

# Investor Update Q2 2015 results

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July 21, 2015



# Agenda

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Highlights

Operational review

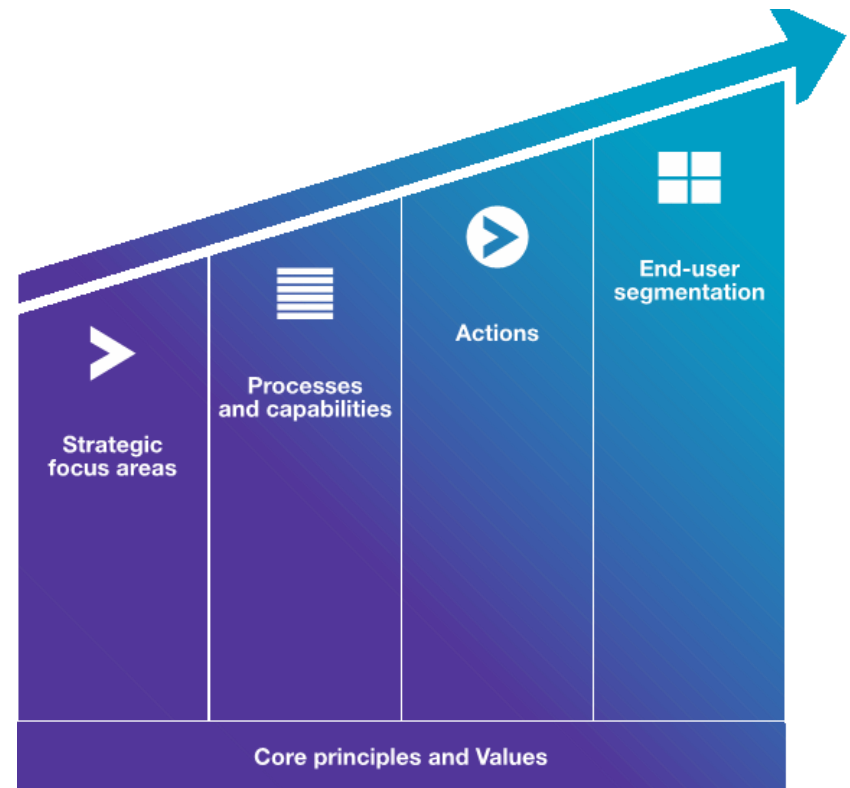
Financial review

Conclusion

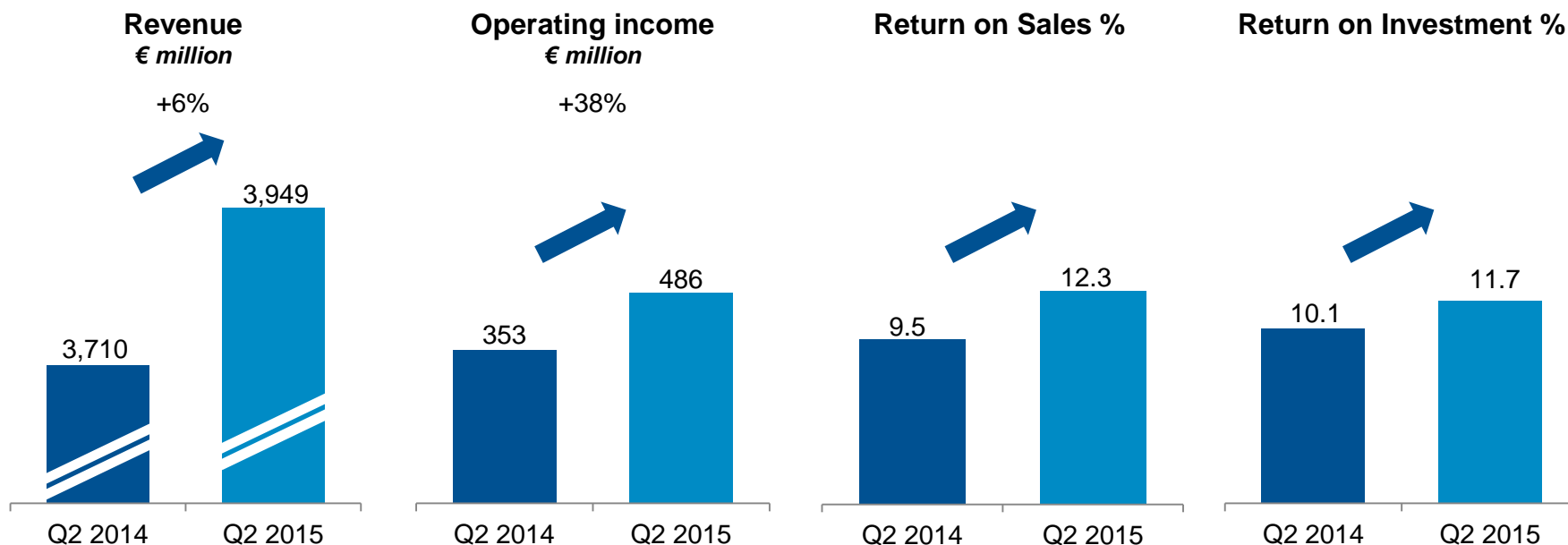
Questions

## Strategic progress in Q2 2015

- Strong performance improvement in all businesses
  - Continued lowering of the cost base
  - Changed operating model for each business and the functions
- Paper Chemicals divestment completed, generating €30 million profit
- Conclusion of the ICI Pension Fund triennial review with reduced annual cash contributions and further de-risking
- On track to deliver 2015 targets



## Q2 2015 continued to show improved performance



- Continued improvement driven by significant actions taken in recent years
- Net income attributable to shareholders up 61 percent (€331 million); adjusted EPS up 37 percent (€1.30)
- Net cash inflow from operating activities €407 million (2014: €393 million)

# Buildings and Infrastructure

~42% 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

~17% of revenues

Consumer Durables  
Consumer Packaged Goods

# Consumer Goods

~25% of revenues

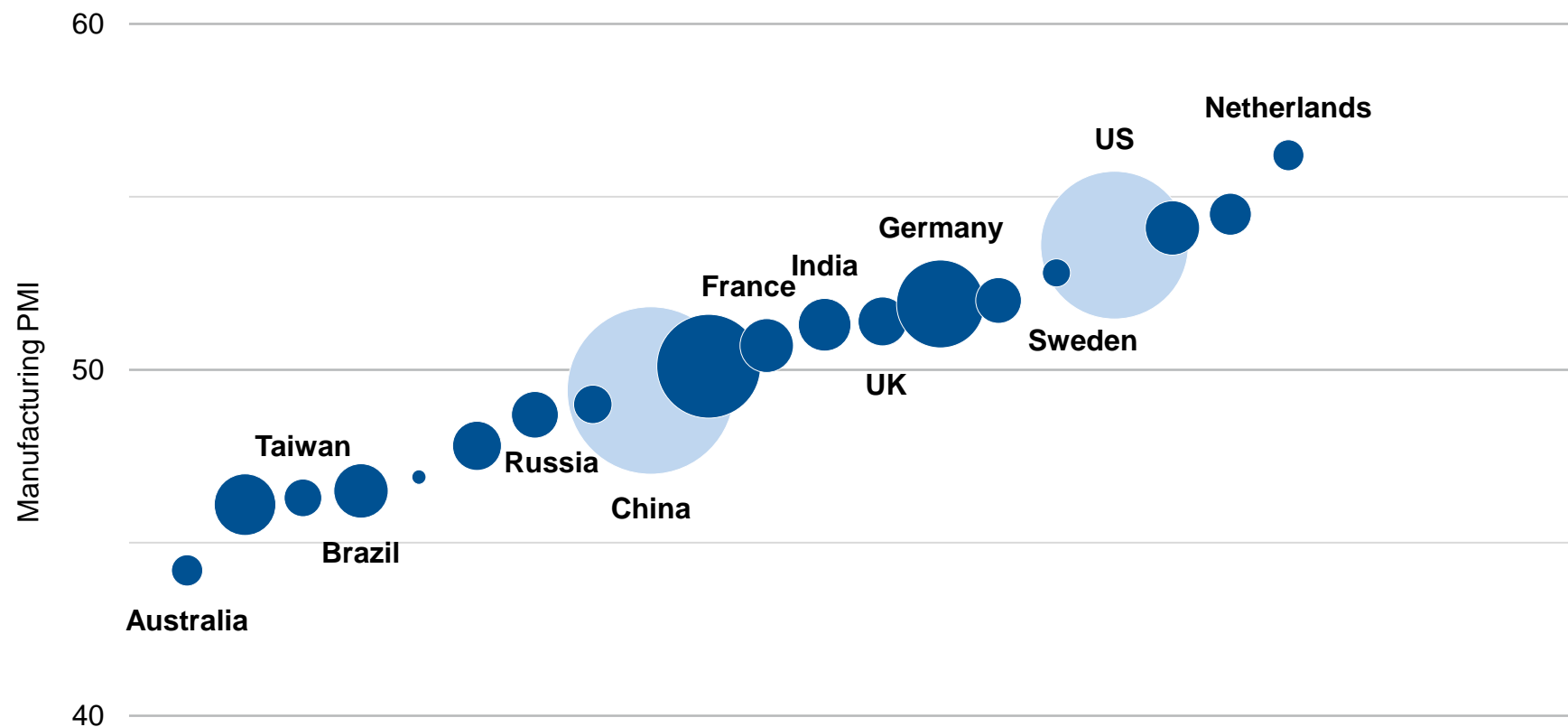
Natural Resource and Energy Industries  
Process Industries

# Industrial

# Some mature markets continue to expand, while Brazil, Russia and China contract

Purchase Managers' Index (PMI)\*

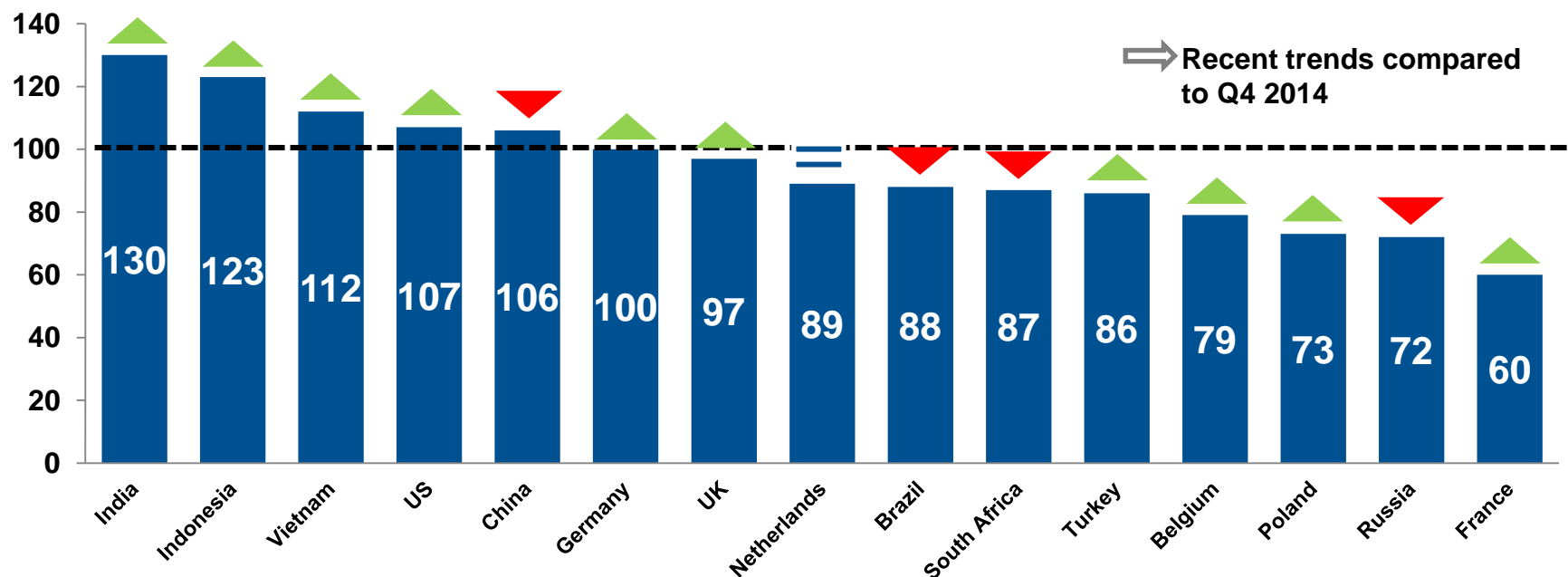
June 2015



# Consumer confidence remains low, although trends differ per country

## Consumer confidence, Q1 2015

Figures below 100 indicate some degree of pessimism



# Operational review

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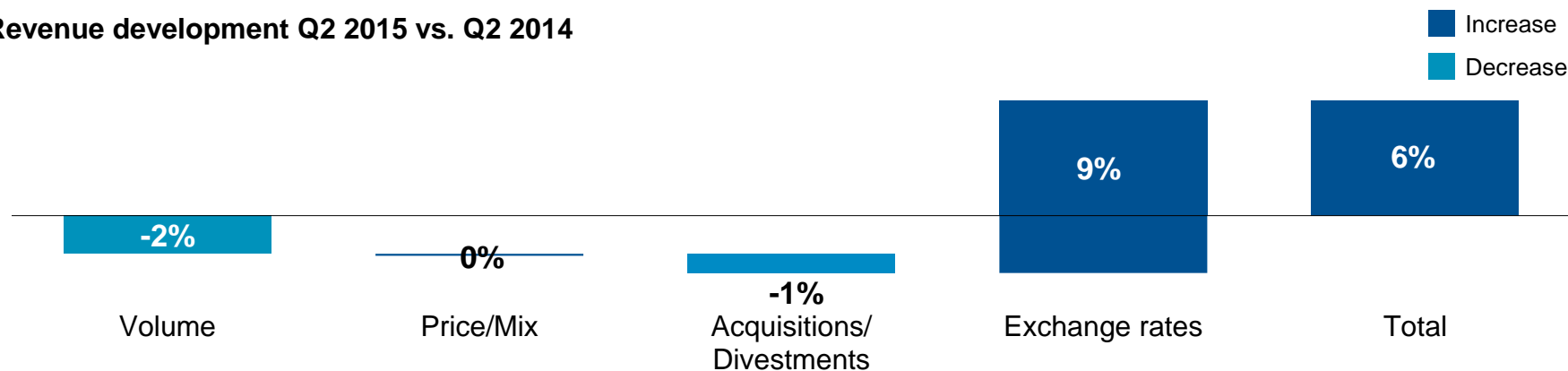
## Another consecutive quarter of operating margin improvement

€ million	Q2 2014	Q2 2015	Δ%
Revenue	3,710	3,949	6
Operating income	353	486	38

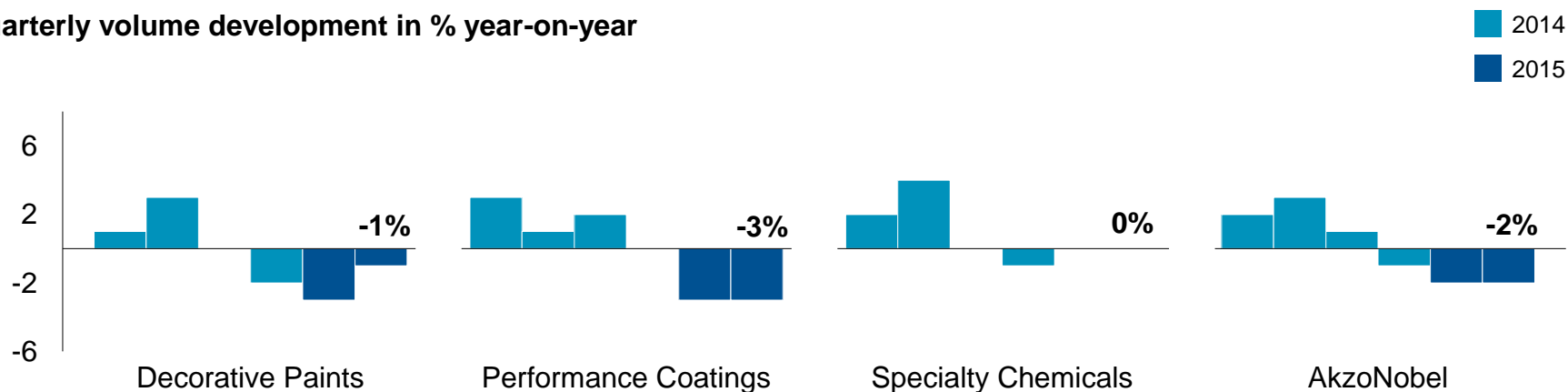
Ratio, %	Q2 2014	Q2 2015
<b>Return on sales</b>	<b>9.5</b>	<b>12.3</b>
Return on sales (excluding restructuring costs)	10.7	12.9
Return on sales (excluding incidentals and restructuring costs)	10.7	12.1
Moving average return on investment	10.1	11.7

### Revenue development Q2 2015 vs. Q2 2014

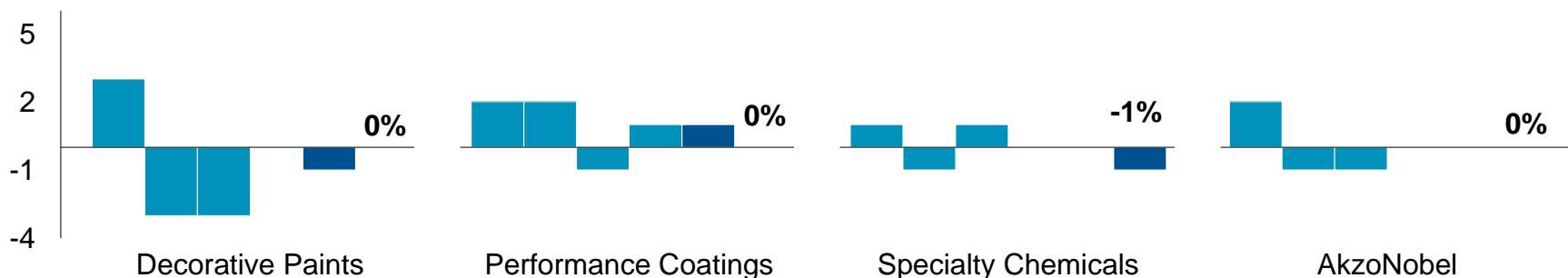


## Markets remain challenging and continued to impact all Business Areas

Quarterly volume development in % year-on-year



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



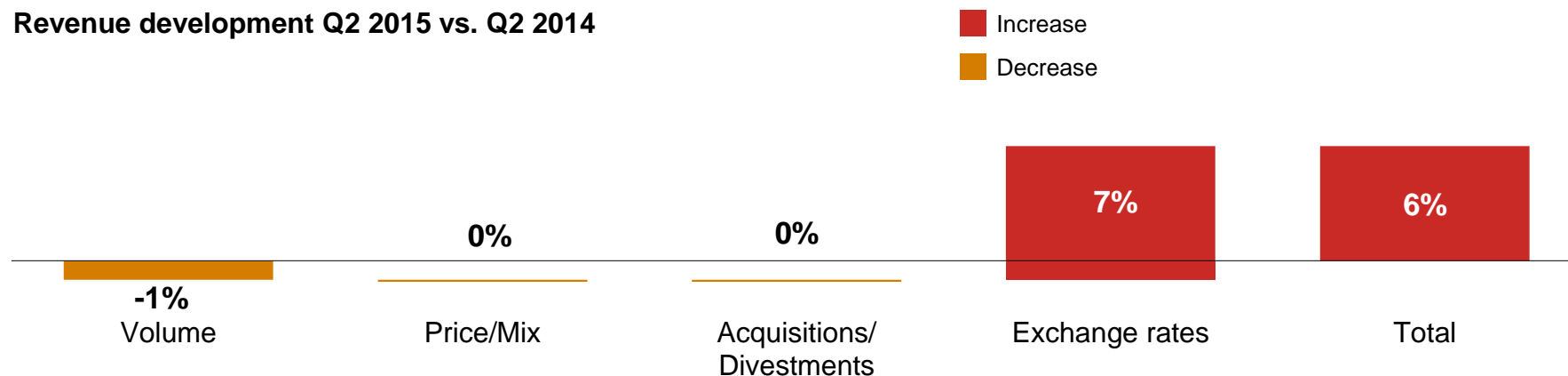
## Decorative Paints Q2 2015 highlights

€ million	Q2 2014	Q2 2015	Δ%
Revenue	1,074	1,134	6
Operating income	102	128	25

Ratio, %	Q2 2014	Q2 2015
Return on sales	9.5	11.3
Return on sales (excl. restr. costs)	11.7	12.3

- Revenues up due to favorable currency effects. Volumes up in Asia; down in Europe and Latin America
- Price/mix flat, with positive developments in Europe and Latin America offset by Asia
- Operating income up due to new operating model, lower restructuring expenses, strict cost containment and favorable currencies

### Revenue development Q2 2015 vs. Q2 2014



# Performance Coatings

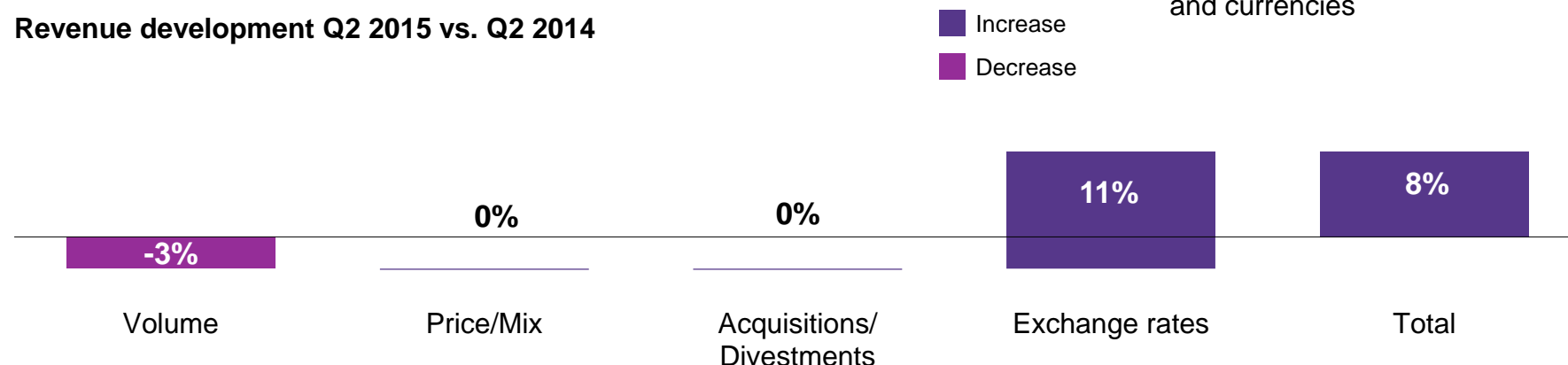
## Q2 2015 highlights

€ million	Q2 2014	Q2 2015	Δ%
Revenue	1,434	1,550	8
Operating income	178	220	24

Ratio, %	Q2 2014	Q2 2015
<b>Return on sales</b>	<b>12.4</b>	<b>14.2</b>
Return on sales (excl. restr. costs)	13.6	14.8

- Revenue up as favorable currencies offset lower volumes
- Volumes declined in the quarter mainly due to lower capital and maintenance spending in the global oil and gas industry; Russia, Brazil and China remain challenging
- Operating income up driven by cost reductions, manufacturing favorable product mix from margin management, manufacturing productivity, and currencies

### Revenue development Q2 2015 vs. Q2 2014



# Specialty Chemicals

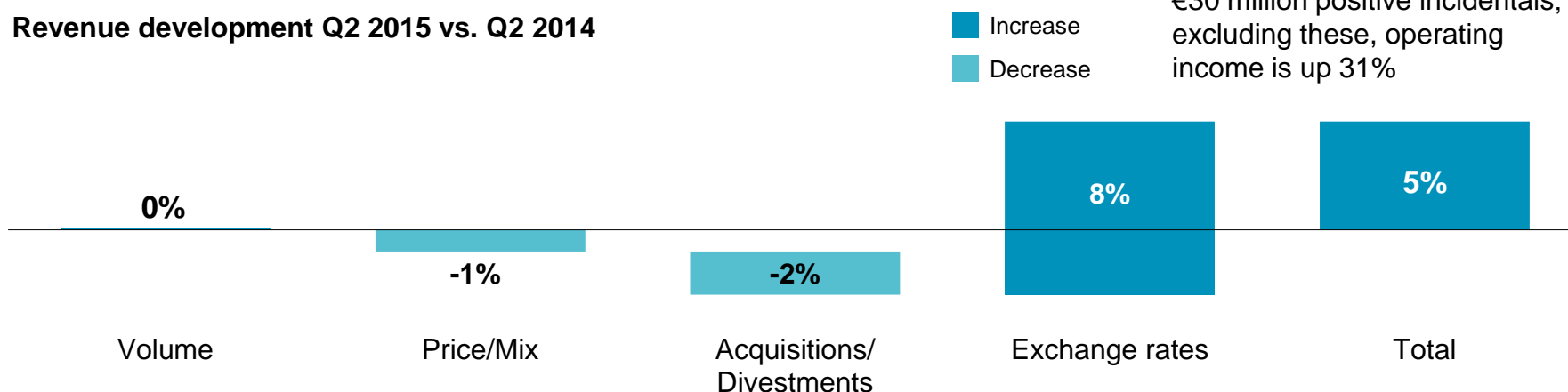
## Q2 2015 highlights

€ million	Q2 2014	Q2 2015	Δ%
Revenue	1,228	1,290	5
Operating income	124	192	55

Ratio, %	Q2 2014	Q2 2015
<b>Return on sales</b>	<b>10.1</b>	<b>14.9</b>
Return on sales (excl. restr. costs)	10.2	15.1
Return on sales (excl. inc. and restr. costs)	10.2	12.8

- Revenue up mainly due to favorable currency effects
- Volumes flat: growth in some segments compensated for lower demand in oil and gas drilling
- Operating income up supported by increase of production at the new Frankfurt plant and operational efficiencies
- Closing of Paper Chemicals divestment resulted in €30 million positive incidentals; excluding these, operating income is up 31%

### Revenue development Q2 2015 vs. Q2 2014

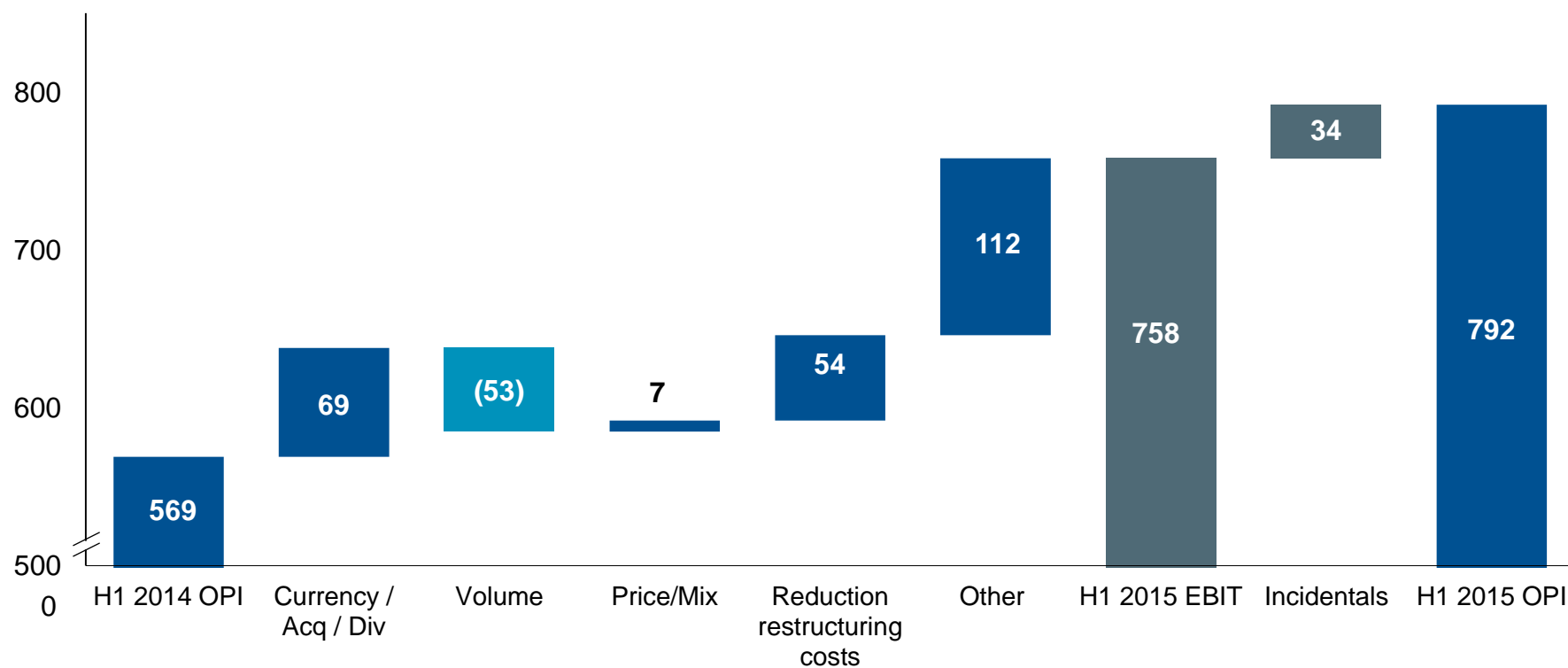


# Operating income up 39% during H1 2015

## Operating Income bridge H1 2014 – H1 2015

€ million

■ Increase  
■ Decrease

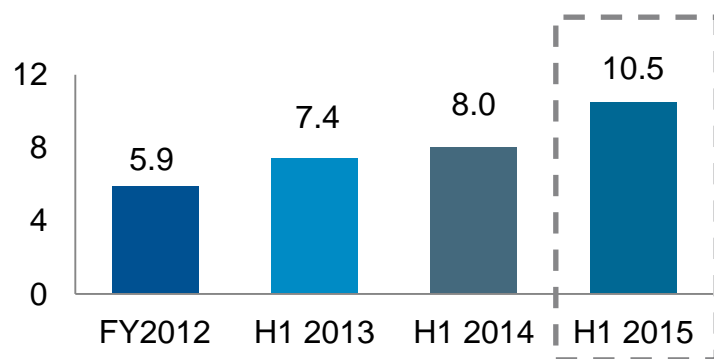


## Continued progress towards financial targets

### Return on sales – 2015 target 9.0%

(Operating income / revenue)

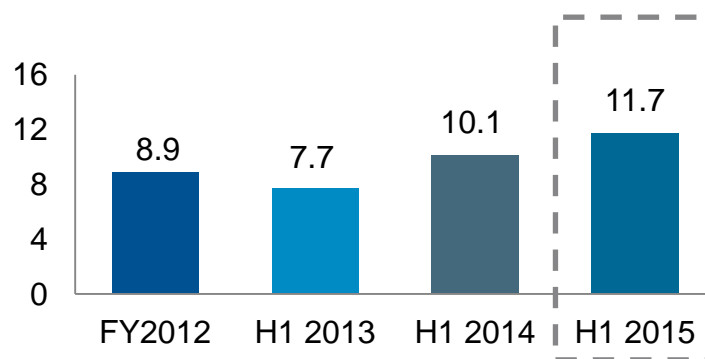
%



### Return on investment – 2015 target 14.0% \*

(Operating income / average 12 months invested capital)

%



**Q2 2015 – ROS 12.3% and ROI 11.7%**  
**On track to deliver 2015 targets**

# Commercial Excellence and continuous improvement basis for future benefits

## Commercial Excellence driving:

- Growth
- Salesforce efficiency

Delivering quality products and innovations to our customers at a lower cost to serve, on-time, in-full:

- Improve customer satisfaction
- Drive organic growth
- Improve margin management
- Sales and marketing productivity

## From project-based restructuring towards continuous improvement in Business Areas and functions

Away from large restructuring programs towards continued productivity improvement

In Supply Chain and also in other functions as well as in our offices



## Some business highlights from Q2 2015

### Decorative Paints

**1,000** liters  
of paint for  
historic street



### Embracing urban heritage

We transformed a historic street in Antakya, Turkey with the help of 500 people, helping safe guard the heritage of 13 civilizations.

### Performance Coatings

**Around half**  
of all global offshore  
wind capacity  
features our coatings



### Delivering leading performance

We provided our coatings technology to Gode Wind offshore wind farm near the German North Sea coast; one of Europe's largest clean energy projects.

### Specialty Chemicals

Waste-to-chemicals  
consortium  
**doubles**  
**in size**



### Driving innovation

As one of the founders of this pioneering initiative we are proud it has grown into 14 partners who join us in the quest to turn waste into raw material.

# Financial review

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## Strong financial performance in Q2 2015

### Operational improvement

- ROS 12.3%; +280bp
- ROS 11.4%; +190bp (excluding incidentals)
- ROI 11.7%; +160bp

### Cash discipline

- CapEx €137 million (3.5% Revenue)
- OWC 12.8% Revenue
- Net cash from operating activities €407 million; +3.6%
- Future annual pension top-up payments reduced

### Shareholder returns

- Net income attributable to shareholders €331 million; +61%
- Adjusted EPS €1.30; +37%

## Net income up 61% due to lower costs, divestments and favorable currencies

<i>€ million</i>	Q2 2014	Q2 2015	$\Delta\%$
<b>EBITDA</b>	<b>509</b>	<b>610</b>	<b>+20%</b>
Depreciation and amortization	(156)	(158)	
<b>Operating income before incidentals</b>	<b>353</b>	<b>452</b>	<b>+28%</b>
Incidentals	-	34	
<b>Operating income</b>	<b>353</b>	<b>486</b>	<b>+38%</b>
Net financing expenses	(40)	(27)	
Minorities and associates	(18)	(19)	
Income tax	(89)	(108)	
Discontinued operations	(1)	(1)	
<b>Net income attributable to shareholders</b>	<b>205</b>	<b>331</b>	<b>+61%</b>

<i>Ratio</i>	Q2 2014	Q2 2015
Earnings per share from total operations (in €)	0.84	1.34
Adjusted earnings per share (in €)	0.95	1.30

## Higher profits drive increased net cash from operating activities

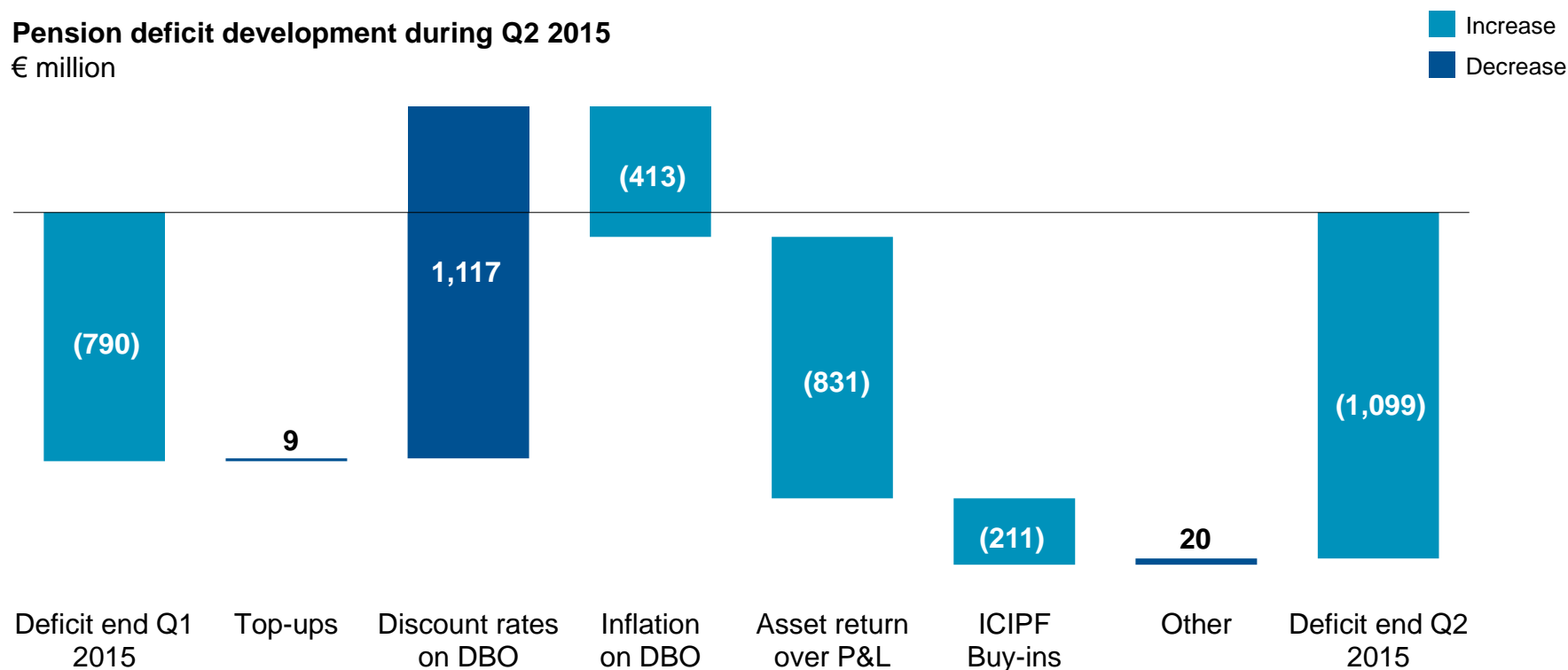
<i>€ million</i>	Q2 2014	Q2 2015	$\Delta\%$
Profit for the period from continuing operations	230	359	
Amortization and depreciation	156	158	
Change working capital	(2)	(40)	
Change provisions	(60)	(85)	
Other changes	69	15	
<b>Net cash from operating activities</b>	<b>393</b>	<b>407</b>	<b>+3.6%</b>
Capital expenditures	(150)	(137)	
Acquisitions and divestments net of cash acquired	-	114	
Changes from borrowings	(22)	(175)	
Dividends	(175)	(184)	
Other changes	3	(16)	
<b>Cash flows before discontinued operations</b>	<b>49</b>	<b>9</b>	
Cash flows from discontinued operations	(11)	(1)	
<b>Net change in cash and cash equivalents of total operations</b>	<b>38</b>	<b>8</b>	

# IAS19 pension deficit increases to €1.1 billion due to additional buy-ins

Key pension assumptions metrics	Q2 2015	Q1 2015
Discount rate	3.5%	3.1%
Inflation rate	3.1%	2.8%

## Pension deficit development during Q2 2015

€ million



# Triennial review of ICI Pension Fund now concluded

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## **Agreement reached with Trustees**

- Funding deficit lower at £850 million (£1.0 billion in 2011)
- Extensive de-risking of liabilities and low interest rate environment
- Top-up payments reduced by £28.5 million in 2016 and 2017 to £150 million per year
- Recovery plan extended by £125 million per year from 2018 to 2021

## **De-risking of pension liabilities continues**

- Buy-in transactions completed for a total of £1.5 billion during H1 2015
- Over 50% of liabilities are now insured through buy-in policies conducted in 2014 and 2015
- In addition, interest rate and inflation exposures have been effectively hedged

# Conclusion

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## Human Cities in action

AkzoNobel partnered with Monocle magazine on its Quality of Life Survey 2015. The survey includes both data-driven elements (e.g., crime figures and business climate) as well as 'soft' factors (e.g., commitment to culture and proximity to open spaces). Our partnership with Monocle has also enabled a dialogue on Human Cities with architects, designers and mayors.



Visit [www.akzonobel.com/humancities](http://www.akzonobel.com/humancities) to see which cities are the most liveable.



## Conclusion

- Strong performance improvement in all businesses
- Divestment of Paper Chemicals business completed
- Conclusion of ICI Pension Fund triennial review, including further de-risking
- Exchange rate movements, positive market trends in North America and no improvement for Europe overall, as well as lower growth rates in many countries, including Russia, Brazil and China, are determining the dynamics of 2015
- Actions taken in recent years form a sound basis for further improved performance
- We are on track to deliver the 2015 targets

Upcoming events:

Q3 2015 results October 22<sup>nd</sup> 2015

Capital Markets Day October 27<sup>th</sup> 2015

Vision:

**Leading  
market positions  
delivering  
leading performance**

# Questions

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## Safe Harbor Statement

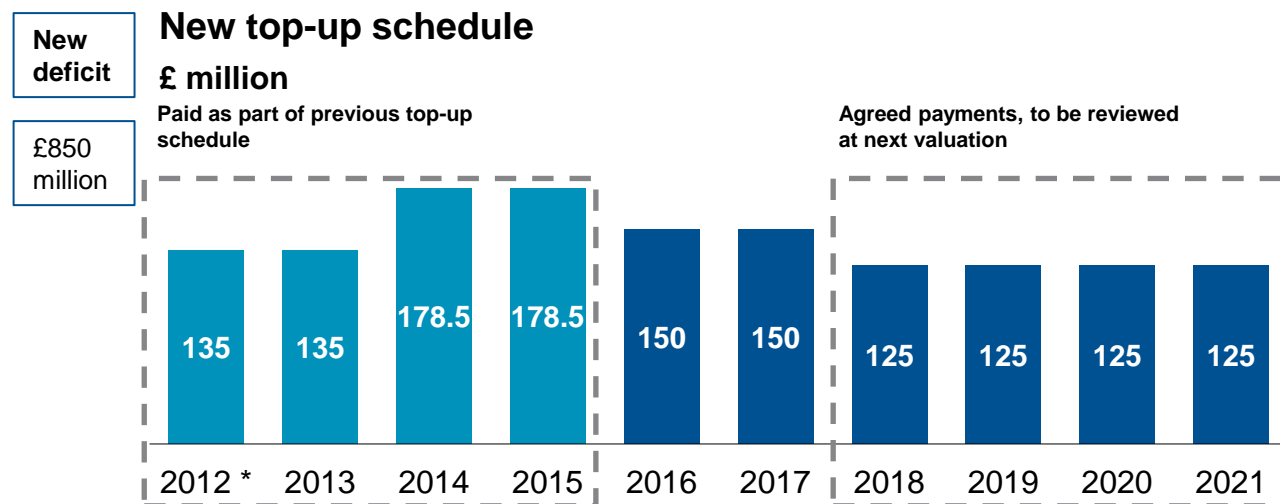
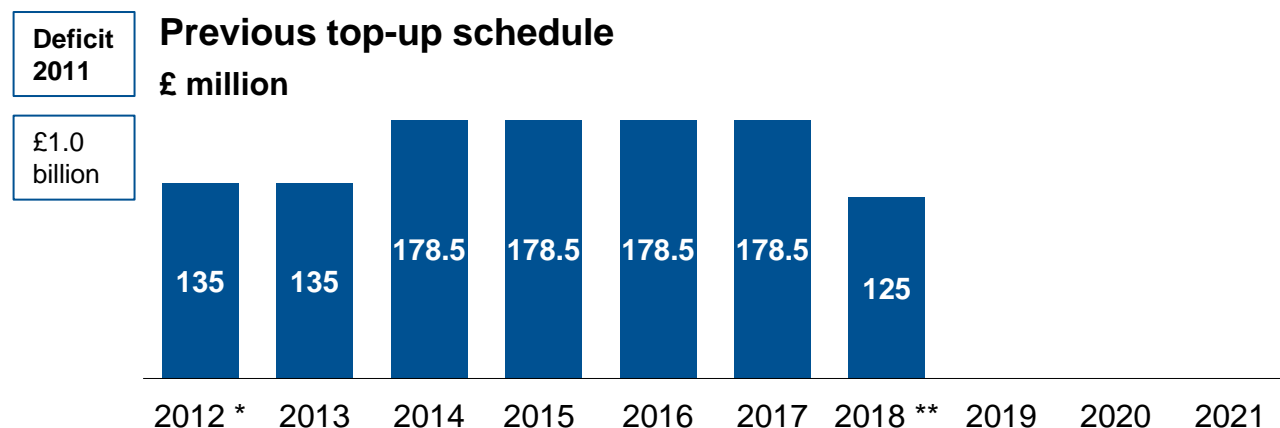
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*This presentation contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline, and product approvals. Such statements should be carefully 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

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## ICI Pension Fund top-up schedule



- Extensive de-risking of liabilities through buy-ins (£5.4 billion); cash impact reflected in new valuation
- Low interest rate environment and significant decrease of discount rate
- Top-up payments reduced by £28.5 million in 2016 and 2017 to £150 million per year
- Recovery plan extended by £125 million per year from 2018 to 2021, mainly due to de-risking and current interest rate environment

\* Excludes £200 million one-off transfer related to termination of a contingent asset structure

\*\* Expected additional one-off payment as a result of the 2014 buy-in transactions; best estimate, not part of 2011 valuation

## Proactively managing or removing pension liabilities

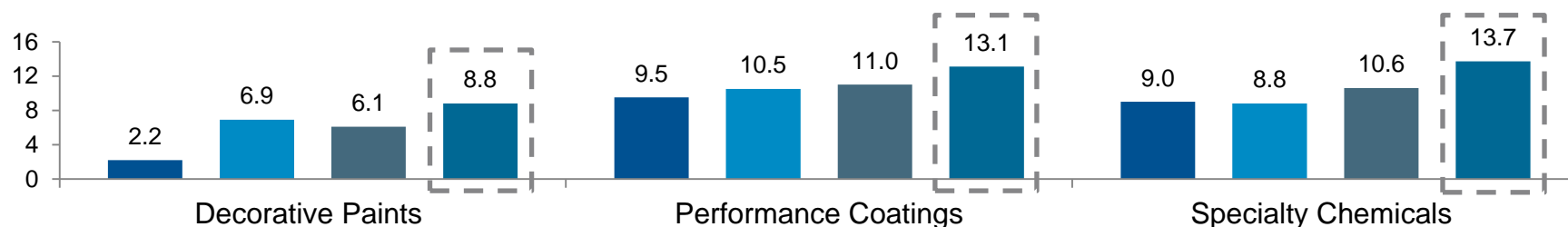
Retain and Manage Risk	Interest rate / Inflation hedging	<ul style="list-style-type: none"> <li>Active management of interest rate and inflation exposure, with around 70% of overall defined benefit obligation (DBO) risks hedged</li> </ul>
	Longevity hedging	<ul style="list-style-type: none"> <li>Courtaulds (CPS) longevity swap with Swiss Re in 2012 (€1.75billion)</li> </ul>
	Buy-in	<ul style="list-style-type: none"> <li><b>UK ICIPF's annuity buy-in's in 2014 and 2015, covers around £5.4 billion pension liabilities</b></li> </ul>
Remove Risk	Divestments	<ul style="list-style-type: none"> <li>Sale of Decorative Paints Canada in 2013 (DBO reduced by €301 million)</li> <li>Sale of National Starch in 2011 resulted in substantial DBO reduction</li> </ul>
	Cash out / Sleeper management	<ul style="list-style-type: none"> <li>US plan deferred members offered a cash out in 2013 (red. €85 million)</li> <li>UK CPS cash out in 2013 (DBO reduced by €39 million)</li> </ul>
	Buy-out	<ul style="list-style-type: none"> <li>USA buy-out with MetLife in 2013 (DBO reduced by €493 million)</li> </ul>

## All Business Areas making progress

### Return on sales

(Operating income / revenue)

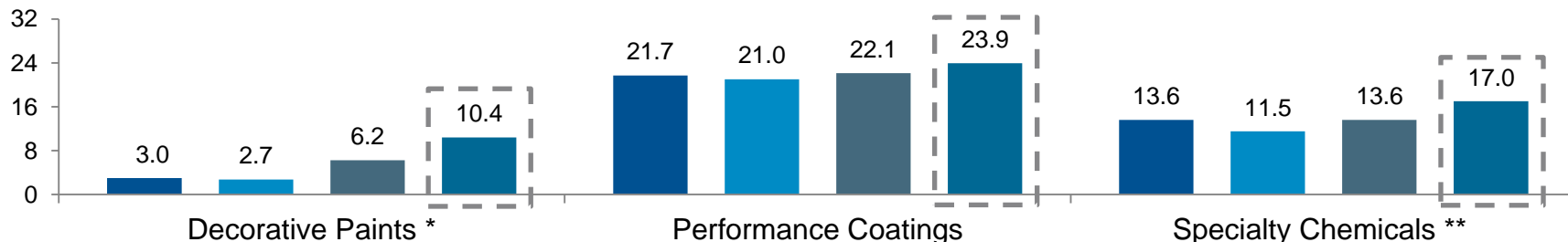
%



### Return on investment

(Operating income / average 12 months invested capital)

%



\* Adjusted for 2012 impairment charge (€2.1 billion) and sale of Building Adhesives

\*\* Adjusted for 2013 impairment charge (€139 million)



## Restructuring charges by quarter

€ million	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014	Q1 2015	Q2 2015
Decorative Paints	22	23	1	34	80	5	11
Performance Coatings	15	17	41	75	148	6	10
Specialty Chemicals	7	2	6	2	17	0	3
Other	0	3	7	-2	8	0	0
<b>Total</b>	<b>44</b>	<b>45</b>	<b>55</b>	<b>109</b>	<b>253</b>	<b>11</b>	<b>24</b>

Total restructuring charges in the second quarter amounted to €24 million (2014: €45 million), excluding restructuring charges of €24 million linked to the divestment of the Paper Chemicals business included in incidental items

## Revenue for Performance Coatings – Updated following change in business structure

€ million	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014
Marine & Protective Coatings	323	362	360	369	1,414
Automotive & Specialty Coatings	343	365	357	375	1,440
Industrial & Powder Coatings	660	715	714	680	2,769
Other/intragroup eliminations	-7	-8	-12	-7	-34
<b>Total</b>	<b>1,319</b>	<b>1,434</b>	<b>1,419</b>	<b>1,417</b>	<b>5,589</b>

## Revenue for Specialty Chemicals – Financial reporting aligned with chemical platforms

€ million	Q1 2014	Q2 2014	Q3 2014	Q4 2014	FY 2014
Functional Chemicals	440	447	446	423	1,756
Industrial Chemicals	322	305	308	295	1,230
Surface Chemistry	250	256	257	247	1,010
Pulp and Performance Chemicals	243	250	258	258	1,009
Other/ intragroup eliminations	-33	-30	-30	-29	-122
<b>Total</b>	<b>1,222</b>	<b>1,228</b>	<b>1,239</b>	<b>1,194</b>	<b>4,883</b>

## Q2 2015 Operating income – Cash bridge

<i>€ million</i>	Q2 2014	Q2 2015
<b>Operating Income</b>	<b>353</b>	<b>486</b>
Incidentals	-	(34)
Depreciation & amortization	156	158
<b>EBITDA before incidentals</b>	<b>509</b>	<b>610</b>
Other	15	3
Change working capital	(2)	(40)
Change provisions	(60)	(85)
Interest paid	(17)	(18)
Income tax paid	(52)	(63)
<b>Net cash from operating activities</b>	<b>393</b>	<b>407</b>

## Innovation Pipeline Q2 2015 Decorative Paints – Trim products

### Key Features

- New formulations of Alba Standard solvent borne enamels, implementing our novel water-in-oil technology, developed to address the needs of local market to differentiate between Premium and standard solvent borne enamels
- Water-in-oil technology available in 14 ready mixed (or pre-mixed) colors
- Synergizing technology within region

### Customer Benefits

- Similar application and finish as the original formulations
- Clear difference between Premium and Standard enamels
- Reducing VOC product emission by approx. 22%

### Growth Potential

- Improved recipe and more efficient production process
- The reduction in VOCs allows these products to be classified as "Eco Premium Solution", therefore contributing towards the 2020 EPS target



Water-in-Oil technology provides premium solutions for our Premium products

## Innovation Pipeline Q2 2015

### Protective Coatings – Chartek 8E Epoxy Passive Fire Protection

#### Key Features

- Continuous temperature resistance to 120°C and short temperature excursions up to 200°C
- No reprotoxic substances, such as boric acid or borates, being completely boron free
- Low applied weight jet and pool fire systems



#### Customer Benefits

- Allows application in areas exposed to high temperatures
- Reduces potential risk to worker's health and safety
- Reduces loads on topside structures allowing more engineering design flexibility

#### Growth Potential

- Low weight solutions offering wider use on process vessels, pipework and areas exposed to radiant heat, avoiding the need to use epoxy syntactic insulation
- Clients looking for epoxy passive fire protection options with health and safety improvements



Low weight boron free epoxy passive fire protection with high temperature resistance

## Innovation Pipeline Q2 2015

### Chelates & Micronutrients – Bolikel® XP

#### Key Features

- Crop nutrition
- Next generation iron-chelate to avoid iron-deficiencies in crops
- Iron is crucial for producing chlorophyll in the leaves (green color of leaves). Chlorophyll is essential for healthy crop development
- Sodium free
- High performance
- Cost effective production process

#### Customer Benefits

- High longevity = cost effective
- Very good uptake by plants: lower dosing recommendations: lowers total cost spent on iron
- Applicable in wide pH range. Performs even in extremely alkaline or calcareous soils: pH range 3.5-12
- Fully biodegradable and water soluble (like all AkzoNobel chelating agents) making this product very suitable for sustainable soil applications (fertigation)

#### Growth Potential

- Market launch in 2015
- Global volume potential



Novel highly efficient Micronutrient for a full, healthy color of your crop

# Reference

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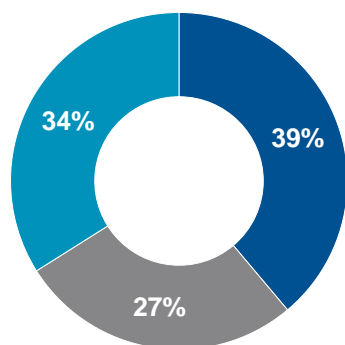


## AkzoNobel today

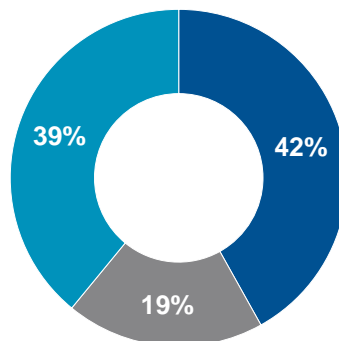
- Revenue €14.3 billion
- 47,210 employees
- 44% of revenue from high growth markets
- Major producer of Paints, Coatings and Specialty Chemicals
- Leadership positions in many markets



### Revenue by Business Area

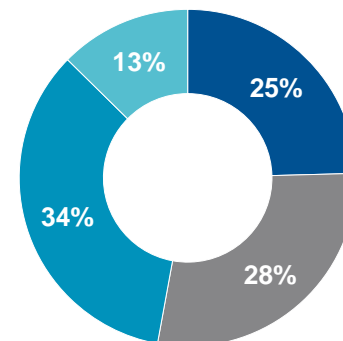


### Operating income by Business Area



**6.9%**  
Return on sales  
(operating income/revenue)

### Invested capital by Business Area

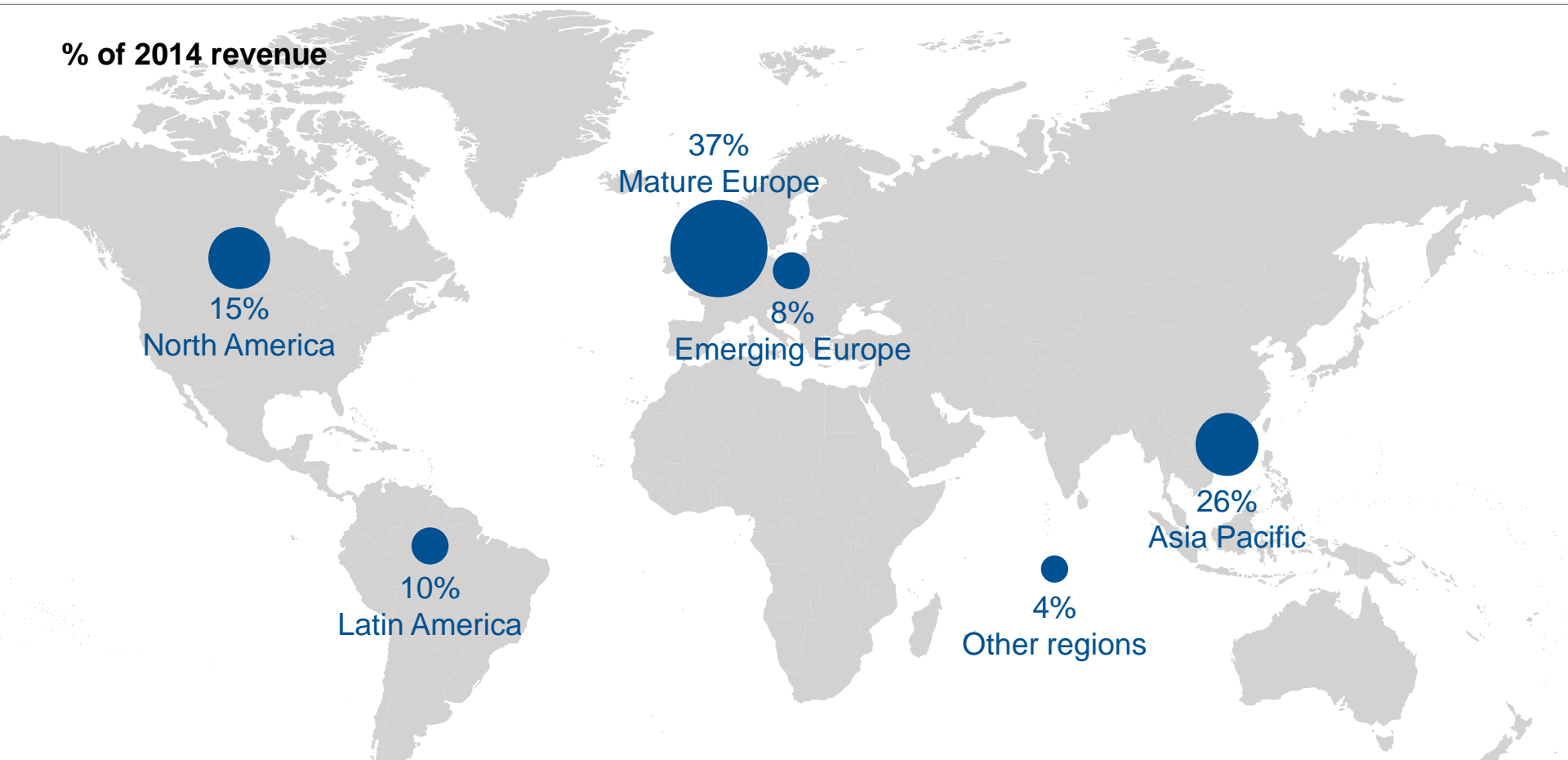


**10.0%**  
Return on investment  
(Operating income/average  
12 months invested capital)



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

% of 2014 revenue



Share of revenues from high growth markets will increase over time

## Our proposition: 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

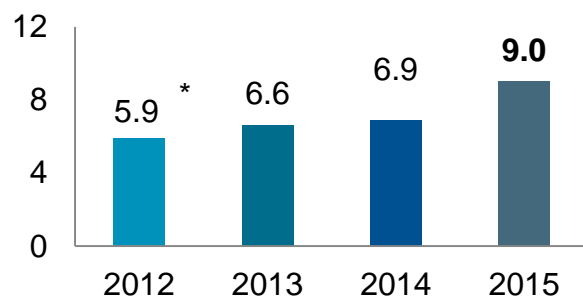
**Clear focus to deliver on our significant potential**

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

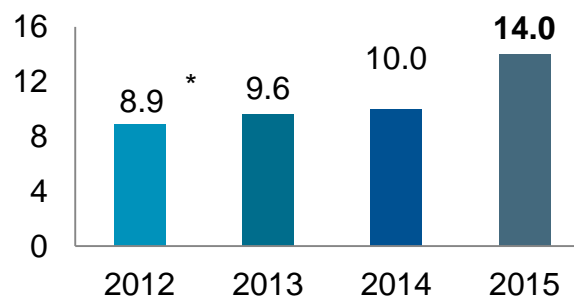


## 2015 financial targets focused on quality of earnings and value creation

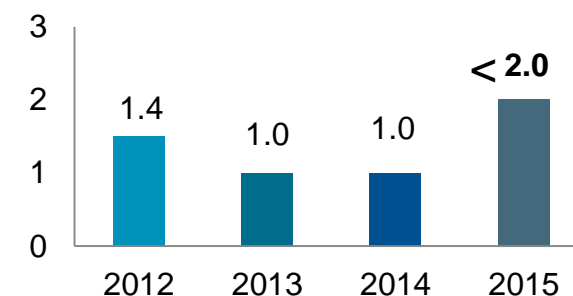
**Return on sales**  
(Operating income/revenue)  
%



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



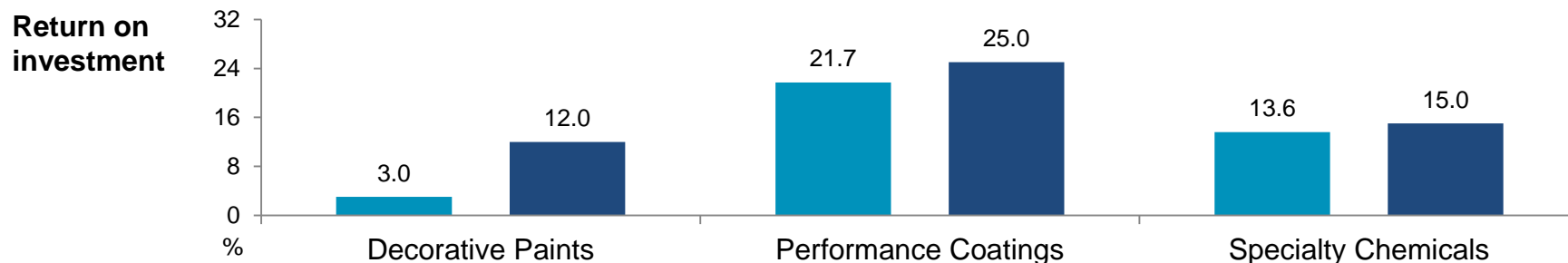
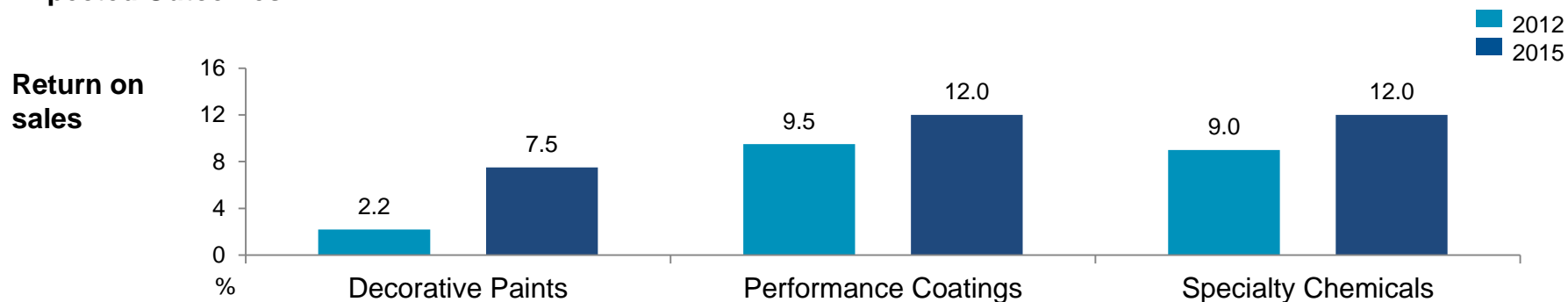
**Net debt/EBITDA**  
x



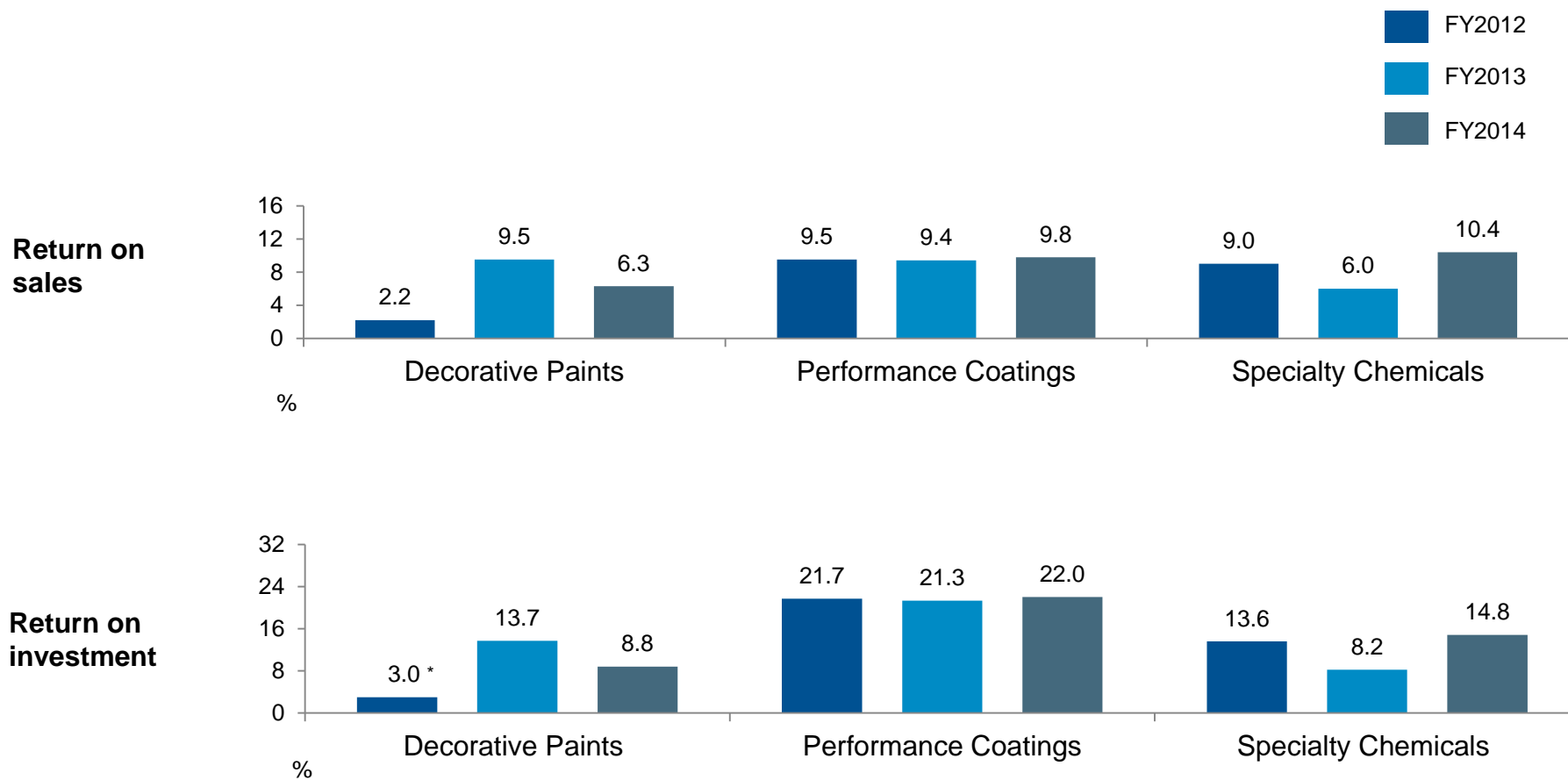
**On track to achieve 2015 targets**

## Realistic expected 2015 outcomes

### Expected Outcomes

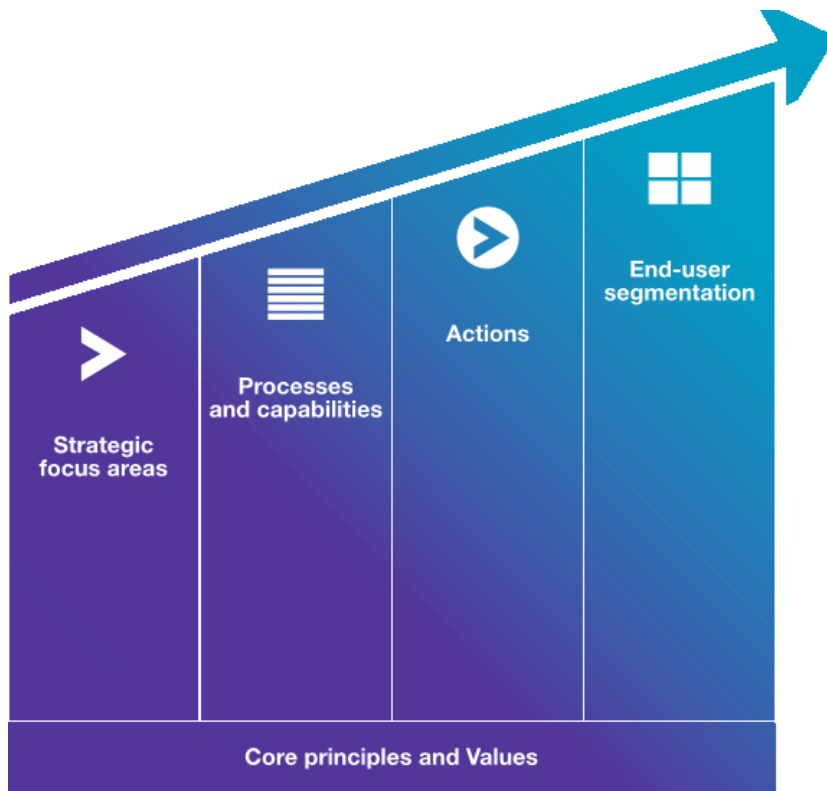


## Progress made to date



\* Adjusted for 2012 impairment charge (€2.1 billion)

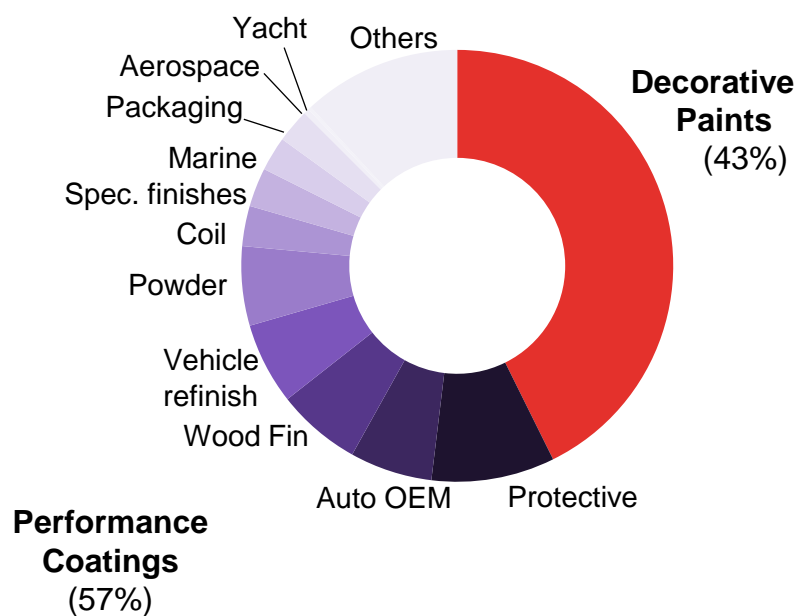
## AkzoNobel strategy introduced in 2013



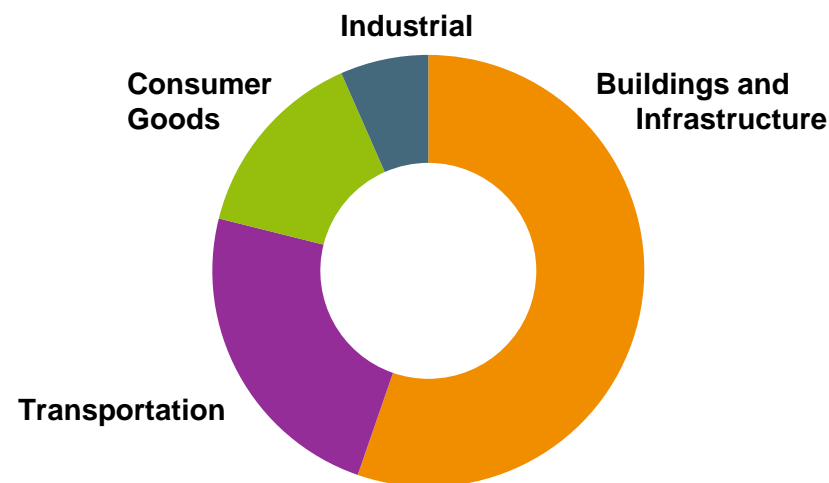
- Organic growth
- Operational excellence

## The global paints and coatings market is around €100 billion

**By market sector**  
2014, 100% = ~ €100 billion









**By end-user segment**  
2014, 100% = ~ €100 billion





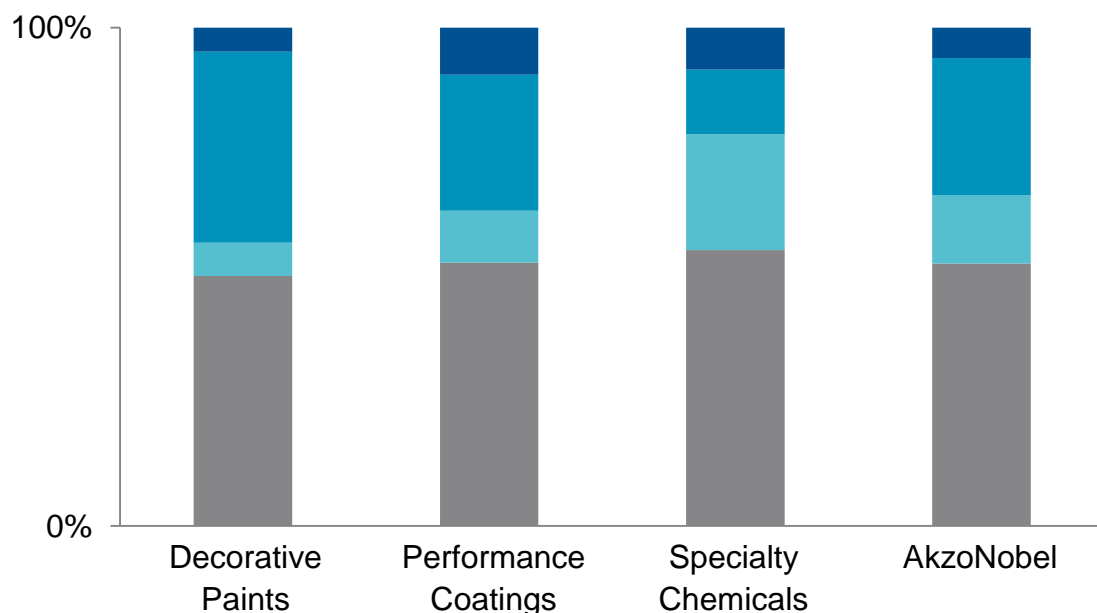
## AkzoNobel has many leading market positions

		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

## In aggregate variable costs represent 53% of revenue

### Profit and loss breakdown\*

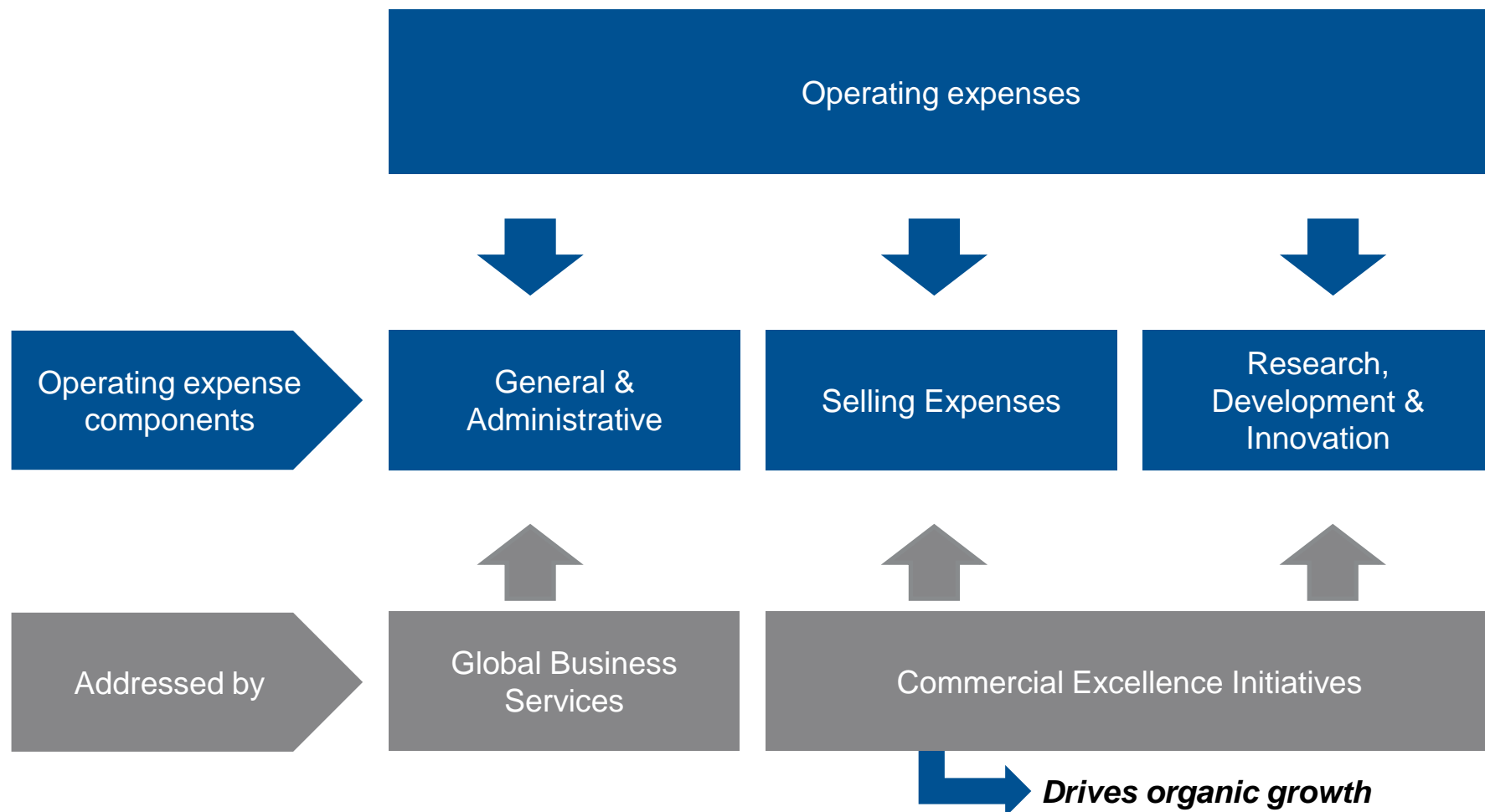
% of total



- EBIT margin
- Selling, advertising, administration, R&D costs
- Fixed production costs
- Raw materials, energy and other variable costs

- AkzoNobel is well positioned for economic recovery
- Variable costs represent 53% of revenue
- Decorative Paints is more driven by personnel costs in the distribution network, while Specialty Chemicals has more production costs

# We are actively addressing all components of operating expenses



## Sustainability is business; business is sustainability

### 20%

of revenue by 2020 from products that are more sustainable for our customers than the products of our competitors

### 25-30%

more efficient resource and energy use across the entire value chain by 2020 (measured by carbon footprint reduction)

### REI

(Resource Efficiency Index)

A new indicator measuring how efficiently we generate value (expressed as gross profit divided by cradle-to-grave carbon footprint)



AkzoNobel ranked #1 again in the Dow Jones Sustainability Index for the Materials Industry group

## Human Cities

- By 2050, more than 75 percent of the world's population will live in cities. 60 percent of our products are in the Buildings & Infrastructure and Transportation
- In June 2014, we launched our Human Cities initiative, which is designed to engage with the challenges and opportunities of the 21st century city via color, heritage, transport, education, sport & leisure, and sustainability
- We partnered with The Rockefeller Foundation through its 100 Resilient Cities program in September 2014
- Beginning of 2015 we developed a new report together with the Economist Intelligence Unit which explores how cities create optimal environments for citizens.



PIONEERED BY THE  
ROCKEFELLER FOUNDATION

100 RESILIENT CITIES

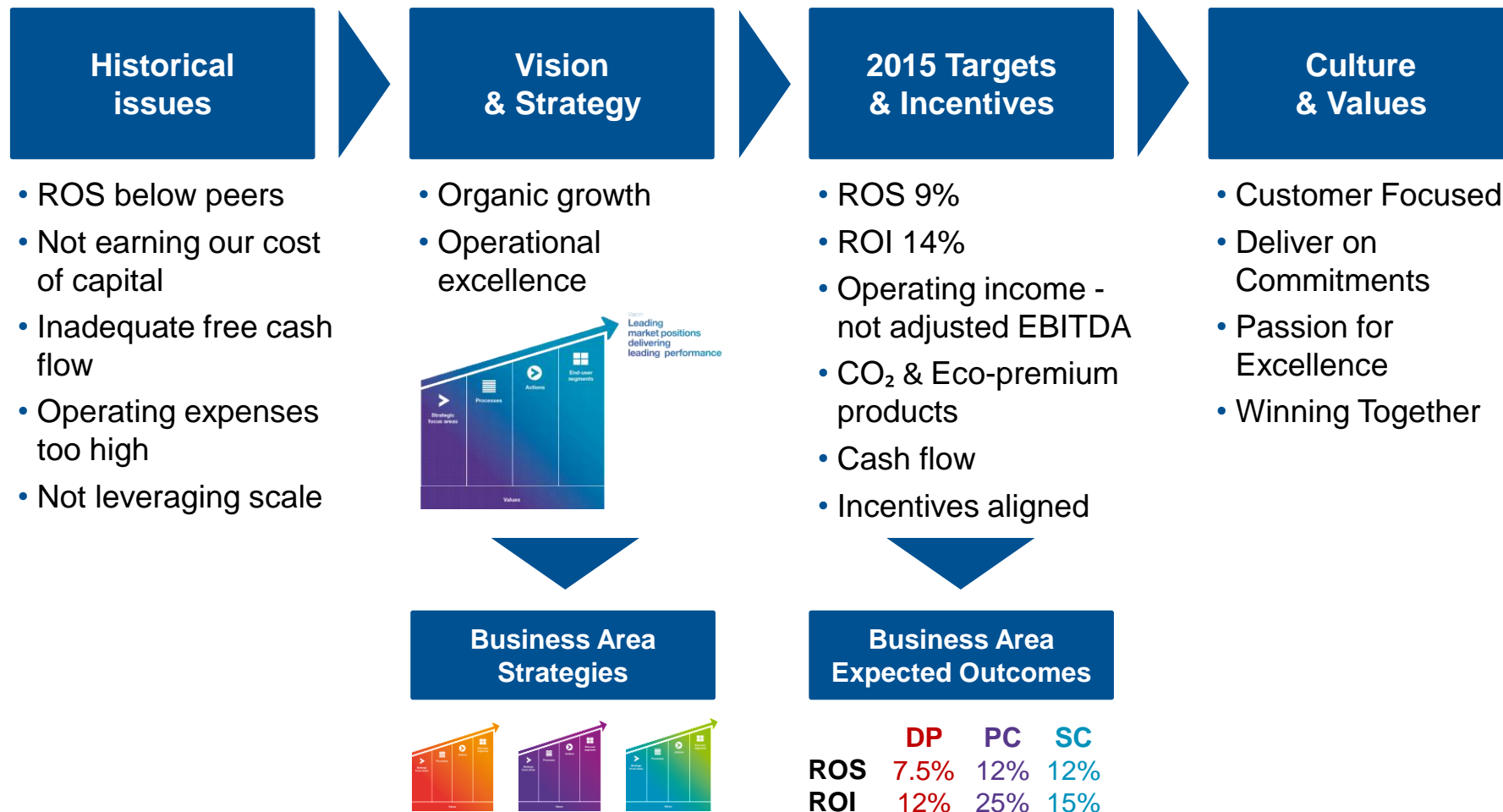
The  
Economist

Intelligence  
Unit

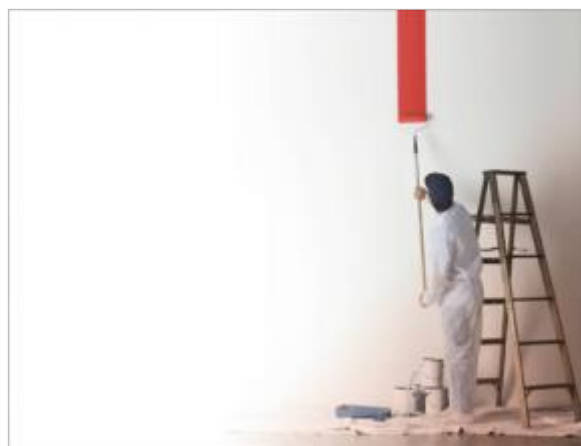
## AkzoNobel values drive cultural change



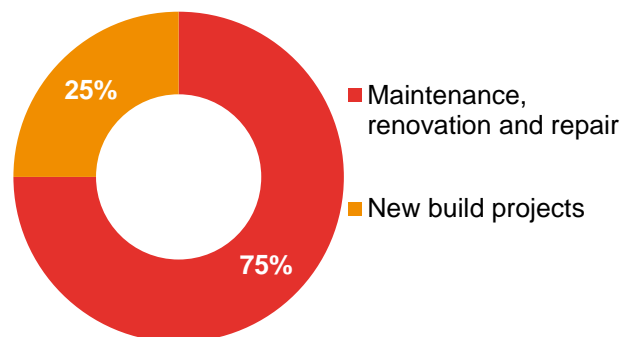
## Leading performance; gaining momentum



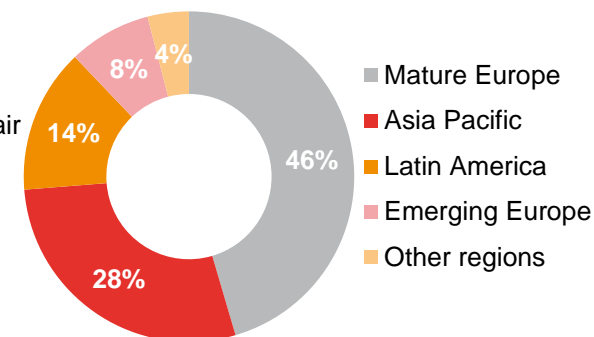
## Decorative Paints business at a glance



Revenue by end-user sub-segment



Revenue by geographic spread



### Decorative Paints key figures

€ million	2014
Revenue	3,909
EBITDA	405
Operating income	248
Return on sales	6.3%
Return on investment	8.8%
Employees	15,200

### Key messages

- We are the global leader in size in the attractive global Decorative Paints market
- We are pursuing a vision of becoming the leading global Decorative Paints company in size and performance
- Strategic priorities:
  - Fix Europe
  - Grow profitably in high-growth markets



## We have very strong brands linked by a global approach to branding

- Our well-known brands are one of our key competitive advantages
- We have a number of powerful, relevant brands occupying a number of positions across different markets (consumer, professional, and other such as woodcare)
- Where possible, we have leveraged our scale and created a single global identity
- We have rationalized our brand portfolio – concentrating our investment behind fewer, bigger, better brands



## Fix Europe

### Objectives:

- Improve performance by driving organic growth and operational excellence and changing the operating model in Europe

### Actions:

- Implement a central operating model and simplify our organizational structure
- Consolidate our manufacturing and distribution footprint
- Develop and implement standardized and efficient marketing and sales platforms
- Redesign back office processes to support back office consolidation and restructuring
- Maintain a strong focus on customers and markets through the transition period



## Changing our operating model in Europe

Action	2012	2013	2014	2015
Integrate relevant European activities and management				
Rationalize product portfolio and raw materials				
Rationalize manufacturing footprint				
Fully implement sales excellence				
Outsource certain finance businesses				
Implement central operating model				
Leverage repeatable models globally				

## Grow profitably in high-growth markets

### Objectives:

- Outgrow the market
- Ensure that we leverage our (global) scale to ensure that we improve relative profitability while we grow

### Actions:

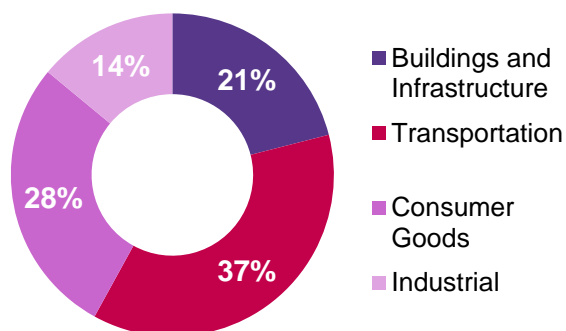
- Develop profitable mid-market business model(s)
- Build and implement a robust distribution strategy framework
- Leverage global marketing and innovation scale to win locally
- Leverage our strong brands
- Create and implement a digital marketing strategy



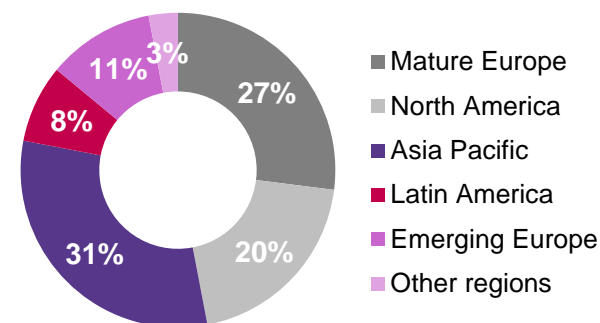
## Performance Coatings business at a glance



### Revenue by end-user segment



### Revenue by geographic spread



### Performance Coatings key figures

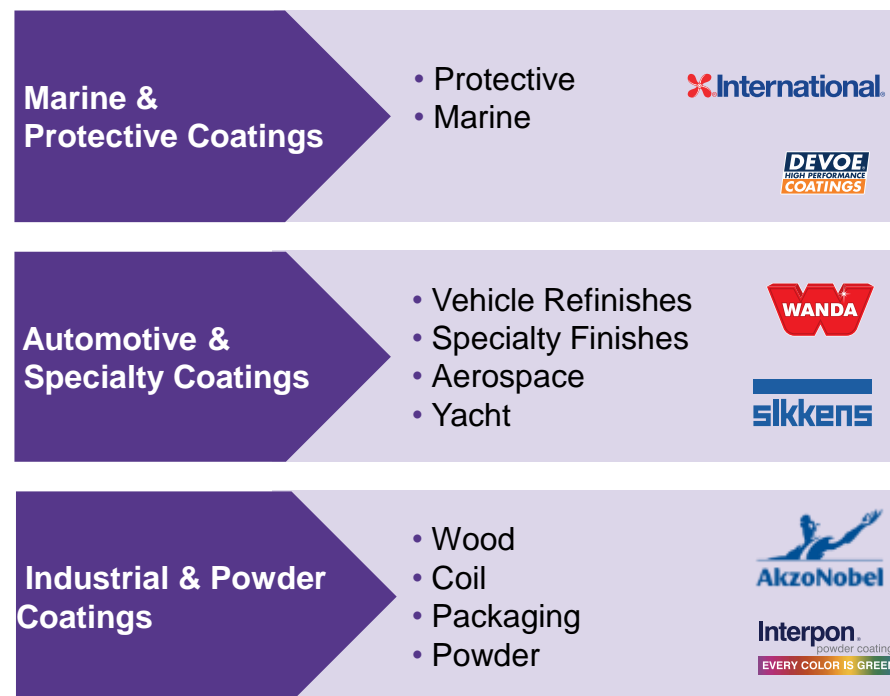
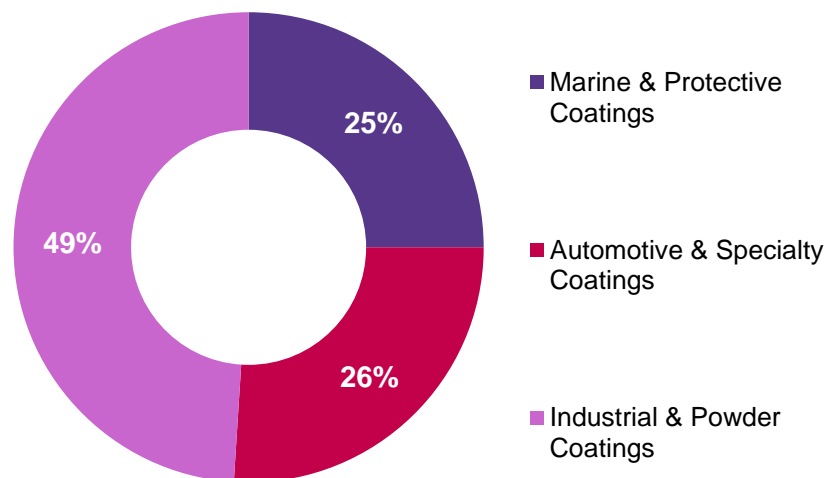
€ million	2014
Revenue	5,589
EBITDA	687
Operating income	545
<b>Return on sales</b>	<b>9.8%</b>
<b>Return on investment</b>	<b>22.0%</b>
Employees	20,500

### Key messages

- We have leading market positions
- Strategic priorities include:
  - Performance improvement initiatives
  - Differentiated growth strategies

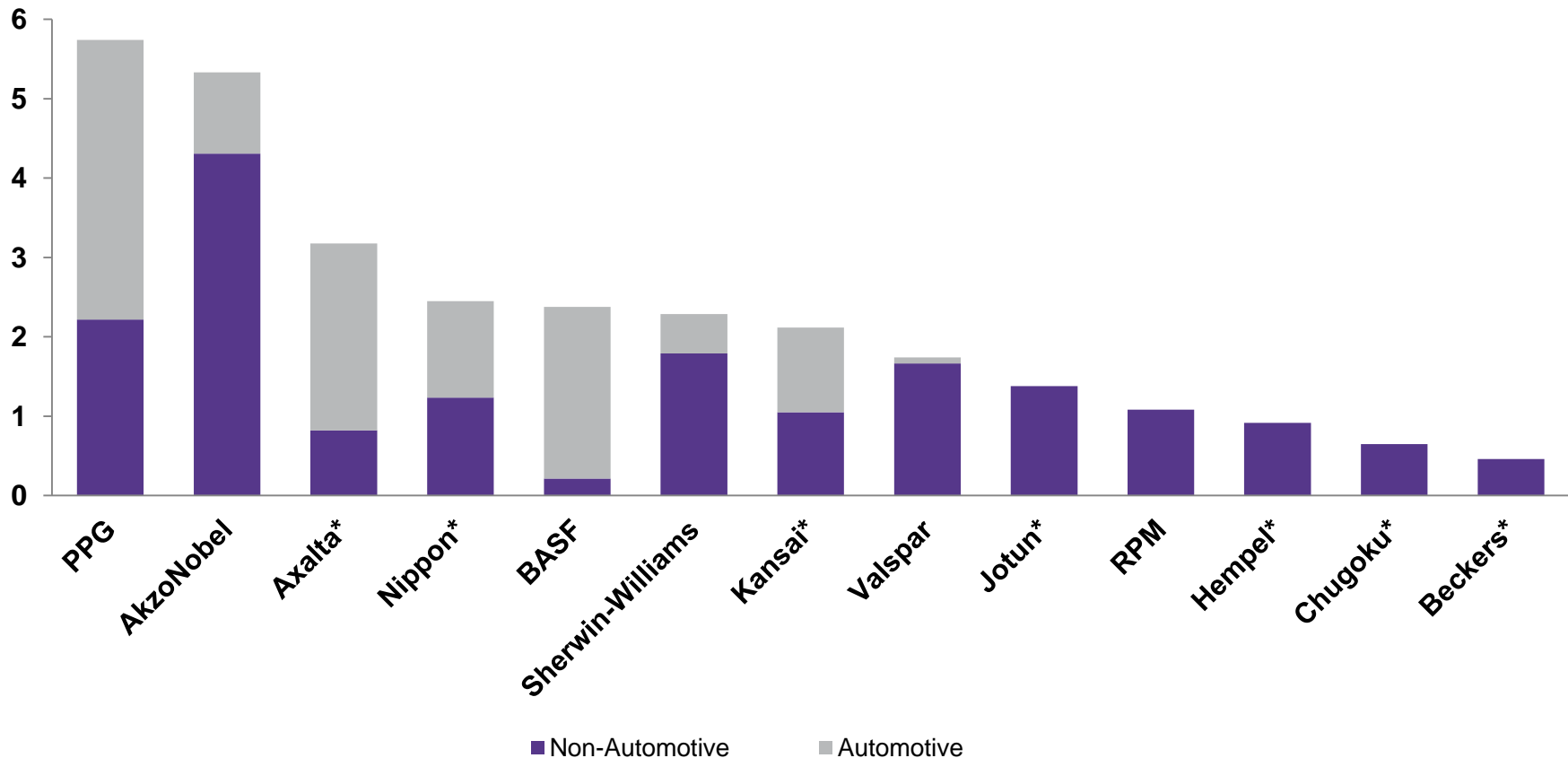
## We cover a uniquely broad set of markets with leading global brands

### 2014 revenue by Reporting Unit



# AkzoNobel is the global market leader in Performance Coatings, excluding Automotive

**Performance Coatings revenue**  
 € billion, 2013 unless noted

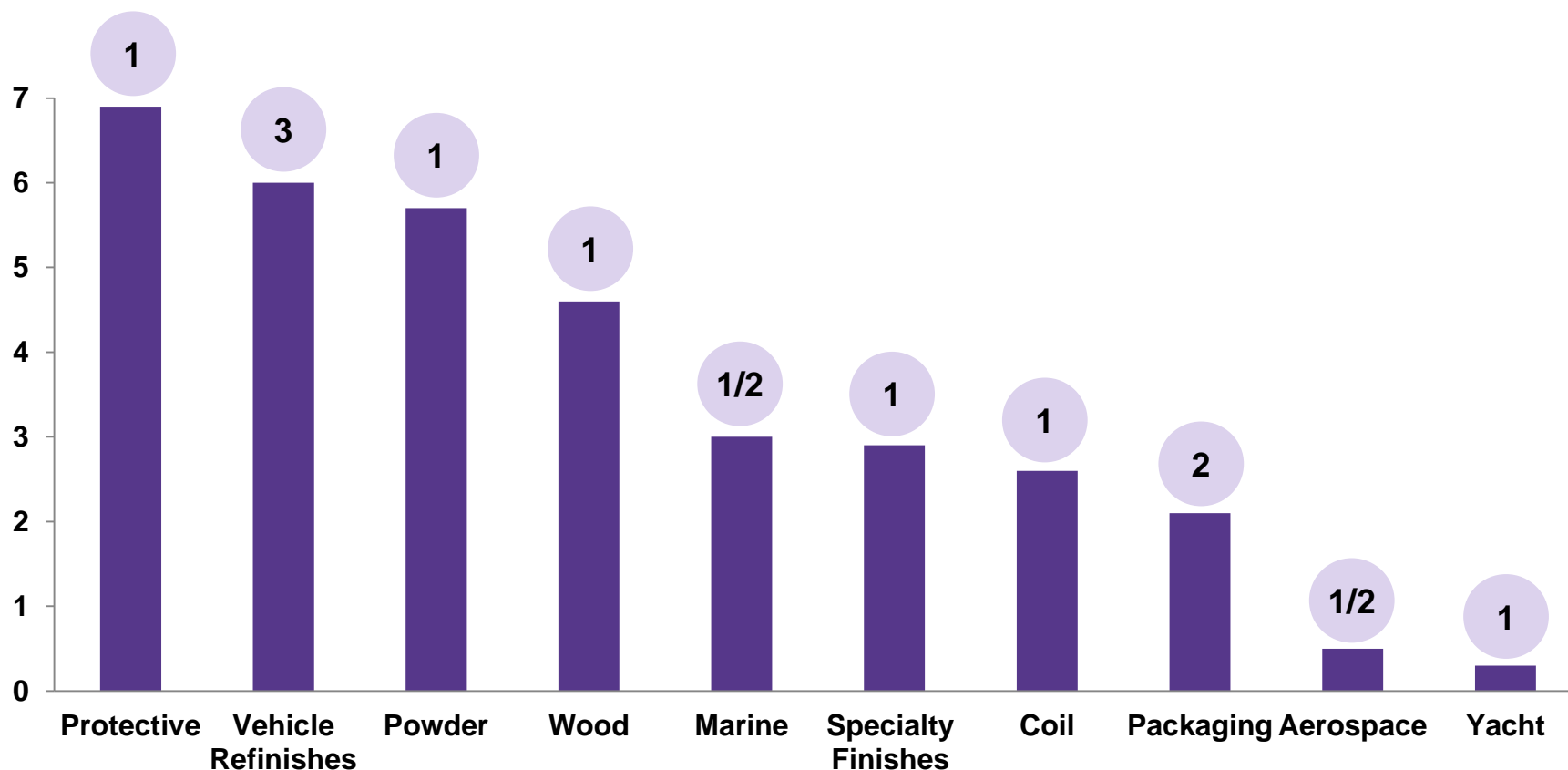


\* 2012 data  
 Source: Annual Reports; AkzoNobel analysis

## AkzoNobel has many leading market sector positions in Performance Coatings

**Performance Coatings market sectors**  
€ billion, 2013

x AkzoNobel market share position (by value) 2013





## Pursue differentiated growth strategies

### **Outgrow the market organically**

- Marine
- Protective
- Powder
- Specialty Finishes



### **Expected outcomes**

- Improved market share
- Costs don't grow as fast as revenue
- Improved return on sales in percentage terms

### **Improve performance by driving operational excellence**

- Industrial (Wood, Coil, Packaging)
- Vehicle Refinishes
- Yacht
- Aerospace



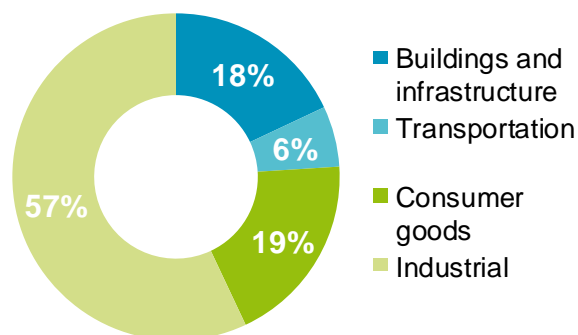
### **Expected outcomes**

- Growth with the market
- Reduced absolute operating expenditure
- Improved return on sales based on cost reduction

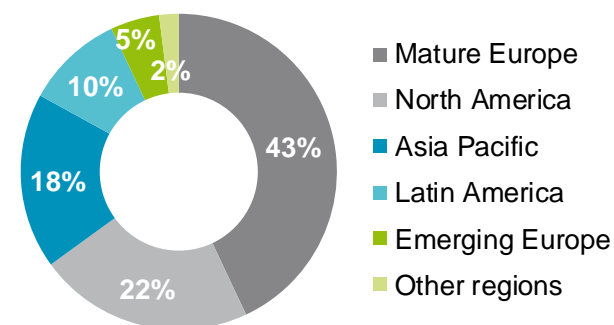
## Business at a glance



### Revenue by end user segment



### Revenue by geographic spread



### Specialty Chemicals key figures

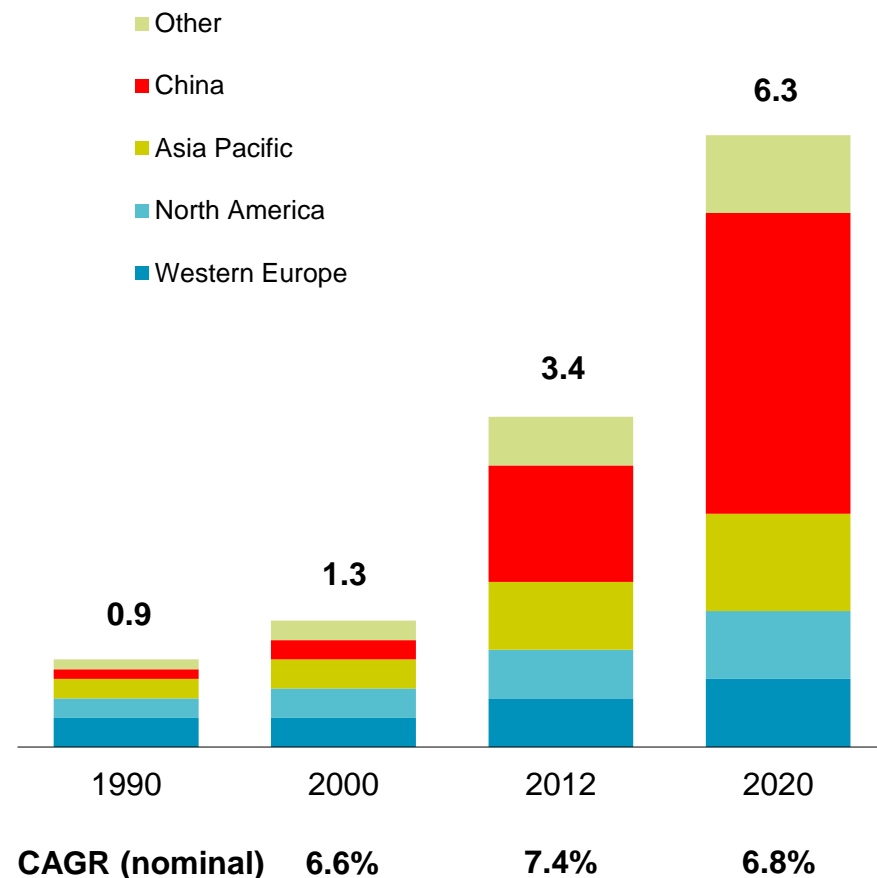
€ million	2014
Revenue	4,883
EBITDA	815
Operating income	508
<b>Return on sales</b>	<b>10.4%</b>
<b>Return on investment</b>	<b>14.8%</b>
Employees	9,800

### Key messages

- Serving attractive markets, growing over the cycle
- Leading positions in five main platforms
- 57% of revenues generated outside of mature Europe
- Significant expansion investments now operational
- Driving functional excellence

## The chemical industry is large and growing

**Chemicals industry over time, by geography**  
\$ trillion

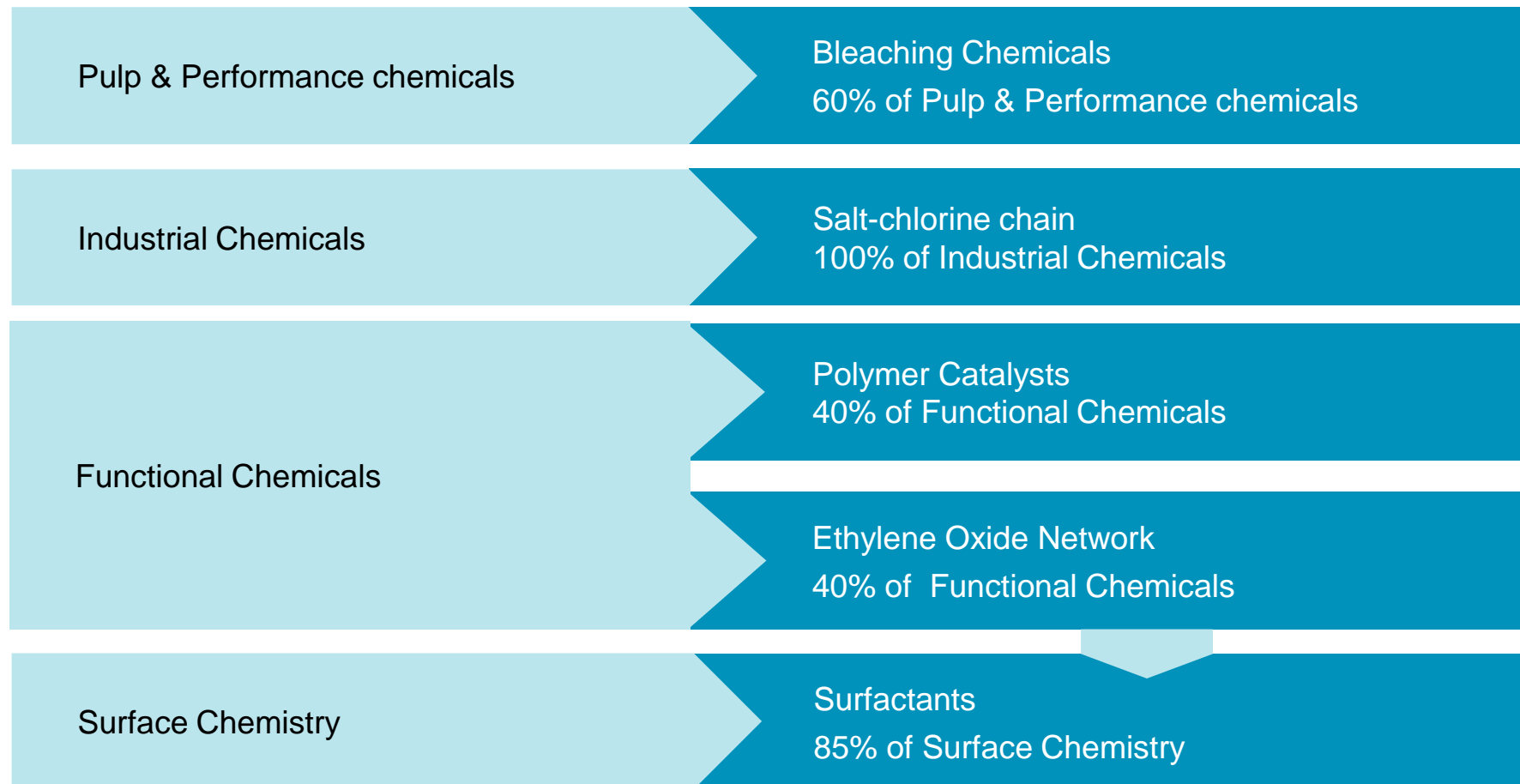


- \$3.5 trillion market
- Solution provider for society
  - manufacturing
  - food production
  - climate change
- Continuous growth
- Strong growth in China

# Five well positioned platforms in their industries

## Our Business Units

## Our Platforms



# Platforms operate world scale plants based on advanced technologies

## Our main chemical platforms

## Key products

### Bleaching chemicals

- Sodium chlorate
- Hydrogen peroxide



### Salt-chlorine chain

- Energy/Salt
- Chlorine
- Monochloroacetic acid
- Chloromethanes



### Polymer catalysts

- Organic peroxides
- Metal alkyls



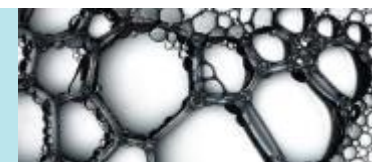
### Ethylene oxide network

- Ethylene oxide
- Ethylene amines
- Cellulosics
- Chelates
- Micronutrients



### Surfactants

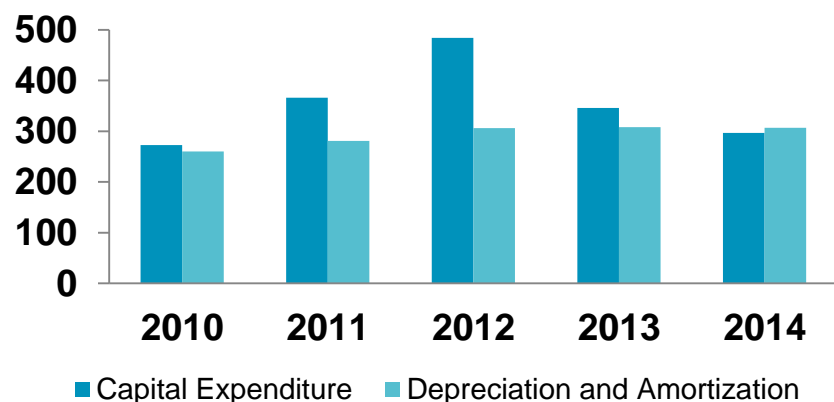
- Ethoxylates
- Natural oil and fat based nitrogen surfactants



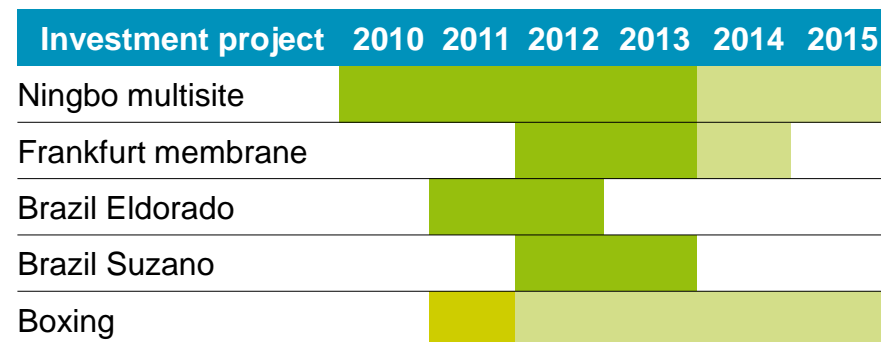
## We have invested in the recent past and are well-prepared for future growth

### BA Specialty Chemicals capital expenditure

€ million



### Major projects and timing of spend



- Capital expenditure peaked at 8.7% of revenue in 2012
- Infrastructure is now in place and ready to take on additional demand

## Four operational improvement initiatives

### Improve productivity of supply chain and operations

- Asset optimization
- Production system roll out
- Lean six sigma
- Industrial IT platform
- Yield, waste and quality focus

### Strengthen commercial excellence

- Customer value creation
- Organic growth
- Margin management
- Sales force productivity

### Reduce organizational costs

- Restructuring
- Organization delayering
- Restricted recruitment

### Enhance product and process innovation

- New applications and products
- Variable cost reduction
- Process intensification
- Standard processes

## Differentiated strategies per platform

### **Outgrow the market organically**

~ 50% of portfolio

#### **Main platforms**

- Bleaching chemicals
- Surfactants



#### **Actions**

- Capitalize on investments
- Grow by successfully commercializing products for attractive applications

### **Improve performance by driving operational excellence**

~50% of portfolio

#### **Main platforms**

- Salt-chlorine chain
- Polymer catalysts
- Ethylene oxide network

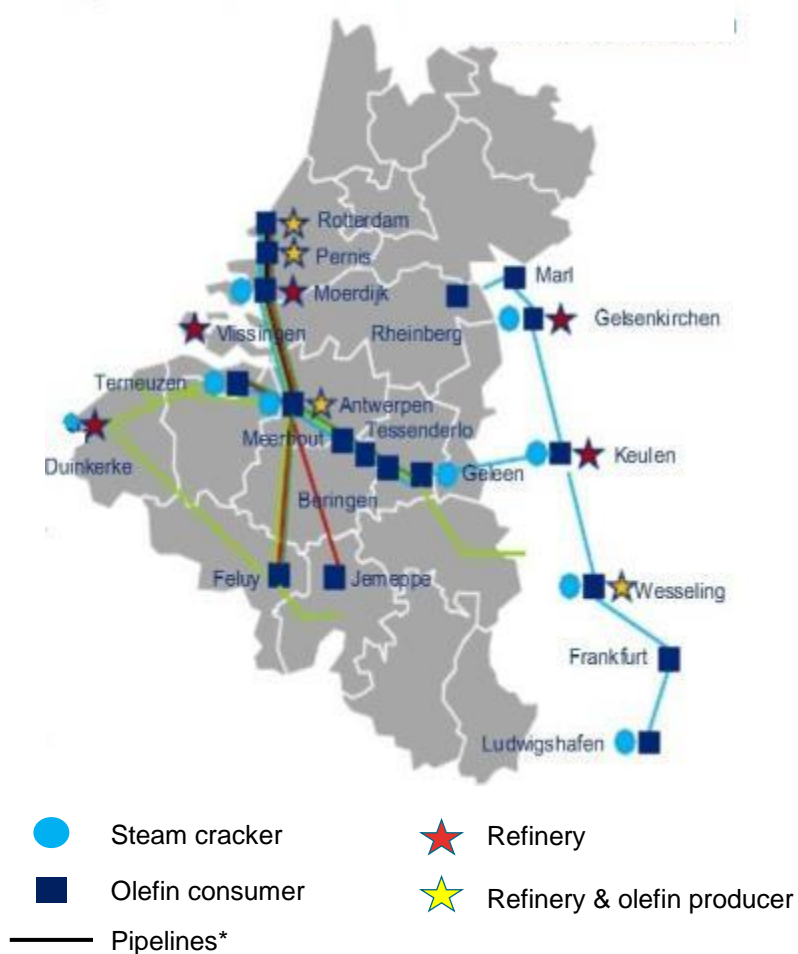


#### **Actions**

- Reduce costs and further improve productivity in operations
- Improve raw material (cost) position

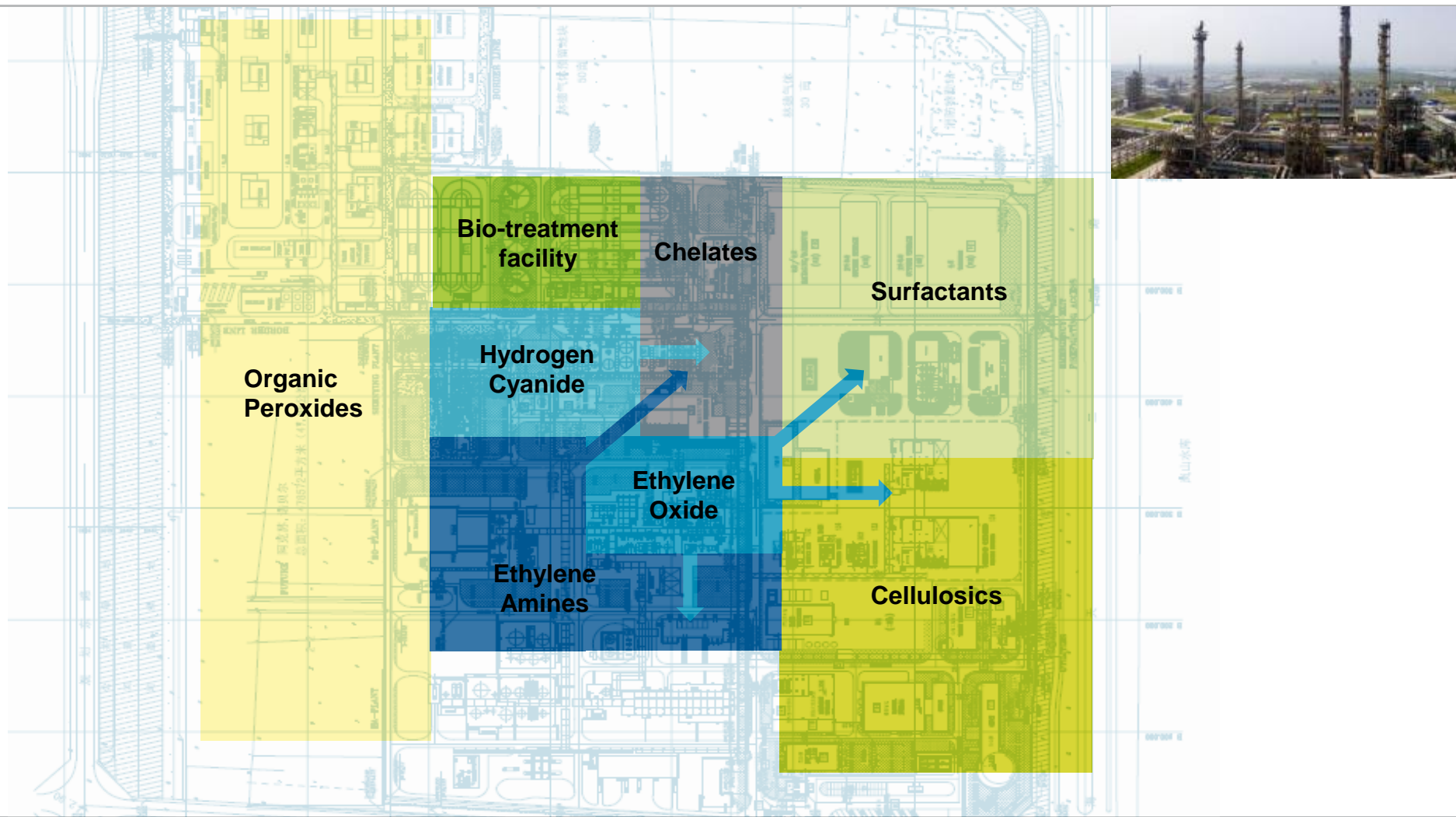


## Salt-Chlorine chain: Right at the heart of the customer base



\* Pipelines transporting crude oil (RAPL), nafta (PALL), industrial gasses, ethylene and propylene

# Ethylene oxide network: Capitalizing on China investments



## Surfactants: Growing with attractive end markets

**Oilfield**



**Lubricants**



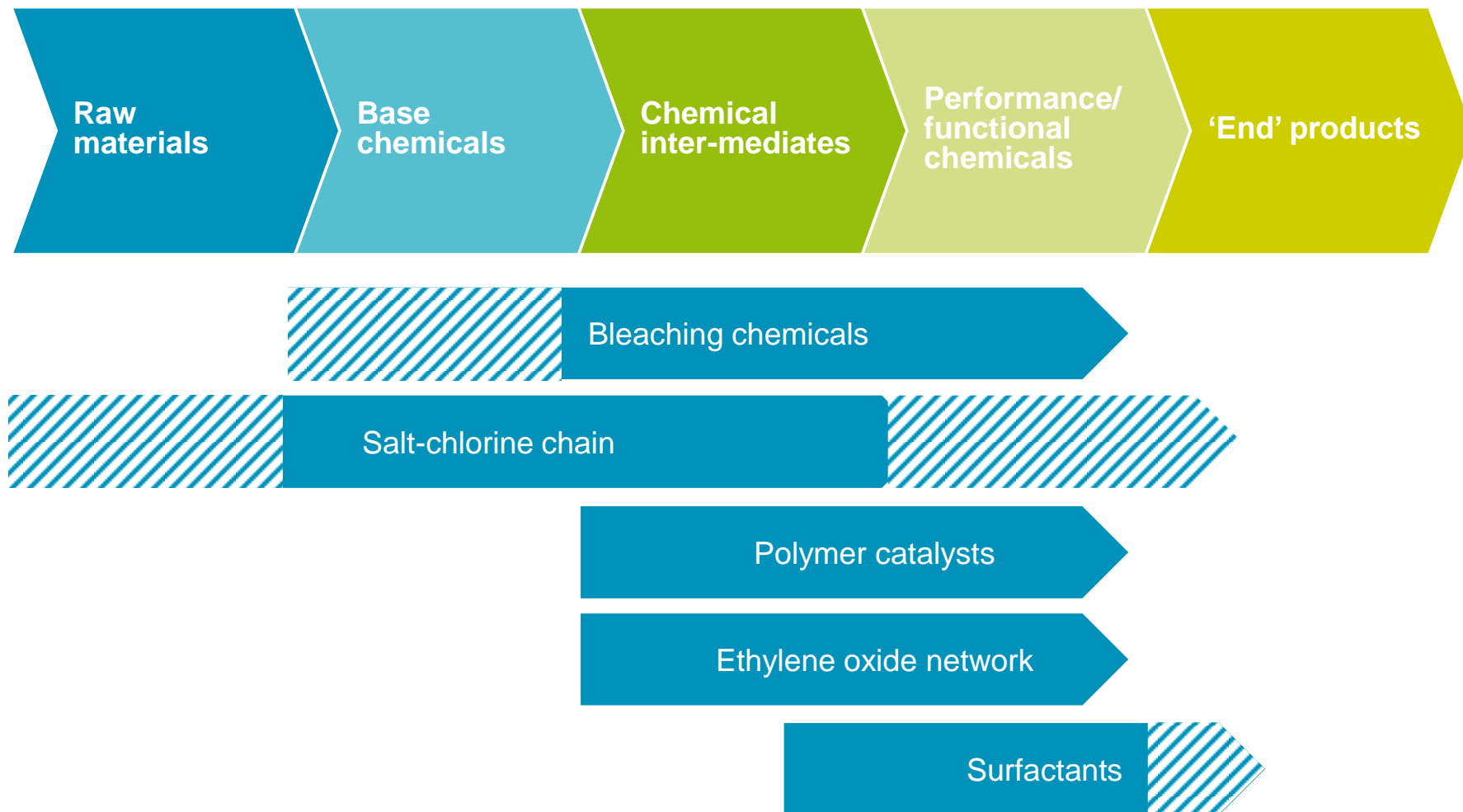
**Mining**



**Agriculture**



## Our platforms build on value chains

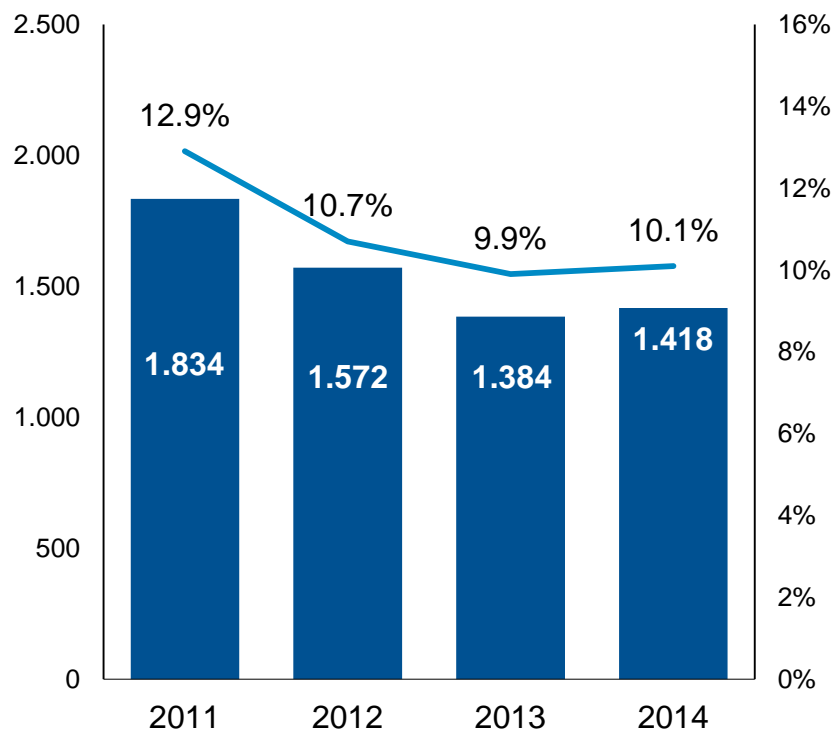


## Disciplined cash management

### Operating Working Capital

€ million

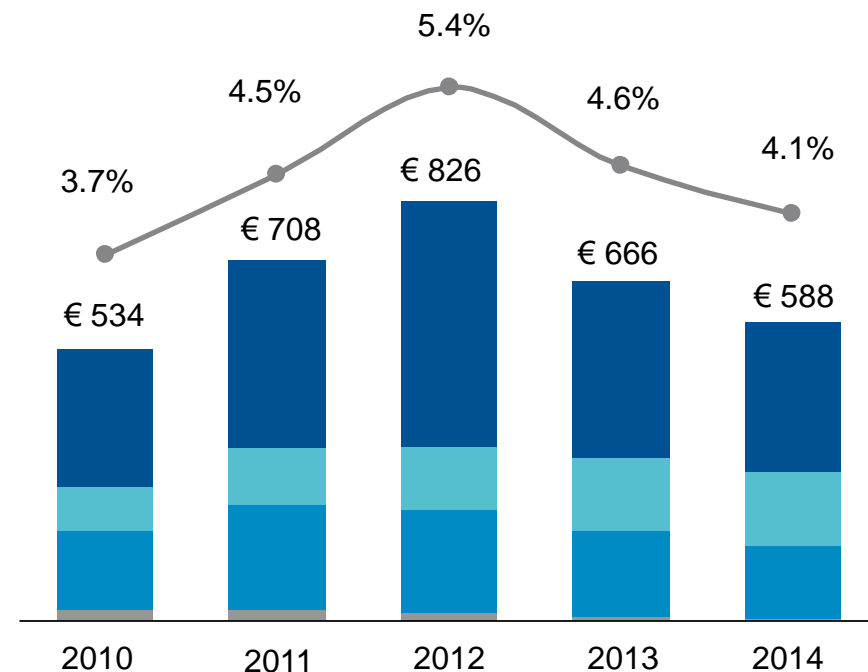
- Operating Working Capital
- OWC as % of LQ revenue \* 4



### Capital Expenditures

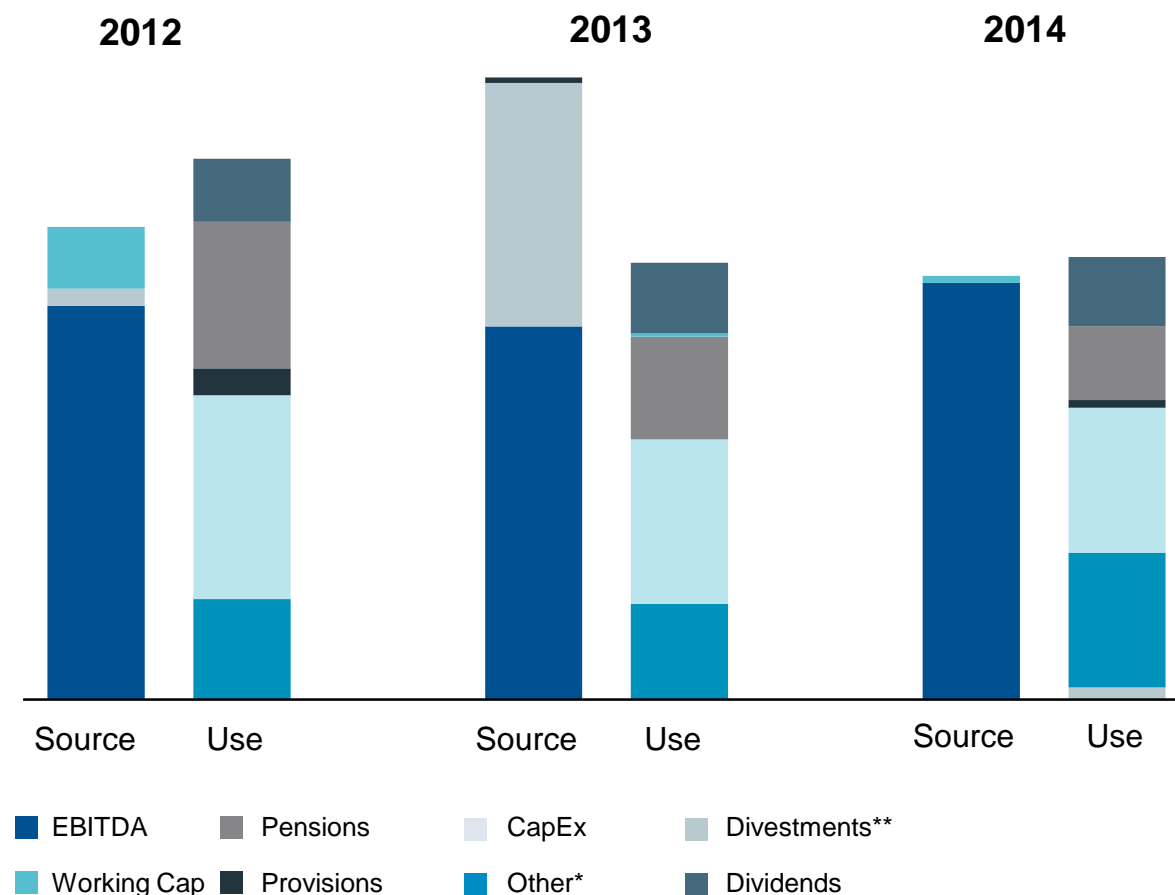
€ million

- Specialty Chemicals
- Performance Coatings
- Decorative Paints
- Other



## Operational cash inflow close to covering uses of cash

### Cash flow sources and uses

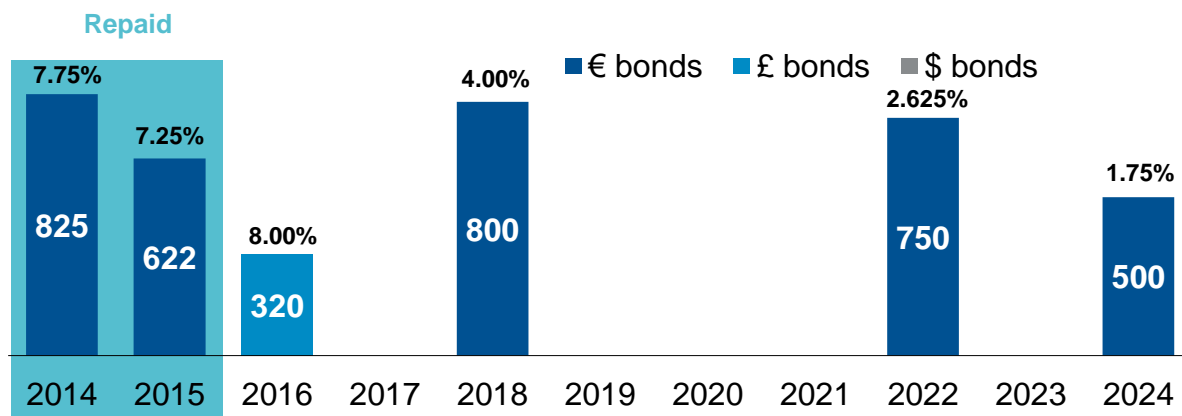


- Restructuring and pension top-ups consume a significant proportion of cash
- Performance improvement focus starts to address cash challenge
- Remuneration metrics include cash generation
- Positive cash in 2013 driven by divestments of Decorative Paints North-America and Building Adhesives
- 2014 cash flow impacted by incidentals and other exceptional items

## Continuously reducing costs of long term bonds

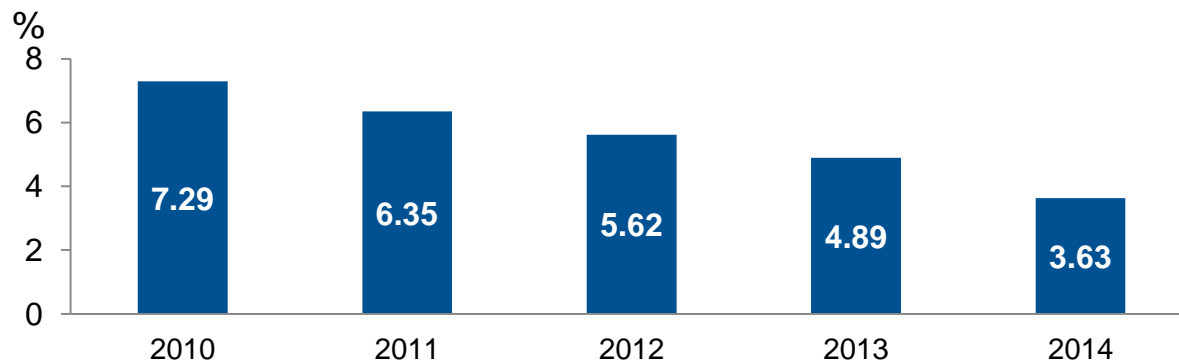
### Debt maturities

€ million



- Debt duration 4.8 years
- Net interest expense down by €74 million compared to 2013

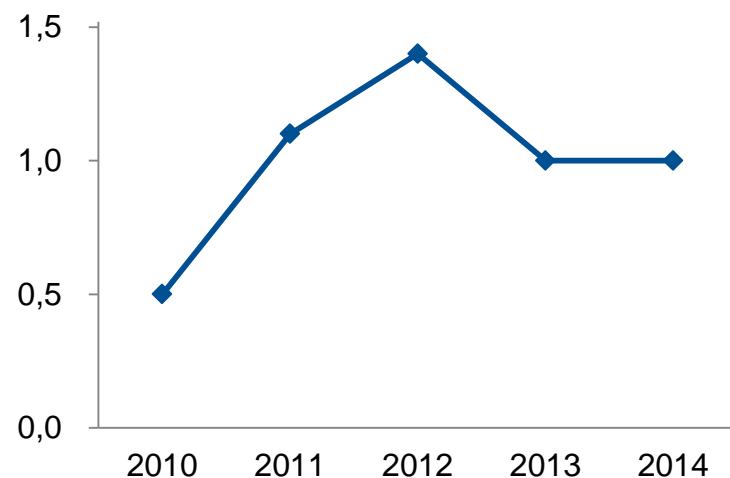
### Average cost of long term bonds



## 2015 target: net debt to EBITDA ratio of less than two

### Net debt/EBITDA

x

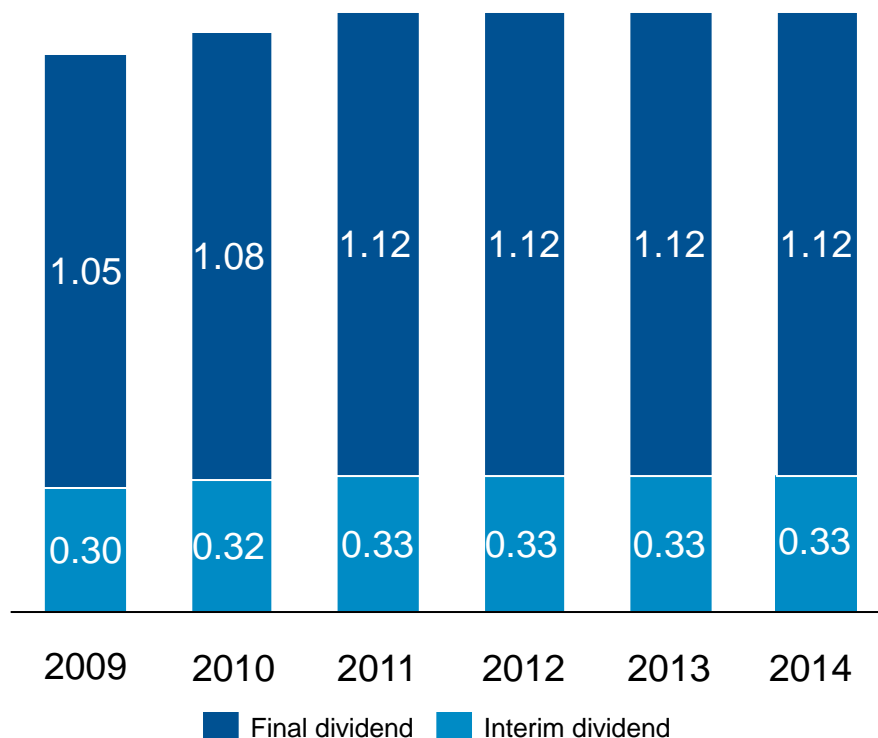


- We have a **strong liquidity** position to support business needs: net cash and cash equivalents €1.7 billion\*
- Undrawn revolving credit facility of €1.8 billion (2018) €1.5 and \$3 billion commercial paper programs, backed by revolving credit facility
- 2013 improvement in Net Debt / EBITDA , which was retained in 2014
- Maintain **investment grade rating** of BBB+



## Dividend policy unchanged – stable to rising dividend

### Dividends paid (€)



- 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

## Both short & long term incentives are aligned with our priorities

### Executive short term incentive 2015

STI Element	Metric
20%	Return on investment
20%	Operating income
30%	Operating cash flow
30%	Personal targets

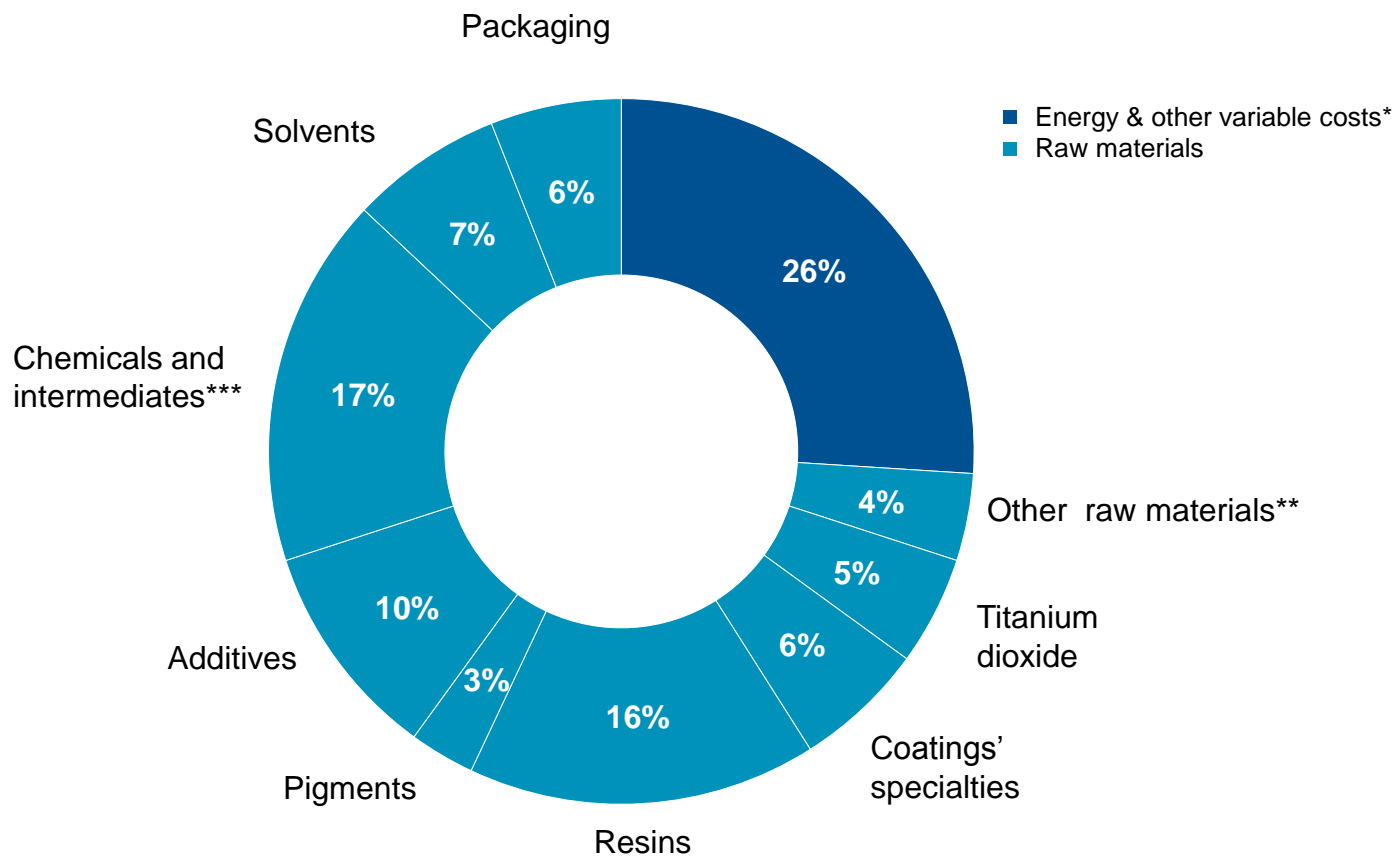
### Executive long term incentive 2015

LTI Element	Metric
35%	Return on investment
35%	Total Shareholder Return
30%	Sustainability / RobecoSAM - DJSI

- Covers more than 600 executives
- Priorities are aligned with strategy and 2015 targets

## Variable costs analysis

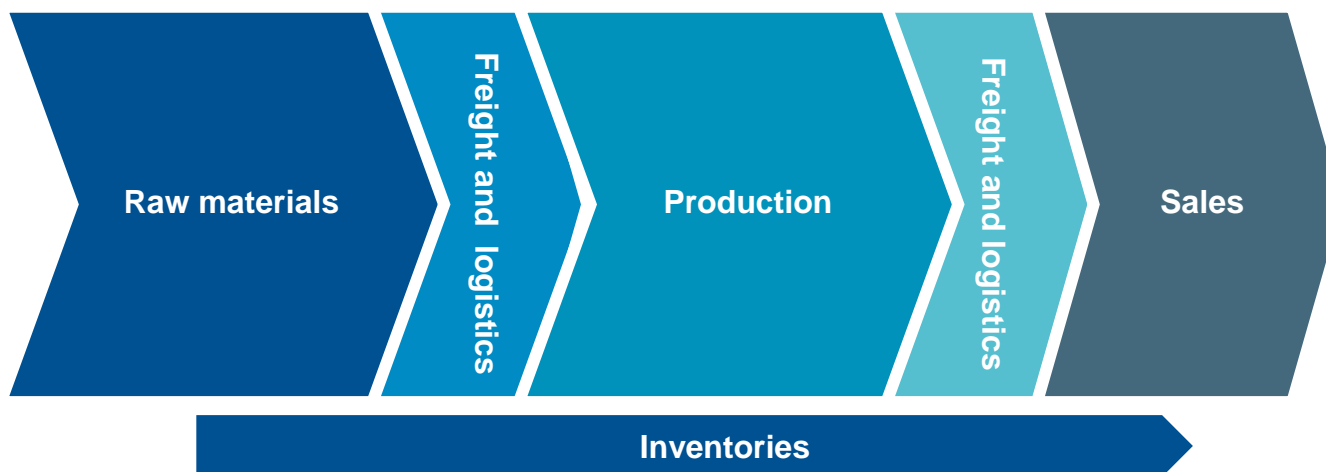
2014



\* 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.

## The net impact of a sustained lower oil price can have a positive impact in 2015



# Downstream oil related products have clearly different dynamics

