

# Investor Update Q2 2013 results

Ton Büchner & Keith Nichols  
July 18, 2013



## Agenda

1. **Q2 2013 highlights**
2. **Operational review**
3. **Financial review**
4. **Performance improvement program**
5. **Conclusion**
6. **Questions**

**Introduction**  
Ton Büchner

# Buildings and Infrastructure

~43% of revenues

New Build Projects  
Maintenance, Renovation & Repair  
Building Products & Components

# Transportation

~16% of revenues

Automotive OEM, Parts and Assembly  
Automotive Repair  
Marine and Air Transport

~16% of revenues

Consumer Durables  
Consumer Packaged Goods

# Consumer Goods

~25% of revenues

Natural Resource and Energy Industries  
Process Industries

# Industrial

## Q2 2013 highlights

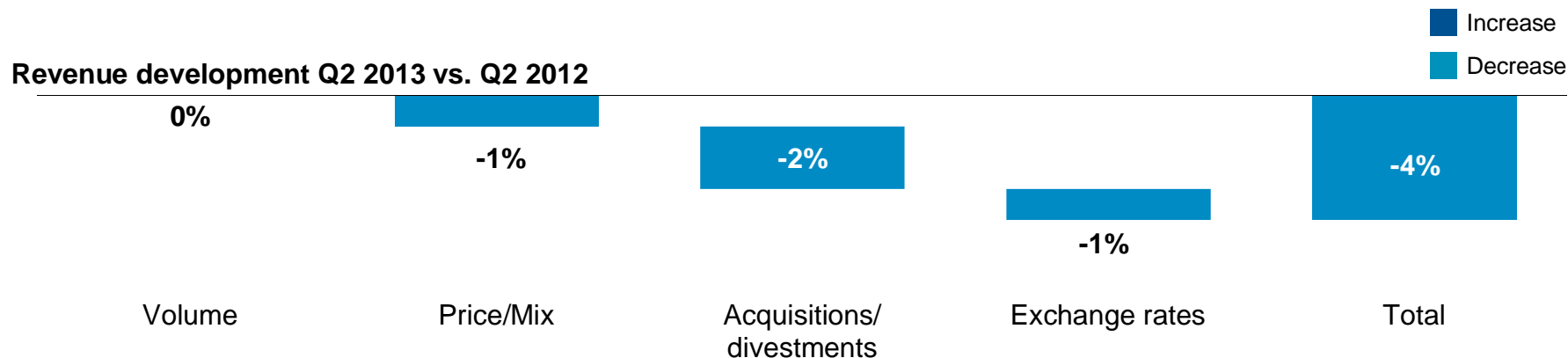
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- Revenue down 4 percent, mainly due to divestments
- Operating income at €322 million (2012: €388 million) driven by adverse price/mix developments
- Net income attributable to shareholders €429 million (2012: €219 million) due to recognition of a deferred tax asset and the divestment of Decorative Paints in North America
- Adjusted EPS €1.37 (2012: €1.06)
- Performance improvement program on track to be completed in 2013, delivering €500 million EBITDA benefit a year early
- Operational focus of strategy update announced in February is the right approach for continuing challenging market conditions; 2015 targets confirmed
- Restructuring activities being stepped up, full-year charges expected to be in the order of €325 million, with the benefits of these additional €120 million costs realized in 2014 and beyond
- Expected higher restructuring charges and continued weak markets mean that full-year operating income is unlikely to exceed the €908 million of 2012

## Challenging Q2 2013

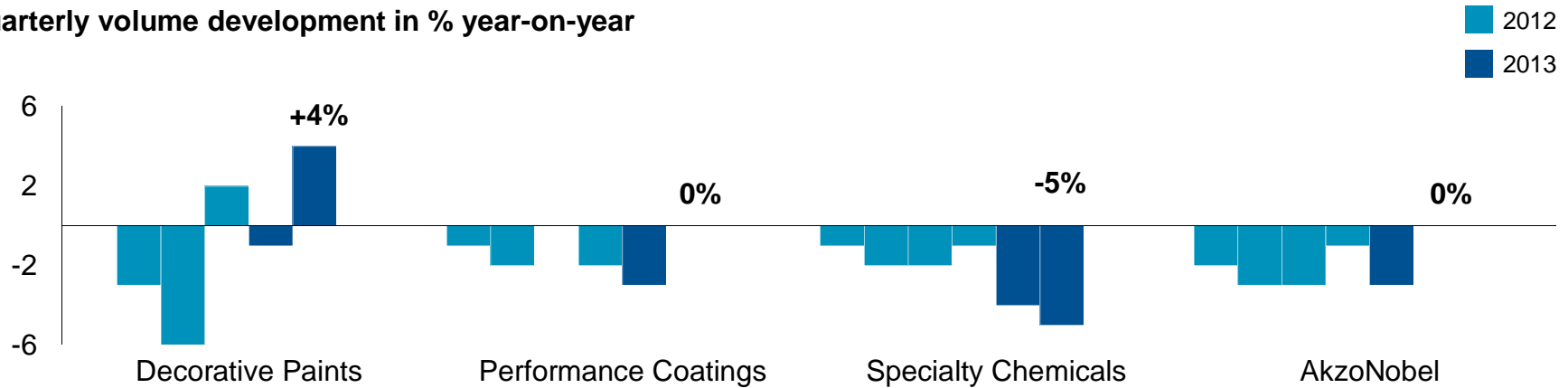
€ million	Q2 2013	Δ%
Revenue	3,865	-4
Operating income	322	-17

Ratio, %	Q2 2013	Q2 2012
<b>Return on sales</b>	<b>8.3</b>	<b>9.6</b>
Return on sales (excluding PIP costs)	9.3	10.6
Moving average return on investment	7.7	8.7

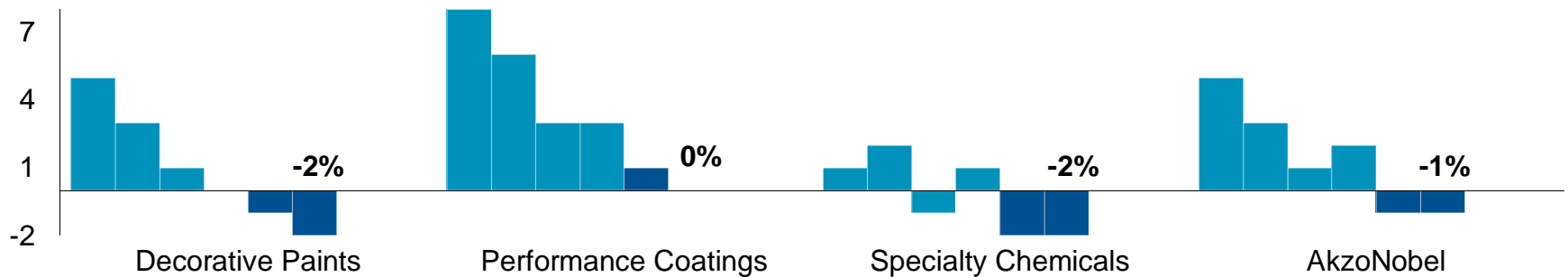


## Market conditions impacting Specialty Chemicals and Europe in particular

Quarterly volume development in % year-on-year



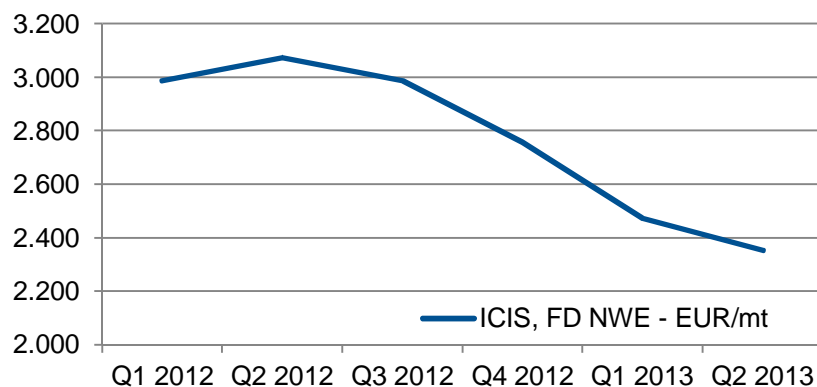
Quarterly price/mix development in % year-on-year



## Raw Materials

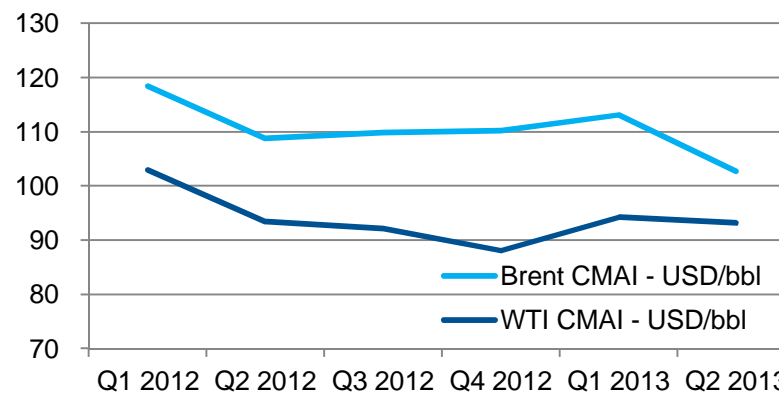
- During Q2 we experienced some relief from lower raw material spend due to lower TiO<sub>2</sub> costs and oil price
- FY 2013 raw material costs expected to be down marginally year-on-year
  - TiO<sub>2</sub> expected to remain stable for the rest of the year
  - Potentially some benefit from oil prices in 2H 2013, though not expected to be significant due to supply and demand specifics impacting derivative products

### TiO<sub>2</sub> Price Developments



Source: ICIS

### Oil Price Developments



Source: CMAI



## Decorative Paints Q2 2013 highlights

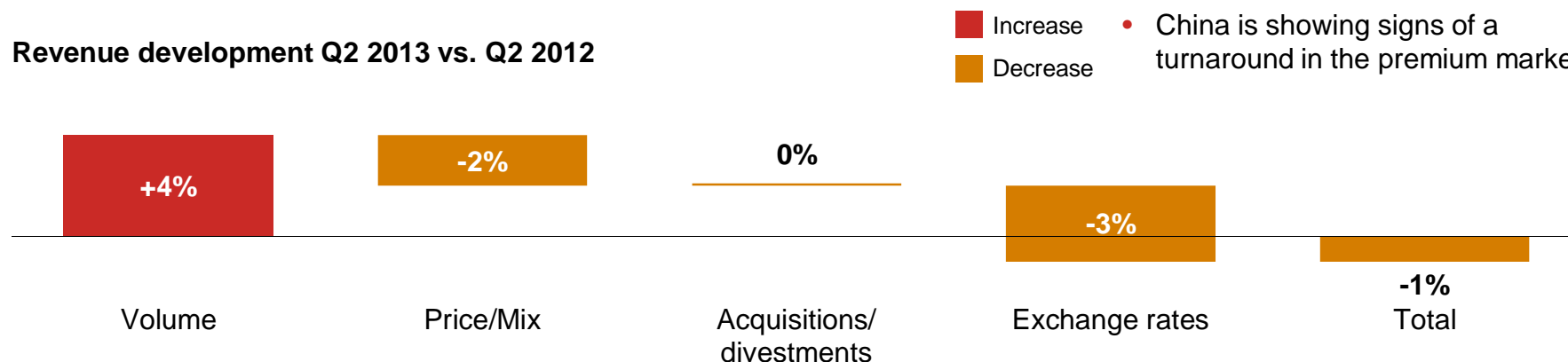
€ million	Q2 2013	Δ%
Revenue	1,179	-1
Operating income	102	-9

Ratio, %	Q2 2013	Q2 2012
<b>Return on sales</b>	<b>8.7</b>	<b>9.4</b>
Return on sales (excluding PIP costs)	10.7	10.2

- Revenue 1 percent down impacted by price/mix and adverse currency effects
- Volumes are stabilizing but market conditions in Europe remain challenging
- Operating income down 9% on last year, impacted by weak volumes in Europe but benefitting from lower costs
- Divesting stores network in Germany
- China is showing signs of a turnaround in the premium market

### Revenue development Q2 2013 vs. Q2 2012

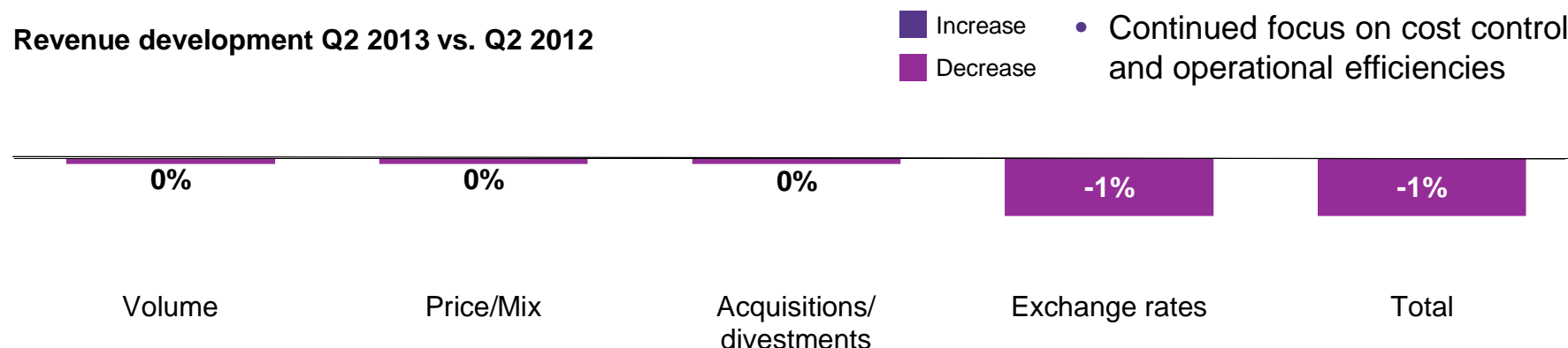


# Performance Coatings Q2 2013 highlights

€ million	Q2 2013	Δ%
Revenue	1,458	-1
Operating income	163	-5

Ratio, %	Q2 2013	Q2 2012
<b>Return on sales</b>	<b>11.2</b>	<b>11.6</b>
Return on sales (excluding PIP costs)	11.5	12.2

## Revenue development Q2 2013 vs. Q2 2012



- Revenue down 1 percent, primarily down to currencies
- Slowdown in Europe impacting all businesses
- Operating income down 5% due to investments in growth and business excellence initiatives, partially mitigated by margin management and structural cost benefits
- Continued focus on cost control and operational efficiencies

# Specialty Chemicals

## Q2 2013 highlights

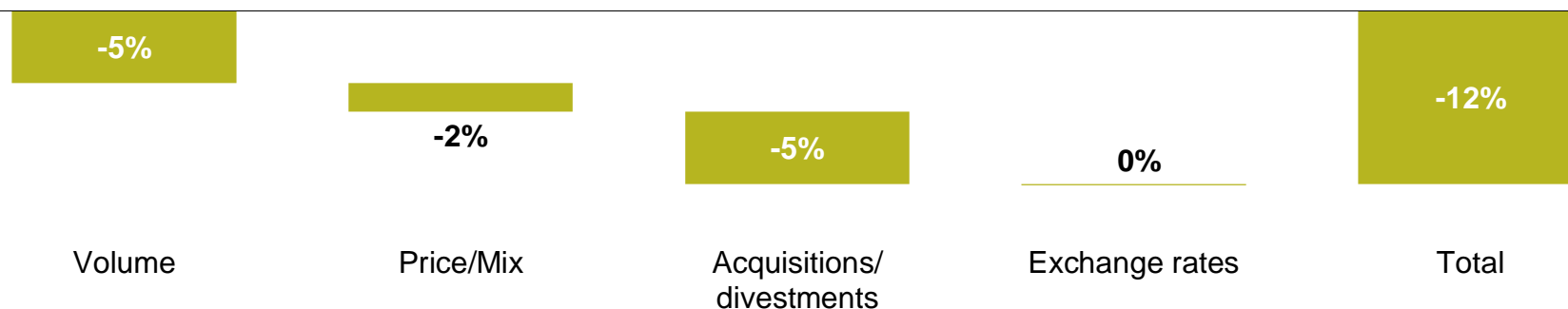
€ million	Q2 2013	Δ%
Revenue	1,253	-12
Operating income	121	-21

Ratio, %	Q2 2013	Q2 2012
Return on sales	9.7	10.8
Return on sales (excluding PIP costs)	9.6	11.8

- Revenues down 12 percent due to lower volumes and the Chemicals Pakistan divestment
- Operating income down 21 percent, due to unfavorable market conditions and some production issues
- Significant restructuring in Functional Chemicals initiated during 2H 2013

### Revenue development Q2 2013 vs. Q2 2012

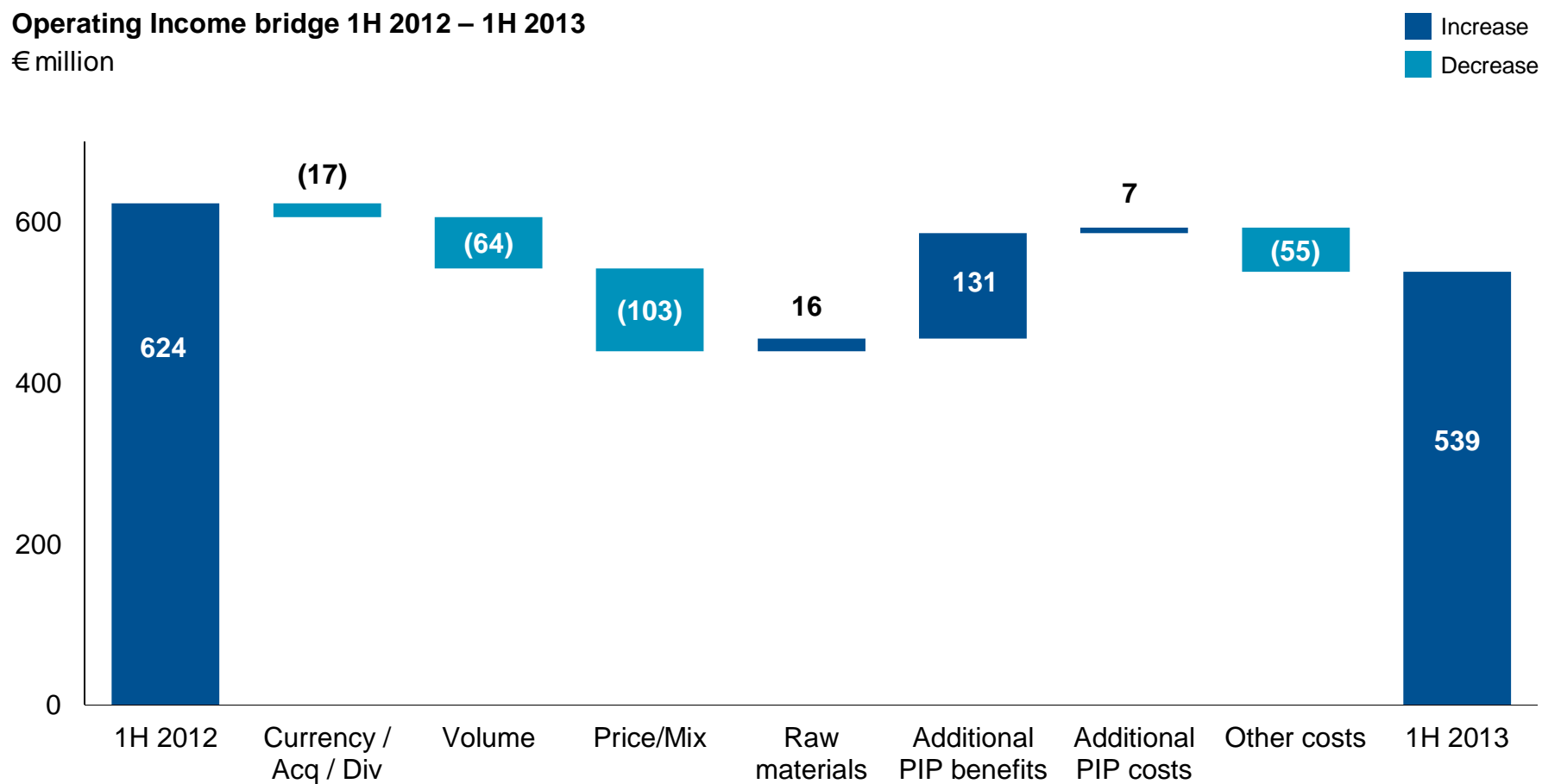
■ Increase  
■ Decrease



# 1H 2013 Operating Income bridge

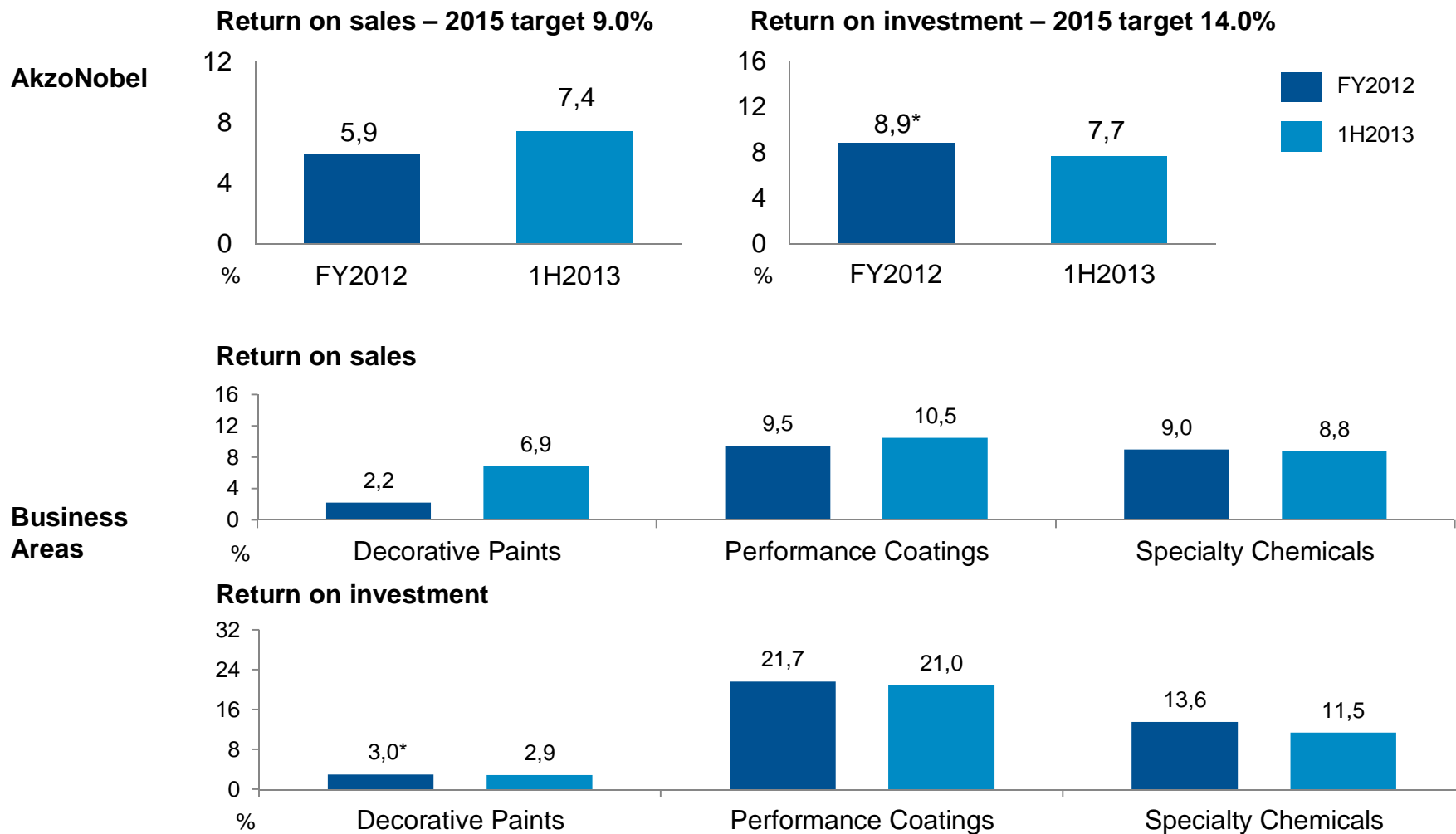
## Operating Income bridge 1H 2012 – 1H 2013

€ million



\* Other costs includes wage inflation, one-off's, incidentals, and depreciation and amortization

## Financial targets – progress made to date



\* 2012 excluding impairment (€2.1 billion)

**Financial review**  
Keith Nichols

## Q2 2013 financial highlights

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- Sale of Decorative Paints North America completed, resulting in a cash inflow of €779 million and a net profit of €115 million
- Unfavorable currency impacted our results, particularly in Decorative Paints and Performance Coatings
- Net financing expenses decreased by €34 million to €33 million mainly driven by a lower interest charge on provisions due to higher discount rates
- Non-cash benefit of €124 million from recognition of previously unrecognized deferred tax assets
- Operating working capital improved to 12,1% (Q2 2012: 13,8%)
- Net debt decreased to €2,197 million (Q1 2013: €2,888 million) mainly as a result of the cash inflow from the proceeds of Decorative Paints North America

## Summary – Q2 2013 results

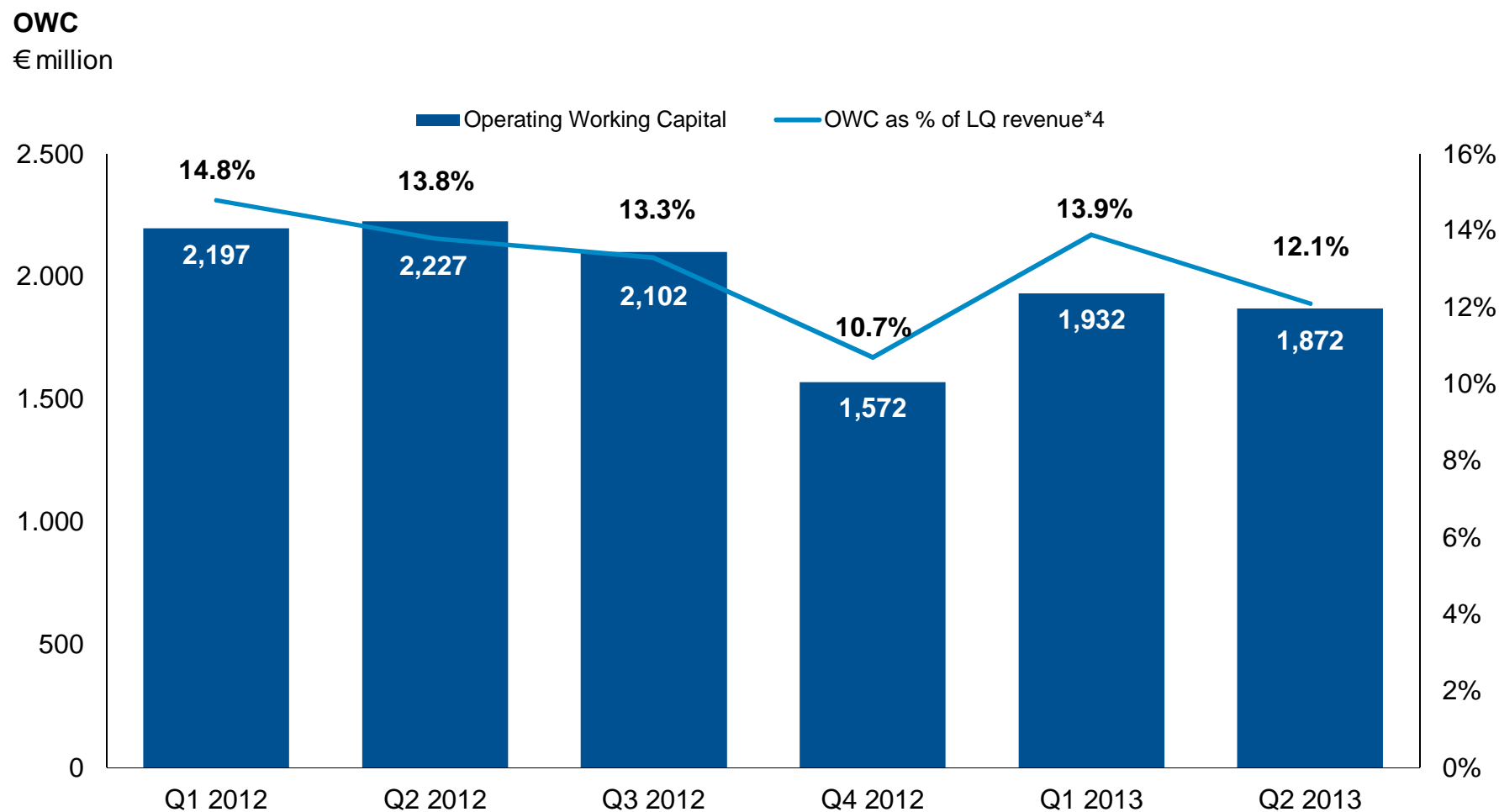
<i>€ million</i>	Q2 2013	Q2 2012
<b>EBITDA</b>	<b>474</b>	<b>554</b>
Amortization and depreciation	(152)	(155)
Incidentals	-	(11)
<b>Operating income</b>	<b>322</b>	<b>388</b>
Net financing expenses	(33)	(67)
Minorities and associates	(19)	(17)
Income tax	38	(89)
Discontinued operations	121	4
<b>Net income attributable to shareholders</b>	<b>429</b>	<b>219</b>
Net cash from operating activities	261	351
<i>Ratio</i>	Q2 2013	Q2 2012
Adjusted earnings per share (in €)	1.37	1.06



## Cash flows Q2 2013 improved on last year due to positive one-offs

€ million	Q2 2013	Q2 2012
Profit for the period from continuing operations	333	237
Amortization and depreciation	152	155
Change working capital	(123)	(80)
• Pension provisions	(19)	(21)
• Restructuring	(16)	(4)
• Other provisions	(3)	(4)
Change provisions	(38)	(29)
Other changes	(63)	68
<b>Net cash from operating activities</b>	<b>261</b>	<b>351</b>
Capital expenditures	(168)	(166)
Acquisitions and divestments net of cash acquired	7	(14)
Changes from borrowings	(59)	22
Dividends	(178)	(178)
Other changes	11	3
Cash flows from discontinued operations	779	44
<b>Total cash flows</b>	<b>653</b>	<b>62</b>

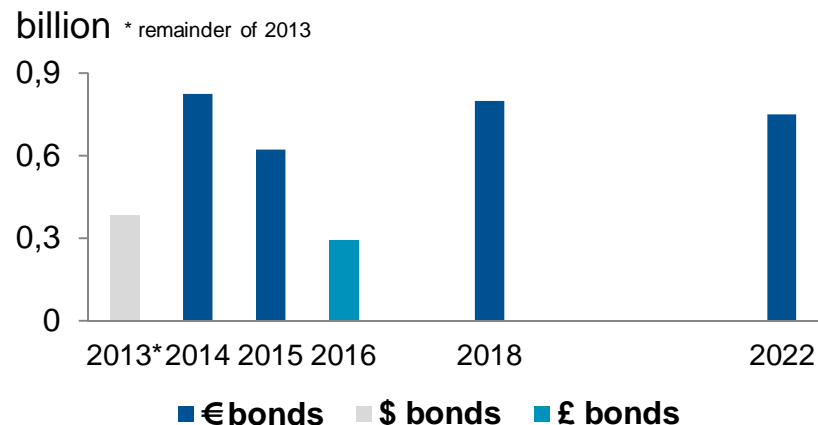
# Operating Working Capital % of revenue reduced towards 12%



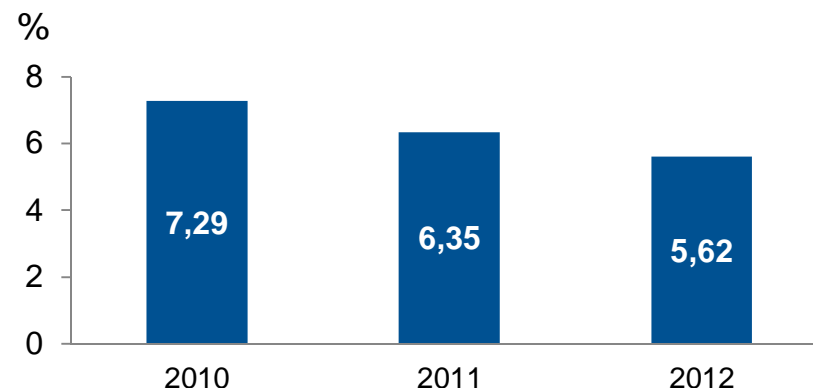
# Net debt reduced after we received the cash proceeds from the sale of North America Decorative Paints

€ million	Q2 2013	Q2 2012
Net debt – April 1	(2,888)	(2,860)
Net cash from operating activities	261	351
Capex	(168)	(166)
Acquisitions & Divestments	786	30
Dividends	(178)	(178)
Other	(10)	(21)
Net debt at end of period	(2,197)	(2,844)

## Debt maturities



## Average cost of long term bonds



## Pension deficit falls below €0.4 billion

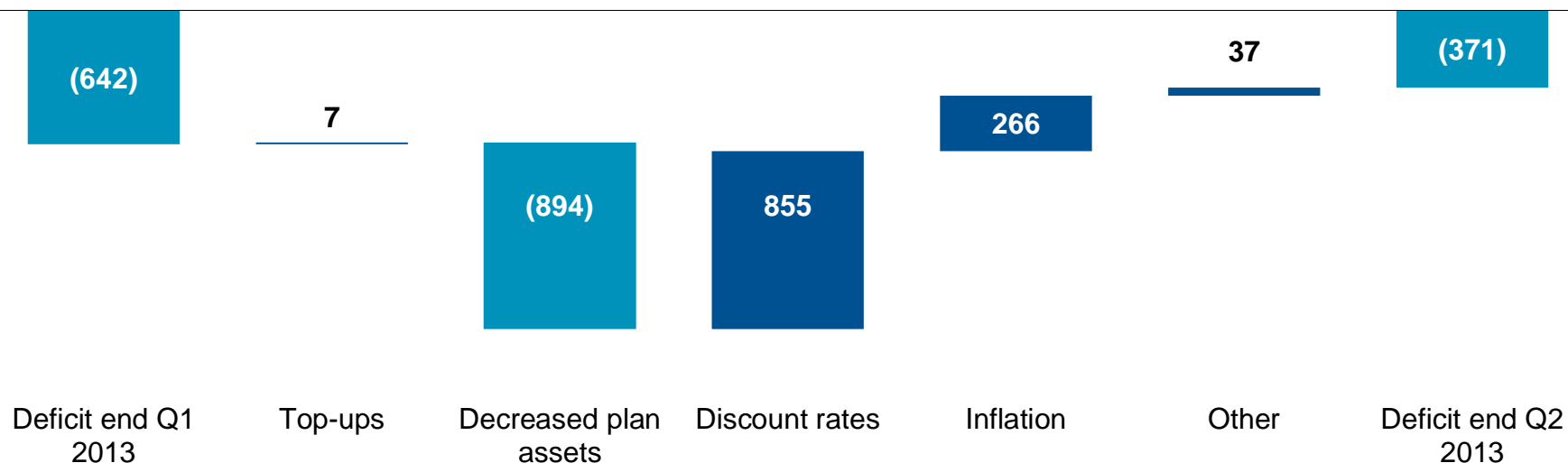
<i>Key pension metrics</i>	Q2 2013	Q1 2013
Discount rate	4.4%	3.9%
Inflation assumptions	2.8%	2.9%

### Pension deficit development during Q2 2013

€ million

■ Decrease

■ Increase



**Performance Improvement Program**  
Ton Büchner

# Performance Improvement Program on track to deliver €500 million by year end 2013

## Performance Improvement Program

Operational  
Excellence

Functional  
Excellence

Business Unit  
Adaptations

### Key summary to date

- **Gains of €381 million**, including €131 million during the first half of 2013 and on track to deliver the full €500 million in EBITDA at the end of this year
- **Costs of €361 million**, including €69 million spent during the first half of 2013

### Upcoming actions in 2013

- **Additional EBITDA benefits on top of €500 million** to be realized in 2014
- **Costs of around €325 million in 2013**, which is higher than the €205 million previously announced due to upcoming restructuring activities during the second half of the year, including:
  - Functional Chemicals restructuring
  - Divestment of Decorative Paints stores in Germany

## Performance Improvement Program delivers €131 million benefits in 1H2013

€million	FY 2011	1H 2012	FY 2012	1H 2013	2013 Target
Decorative Paints	12	24	85	49	
Performance Coatings	-	14	100	50	
Specialty Chemicals	-	18	53	33	
Other	-	-	-	-	
<b>Total Incremental</b>	<b>12</b>	<b>56</b>	<b>238</b>	<b>131</b>	<b>250</b>
<b>Total Cumulative</b>	<b>12</b>		<b>250</b>		<b>500</b>

- Performance Improvement Program is on track to deliver full €500 in EBITDA by the end of the year
- Various actions taken address product complexity reduction, sourcing optimization, manufacturing and distribution excellence, and margin management across the entire organization
- We are embedding continuous improvement in our businesses, moving from project based to continuous improvement at the core of the changes in our organization

## Step up in associated costs during the second half of the year

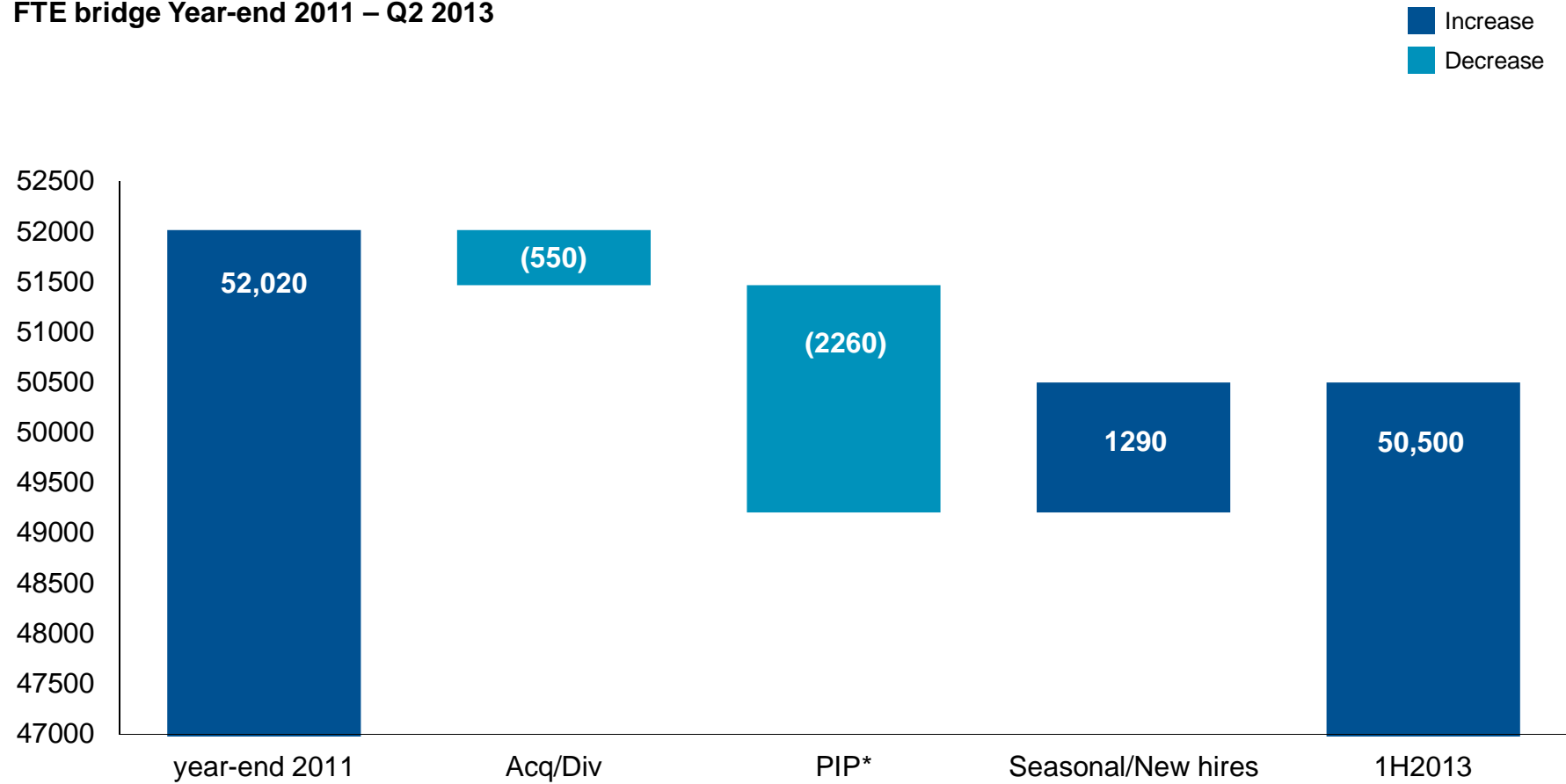
€million	1H 2012	FY 2012	1H 2013	FY2013 Target
Decorative Paints	32	140	31	
Performance Coatings	13	90	16	
Specialty Chemicals	15	42	1	
Other	17	20	21	
<b>Total</b>	<b>76</b>	<b>292</b>	<b>69</b>	<b>325</b>

- Total costs of Performance Improvement Program to date €361 million
- Costs related to the program are no longer classified as Incidentals but are now included in EBITDA
- FY 2013 associated costs estimated at around €325 million, exceeding the €205 million previously announced due to additional restructuring activities planned for the second half of the year
- Upcoming projects include:
  - European Decorative Paints restructuring, including the divestment of our stores in Germany
  - Functional Chemicals restructuring, of which implementation will start in Q3 2013



# Significant FTE reductions as a result of the Performance Improvement Program

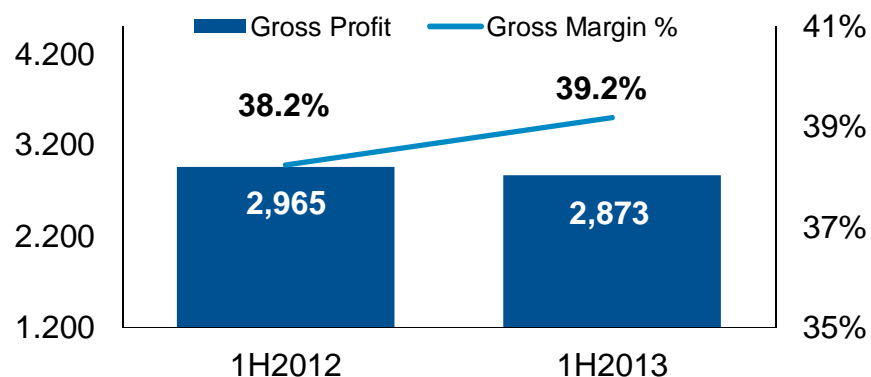
FTE bridge Year-end 2011 – Q2 2013



\* Since the announcement of the program, the total number of employees was reduced by over 2,500 FTE, some of which were already achieved prior to year end 2011

## Gross profit margin and return on sales improvements evident

### Gross profit margin AkzoNobel



- Gross profit margin % year to date increased by 1.0 %
- Adjusted for PIP costs, return on sales % year to date increased for Decorative Paints and Performance Coatings and decreased for Specialty Chemicals

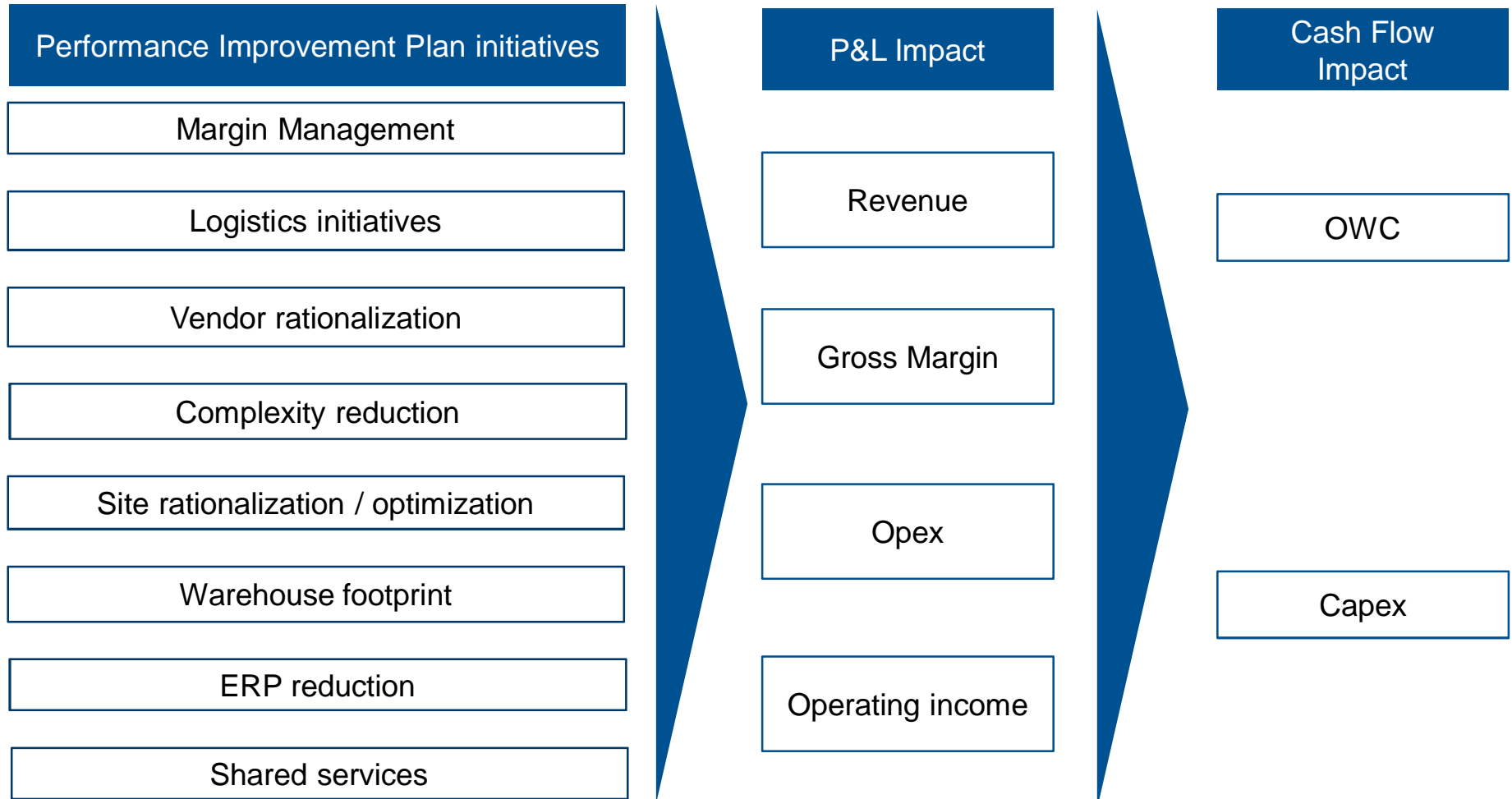
### Return on Sales %

	As reported		Excluding PIP Costs	
	1H 2012	1H 2013	1H2012	1H2013
Decorative Paints	6.3	6.9	7.8	8.3
Performance Coatings	10.5	10.5	10.9	11.0
Specialty Chemicals	10.4	8.8	10.9	8.9
<b>AkzoNobel</b>	<b>8.1</b>	<b>7.4</b>	<b>9.0</b>	<b>8.3</b>

# Operational efficiency progress across all Business Areas

Business Area	Business Units	Actions taken to date
<p style="text-align: center;">Decorative Paints</p>	<ul style="list-style-type: none"> <li>• Europe</li> <li>• Latin America</li> <li>• Asia</li> </ul>	<ul style="list-style-type: none"> <li>• Divestment of stores in Germany</li> <li>• Reduction of overhead</li> <li>• Continued SKU reduction</li> <li>• RD&amp;I lab consolidation</li> </ul>
<p style="text-align: center;">Performance Coatings</p>	<ul style="list-style-type: none"> <li>• Marine and Protective Coatings</li> <li>• Automotive and Aerospace Coatings</li> <li>• Powder Coatings</li> <li>• Industrial Coatings</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing restructuring activities in Wood Finishes, A&amp;AC and Marine &amp; Protective Coatings</li> <li>• Continued complexity reduction</li> <li>• Consolidation of RD&amp;I labs</li> </ul>
<p style="text-align: center;">Specialty Chemicals</p>	<ul style="list-style-type: none"> <li>• Functional Chemicals</li> <li>• Industrial Chemicals</li> <li>• Surface Chemistry</li> <li>• Pulp and Performance Chemicals</li> </ul>	<ul style="list-style-type: none"> <li>• Functional Chemicals restructuring initiated</li> <li>• Lean &amp; lean six sigma implementations on various sites</li> <li>• Reduction and centralization of ERP</li> <li>• Portfolio rationalization Pulp &amp; Performance</li> </ul>

# Impact of Performance Improvement Program initiatives on the income statement and cash flows



## Manufacturing footprint optimization with factory closures and consolidation

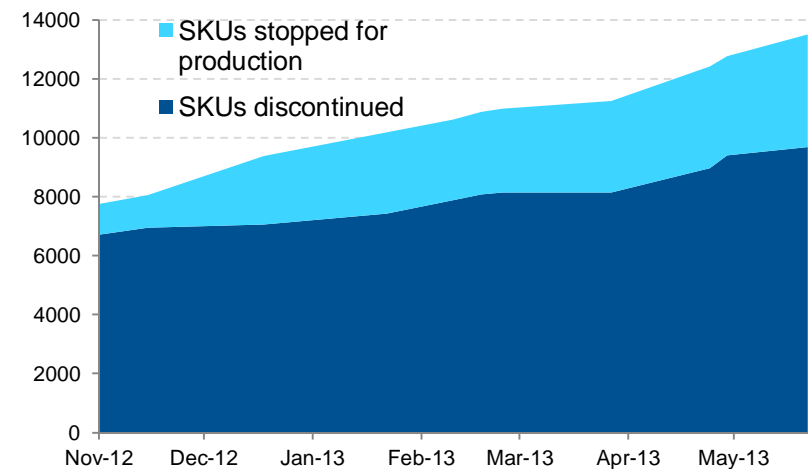
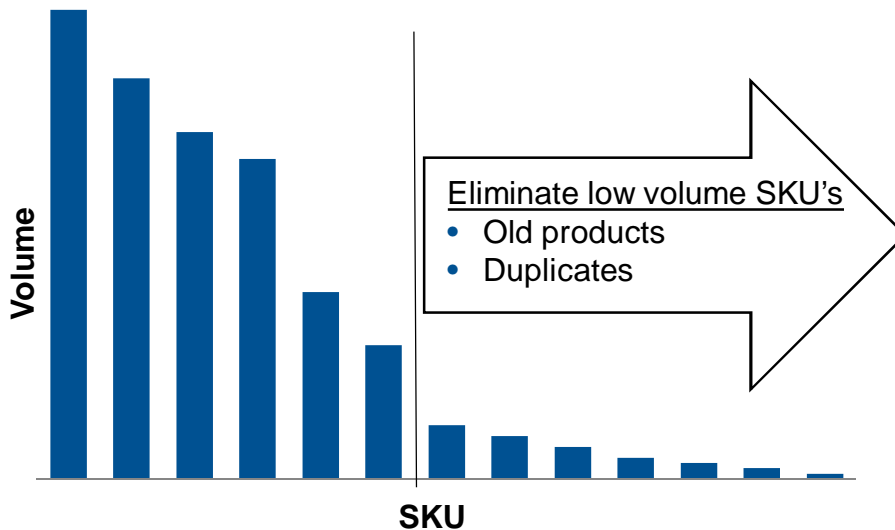
- Increased efficiency as production is consolidated into fewer sites
- 24 factory closures in 2012 and 2013
  - 18 factories already closed across all business areas and geographies
  - 6 additional closures announced which will be completed by year end 2013
- 17 additional RD&I lab closures since 2011, where activities have been consolidated at other AkzoNobel sites, resulting in FTE reductions

	Decorative Paints (5)	Performance Coatings (11)	Specialty Chemicals (8)
2012 (11)	2	6	3
2013 (13)	3	5	5

# Decorative Paints – Complexity reduction

Within Decorative Paints we are simplifying our portfolio by reducing our number of SKU's

- Detailed country plans to eliminate up to 15,000 SKU's
  - whilst maintaining the customer product offering
- Significant benefits:
  - reduces inventory levels
  - simplifies portfolio
  - positive impact on R&D costs
  - achieves factory based benefits including plant optimization



# Performance Coatings – Complexity reduction

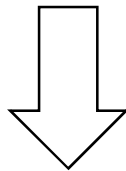
## Modularization of products:

- Customer product choice maintained
- Fewer product designs and reduced number of raw materials, reduced stock level, significant cost saves

### Example 1

#### Coil Coatings Europe

Before            150 products  
                       31 product designs  
                       234 raw materials

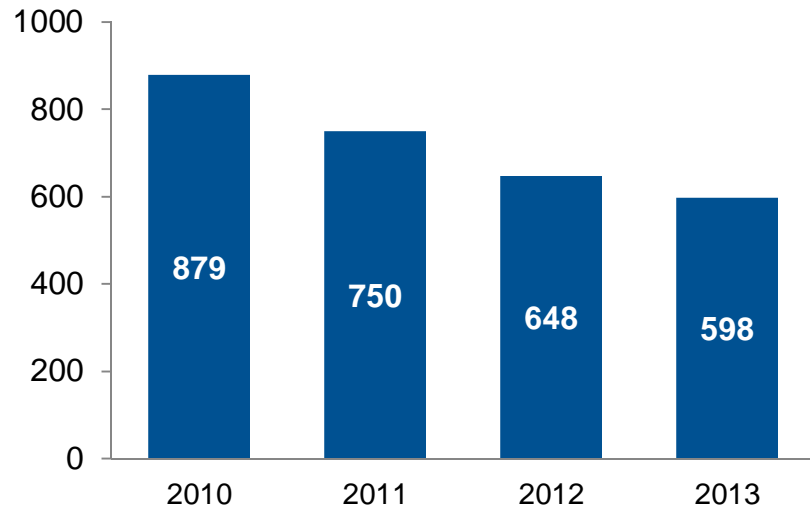


Now                150 products  
                       3 product designs  
                       120 raw materials

### Example 2

#### Powder Coatings Europe

#### Number of raw materials



# Specialty Chemicals – Functional Chemicals initiated the first phase of an extensive restructuring

- In response to the changed market conditions
- Increased alignment of the sub business units
- Estimated reduction of more than 350 FTEs (8% of the workforce)
- Benefits will begin to accrue in 2014

## Commercial

- Extensive Product and Margin Management exercise and fixed cost reductions
- Commercial functional excellence programs to increase standardization

## Operations

- Significant reductions in fixed costs at production sites
- Variable production costs saved via reformulations, improved yields and reduced energy consumption

## Procurement

- Improved raw material sourcing strategies
- Efficiencies from standardization and reduced spend on other variable costs

## Administration

- Fixed cost reductions in support functions
- Finance, HR, RD&I and IT all impacted



# We will continue to implement additional opportunities to embed continuous improvement

## Continuous Improvement

### Functional Initiatives Enablers

- ERP reduction
- Finance Shared Services
- OneHR services
- Academy

### Operational Excellence

### Business Unit Adaptations

### Functional Excellence

### Operational Initiatives Performers

- SKU reduction
- Margin improvement programs
- Site improvement
- Warehousing footprint optimization
- Raw material alignment & clustering
- Continuous improvement

**Conclusion**  
Ton Büchner

## Conclusion

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- Decorative Paints and Performance Coatings reported an improved or stable return on sales for the first half of the year
- Our end markets remain challenging and this was particularly visible at the end of this second quarter
- Conditions remain tough and, as we have previously indicated, we do not expect an early improvement in the external trends our businesses are facing
- We are stepping up our restructuring activities
- We are confident in the delivery of our 2015 targets due to our leading market positions

Vision:

**Leading  
market positions  
delivering  
leading performance**

# Questions

## Safe Harbor Statement

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*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).*

# Appendices

## Q2 2013 Operating income – Cash bridge

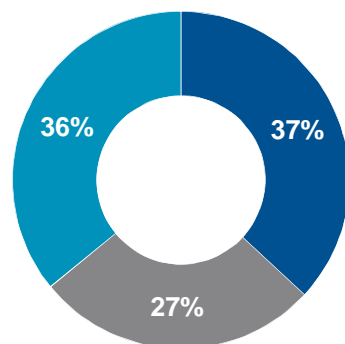
<i>€ million</i>	Q2 2013	Q2 2012
<b>Operating Income</b>	<b>322</b>	<b>388</b>
Incidentals	-	11
Depreciation & amortization	152	155
<b>EBITDA before incidentals</b>	<b>474</b>	<b>554</b>
Other	14	2
Change working capital	(123)	(80)
Change provisions	(38)	(29)
Interest paid	(27)	(42)
Income tax paid	(39)	(54)
<b>Net cash from operating activities</b>	<b>261</b>	<b>351</b>

## AkzoNobel today

- Revenue €15.4 billion
- 50,610 employees
- 44% of revenue from high growth markets
- Major producer of Paints, Coatings and Specialty Chemicals
- Leadership positions in many markets

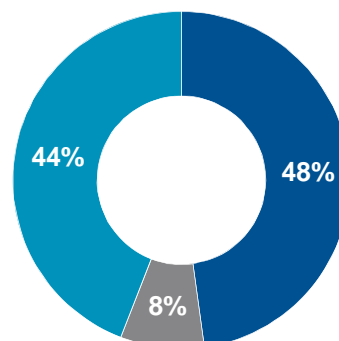


**Revenue by Business Area**



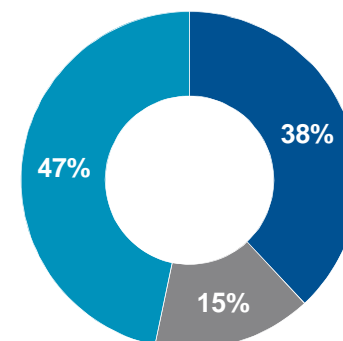
**5.4%  
Growth  
2012 vs. 2011**

**Operating income\* by Business Area**



**5.9%  
Return on sales  
(operating income/revenue)**

**EBITDA\*\* by Business Area**



**10.4%  
EBITDA/revenue**

- Performance Coatings
- Decorative Paints
- Specialty Chemicals



## Leading market positions delivering leading performance

**AkzoNobel has gone through a significant amount of strategic change over the past five years**

**Today, the company has**

- Excellent portfolio of businesses
- Good long term growth potential on the basis of end-user segment growth
- Strong positions in high growth markets (44% of revenue)
- Leadership positions in many markets
- Clear leader in sustainability
- Track record of delivering sustainable innovations and products
- Strong brands, both in consumer and industrial markets

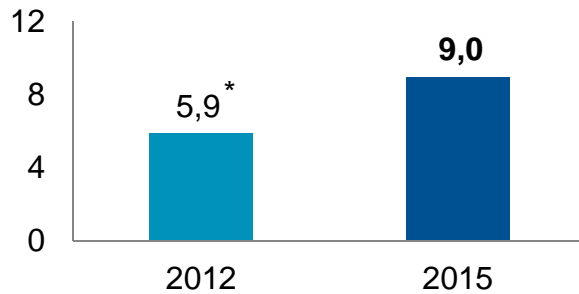
**Clear focus to deliver on our significant potential**

- Improved returns and cash flow
- Leveraging scale
- Simplification and standardization
- Continued innovation

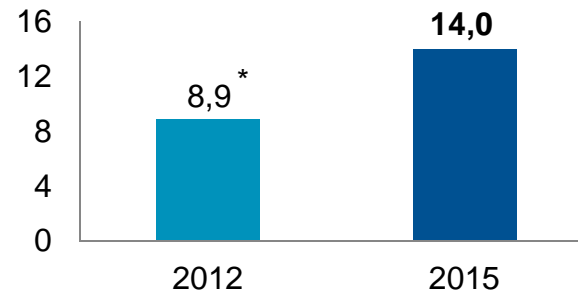


# New and realistic 2015 financial targets focused on quality of earnings and value creation

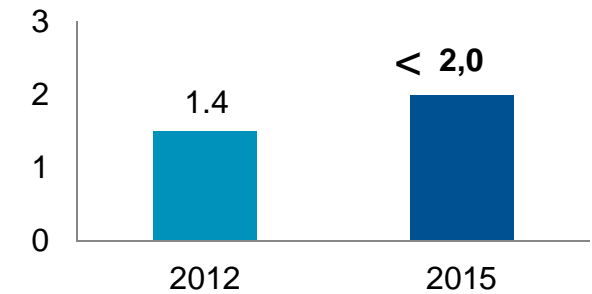
**Return on sales**  
(Operating income/revenue)  
%



**Return on investment**  
(Operating income/average  
12 months invested capital)  
%



**Net debt/EBITDA**  
x



Assumes sales growth (CAGR) for the period of 4%

## Strategy on a page



### Strategic focus areas

- Care for the customer
- Reduction of product and process complexity
- Cash and return on investment
- Embedded safety and sustainability
- Diverse and inclusive talent development



### Processes

- Behavior-based and process safety
- Operational control cycle
- Continuous improvement
- Innovation
- Procurement
- Talent management



### Actions

- Deliver dependably
- Grow organically
- Innovate
- Simplify
- Standardize
- Continuously improve



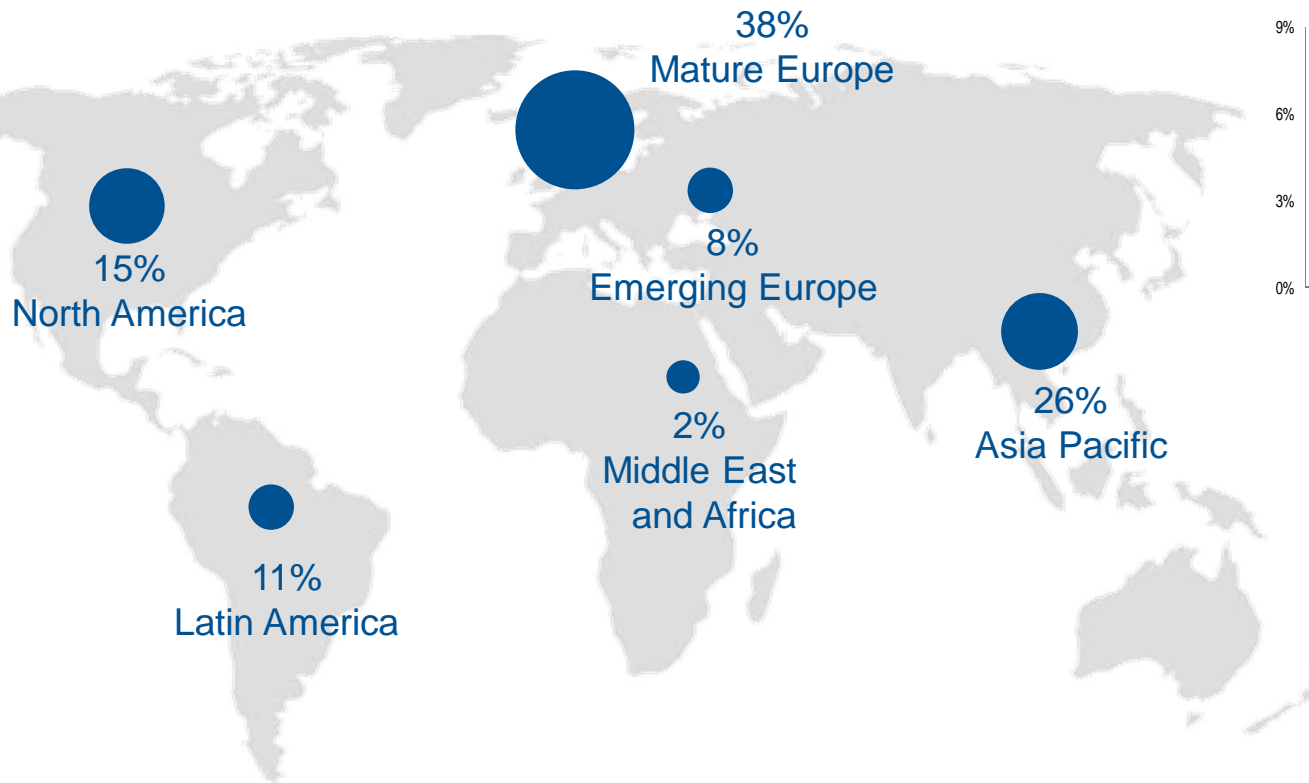
### End-user segmentation

- Buildings and Infrastructure
- Transportation
- Consumer Goods
- Industrial

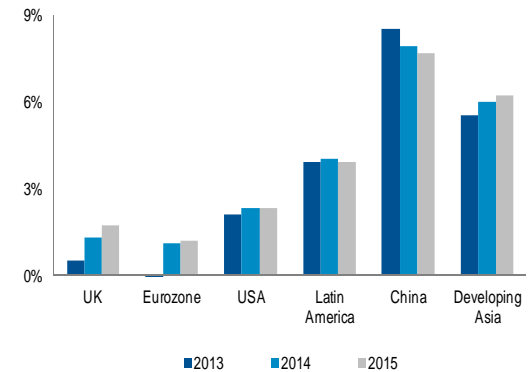


## High growth markets are 44% of revenue and their importance will increase

% of 2012 revenue, excluding Decorative Paints North America



Three year GDP growth\*

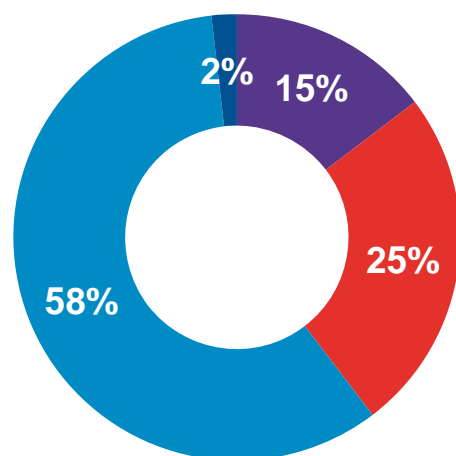


Our goal: Greater than 50% of revenues from high growth markets

## Capital allocation policy is focused on high growth markets and efficiency

### Capital expenditure

2012, 100% = €826 million (5.4% of revenue)



■ Performance Coatings 
 ■ Decorative Paints  
■ Specialty Chemicals 
 ■ Other

- Capital expenditure will be around 4% of revenues going forward
- 40-50% growth related

### Major projects underway and timing of spend

Business Area	Investment project	2012	2013	2014	2015	
Performance Coatings	China expansion	█				
Decorative Paints	UK megaplant	█				
Decorative Paints	China expansion	█	█			
Specialty Chemicals	Ningbo multisite	█				
Specialty Chemicals	Frankfurt membrane	█				
Specialty Chemicals	Brazil Eldorado	█	█			
Specialty Chemicals	Brazil Suzano	█	█			

## Sustainability is business; Business is sustainability



- **'Downstream eco-premium solutions':**  
**20% of our revenues by 2020**

We will increase the revenue from solutions that generate direct resource and energy benefits for our customers, consumers and users



- **Reduction of carbon emissions**  
**25-30% reduction per ton by 2020 (2012 base)**

We will reduce our carbon emissions through the value chain



- **Resource efficiency**  
As of 2014 AkzoNobel will report on an innovative new index measuring how we improve resource efficiency across the full value chain - compared to the value we generate

# End-user segment trends, combined with sustainability, direct our innovation spend

## End-user segments



## Sustainability

Sustainability = Business  
Business = Sustainability



## Direction of innovation spend

(2.5% of 2012 revenue)

# Innovation Pipeline Q2 2013

## Decorative Paints – Coral Super Washable

### Key Features

- Hydro-repellent additive, repels liquids from the surface.
- Better dry opacity than previous formula
- 50% less VOC emission and Coral first paint based on renewable resources



### Customer Benefits

- Prevents stains fixation
- Easy to clean
- Zero odor (after 3 hours)

### Growth Potential

- Launched in 2012, Super Washable has consolidated Coral as the leader in washable paints in Latin America
- Continuing growth in a premium segment of the Latin American market
- Unique benefits focused on consumer insight

Stain removal has never been so easy



# Innovation Pipeline Q2 2013

## Packaging Coatings – Beverage Inside Spray Coating

### Key Features

- Green can liner
- Enables marketing campaign by Grolsch to specifically promote the can as innovative package
- Engineered from the inside out; a straightforward technical solution providing consumers with a novel insight into the way their beverage is protected



### Customer Benefits

- Enables the brand owner to utilize a protective layer for brand promotion
- Can maker sells product exclusively to Grolsch, cementing their relationship

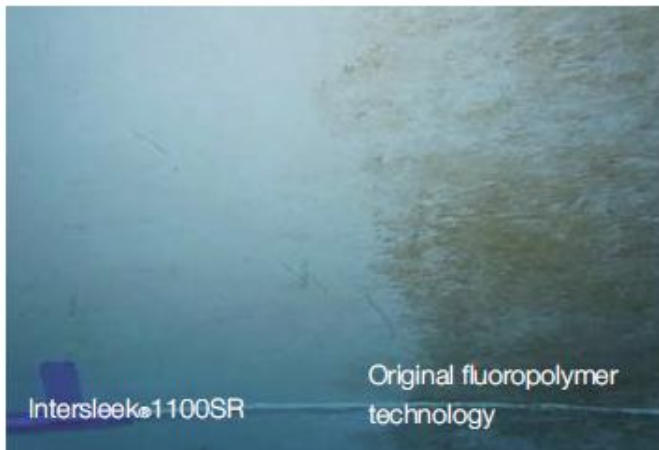
### Growth Potential

- Launched in Q2 2013 in The Netherlands
- Potential for further roll-out in all regions where Grolsch is sold
- The green can liner product
- strengthens our relation with a key account
- underpins our position as an industry innovator
- strengthens and potentially grows our position within the beverage can coatings market

**Water-based, green spray liner for beverage cans**

### Key Features

- Unique slime release coating based on proprietary fluoropolymer technology
- Enhanced slime release properties with improved static anti-fouling performance
- Biocide-free; low VOC content



### Customer Benefits

- Reduced hydrodynamic drag and improved vessel efficiency due to ultra-smooth surface
- Significantly reduced levels of slime in-service leading to:
  - reduced fuel consumption over the full docking cycle
  - reduced need to clean vessel hull

### Growth Potential

- Launched globally in February 2013
- Predicted to reach current Intersleek® 900 volumes within a year of launch

**Biocide-free, slime-release fouling control coating**

# Innovation Pipeline Q2 2013

## Functional Chemicals - Bermocoll™ Cellulose Ethers

### Features

- Rheology modifiers based on renewable cellulosic materials
- Designed for both interior and exterior paints
- New product family providing a comprehensive offering to our customers
- Production based on a new cost & performance optimized process



### Customer Benefits

- Bermocoll EHM Extra has improved hiding power (enabling TiO2 savings) and excellent application properties, such as spatter and sag resistance
- Bermocoll EBM Prime has superior color stability, color development and an optimal rheology profile

### Growth Potential

- Initial global launch in 2012 with platform expansion well underway
- A new product family that is already setting the industry performance standard and opening up new markets

**New cellulose ethers as paint thickeners for decorative paints**

# Innovation Pipeline Q2 2013

## Functional Chemicals - CiD technology implementation

### Features

- A very fast initiator is continuously dosed throughout the polymerization instead of a slower initiator in a single shot
- Reaction rate is maximized by computer controlled initiator dosing, enabling full utilization of available cooling capacity
- CiD demonstration units are built to operate compatibly with any commercial PVC reactor world-wide, providing customers with confidence for investment decisions



**Patented technology for continuous and controlled dosing of a very fast initiator for suspension PVC**

### Customer Benefits

- Shorter polymerization times, resulting in 20-40% higher capacity with very limited investment
- Improved safety characteristics, specifically in the event of a power/cooling failure
- Improved PVC product quality (color, thermal stability)

### Growth Potential

- Europe: 5 plants operating CiD since 2008
- Americas: first plant started up in May 2013
- Asia/Pacific: market introduction has started

# Innovation Pipeline Q2 2013

## Surface Chemistry – Dry Flo® TS Starch

### Key Features

- Aesthetic modifier for skin and sun care emulsions and powders
- Based on a tapioca starch / polymethylsilsesquioxane complex
- Provides smooth, lubricious feel to consumer products
- Developed within an alliance with Ingredion Inc.
- Patent pending



### Customer Benefits

- Luxurious feel imparted to personal care products from a natural-based product
- Non-greasy feel
- Absorbs moisture and skin oils
- Attractive cost-in-use
- Biodegradable / sustainable

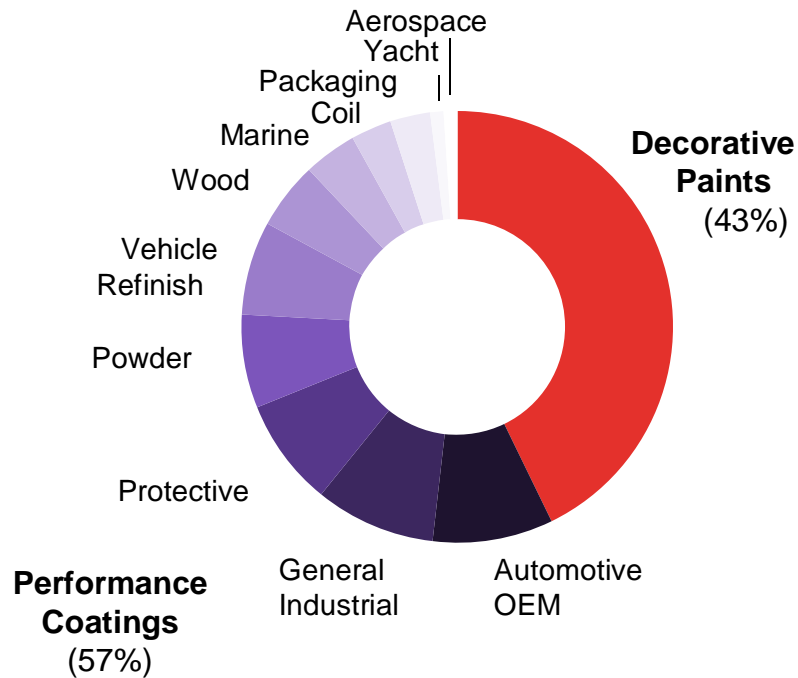
### Growth Potential

- Launched globally in 2012
- One of our fastest growing new personal care products

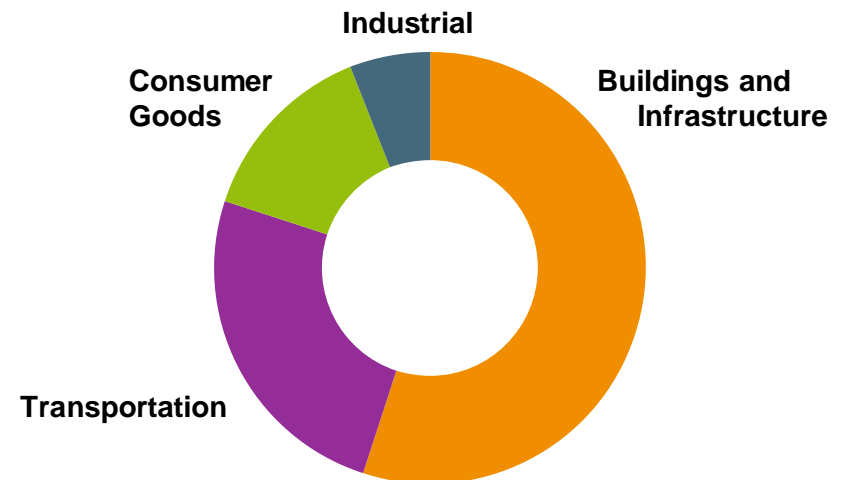
Naturally-derived rheology control polymers

## The global paints and coatings market is around €75 billion




**By market sector**  
2011, 100% = €75 billion



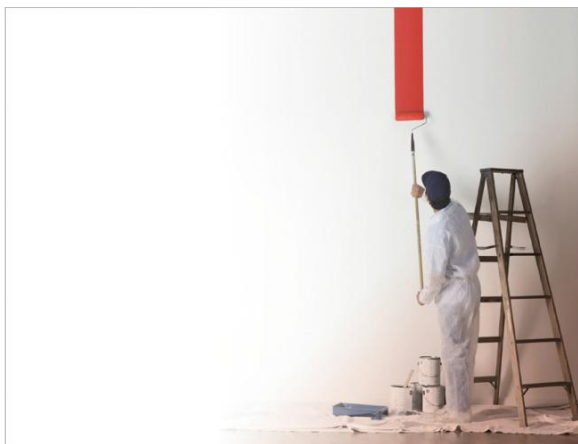
**By end-user segment**  
2011, 100% = €75 billion



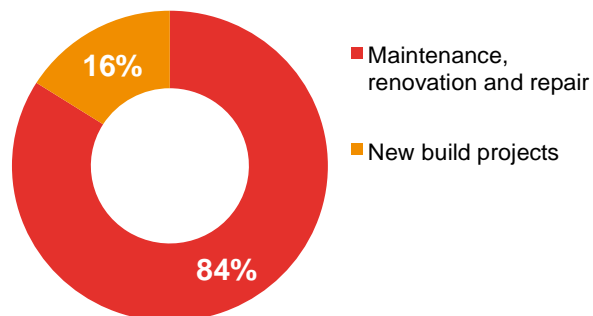
## AkzoNobel has many leading market positions

		No.1 Position	Other key players
Decorative	Multiple regions outside North America		PPG, regional players
	North America*	Sherwin-Williams	PPG, regional players
Protective			Sherwin-Williams, Jotun
Powder			Axalta, Jotun, regional players
Auto refinish		Axalta	PPG, AkzoNobel
Wood			Sherwin-Williams, Valspar
Marine			Jotun, Chugoku
Coil			PPG, Beckers

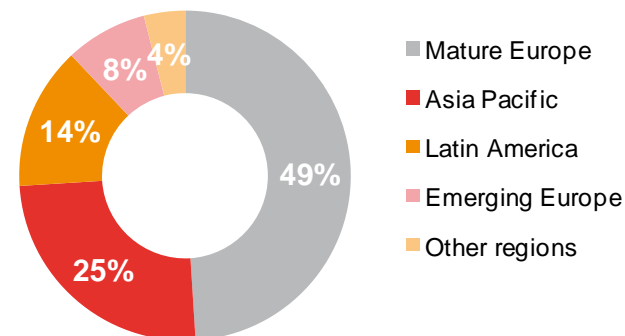
## Decorative Paints overview



### Revenue by end-user sub-segment



### Revenue by geographic region



### Decorative Paints key figures

(new definition)

€ million	2012*
Revenue	4,297
EBITDA	284
Operating income	94
Return on sales	2.2%
Return on investment	3.0%
# Employees	17,020

### BA-level core processes and capabilities

- Branding
- Distributor, wholesaler, retail management
- Understanding and serving professional painters
- Consumer inspiration
- Quality management, including product portfolio management

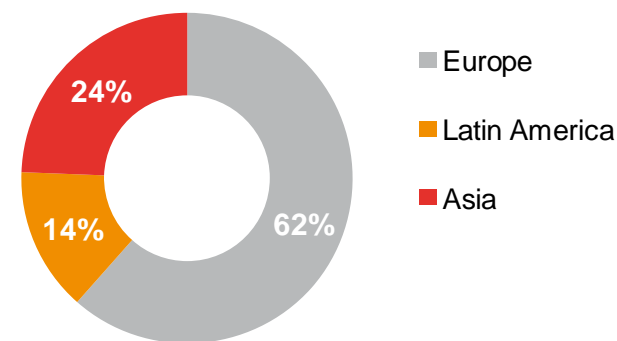
\* After the divestment of Decorative Paints North America, excluding impairment (€2.1 billion)



## Decorative Paints sees limited overall market sector growth in the near future

End-user sub-segment	Geographic region	Forward looking trends
<b>New build projects</b>	Europe	➔
	North America	➔
	Asia	➔
	Latin America	➔
<b>Maintenance, renovation and repair</b>	Europe	➔
	North America	➔
	Asia	➔
	Latin America	➔

Revenue by Business Unit



Expected market growth for the market sectors relevant to AkzoNobel: 3-4%



# After the divestment of North America, our focus is on adapting Europe, and investing in high growth markets

## Europe

- European organization **de-layered**
- Better **proximity to customers**
- Implemented standard processes and merged ERP system to one
- Implementing a single business entity
- Restructuring cost and benefits for 2013 included in Performance Improvement Program
- Additional costs are expected in 2014; total recurring operational **benefits of €100 million** will be realized by end of 2014

## High growth markets

- Additional **investment** in China
- Continuously **expanding the franchise network** in China, India, and South East Asia
- Stronger **focus** on Eastern Europe, Middle East and Africa
- **Expansion** of activities in Latin America



## Decorative Paints strategic direction

### Noteworthy events 2012

- Launched “Let’s Color” brand and campaign globally
- Global campaigns to inspire customers
- Expanded store network in China and India
- Announcement divestment of Decorative Paints North America
- Realigning and restructuring European business

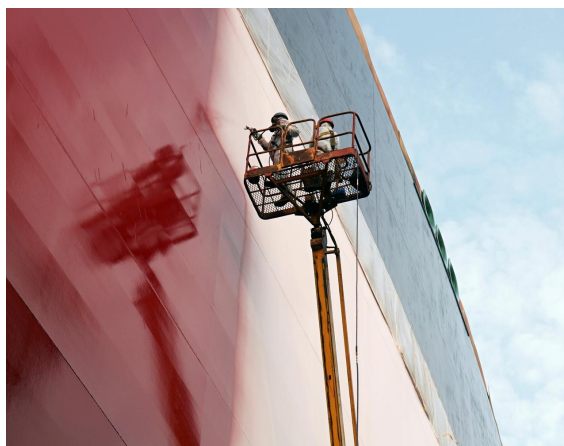
### Actions going forward

- Expand manufacturing capacity in China and India
- Expand market presence in emerging Europe and the Middle East
- Complete the divestment of North America
- Launch new products for the high growth markets
- Deliver on the realignment of the European organization

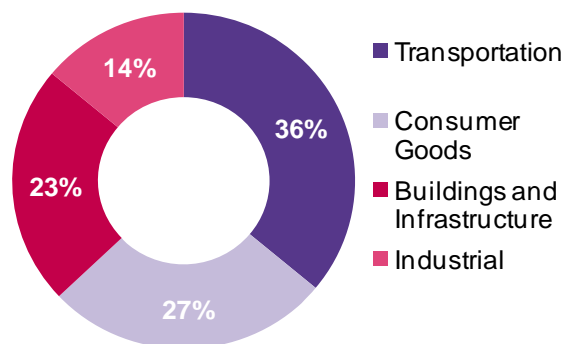
### Expected 2015 financial outcomes

- Organic revenue growth: 5%
- Return on sales: 7.5%
- Return on investment : 12%

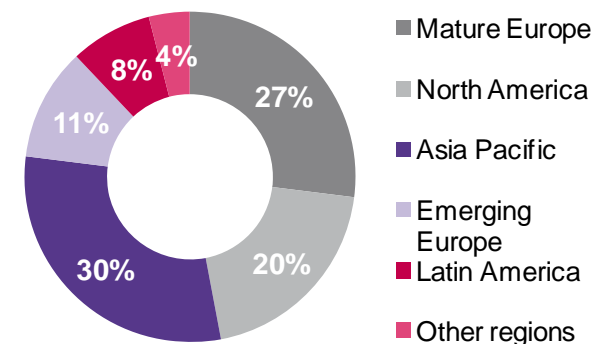
## Performance Coatings overview



### Revenue by end-user segment



### Revenue by geographic region



### Performance Coatings

key figures (new definition)

€million	2012
Revenue	5,702
EBITDA	673
Operating income	542
Return on sales	9.5%
Return on investment	21.7%
# Employees	21,310

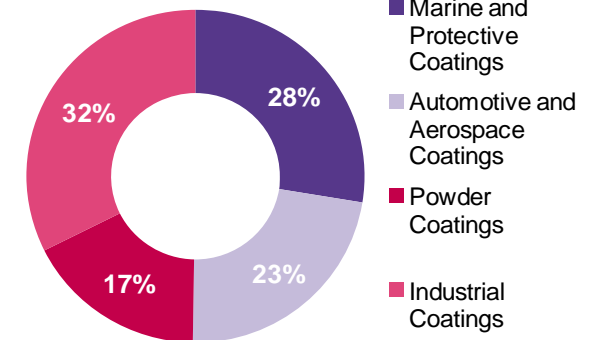
### BA-level core processes and capabilities

- Industrial key account management
- Technical support and service
- Design, color and color matching
- Continuous innovation in functionality and ease-of-use
- Sustainable, safe solutions

## Performance Coatings sees growth in several key market sectors

End-user segment	Performance Coatings market sectors serving the segment	Forward looking trends
<b>Transportation</b>	Automotive and air Marine transport	↗ →
<b>Consumer Goods</b>	Powder and packaging coatings, wood and specialty plastic finishes	↗
<b>Buildings and Infrastructure</b>	Protective, coil and powder coatings, wood finishes	↗
<b>Industrial</b>	Protective and powder coatings	↗

### Revenue by Business Unit



Expected market growth for the market sectors relevant to AkzoNobel: 4%

## Performance Coatings strategic direction

### Noteworthy events 2012

- Schramm acquisition integration on track
- Opened a new manufacturing facility in Vietnam
- Multiple sport stadium contracts for London Olympics and Brazil's future events
- McLaren partnership expanded
- Realigned organization to four Business Units (from five)
- Reorganized Europe for multiple Business Units (Wood, Marine, Automotive)

### Actions going forward

- Complete manufacturing expansion for automotive refinish in China
- Complete Schramm integration
- Product and margin management
- Continue product line rationalization
- Continue ERP consolidation

### Expected 2015 financial outcomes

- Organic revenue growth: 5%
- Return on sales: 12%
- Return on investment: 25%

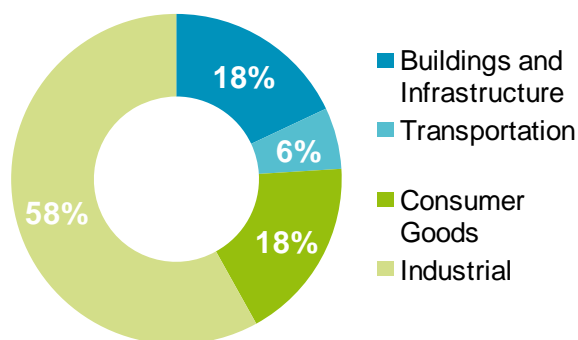
## Specialty Chemicals overview



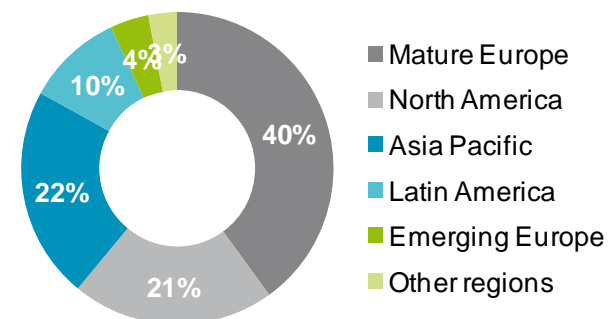
### Specialty Chemicals key figures (new definition)

€ million	2012
Revenue	5,543
EBITDA	830
Operating income	500
<b>Return on sales</b>	<b>9.0%</b>
<b>Return on investment</b>	<b>13.6%</b>
# Employees	10,750

### Revenue by end-user segment



### Revenue by geographic spread



### BA-level core processes and capabilities

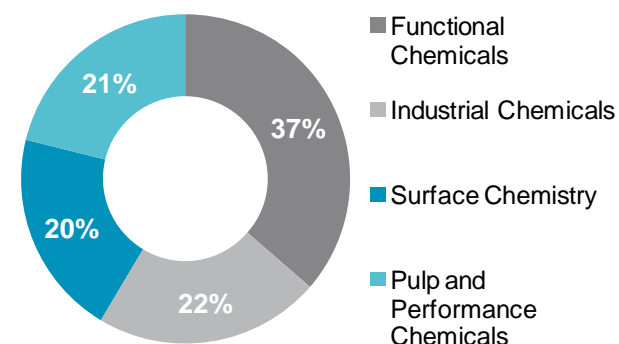
- Management of integrated value chains
- Continuous technological advancement
- Engineering and project management
- Process safety
- Product and margin management
- Managing capital intensive businesses and expansions

## Specialty Chemicals sees limited growth in its key market sector positions

End -user segment	Specialty Chemical market sectors serving the segment	Forward looking trends
<b>Industrial</b>	Surface Chemistry, Industrial Chemicals, Functional Chemicals, Pulp and Performance	➔
<b>Consumer Goods</b>	Surfactants, polymers, chelates, ethylene amines, silica products	➔
<b>Buildings and Infrastructure</b>	Redispersable powders, cellulosic derivatives, chlorine, surfactants	➔
<b>Transportation</b>	Chlor-alkali, organic peroxides, metal alkyls	➔

- Key challenges due to capacity surplus in ethylene amines
- Significant energy cost differentiation among regions

### Revenue by Business Unit



Expected market growth for the market sectors relevant to AkzoNobel: 3%



## Specialty Chemicals strategic direction

### Noteworthy events 2012

- Acquired Boxing Oleochemicals, China
- Further expansion in Ningbo, China multisite
- MCA expansion in Taixing, China
- Opened bleaching chemical Island in Brazil and further investment in another site
- Demerger and sales of Chemicals Pakistan

### Actions going forward

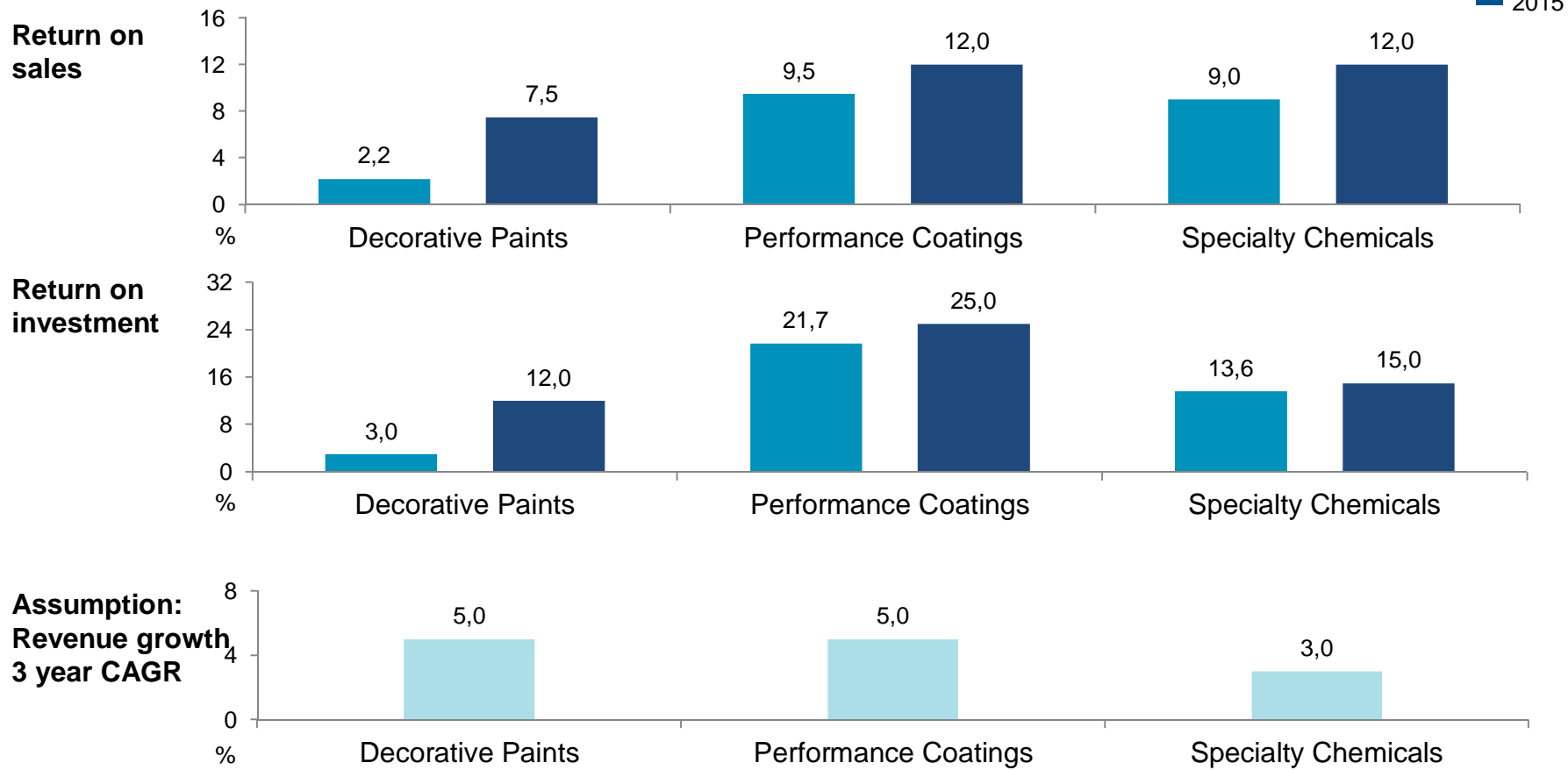
- Further integrate and grow Boxing
- Benefit from capacity expansions in Taixing, Brazil and Germany
- Generate growth from new products
- Further rationalize and consolidate ERP systems

### Expected 2015 financial outcomes

- Organic revenue growth: 3%
- Return on sales: 12%
- Return on investment: 15%

## Realistic expected 2015 outcomes

### Expected Outcomes



# Incidentals now included in EBITDA\* as part of ongoing business

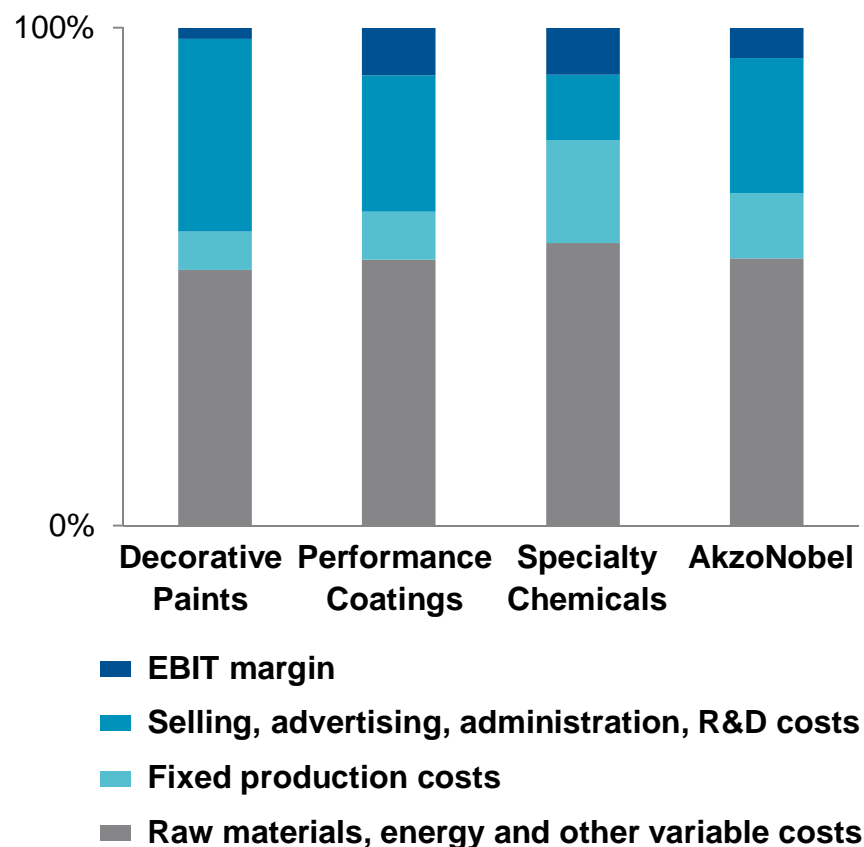
€ million	2010	2011	2012
Restructuring costs	(104)	(129)	(324)
Impairment Deco	-	-	(2,106)
Results related to major legal, anti-trust and environmental cases	(49)	(9)	(36)
Results of acquisitions and divestments	33	10	(45)
Other incidental results	(19)	2	(9)
<b>Total Incidentals as reported</b>	<b>(139)</b>	<b>(126)</b>	<b>(2,520)</b>
Restructuring costs	-	-	-
Impairment Deco	-	-	(2,106)
Results related to major legal, anti-trust and environmental cases	(49)	(9)	(20)
Results of acquisitions and divestments	33	10	(30)
Other incidental results	(16)	2	(14)
<b>Total Restated Incidentals (incl IAS 19 impact)</b>	<b>(32)</b>	<b>3</b>	<b>(2,170)</b>
Total difference	(107)	(129)	(350)
Of which IAS 19 impact on incidentals	-	-	6
<b>Remaining difference due to definition change)</b>	<b>(107)</b>	<b>(129)</b>	<b>(344)</b>
<b>EBITDA as reported</b>	<b>2,009</b>	<b>1,834</b>	<b>1,901</b>
EBITDA adjustment due to new definitions	(107)	(129)	(344)
EBITDA adjustment due to IAS 19 impact	13	12	40
<b>Restated EBITDA (IAS 19 impact included)</b>	<b>1,915</b>	<b>1,717</b>	<b>1,597</b>

\* Restated for IAS19 adjustments which impact the other line

# Variable costs represent 54% of revenue

## Profit and loss breakdown\*

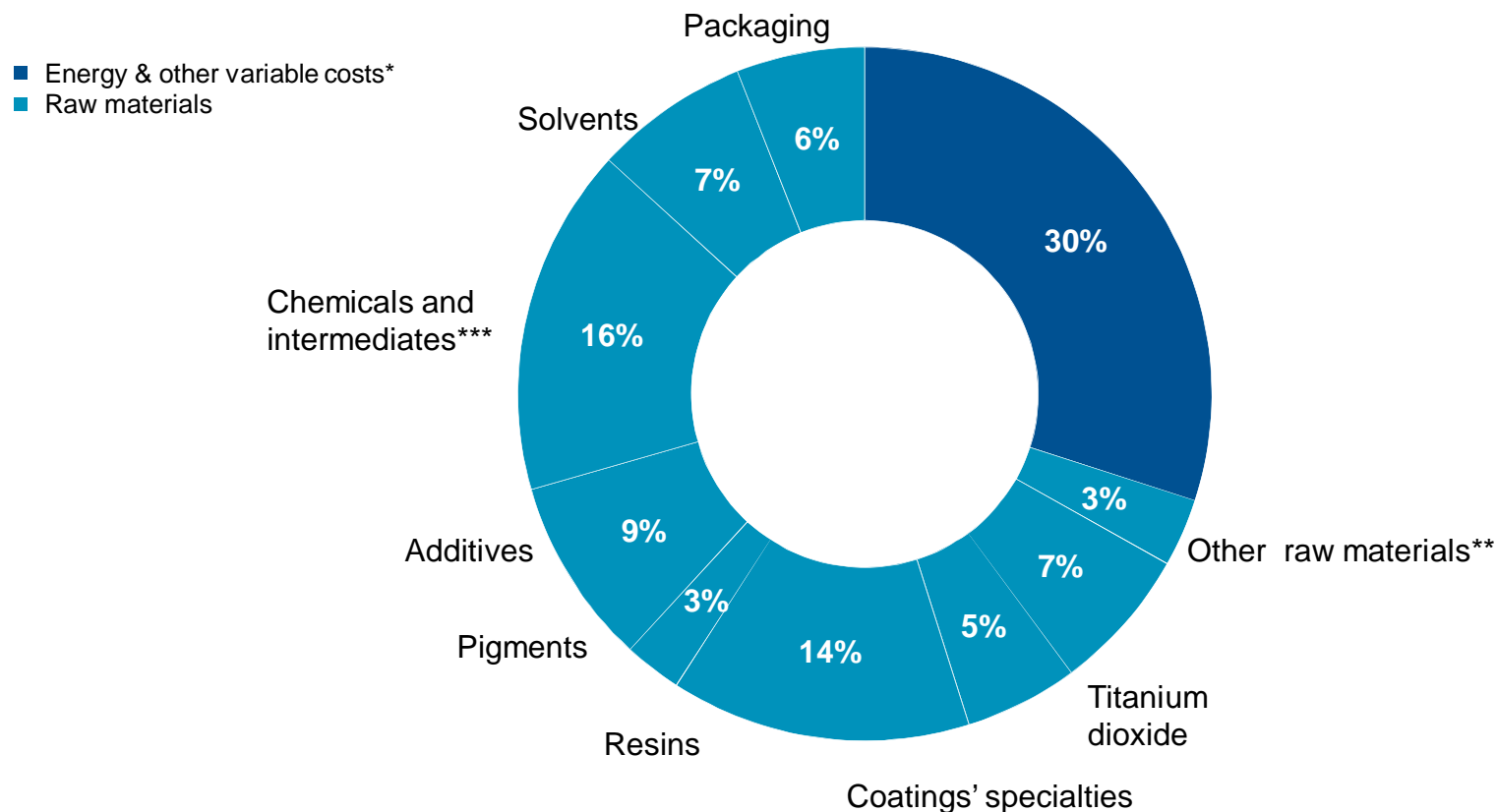
% of total



- Decorative Paints is more driven by personnel costs in the distribution network, while Specialty Chemicals has more production costs
- Operating expense growth is primarily due to wage inflation
- The performance improvement program benefits are equally split between fixed and variable costs

## Variable costs analysis

2012 (excluding Decorative North America)



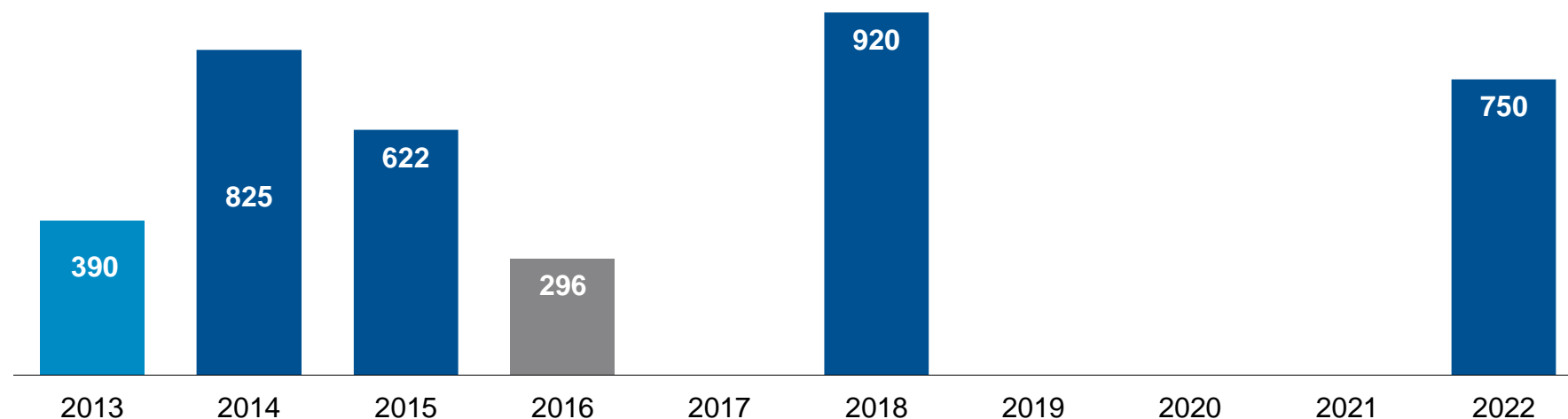
\* Other variable costs include variable selling costs (e.g. freight) and products for resale \*\* Other raw materials include cardolite, hylar etc.  
 \*\*\* Chemicals and intermediates include caustic soda, acetic acid, tallow, ethylene, ethylene oxide, sulfur, amines etc.

## Debt duration 4.0 years and no refinancing currently required

### Debt maturities\*

€ million (nominal amounts)

■ € bonds ■ \$ bonds ■ £ bonds



### Strong liquidity position to support growth

- Undrawn revolving credit facility of €1.7 billion (2017) and €0.1 billion (2016)
- €1.5 and \$3 billion commercial paper programs, backed by the revolving credit facility
- Net cash and cash equivalents €1.7 billion\*

\* At the end of Q2 2013

## Pension cash flow guidance

### Defined benefit pension cash top-ups

€ million

2011 actual	353
2012 actual*	355
2013 estimated	~300
2014 -17 estimated	~330/year
2018 estimated	~100

### Regular contributions

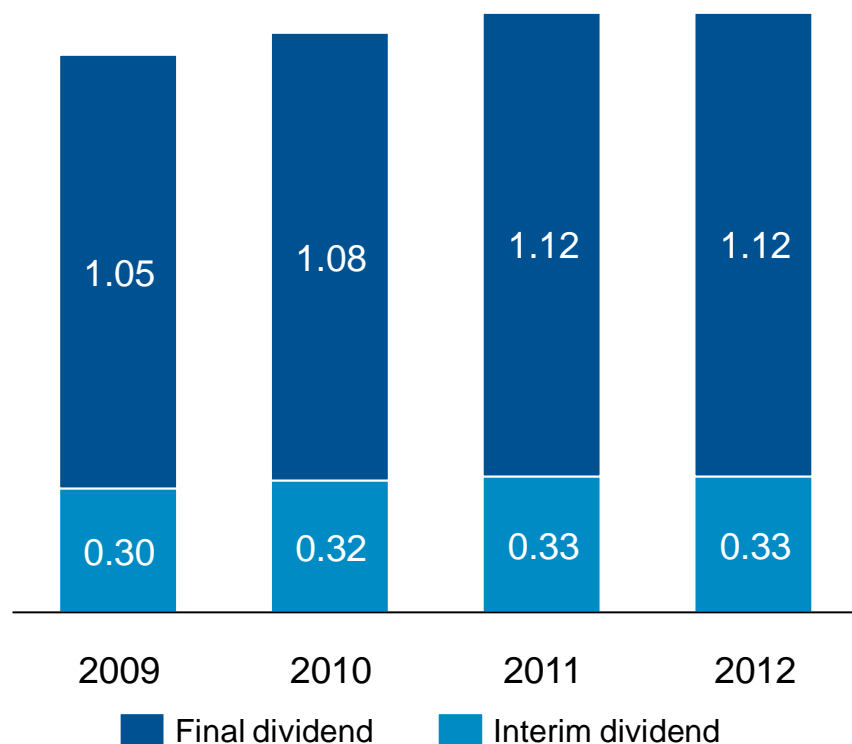
€ million 2013 estimated

Defined benefit	110
Defined contribution	180

- Top-ups relate mainly to the UK
- Top-ups are based on prudent actuarial valuation of liabilities, which differs from accounting liability
- Actuarial pension deficit of the 2 main UK plans is estimated at €1.5 – 2 billion
- Recent actuarial funding reviews on ICI and CPS pension funds in the UK have resulted in reduced top-ups by €485 million over the next six years
- The next triennial reviews will be completed in 2015

\* Excludes one-off cash transfer of €239 million to ICI Pension Fund in the UK being termination of a contingent asset structure.

## Dividends



- Our dividend policy is to pay a stable to rising dividend each year
- An interim and final dividend will be paid in cash unless shareholders elect to receive a stock dividend



## Short term incentives have been aligned with our priorities

### Executive short term bonus 2013

Bonus Element	Metric
20%	Return on investment
20%	Operating income
30%	Operating cash flow
30%	Personal targets – related to performance improvement plan

- Financial targets are set based on
  - Return on investment
  - Operating income
  - Operating cash flow
- More than 600 executives are affected by this change
- Alignment of priorities