

July 21, 2011

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## Investor update Q2 2011 results



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# Agenda

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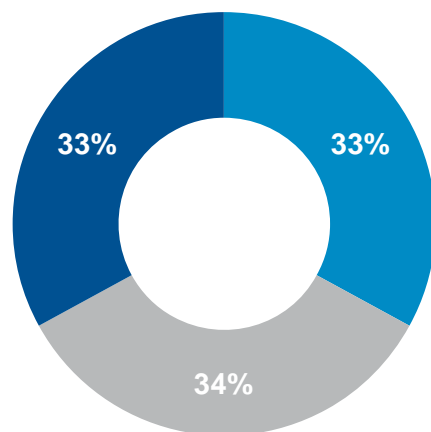
- **AkzoNobel at a glance**
- **Strategic ambitions**
- **Q2 2011 value highlights**
- **Q2 2011 growth & innovation highlights**
- **Financial review**
- **Outlook 2011**

# AkzoNobel key facts

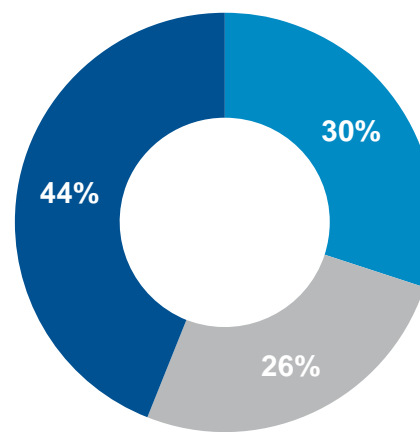
## 2010

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

Revenue by business area



EBITDA\* by business area



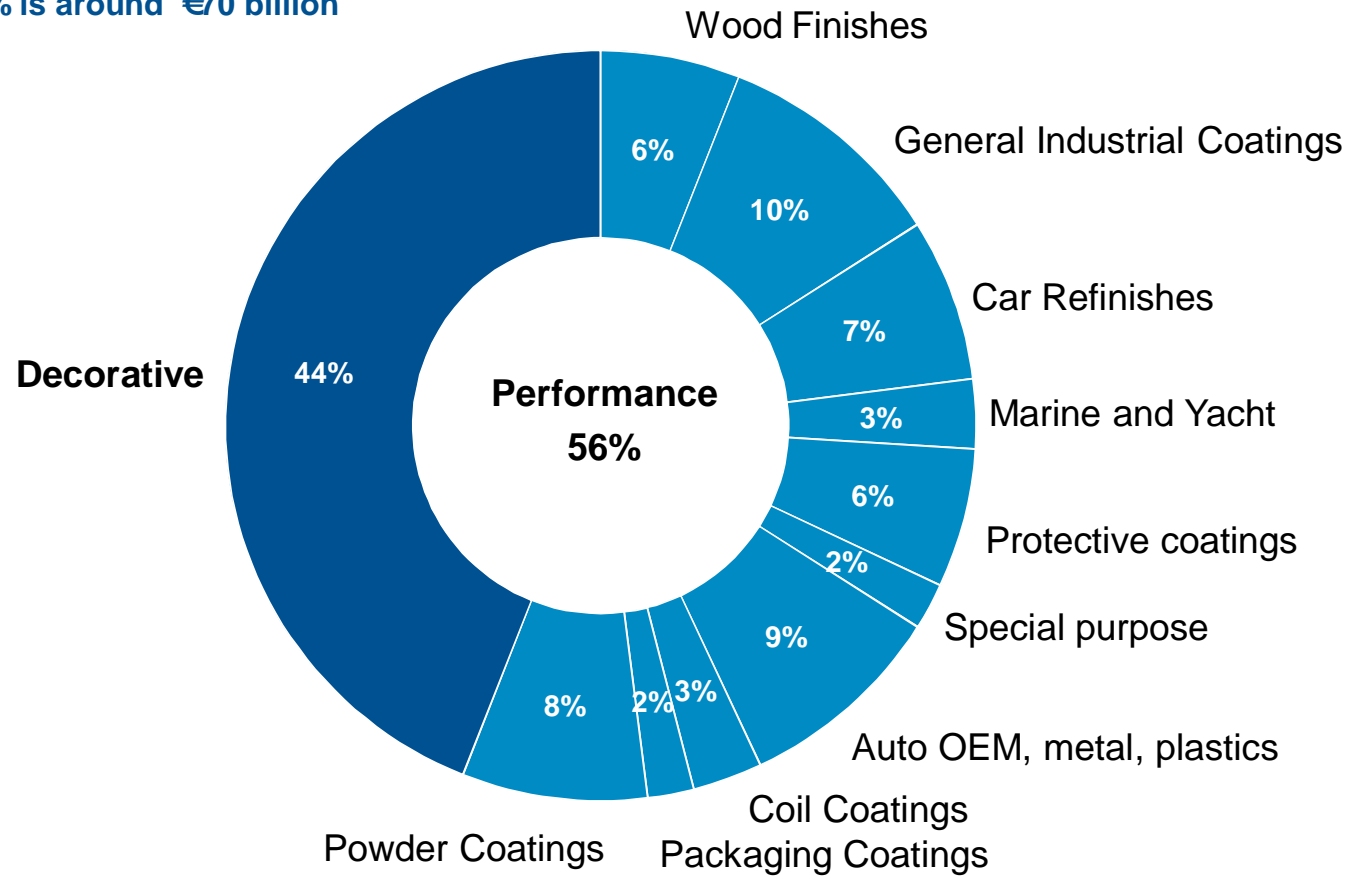
- Performance Coatings
- Decorative Paints
- Specialty Chemicals

\* Before incidentals



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

% of market  
100% is around €70 billion

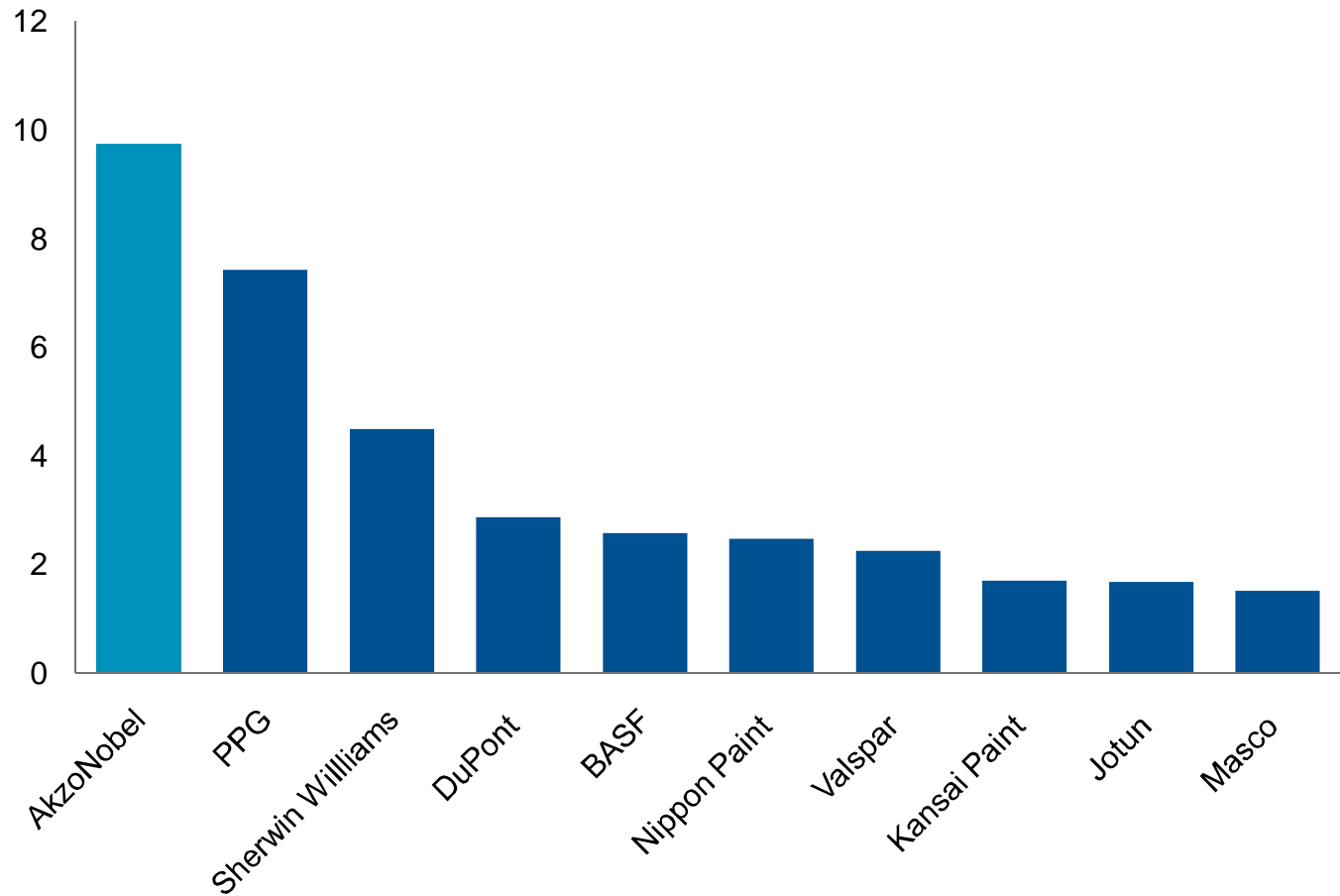


Source: Company Reports



# AkzoNobel is the world's largest Coatings supplier

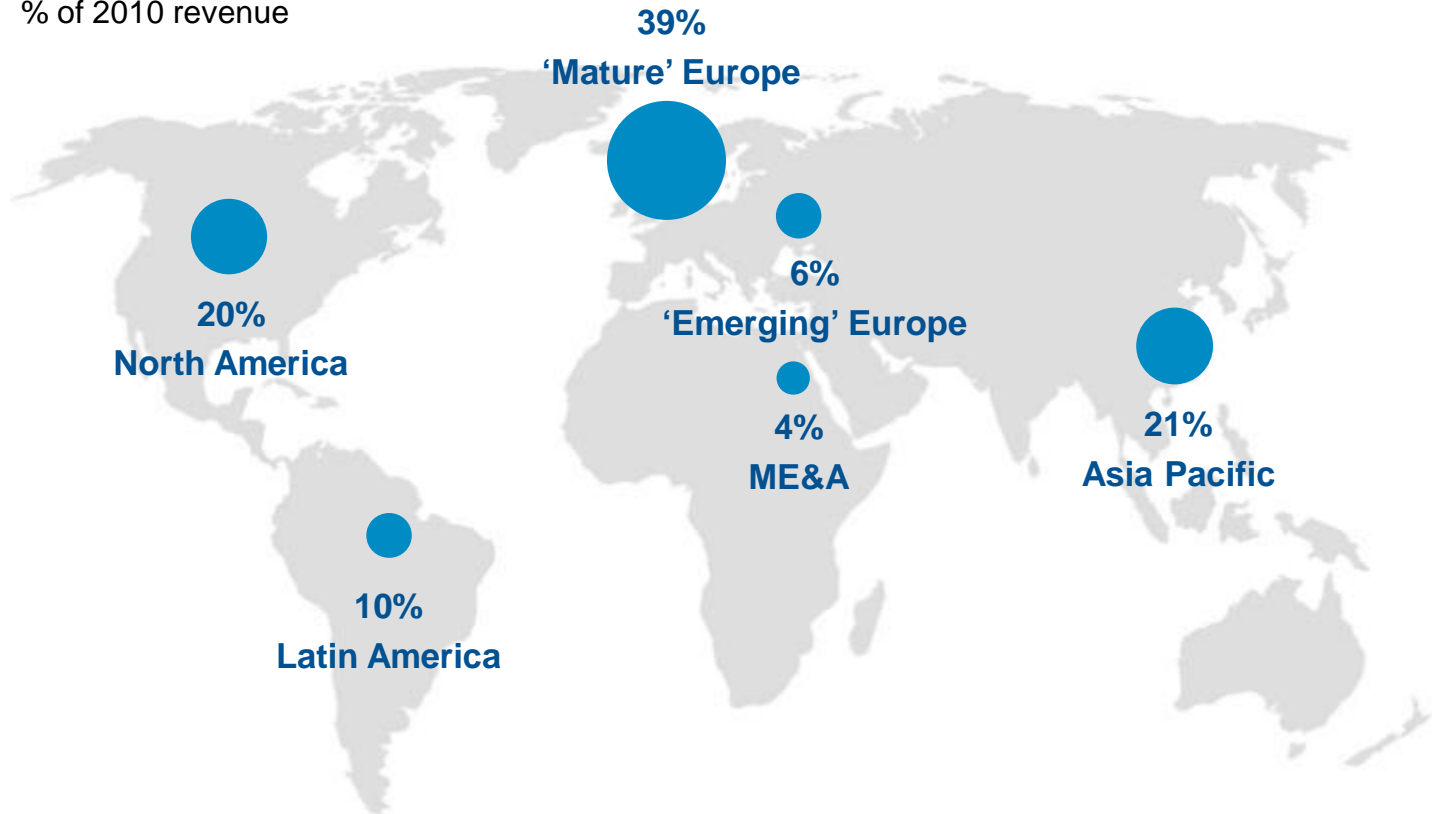
2010 revenue in € billion



# Excellent geographic spread of both revenue and profits

High-growth markets are important (39% of revenue)

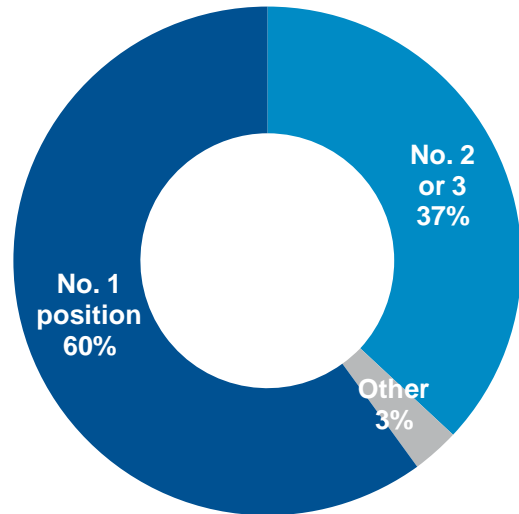
% of 2010 revenue



High-growth markets profitability is above average

# Leading positions and strong brands

## 2010 Revenue by market position



## Some of our strong brands

**Dulux**

27% of Decorative Paints

**International**

23% of Performance Coatings

**eka**

18% of Specialty Chemicals



# Successful customer focus

## Dulux® Weathershield SunReflect™

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



## Compozil® Fx

A wet end management system for the largest and fastest paper machines. Top quality paper can be produced with higher productivity, better economy and reduced environmental impact.



## Colour Click®

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



## Autoclear® LV Exclusive

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





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# Strategic ambitions

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# Our strategic ambition is to be

The world's leading  
coatings and specialty chemicals company



# Our medium term strategic goals

## Value Accelerated growth

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

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

## Values Sustainable growth

# How we will grow in both mature and high-growth markets

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## Organic growth

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

## Innovation pipeline

- Spend of around 2.5% of revenue makes us the clear peer group leader in absolute spend
- Emphasis on focused, bolder, sustainable innovation

## Acquisitions

- Wide range of opportunities
- All Business Areas qualify
- Value creating no later than in year 3



# Aspirations for high-growth markets

## Currently around 40 percent of our revenue

### Double revenues in China

- Grow from \$1.5 to \$3 billion of revenues
- Already the biggest Paint, Coatings and Specialty Chemicals company in China

### Create significant footprint in India

- Grow from €0.25 to €1 billion of revenues
- Increasing footprint for all business areas

### Outgrow the competition in Brazil

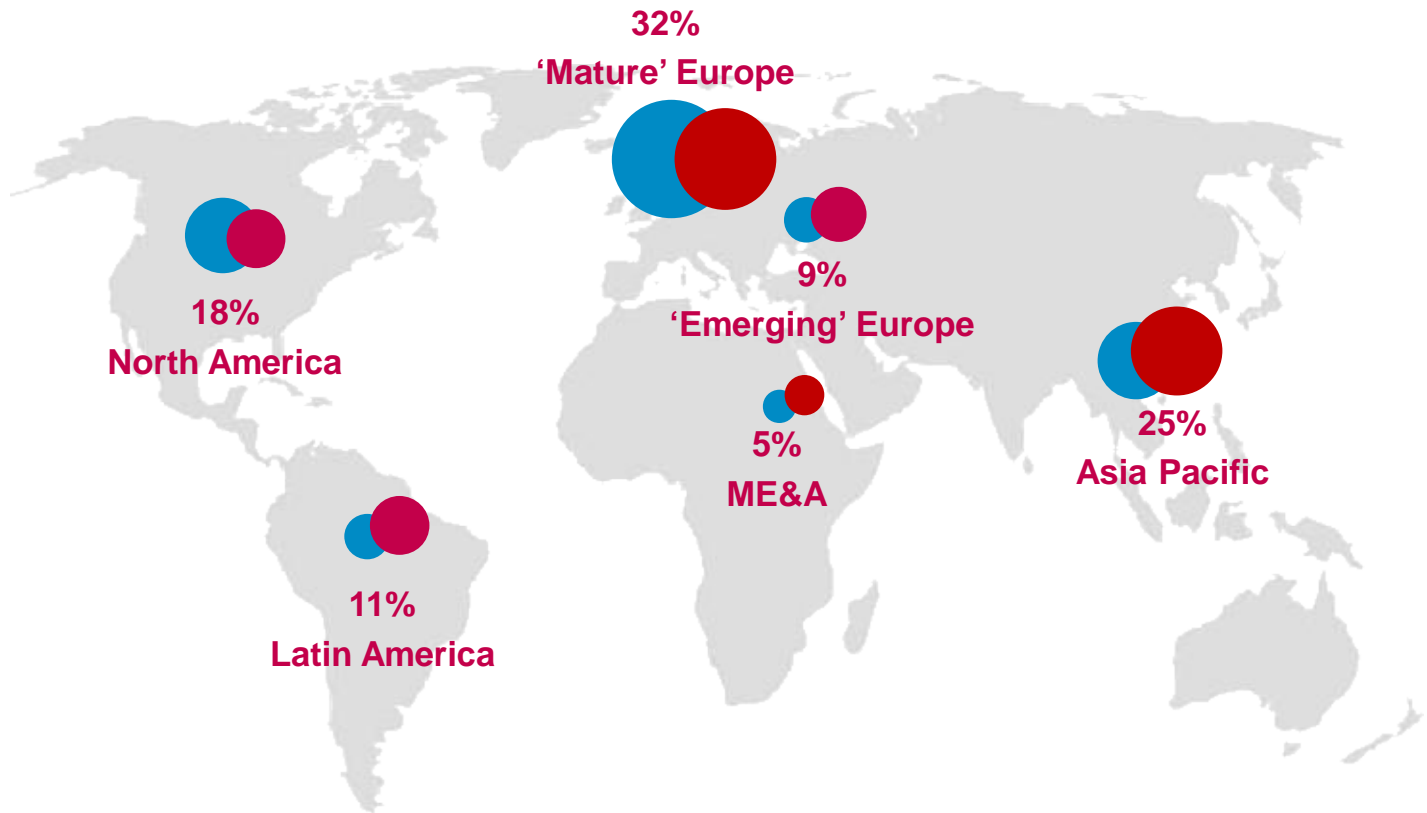
- Grow from €0.75 to €1.5 billion of revenues
- Become clear market leader in all our activities

### Expand in the Middle East



# High-growth markets will become significantly more important

% of revenue, indicative



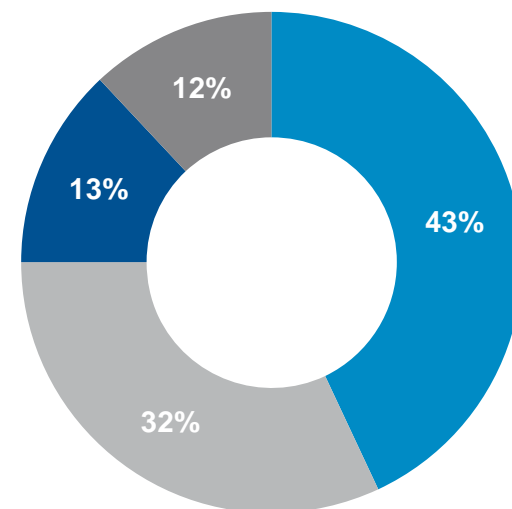
High-growth markets will be around 50% of revenue in this decade

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

## How innovation will support our growth agenda:

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

## Revenue by key market segment



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

\* Major innovations that result in a significant competitive advantage

\*\* Higher eco-efficiency than main competitive product



# Clear sustainability focus

## Accelerated sustainability strategy will deliver:

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

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





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# Q2 2011 value highlights

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## Q2 2011 highlights

- Revenue up 8 percent driven by volume and pricing, before currency headwind of 3 percent
- Raw material inflation, challenging trading conditions and one-off factors lowered the quarter's EBITDA\* to €551 million (2010: €614 million)
- Net income at €268 million (2010: €273 million)
- Adjusted EPS (earnings per share) at €1.09 (2010: €1.18)
- Investments in growth and RD&I initiatives underpinning medium-term growth ambitions
- Additional performance improvement measures underway, more details H2

*\* Before incidentals*

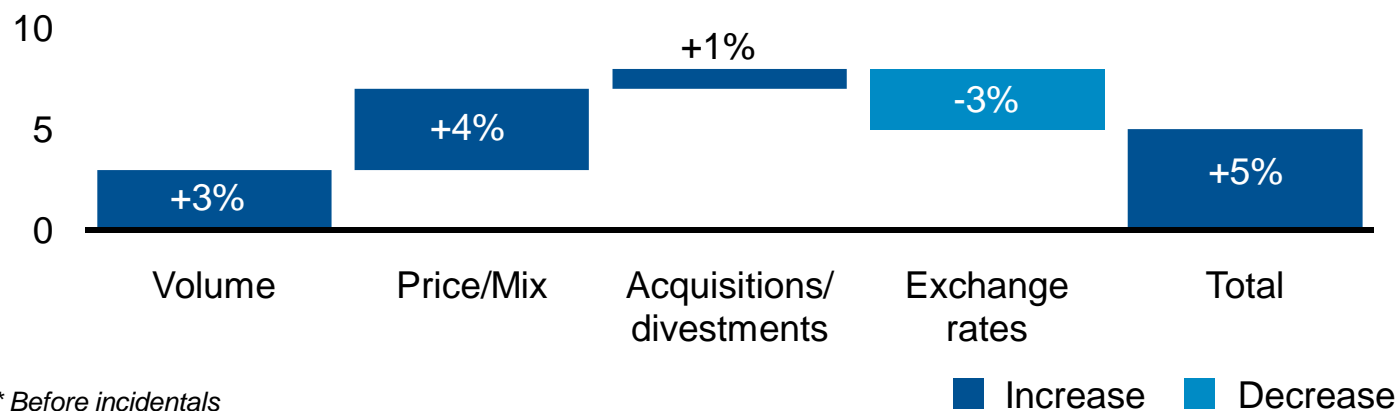


## Q2 2011 revenue and EBITDA

€ million	Q2 2011	Δ%
Revenue	4,097	5
EBITDA*	551	(10)

Ratio, %	Q2 2011	Q2 2010
EBITDA* margin	13.4	15.7

### Revenue development Q2 2011 vs. Q2 2010



\* Before incidentals

## Summary – Q2 2011 results

<i>€ million</i>	Q2 2011	Q2 2010
EBITDA*	551	614
Amortization and depreciation	(150)	(148)
Incidentals	27	(11)
Net financing expense	(64)	(113)
Minorities and associates	(14)	(19)
Income tax	(99)	(76)
Discontinued operations	17	26
<b>Net income total operations</b>	<b>268</b>	<b>273</b>
Net cash from operating activities	165	391

<i>Ratio</i>	Q2 2011	Q2 2010
EBITDA* margin (%)	13.4	15.7
Adjusted earnings per share (in €)	1.09	1.18

\* Before incidentals



## Q2 2011 incidentals

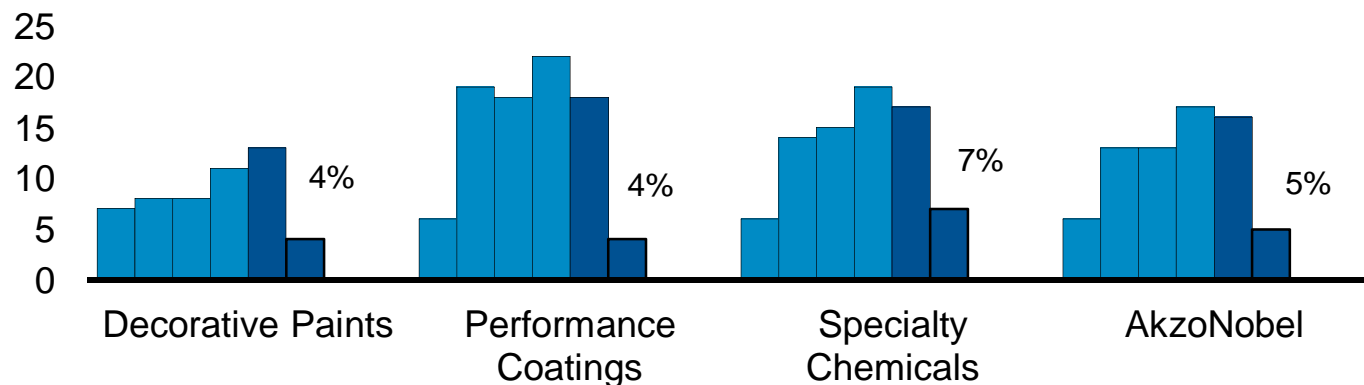
<i>€ million</i>	Q2 2011	Q2 2010
Restructuring costs	(20)	(21)
Results related to major legal, antitrust & environmental cases	21	8
Results on acquisitions & divestments	26	1
Other incidental results	-	1
<b>Total</b>	<b>27</b>	<b>(11)</b>

- Q2 2011 restructuring costs are mainly related to smaller projects across all businesses
- We released a provision related to an anti-trust claim
- Results on divestments positively impacted by some smaller divestments

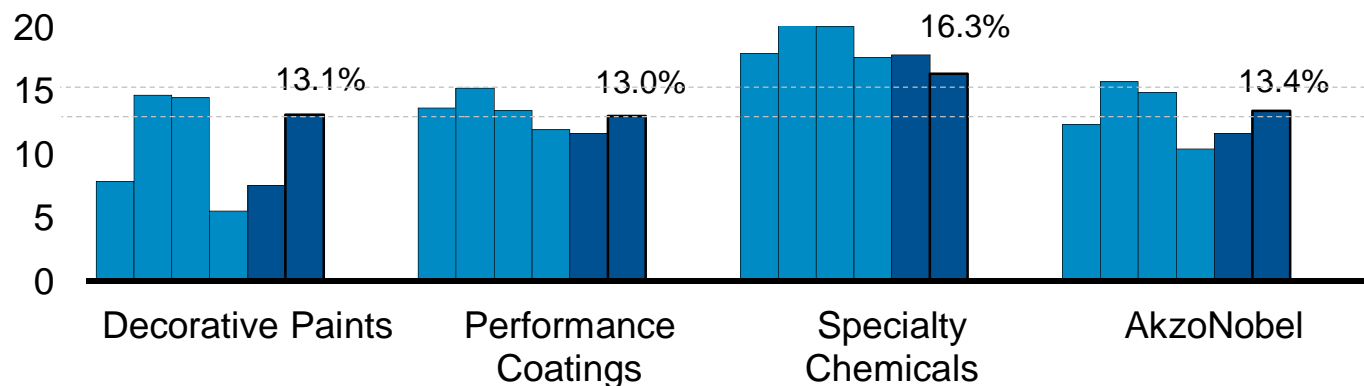


# Revenue growth and EBITDA margin in line with strategic ambitions

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



## Quarterly EBITDA\* margin in %



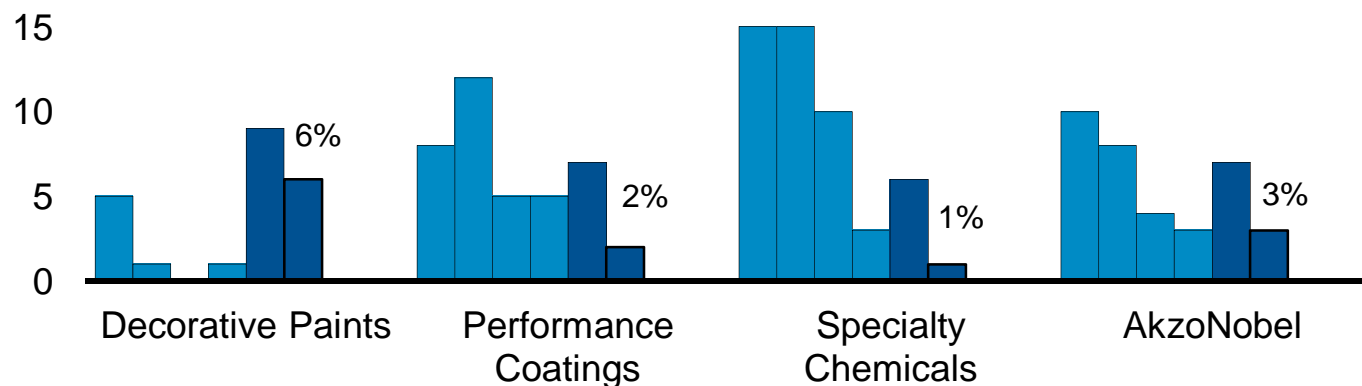
\* Before incidentals

■ 2010 ■ 2011

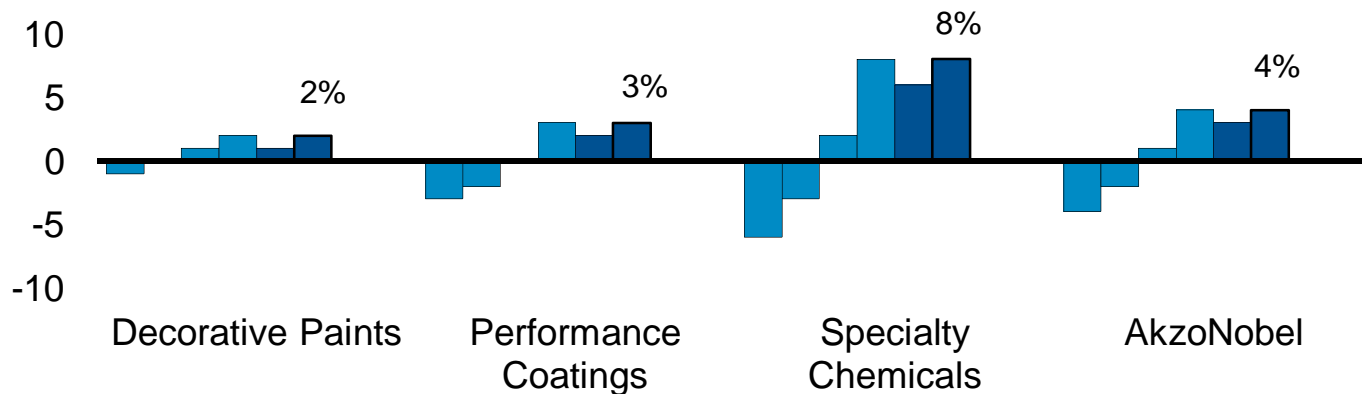


# Volume growth continues, price increases coming through

Quarterly volume development in % year-on-year



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

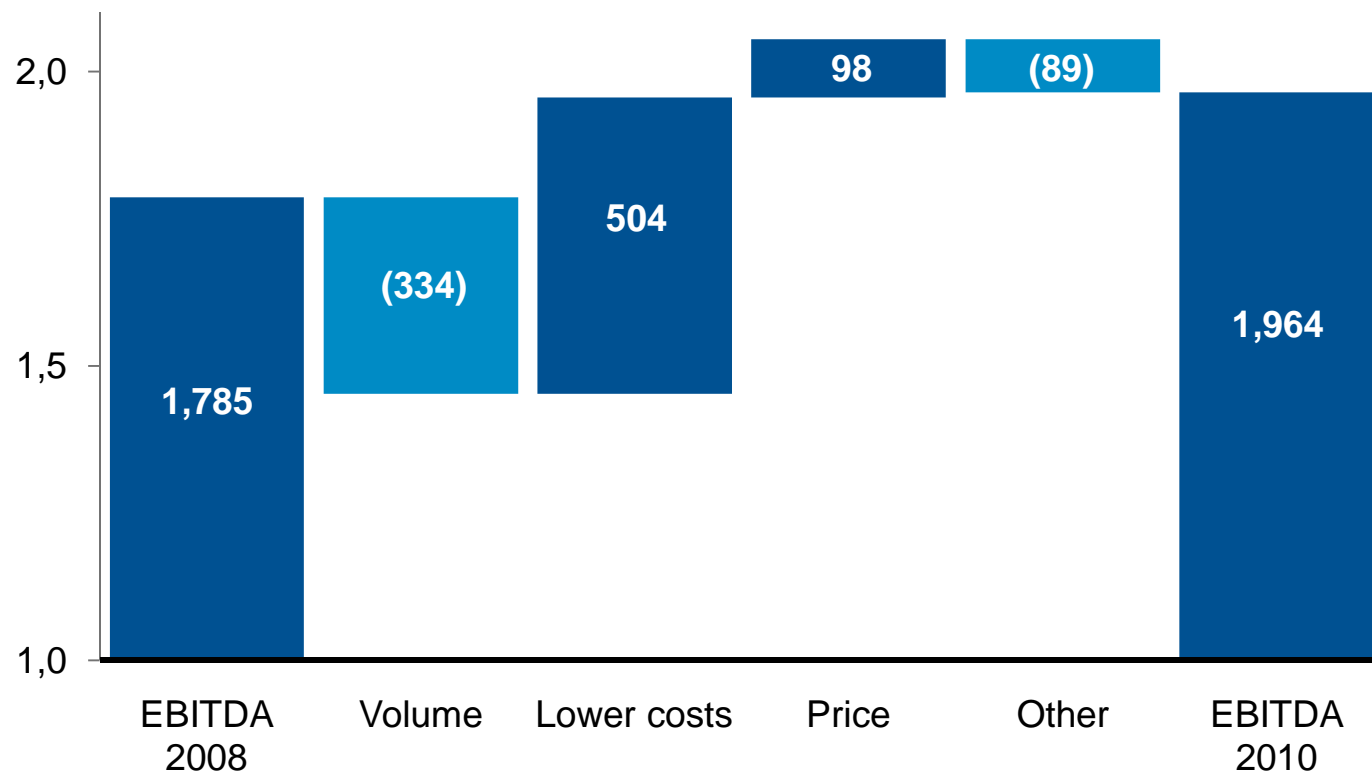


■ 2010 ■ 2011



# Further volume recovery underpins earnings potential

**EBITDA\* bridge 2008-2010**  
€ billion



\* Before incidentals, restated for National Starch

■ Increase ■ Decrease





# Decorative Paints key facts

## 2010

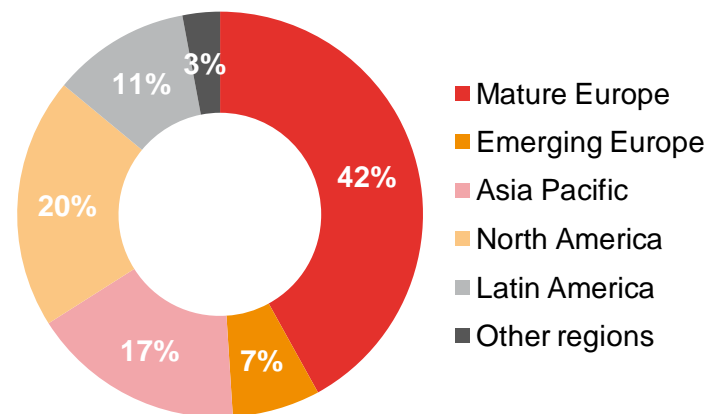
- Revenue €5.0 billion
- 21,950 employees
- EBITDA: €548 million\*
- 38 percent of revenue from high-growth markets
- Largest global supplier of decorative paints
- Many leading positions, strong brands



## Some of our strong brands



## Revenue by geography



\* Before incidentals

## Decorative Paints Q2 2011 highlights

- Revenue increased 8 percent before a negative currency impact of 4 percent
- EBITDA decreased 5 percent before a negative currency impact of 2 percent
- Continued momentum in high-growth markets
- Demand in mature markets declined in the quarter
- Further price increases are being implemented to compensate for higher raw material costs
- Weaker performance in Europe was the main driver of the lower EBITDA result

*\* Before incidentals*

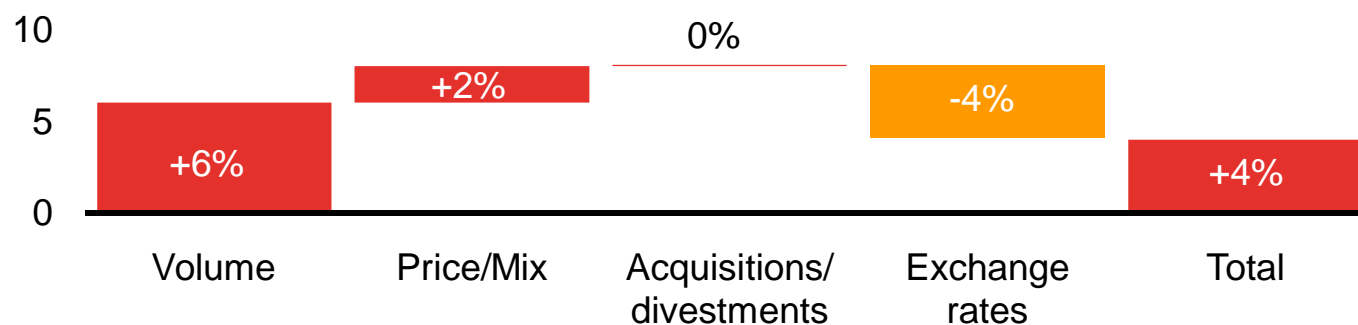


# Decorative Paints Q2 2011

€ million	Q2 2011	Δ%
Revenue	1,461	4
EBITDA*	191	(7)

Ratio, %	Q2 2011	Q2 2010
EBITDA* margin	13.1	14.6

## Revenue development Q2 2011 vs. Q2 2010



\* Before incidentals

■ Increase ■ Decrease



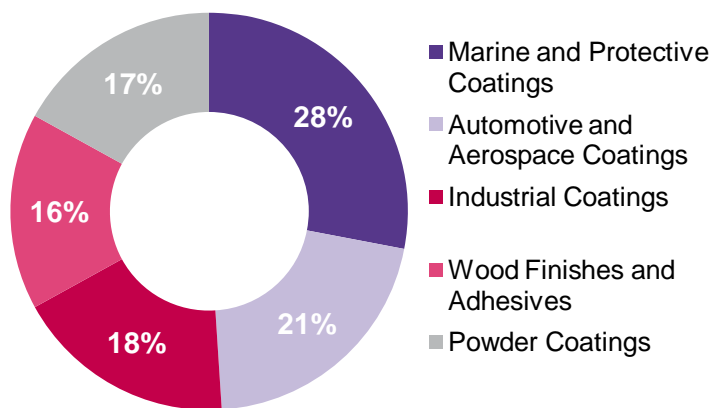
# Performance Coatings key facts

## 2010

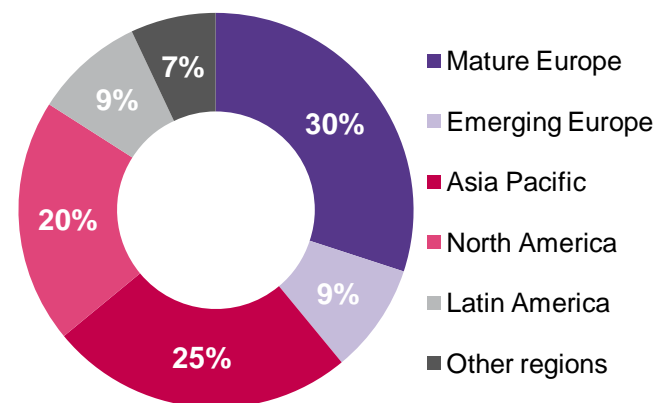
- Revenue €4.8 billion
- 21,020 employees
- EBITDA: €647 million\*
- 47 percent of revenue from high growth markets
- Leading positions in performance coatings
- Innovative technologies, strong brands



## Revenue by business unit



## Revenue by geography



\* Before incidentals

# Performance Coatings Q2 2011 highlights

- Revenue increased 8 percent before a negative currency impact of 4 percent, volumes up 2 percent
- EBITDA was down by 7 percent before a negative currency translation effect of 4 percent.
- Ongoing price increases to offset higher raw material cost
- EBITDA margin at 13.0 percent (2010: 15.2 percent)
- Marine and Wood Finishes segments impacted by weaker economic conditions
- Recent acquisitions contributed positively to results

*\* Before incidentals*

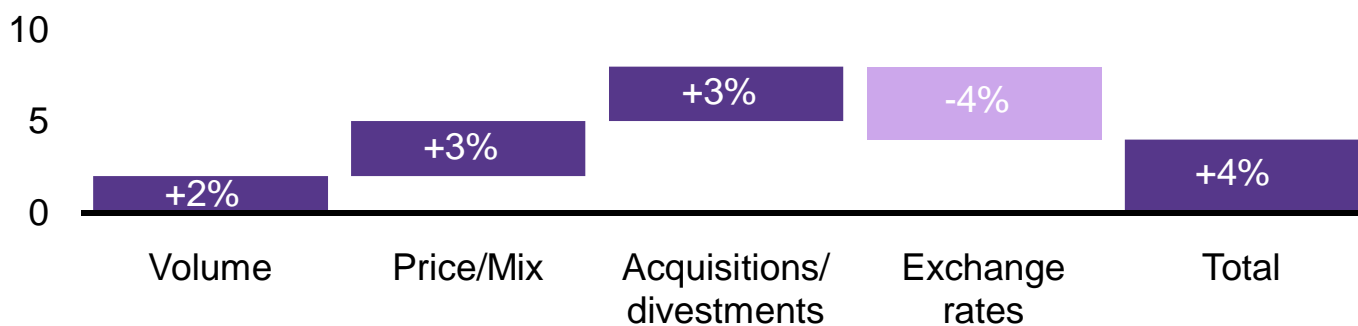


# Performance Coatings Q2 2011

€ million	Q2 2011	Δ%
Revenue	1,312	4
EBITDA*	170	(11)

Ratio, %	Q2 2011	Q2 2010
EBITDA* margin	13.0	15.2

## Revenue development Q2 2011 vs. Q2 2010



\* Before incidentals

■ Increase ■ Decrease



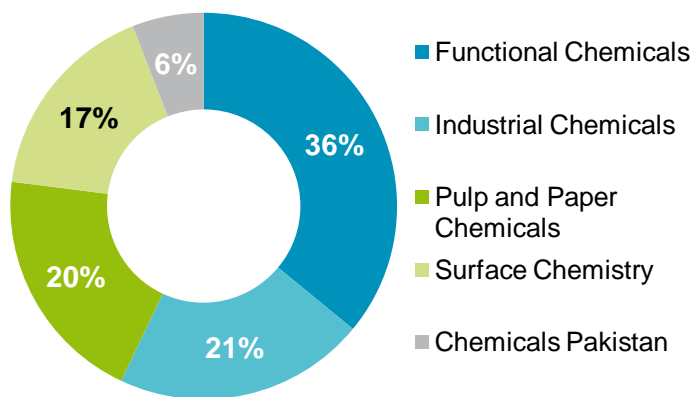
# Specialty Chemicals key facts

## 2010

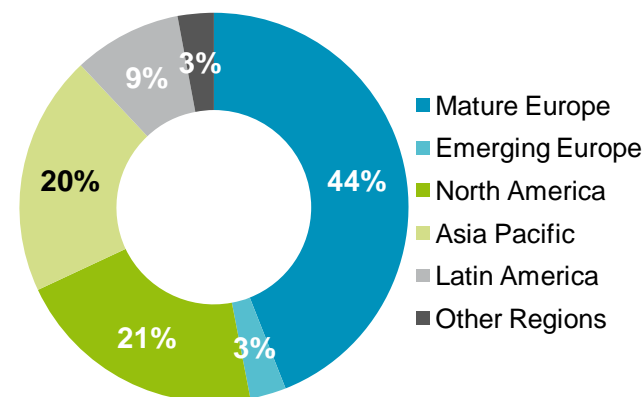
- Revenue €4.9 billion
- 11,080 employees
- EBITDA: €939 million\*
- 32 percent of revenue from high-growth markets
- Major producer of specialty chemicals
- Leadership positions in many markets



## Revenue by business unit



## Revenue by geography



\* Before incidentals



- Revenue increased 9 percent before a negative currency impact of 2 percent, volumes increased 1 percent
- EBITDA was down by 12 percent before a negative currency translation effect of 2 percent
- Utilization rates have continued to be high
- Increased raw material costs and unfavorable currency effect compressed margins
- Prolonged site maintenance stops impacted the quarter
- EBITDA decreased to €220 million (2010: €257 million)
- EBITDA margin was 16.3 percent (2010: 20.4 percent)

*\* Before incidentals*



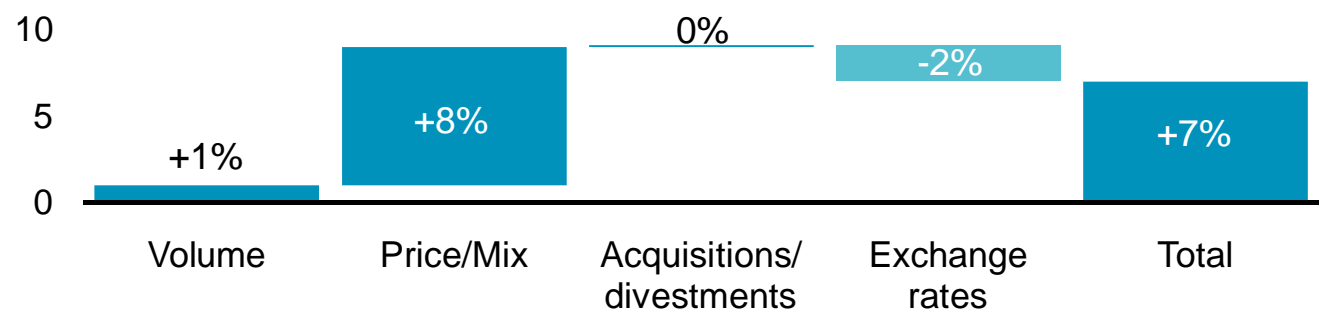


# Specialty Chemicals Q2 2011

€ million	Q2 2011	Δ%
Revenue	1,350	7
EBITDA*	220	(14)

Ratio, %	Q2 2011	Q2 2010
EBITDA* margin	16.3	20.4

Revenue development Q2 2011 vs. Q2 2010



\* Before incidentals

■ Increase ■ Decrease



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# Q2 2011 growth & innovation highlights

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## Q2 2011 highlights

### Investing in growth

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- €140 million investment in Frankfurt site, Germany
- €110 million proposed investment in new Decorative Paints site, UK
- Opening global RD&I center in Deventer, Netherlands
- Opening Fire Protection lab Felling, UK
- Tio2 partnership with CAVA, China
- Acquisition of Schramm Holding
- Acquisition IBT's Zeta Fraction Technology, USA



# Pipeline 2011

## Powder Coatings – LAT Pipe Coating

### In-field powder coating for pipe joints

#### Key features

- Coating application in-field instead of in factory
- Reduced pre-heating of pipes from 230°C to 180°C

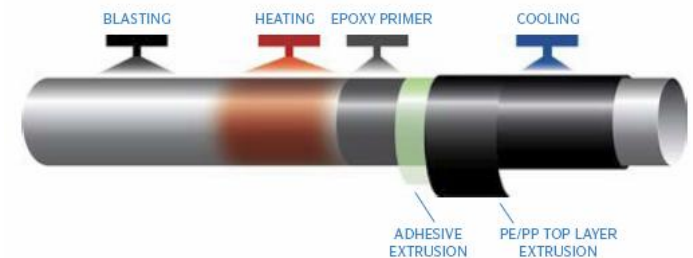


#### Customers benefits

- In-field powder coated field joints offer better protection
- Lower temperature cure will result in energy savings for customers

#### Growth potential

- After successful trialing, product will be launched late 2011
- Immediate potential sale on large pipeline project
- Allows penetration of new markets



# Pipeline 2011

## Industrial Chemicals – Meso tartrate (mTA)

### The next green generation anti-caking agent for salt

#### Key Features

- Fully biodegradable and safe
- Superior performance in membrane electrolysis chlorine production
- Costs savings for chlorine industry

#### Customer Benefits

- 5 percent lower power consumption
- Increased lifetimes of membranes and electrodes



#### Growth potential

- Successful launch into the European market
- Being trialed in China – a 28M tonne/annum vacuum salt market
- Extension into de-icing and edible salt applications



# Pipeline 2011

## Decorative Paints – Dulux Promise

### Extending the Dulux brand to mid tier market in India

#### Key Features

- Highly durable water based emulsion paint, ideal for dry or humid climatic conditions
- Best-in-class quality product at parity pricing
- Color guard technology

#### Customer Benefits

- Great value paint in a popular price tier in high growth markets
- Anti-fading properties helps protect and retain the color on exterior walls



#### Growth potential

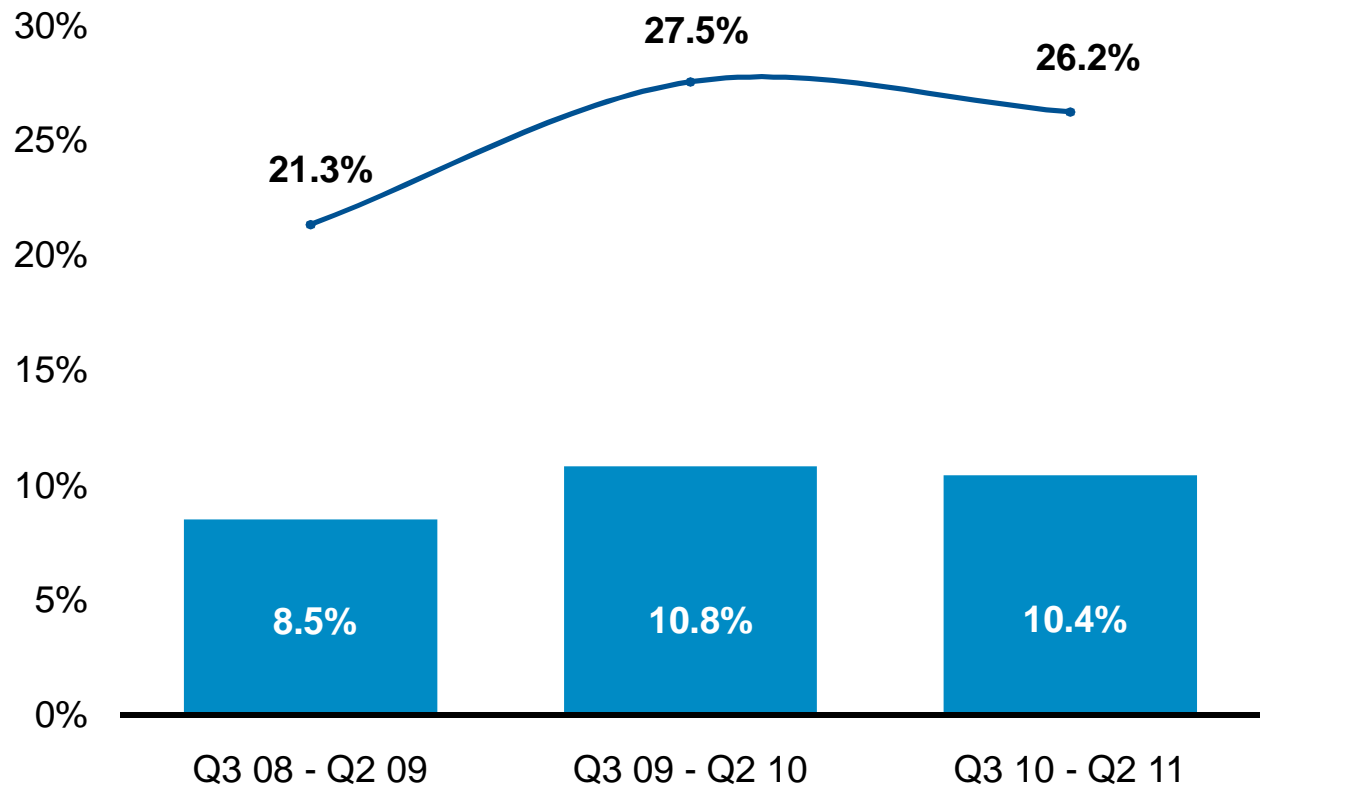
- Launched across India in 2011
- Record growth of 63 percent YTD, three times the category growth rates
- Significant market share growth in mid tier exterior emulsion in the next years

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# Financial review

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# Superior operating returns on invested capital



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

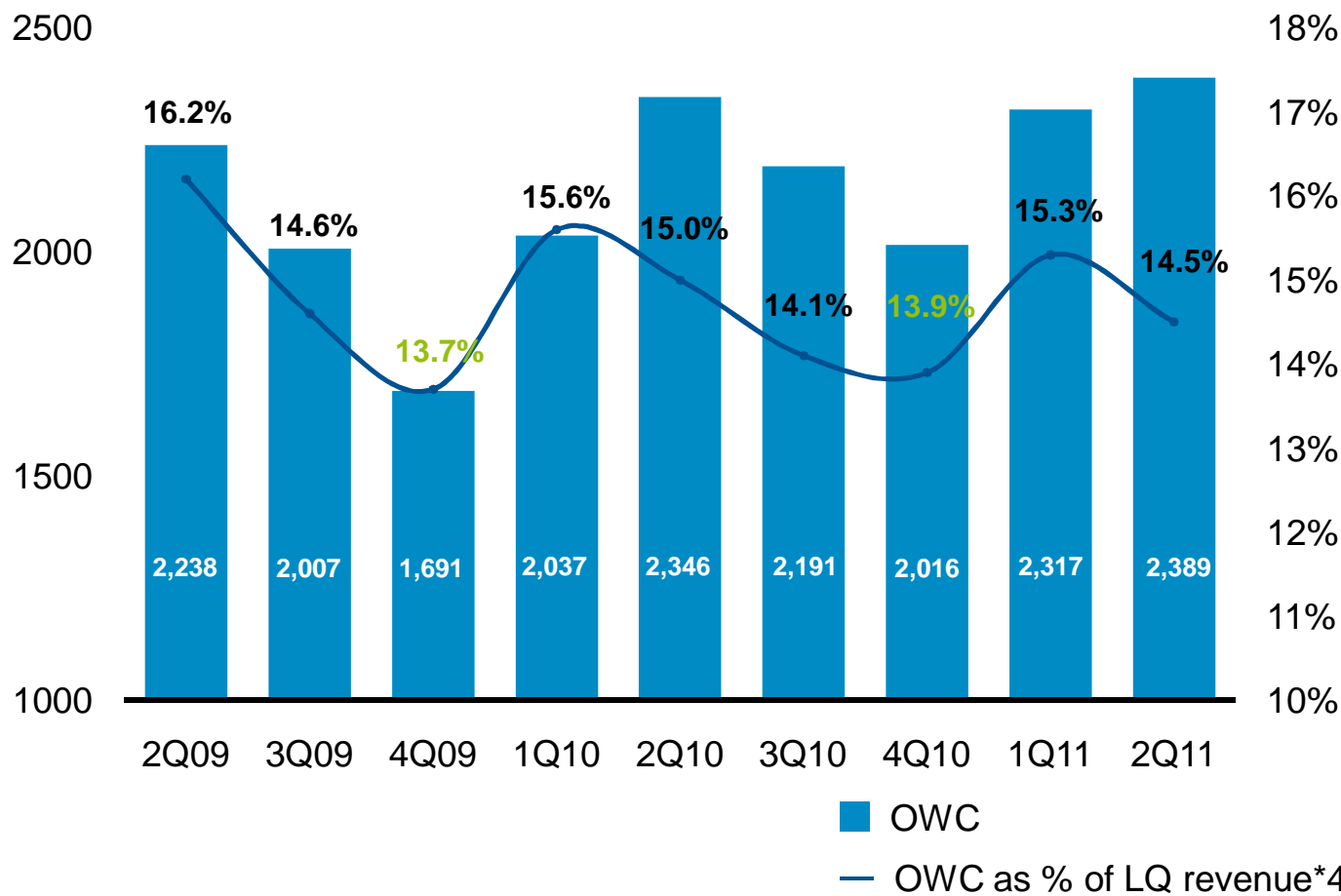
■ Moving Average ROI %  
— Operating ROI %\*





# Year-on-year Operating Working Capital % of revenue reducing towards 12%

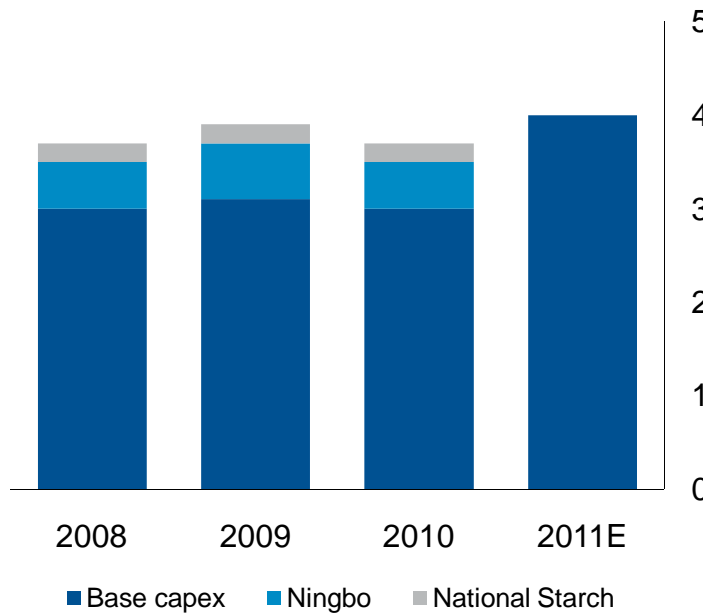
OWC  
€ million



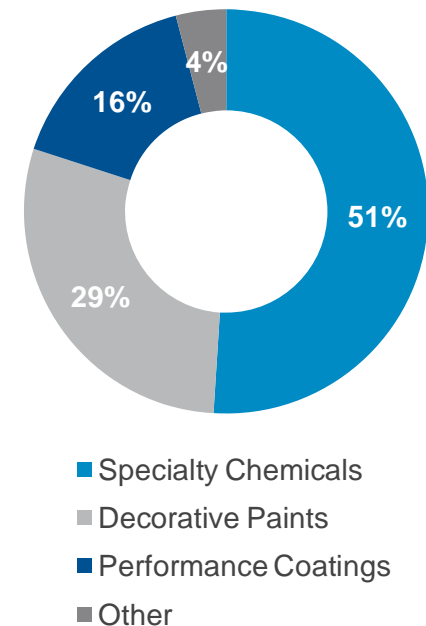
# Capital expenditure prioritization for growth

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

## Capex as a % of revenue



## 2010 Capex split



## Our dividend policy

### We intend to pay a stable to rising dividend

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

### 2010 total dividend €1.40 per share – up 4% from 2009

- The final 2010 dividend of €1.08 was paid on May 10, 2011
- The 2011 interim dividend will be announced on October 20, 2011



## EBITDA – Cash bridge

<i>€ million</i>	Q2 2011	Q2 2010
<b>EBITDA before incidentals</b>	<b>551</b>	<b>614</b>
Incidentals (cash)	8	(4)
Change working capital	(204)	2
Change provisions	(70)	(137)
Interest paid	(58)	(45)
Income tax paid	(62)	(39)
<b>Net cash from operating activities</b>	<b>165</b>	<b>391</b>

Change in working capital impacted by:

- Lower increase of operating working capital
- Higher increase in non-operating working capital items due to fair value changes and cash settlements for foreign currency hedging activities as well as due to changes in prepayments and accruals.



## Unchanged ambition to maintain strong balance sheet

<i>€ million</i>	Jun 30, 2011	Dec 31, 2010
Total Equity	9,314	9,509
Net debt*	1,808	936

- Credit ratings unchanged at BBB+/Baa1, outlook stable
- Net debt increased mainly due to operating cash outflow of €354 million, capital expenditures of €294 million and dividend payments of €272 million
- A bond totaling €539 million matured in June and was repaid out of existing cash

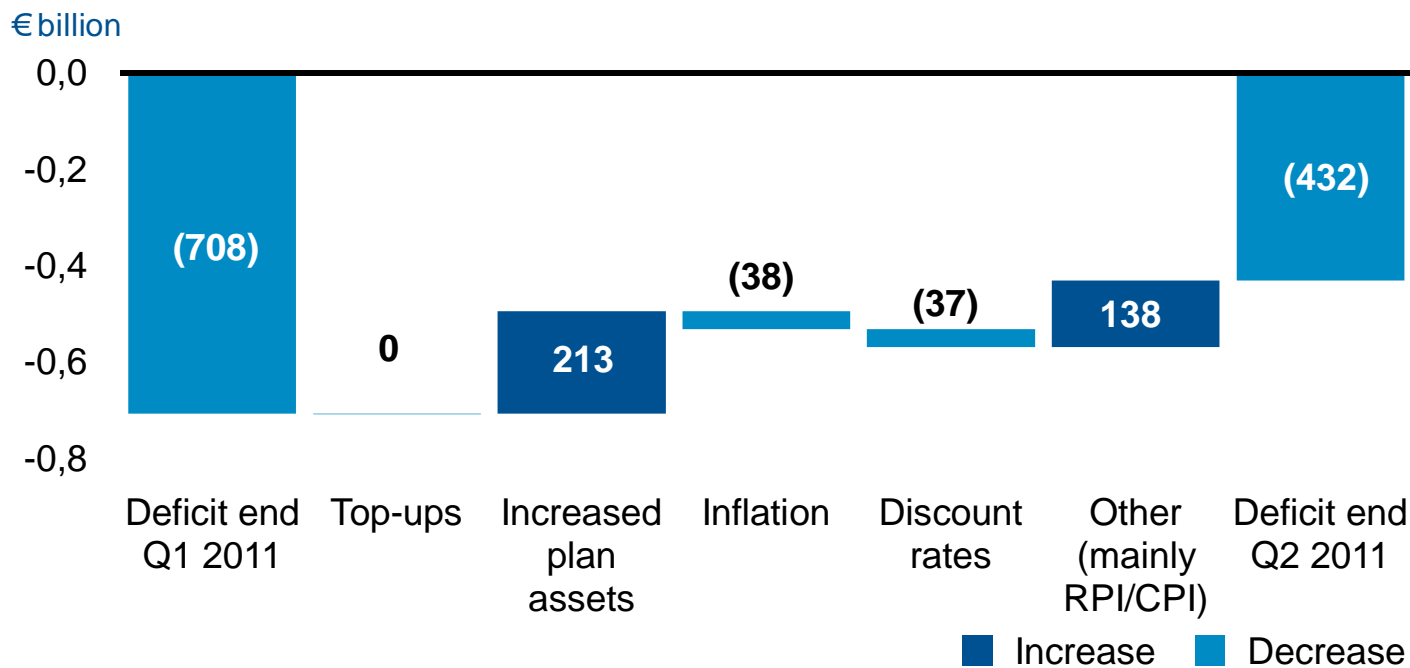
\* Before net pension deficit of €0.4 billion June 30, 2011 (December 31, 2010 €1.0 billion)



# Pension deficit improves to €0.4 billion

<i>Key pension metrics</i>	Q2 2011	Q1 2011
Discount rate	5.5%	5.5%
Inflation assumptions	3.1%	3.1%

## Pension deficit development during Q2 2011



## Lower 2011 cash-out for pensions expected

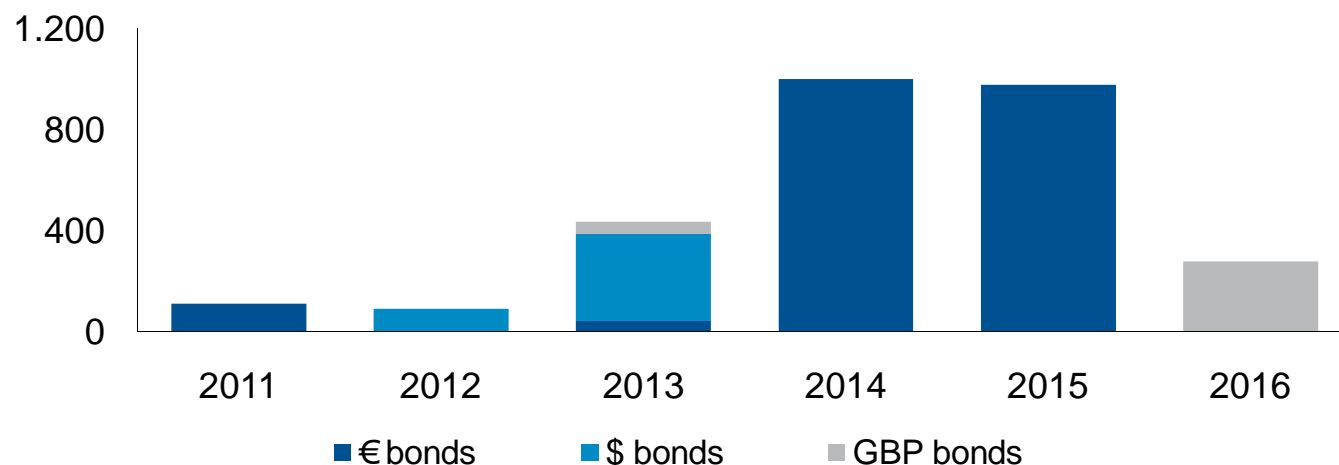
- 2004 pro forma (including ICI) pension under funding was around €4 billion
- Defined Benefits (DB) closed to new entrants, major plans closed in 2001 (ICI) and 2004 (AkzoNobel)
- Total DB pension plans cash contribution expected to be €500 million (2010: €524 million), which includes around €365 million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



# Debt duration of 3 years and no refinancing needs in 2011

## Debt maturities\*

€ million (nominal amounts)



## Strong liquidity position to support growth

- Undrawn revolving credit facility of €1.5 billion (2013) or €1.5 & \$1 billion commercial paper programs available\*
- Net cash and cash equivalents €1.2 billion\*

\* At the end of Q2 2011





# Low fixed costs as a percentage of revenue

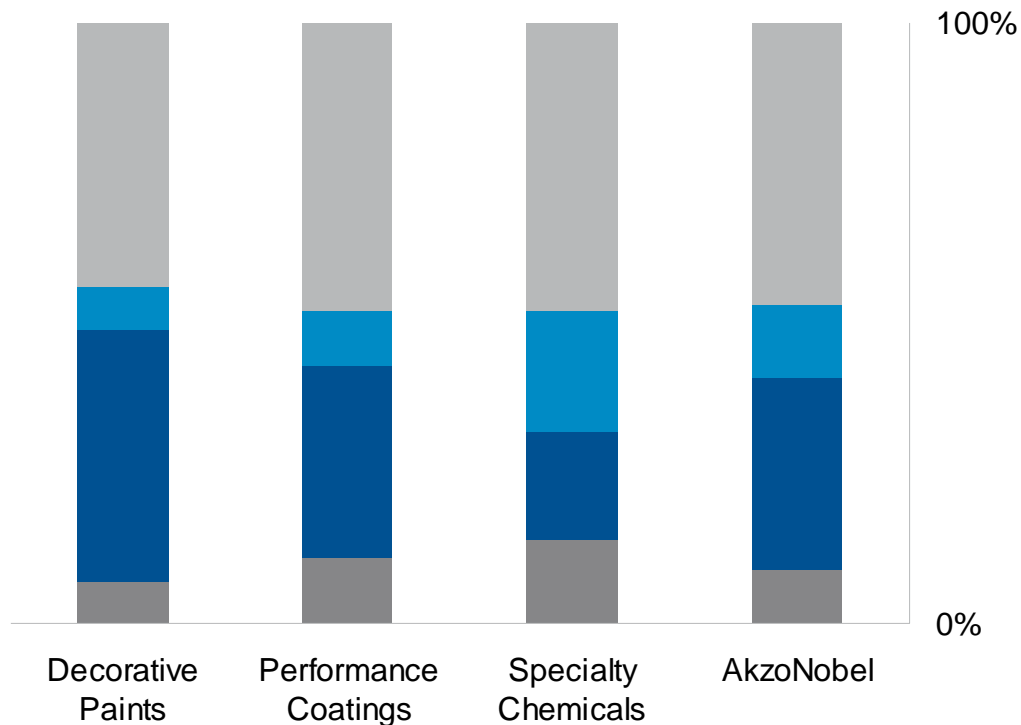
% of 2010 annual revenue\*

Raw materials, energy, and other variable production costs

**Fixed production costs**

Selling, advertising, administration, R&D costs

**EBIT margin**

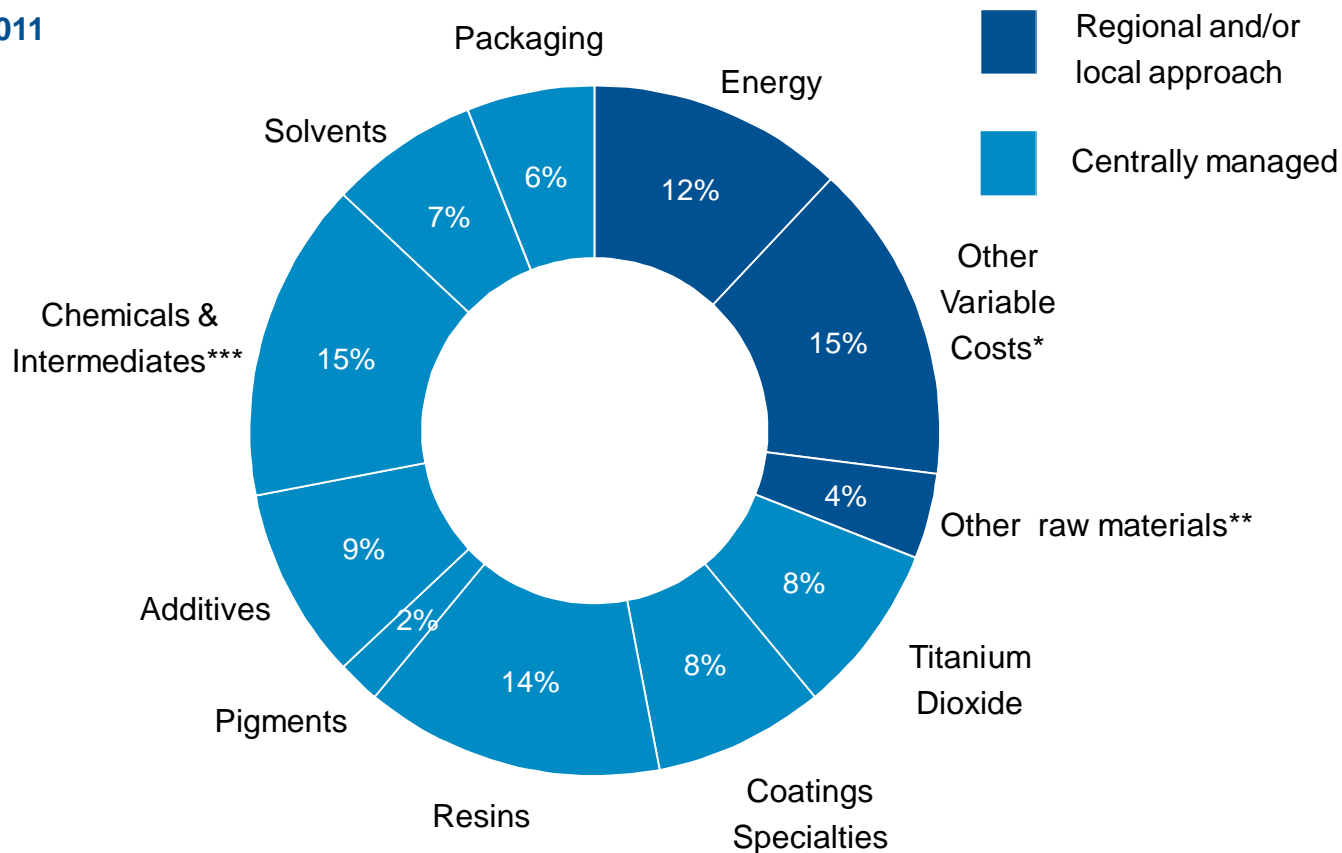


\* Rounded percentages, all data excluding incidentals



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

H1 2011



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

\* Other variable costs include a/o variable selling costs (e.g. freight) and products for resale

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

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



## Raw materials have continued to rise in the quarter

- Raw material prices have continued to rise in the second quarter and have impacted all three Business Areas
- They are now around 20 percent higher than a year ago
- With our margin management efforts still ongoing, we remain confident that we continue to make progress to mitigate this pressure.



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# Outlook 2011

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**We expect FY 2011 EBITDA at least in line with the prior year, assuming no further deterioration in economic conditions**



# Safe Harbor Statement

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

