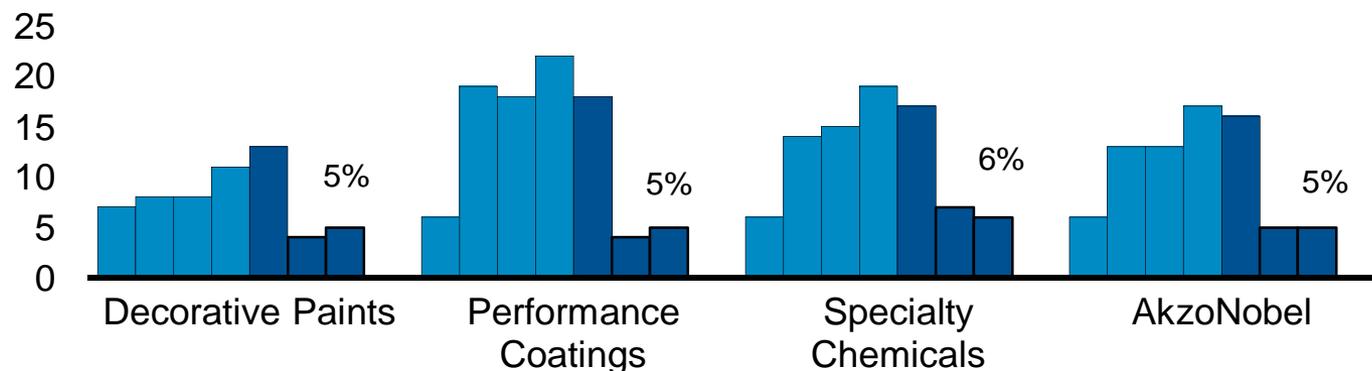
<i>€ million</i>	Q3 2011	Q3 2010
Restructuring costs	(47)	(53)
Results related to major legal, anti-trust and environmental cases	2	-
Results of acquisitions and divestments	(5)	15
Other incidental results	(1)	(9)
<b>Total</b>	<b>(51)</b>	<b>(47)</b>

- Restructuring is mainly related to European businesses in Decorative Paints and Performance Coatings

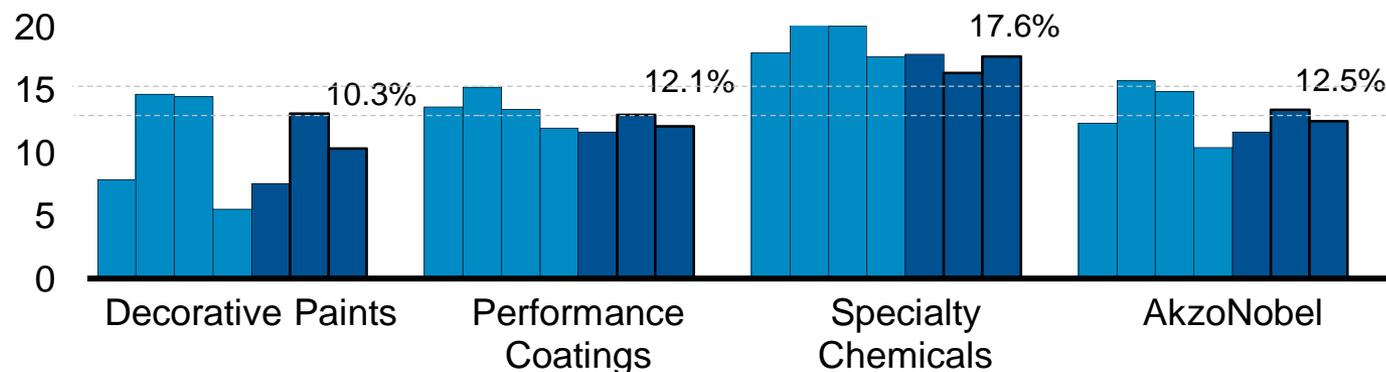


# Revenue growth and EBITDA margin performance 2010-11

## Reported quarterly revenue growth in % year-on-year



## Quarterly EBITDA\* margin in %



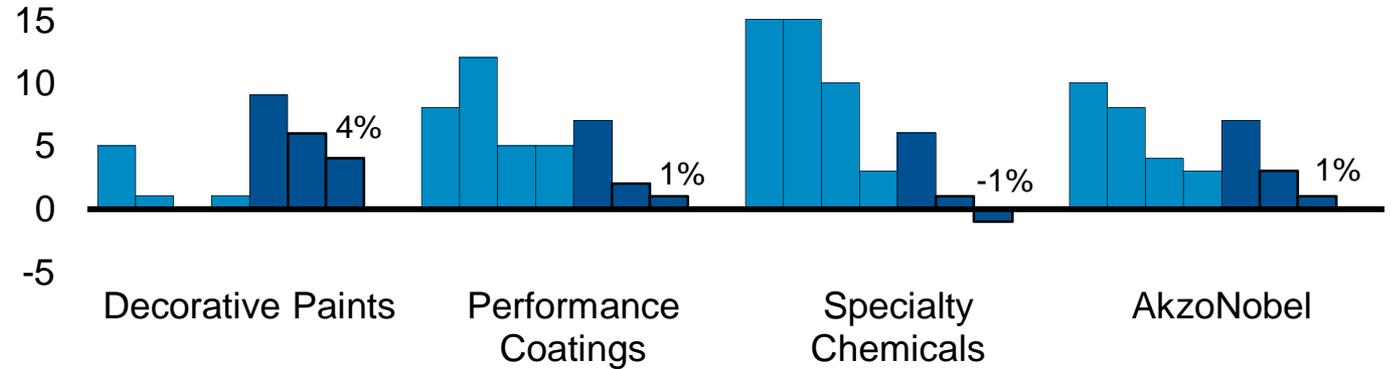
\* Before incidentals

■ 2010 ■ 2011 - - - - Target range

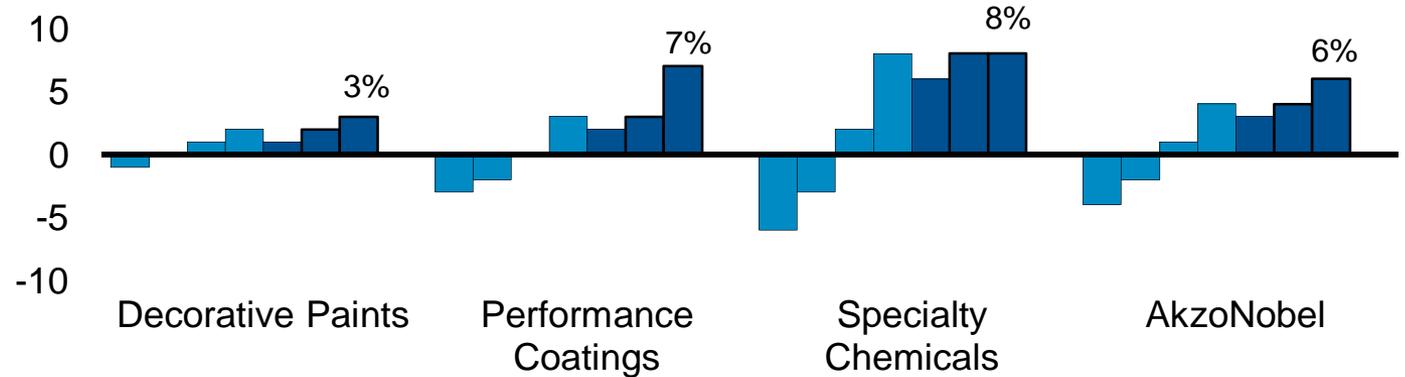


# Price increases coming through

Quarterly volume development in % year-on-year



Quarterly price/mix development in % year-on-year



■ 2010 ■ 2011



# Decorative Paints key facts

## 2010

- Revenue €5.0 billion
- 21,950 employees
- EBITDA: €548 million\*
- 38 percent of revenue from high growth markets
- Largest global supplier of decorative paints
- Many leading positions, strong brands

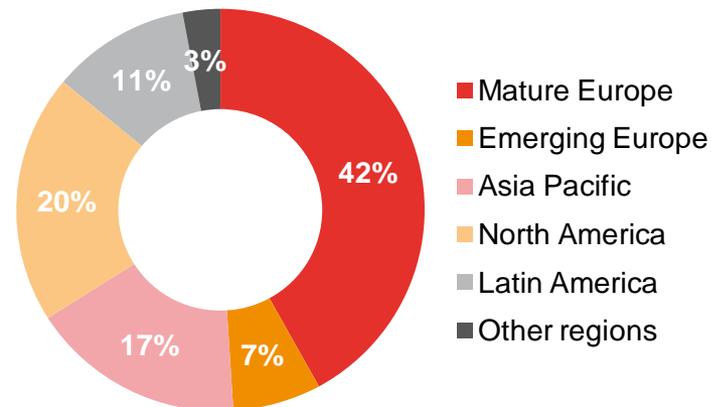


## Some of our strong brands



\* Before incidentals

## Revenue by geography



## Decorative Paints Q3 2011 highlights

- Revenue increased 5 percent; EBITDA\* decreased 25 percent
- Weaker demand, unfavorable product mix and higher raw material costs, particularly in Europe and North America
- High growth markets delivered higher sales
- Further price increases are being implemented and the cost base is being adjusted for lower volumes

*\* Before incidentals*



## First-ever global brand identity in the industry

- Vision: Fewer, clearly positioned stronger brands
- Delivering a consistent brand image around the world
- Competing directly against local and regional players
- Benefitting from current and future global platforms (i.e. advertising and sponsorship)
- Creating more internal synergies and cost savings

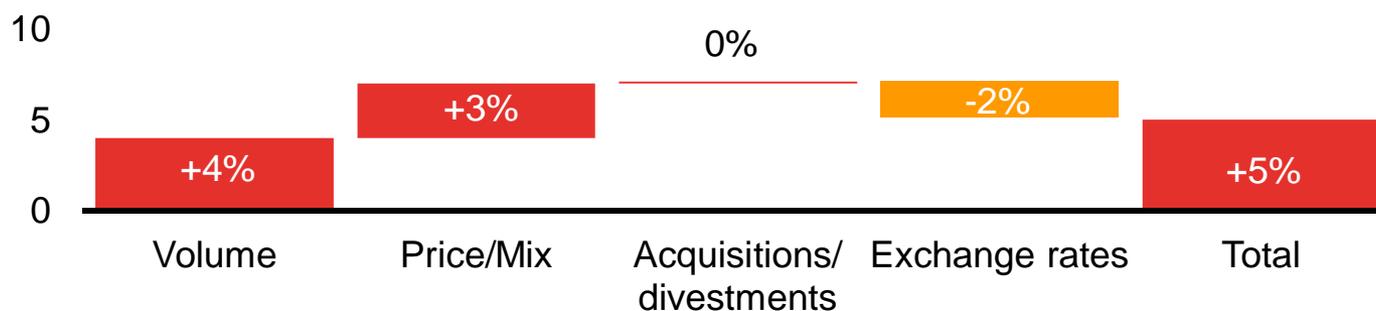


# Decorative Paints Q3 2011

€ million	Q3 2011	Δ%
Revenue	1,435	5
EBITDA*	148	(25)

Ratio, %	Q3 2011	Q3 2010
EBITDA* margin	10.3	14.4

## Revenue development Q3 2011 vs. Q3 2010



\* Before incidentals

■ Increase ■ Decrease

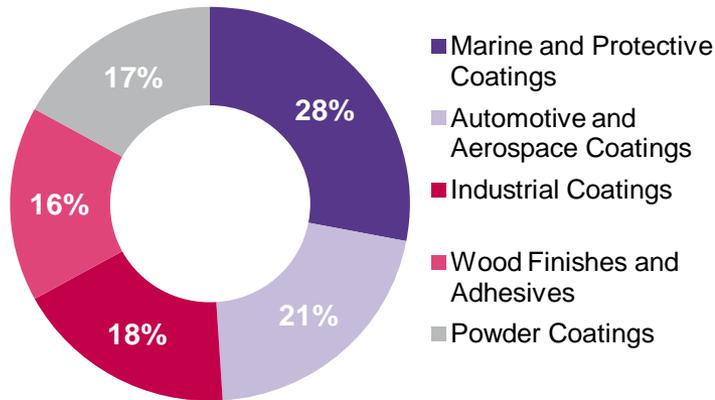
# Performance Coatings key facts

## 2010

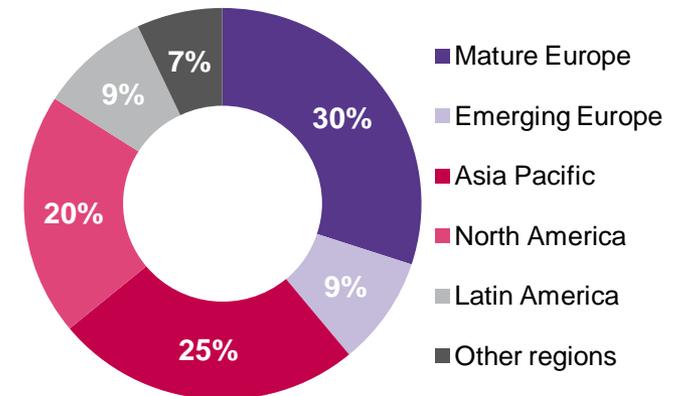
- Revenue €4.8 billion
- 21,020 employees
- EBITDA: €647 million\*
- 47 percent of revenue from high growth markets
- Leading positions in performance coatings industry
- Innovative technologies, strong brands



## Revenue by business unit



## Revenue by geography



\* Before incidentals

# Performance Coatings Q3 2011 highlights

- Revenue increased 5 percent; EBITDA\* decreased 5 percent
- Raw material costs continue to pressure margins
- EBITDA margin at 12.1 percent (2010: 13.4 percent)
- Strong growth in Industrial Coatings, while weakening markets impact Marine and Wood Finishes segments
- Continued focus on cost control and margin management initiatives

*\* Before incidentals*

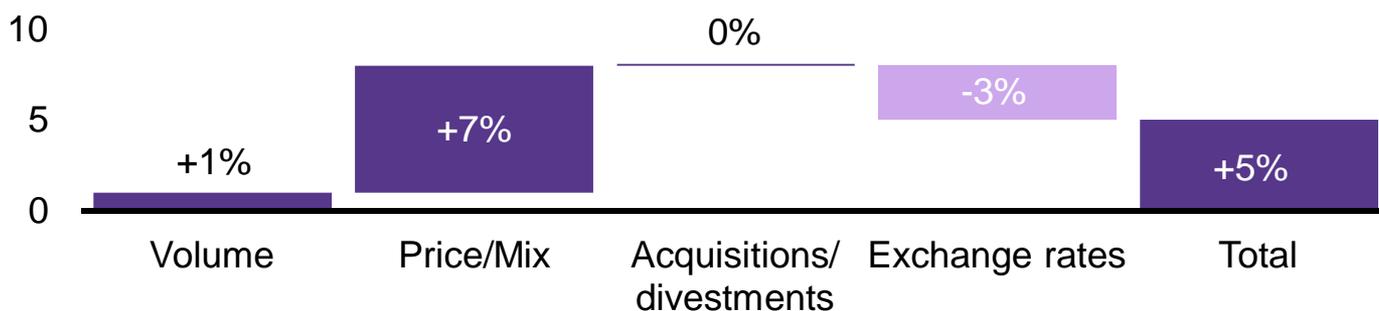


# Performance Coatings Q3 2011

€ million	Q3 2011	Δ%
Revenue	1,295	5
EBITDA*	157	(5)

Ratio, %	Q3 2011	Q3 2010
EBITDA* margin	12.1	13.4

Revenue development Q3 2011 vs. Q3 2010



\* Before incidentals

■ Increase ■ Decrease



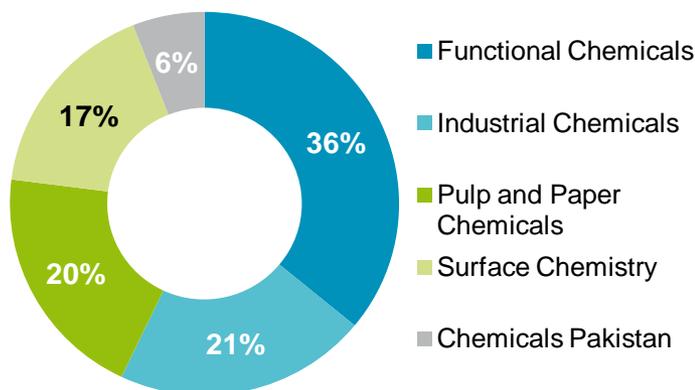
# Specialty Chemicals key facts

## 2010

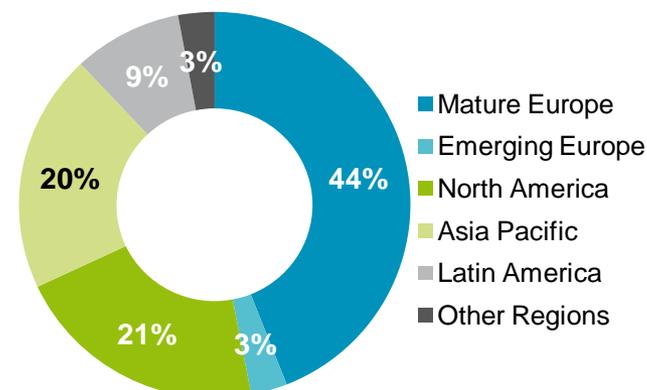
- Revenue €4.9 billion
- 11,080 employees
- EBITDA: €939 million\*
- 32 percent of revenue from high growth markets
- Major producer of specialty chemicals
- Leadership positions in many markets



## Revenue by business unit



## Revenue by geography



\* Before incidentals



# Specialty Chemicals Q3 2011 highlights

- Revenue increased 6 percent, based on stable volumes; EBITDA\* decreased 6 percent
- Price increases are being implemented to offset increased input costs and unfavorable currency effects
- Stable demand overall this quarter, but with some exceptions
- EBITDA\* margin was 17.6 percent (2010: 20 percent)
- Additional cost and cash savings programs initiated

*\* Before incidentals*

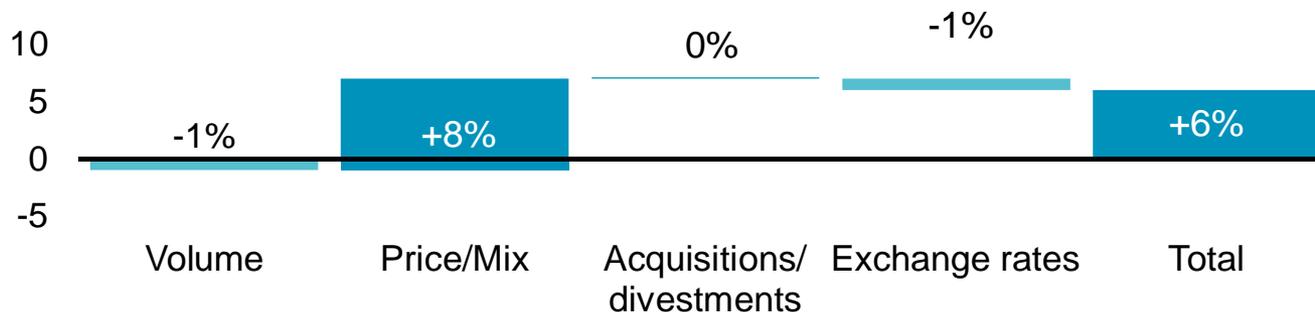


# Specialty Chemicals Q3 2011

€ million	Q3 2011	Δ%
Revenue	1,349	6
EBITDA*	238	(6)

Ratio, %	Q3 2011	Q3 2010
EBITDA* margin	17.6	20.0

Revenue development Q3 2011 vs. Q3 2010



\* Before incidentals

■ Increase ■ Decrease



---

# Q3 2011 innovation highlights

---

# Pipeline 2011

## Decorative Paints – Discovery Tinting Machine

An automatic tinting machine at a breakthrough entry level price

### Key Features

- Half the cost of conventional tinting machine with similar functionalities
- Innovative design and easy maintenance

### Customer Benefits

- Extends retailers' color offers
- Improving retailers' profitability and return on investment



### Growth potential

- Illustrates our color leadership
- Potential to drive distribution across high growth markets
- Roll-out in Latin America, India, Turkey and SE Asia



# Pipeline 2011

## Powder Coatings – Interpon A 5000

**First powder coating used on a passenger vehicle in Europe**

### Key features

- Beautiful black matte-textured finish, developed with OEM stylists
- Superior environmental advantages

### Customers benefits

- Fewer steps in process reduces both complexity and energy consumption
- Improved environmental footprint

### Growth potential

- Commercial launch by PSA is under discussion following successful trials with prototype vehicle
- Potential penetration of the automotive body-shell market



# Pipeline 2011

## Surface Chemistry - Biostyle™ CGP

### Sustainable polymers for clear hair styling gels

#### Key Features

- Novel polymer
- Provides humidity resistance in hair gels and styling products

#### Customer Benefits

- Clear hair gels with improved sustainability profile
- Attractive cost in use



#### Growth potential

- Launching in October 2011
- Early evaluations with local and international customers in progress

**Biostyle**™  
POLYMERS FOR PERSONAL CARE

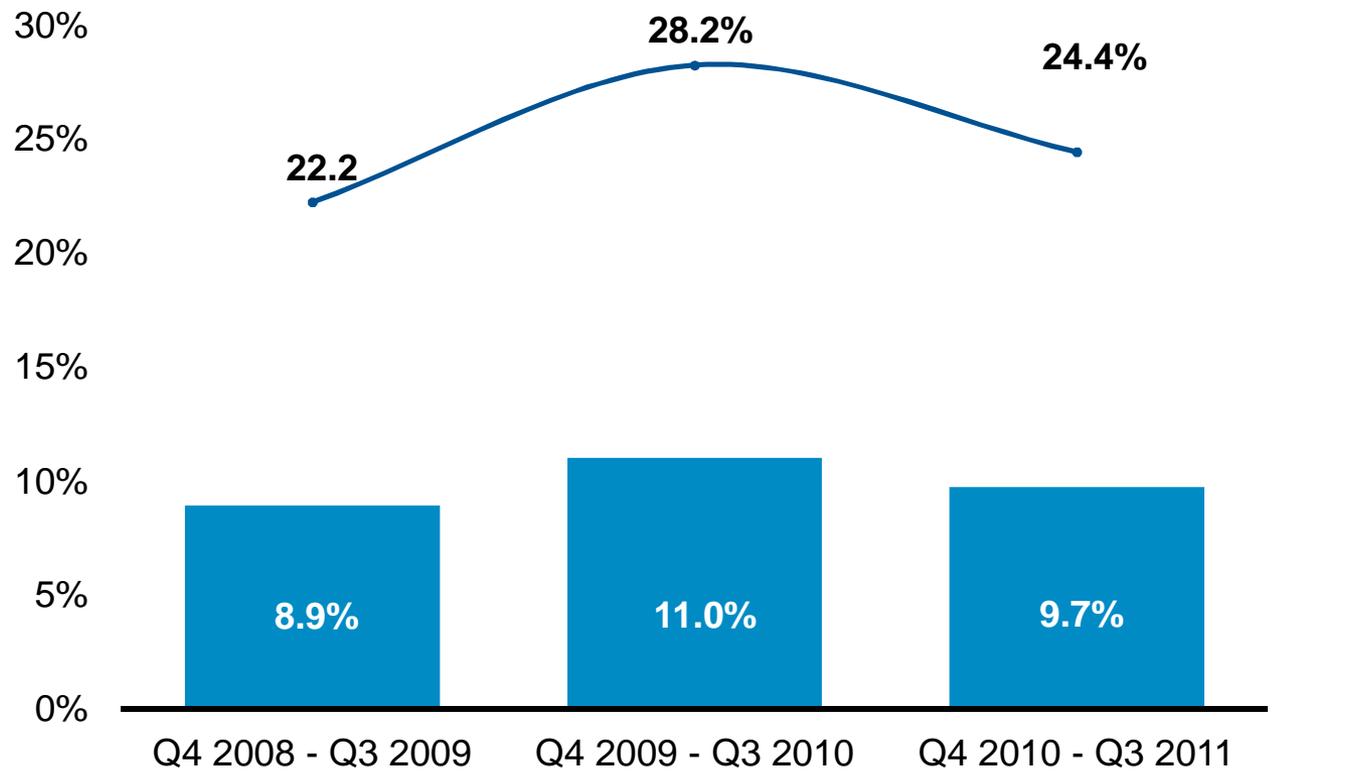


---

# Financial review

---

# Strong operating returns on invested capital



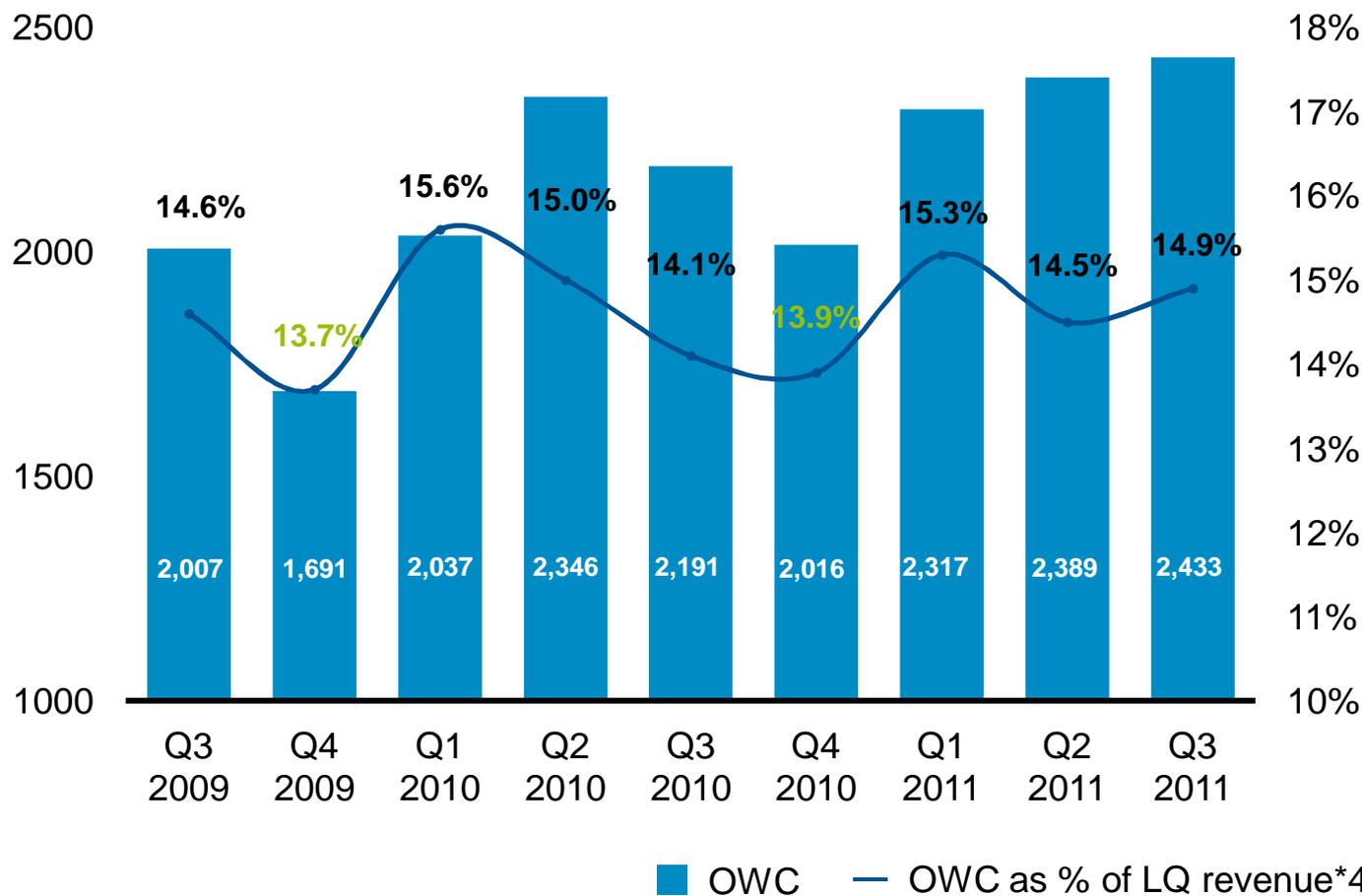
\* Operating ROI is calculated as EBIT before amortization divided by average invested capital excluding intangible assets

■ Moving average ROI %  
— Operating ROI %\*



# Year-on-year Operating Working Capital % of revenue to be reduced towards 12%

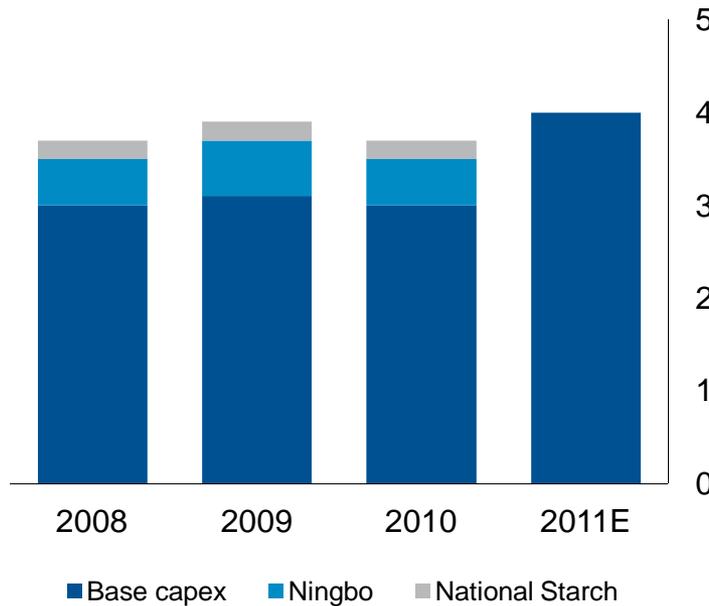
OWC  
€ million



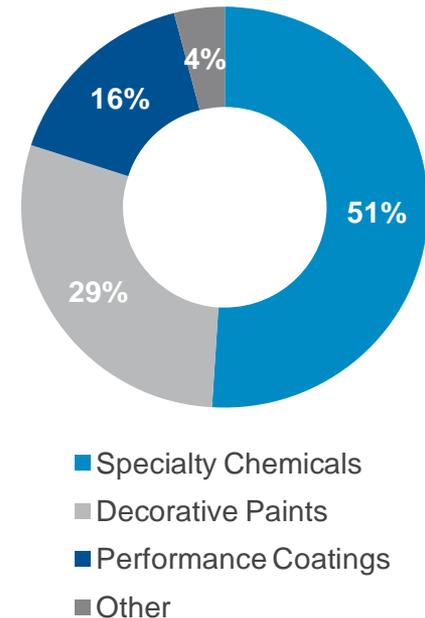
# Capital expenditure prioritization for growth

- Capex 2010 was €534 million (including Ningbo €100 million and excluding National Starch)
- Medium term: Capex level to be at least 4 percent of revenues

## Capex as a % of revenue



## 2010 Capex split



## Dividend increases

### Our policy is to pay a stable to rising dividend

- An interim and a final dividend will be paid
- Cash dividend default, stock dividend optional

### Intended 2011 total dividend €1.45 per share – up 3 percent

- 2011 interim dividend €0.33 per share, up 3 percent
- Our intention is to grow the total 2011 dividend by around €0.05 per share to €1.45



## EBITDA – Cash bridge

<i>€ million</i>	Q3 2011	Q3 2010
<b>EBITDA before incidentals</b>	<b>507</b>	<b>574</b>
Incidentals (cash)	(51)	(43)
Change working capital	41	105
Change provisions	(27)	(128)
Interest paid	(6)	(18)
Income tax paid	(55)	(112)
<b>Net cash from operating activities</b>	<b>409</b>	<b>378</b>

Improved net cash from operating activities due to:

- Lower payments related to provisions
- Lower payments for tax and interest
- Partially offset by lower cash flows from operating working capital



## Unchanged ambition to maintain strong balance sheet

<i>€ million</i>	Sep 30, 2011	Dec 31, 2010
Total equity	9,589	9,509
Net debt*	1,595	936

- Credit ratings unchanged at BBB+/Baa1, outlook stable
- Net debt increased mainly due to capital expenditures of €452 million and dividend payments of €282 million
- In September 2011, we renewed our five year multi-currency syndicated revolving credit facility for €1.8 billion (previously €1.5 billion)

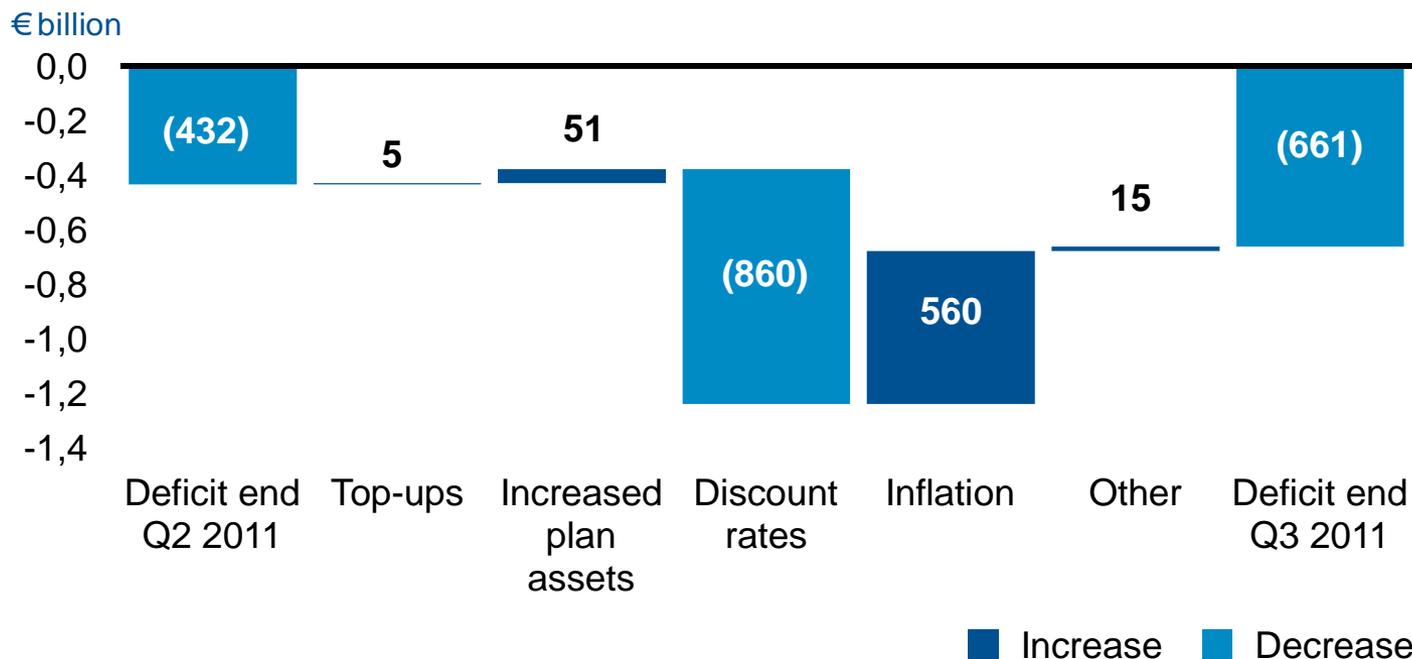
\* Before net pension deficit of €0.7 billion June 30, 2011 (December 31, 2010 €1.0 billion)



# Pension deficit increases to €0.7 billion

<i>Key pension metrics</i>	Q3 2011	Q2 2011
Discount rate	5.0%	5.5%
Inflation assumptions	2.7%	3.1%

## Pension deficit development during Q3 2011



## Lower 2011 cash out for pensions expected

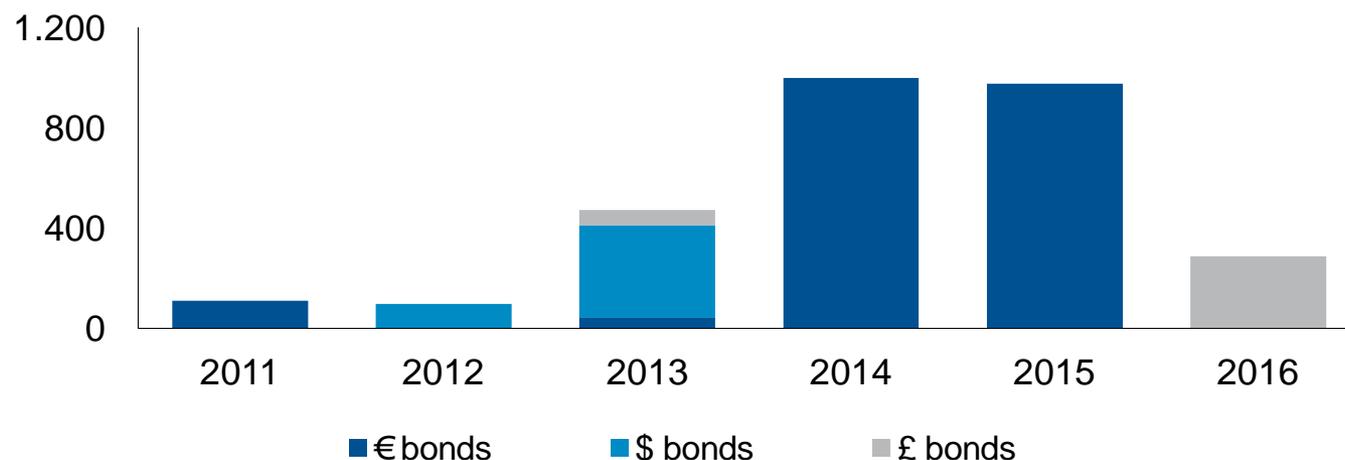
- 2004 pro forma (including ICI) pension underfunding was around €4 billion
- Defined Benefits (DB) closed to new entrants, major plans closed in 2001 (ICI) and 2004 (AkzoNobel)
- Total DB pension plans cash contribution expected to be €500 million (2010: €524 million), which includes around €365 million of “top-up” payments (2010 €375 million)
- The non-cash IAS 19 corridor method of pension accounting impact in 2011 is expected to be €91 million, of which €58 million on the interest line and €33 million in EBITDA in Other



# Debt duration of close to three years and no refinancing needed in 2011

## Debt maturities\*

€ million (nominal amounts)



## Strong liquidity position to support growth

- Undrawn revolving credit facility of €1.8 billion (2016) or €1.5 and \$1 billion commercial paper programs available\*
- Net cash and cash equivalents €1.5 billion\*

\* At the end of Q3 2011



# Low fixed costs as a percentage of revenue

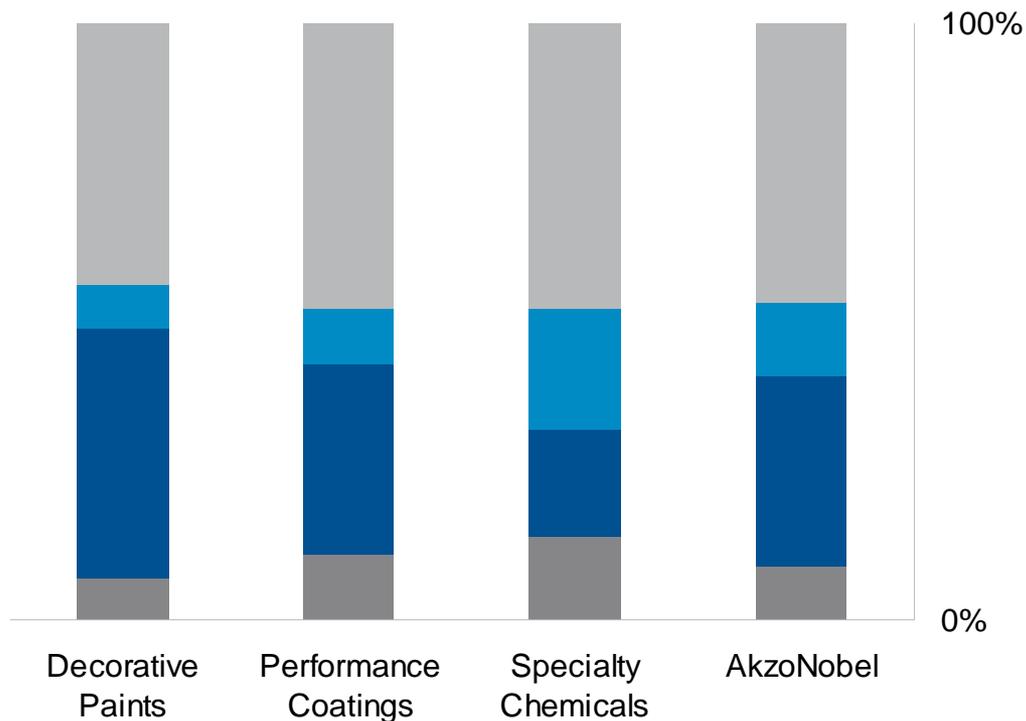
% of 2010 annual revenue\*

Raw materials, energy, and other variable production costs

**Fixed production costs**

Selling, advertising, administration, R&D costs

**EBIT margin**

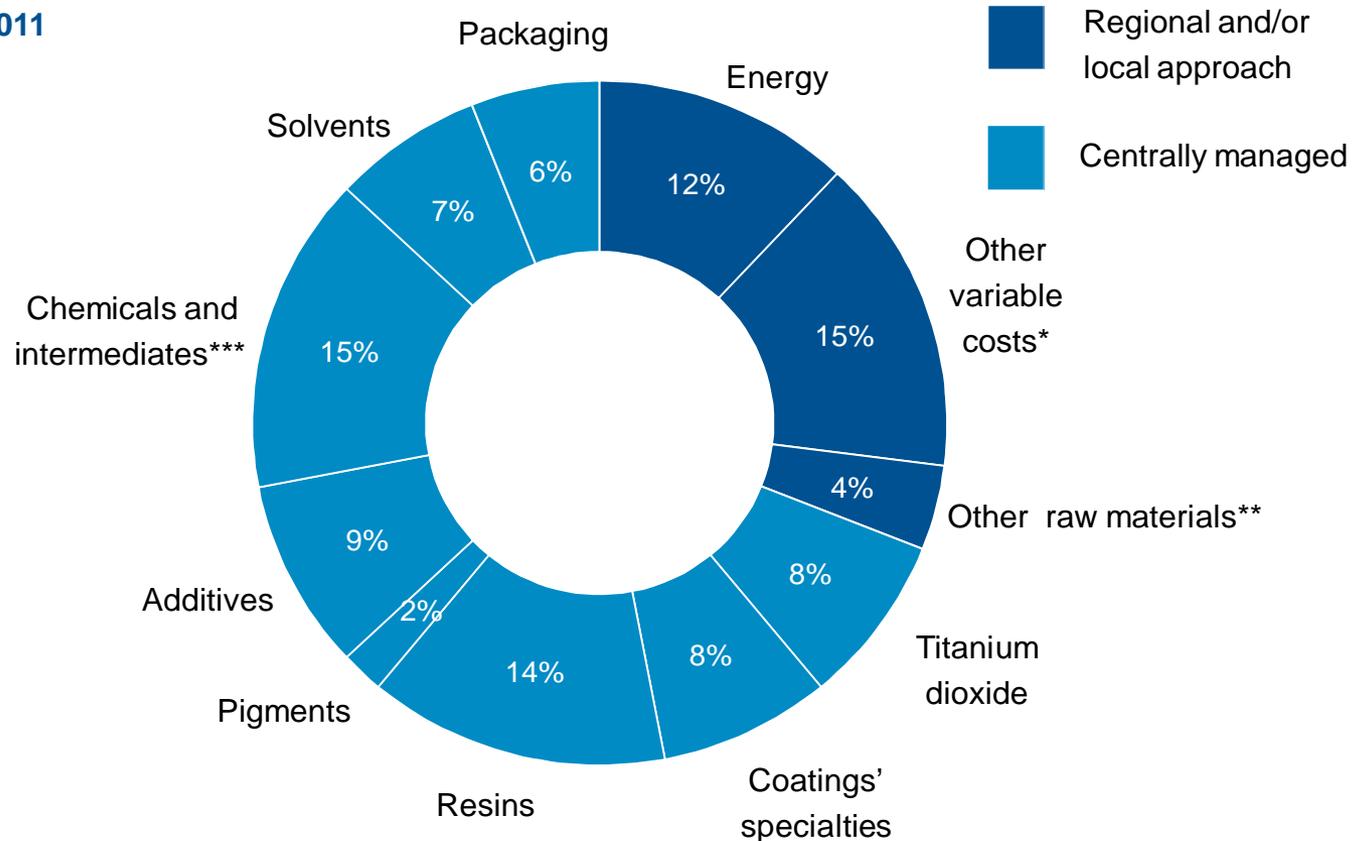


\* Rounded percentages, all data excluding incidentals



# Raw material costs represent a little over 1/3 of revenue

H1 2011



**Around 70 percent of total spend is managed centrally to maximize scale advantages**

\* Other variable costs include amongst other variable selling costs (e.g. freight) and products for resale

\*\* Other raw materials include cardolite, hylar etc.

\*\*\* Chemicals and intermediates include caustic soda, acetic acid, tallow, ethylene, ethylene oxide, sulfur, amines etc.



## Raw materials have continued to rise in the quarter

- Raw material prices have continued to rise in the third quarter and have particularly impacted Decorative Paints
- They are now around 2 percent higher than Q2 2011 and around 15 percent higher than a year ago
- For the coming quarters we anticipate most of the raw materials to rise further, albeit with a more moderate pace (except TiO<sub>2</sub>)
- We continue to mitigate the pressures with our margin management programs.



## In summary

- Strong fundamentals with leading positions and brands
- Diverse geographical spread
- Delivering on price increases
- Medium-term strategic ambitions unchanged
- Actions underway to further unlock value potential

**Tomorrow's** It represents  
what we  
stand for  
**Answers Today**



# Safe Harbor Statement

---

*This presentation contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline, and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more comprehensive discussion of the risk factors affecting our business please see our latest Annual Report, a copy of which can be found on the company's corporate website [www.akzonobel.com](http://www.akzonobel.com).*

