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October 18, 2012

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## Investor update Q3 2012 results



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# Agenda

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- **Update on CEO status**
- **Q3 highlights**
- **Operational and financial review**
- **Management update**
- **Conclusion**

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## Update on CEO status

by Antony Burgmans, member of the Supervisory Board

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- This week, the Supervisory Board has received an update on the progress of Ton Büchner's recovery
- The medical specialists expects a full recovery and it is anticipated that Ton will return to work around year-end
- CFO Keith Nichols will continue to be the first point of contact and coordinator for the Executive Committee



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# Q3 highlights

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Keith Nichols

## Solid operational performance in Q3, despite economic slowdown

- Revenue up 6 percent, mainly driven by currencies and pricing actions
- Volumes declined 3 percent, primarily due to the economic slowdown in Europe
- EBITDA\* up 7 percent at €540 million (2011: €507 million)
- Impairment of €2.5 billion in Decorative Paints, resulting in a net loss of €2.4 billion
- Adjusted EPS of €1.01 (2011: €0.91)
- Interim dividend of €0.33 per share declared
- AkzoNobel ranked first in the Dow Jones Sustainability Index
- Performance improvement program is on track
- The economic environment remains our principal sensitivity



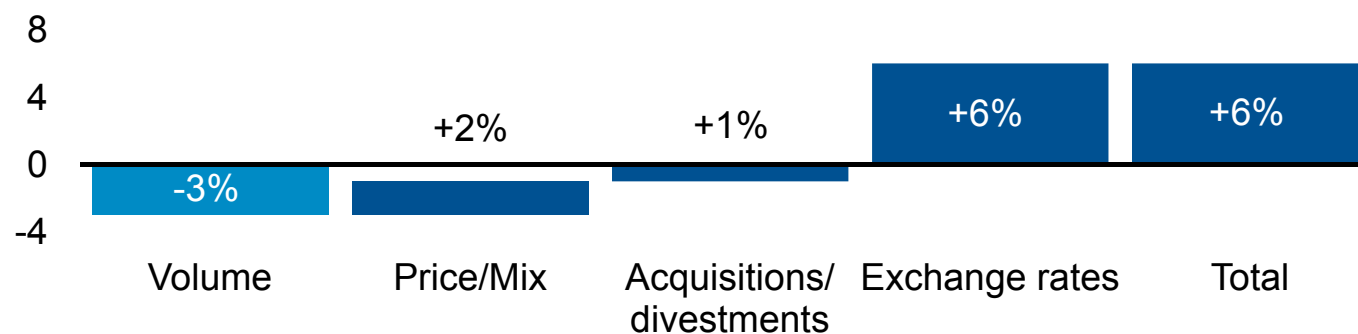
\* Before incidentals

## In Q3 2012 both revenue and EBITDA increased

| € million | Q3 2012 | Δ% |
|-----------|---------|----|
| Revenue   | 4,280   | 6  |
| EBITDA*   | 540     | 7  |

| Ratio, %       | Q3 2012 | Q3 2011 |
|----------------|---------|---------|
| EBITDA* margin | 12.6    | 12.5    |

### Revenue development Q3 2012 vs. Q3 2011



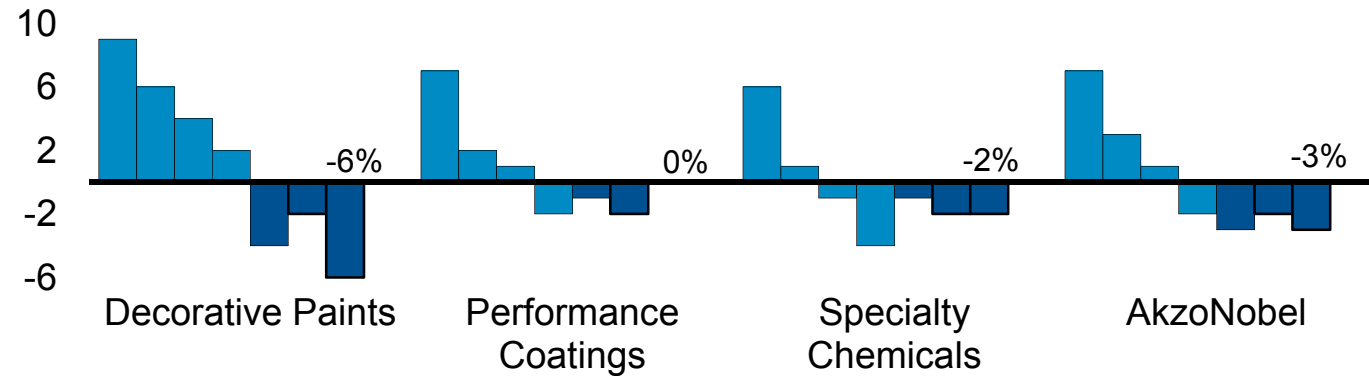
\* Before incidentals

■ Increase ■ Decrease

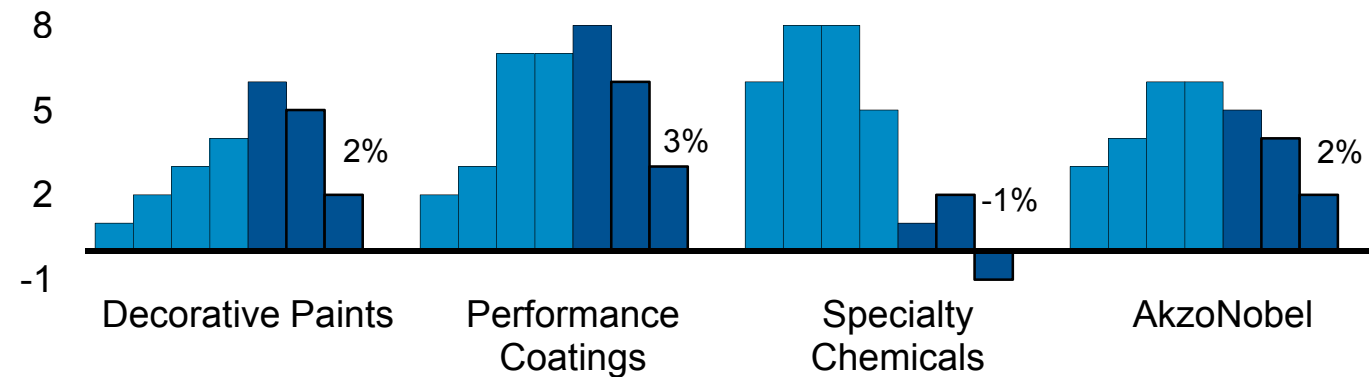


# Prices being maintained in declining markets

Quarterly volume development in % year-on-year



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



■ 2011 ■ 2012



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# Operational and financial review

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**Keith Nichols**



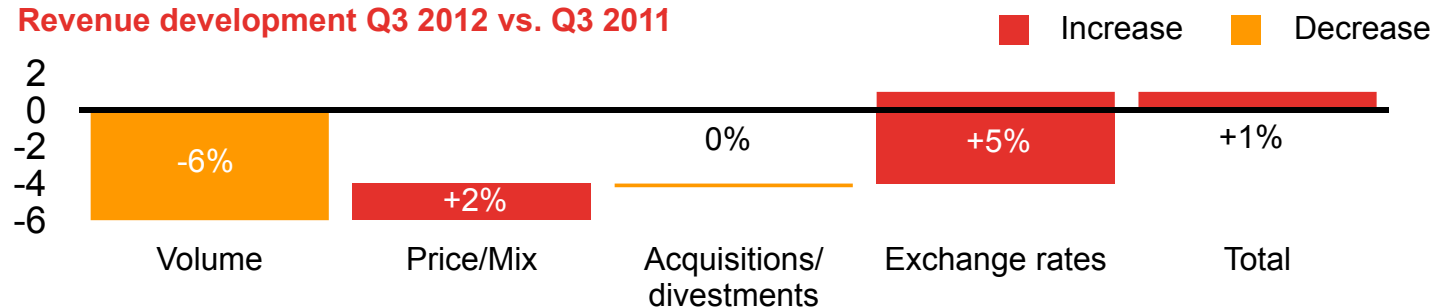
## Decorative Paints Q3 2012 highlights

| € million | Q3 2012 | Δ%  |
|-----------|---------|-----|
| Revenue   | 1,456   | 1   |
| EBITDA*   | 147     | (1) |

| Ratio, %       | Q3 2012 | Q3 2011 |
|----------------|---------|---------|
| EBITDA* margin | 10.1    | 10.3    |

Revenue development Q3 2012 vs. Q3 2011



- Revenue up 1 percent, mainly driven by favorable price/mix and currency impact
- Continued weak demand across most of our markets negatively affected Q3 volumes
- As a consequence, EBITDA\* down 1 percent at €147 million
- Active cost containment in all our businesses to mitigate the adverse economic conditions
- Additional restructuring efforts being initiated in Europe

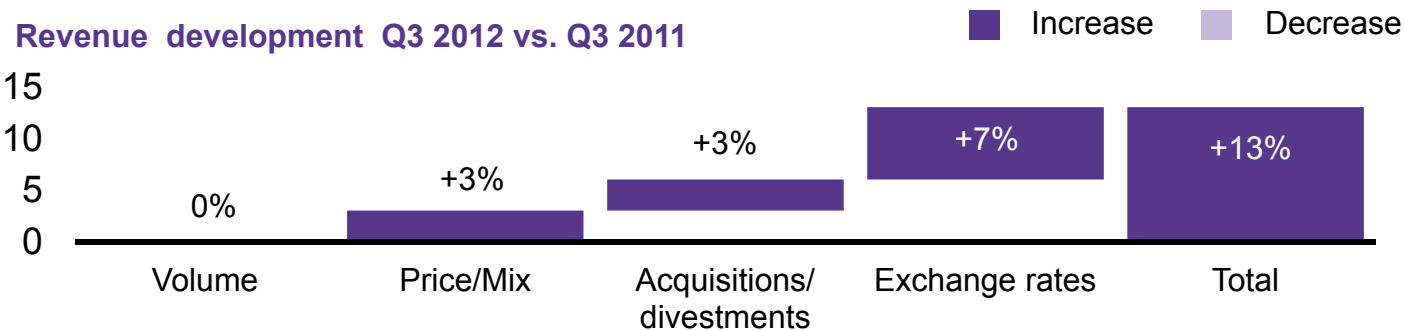


\* Before incidentals

## Performance Coatings Q3 2012 highlights

| € million | Q3 2012 | Δ% |
|-----------|---------|----|
| Revenue   | 1,467   | 13 |
| EBITDA*   | 202     | 29 |

| Ratio, %       | Q3 2012 | Q3 2011 |
|----------------|---------|---------|
| EBITDA* margin | 13.8    | 12.1    |



- Revenue up 13 percent supported by margin management, acquisitions and currency effects
- Volumes were flat with continued variability between individual markets
- EBITDA\* margin at 13.8 percent (2011: 12.1 percent) driven by margin management and operational efficiency
- Integration of acquired activities supporting results
- Marine and Protective Coatings and Industrial Coatings continued their strong performance



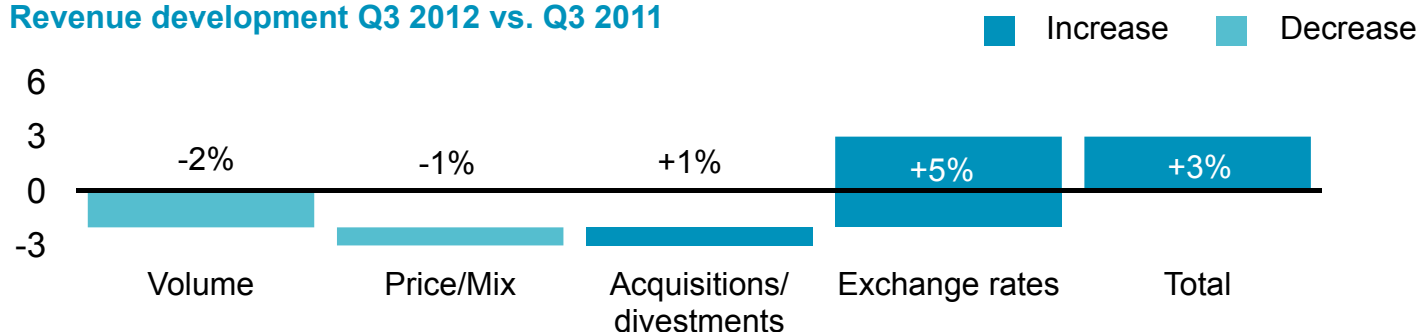
\* Before incidentals

## Specialty Chemicals Q3 2012 highlights

| € million | Q3 2012 | Δ%  |
|-----------|---------|-----|
| Revenue   | 1,393   | 3   |
| EBITDA*   | 227     | (5) |

| Ratio, %       | Q3 2012 | Q3 2011 |
|----------------|---------|---------|
| EBITDA* margin | 16.3    | 17.6    |

Revenue development Q3 2012 vs. Q3 2011



- Revenue increased by 3 percent, due to margin management and favorable currency effects
- Volumes slowed down during the quarter and customer ordering patterns remain cautious
- EBITDA\* margin in Q3 was at 16.3 percent (2011: 17.6 percent) due to weaker markets in Functional Chemicals
- Integration of the Boxing Oleochemicals acquisition on track
- Divestment Chemicals Pakistan expected to be completed towards the end of the year



\* Before incidentals

## Summary – Q3 2012 results

| <i>€ million</i>                   | Q3 2012        | Q3 2011    |
|------------------------------------|----------------|------------|
| EBITDA*                            | 540            | 507        |
| Amortization and depreciation      | (172)          | (155)      |
| Incidentals                        | (2,601)        | (51)       |
| Net financing expenses             | (66)           | (70)       |
| Minorities and associates          | (5)            | (9)        |
| Income tax                         | (56)           | (74)       |
| Discontinued operations            | (22)           | 1          |
| <b>Net income total operations</b> | <b>(2,382)</b> | <b>149</b> |
| Net cash from operating activities | 480            | 409        |

| <i>Ratio</i>                       | Q3 2012 | Q3 2011 |
|------------------------------------|---------|---------|
| EBITDA* margin (%)                 | 12.6    | 12.5    |
| Adjusted earnings per share (in €) | 1.01    | 0.91    |

\* Before incidentals



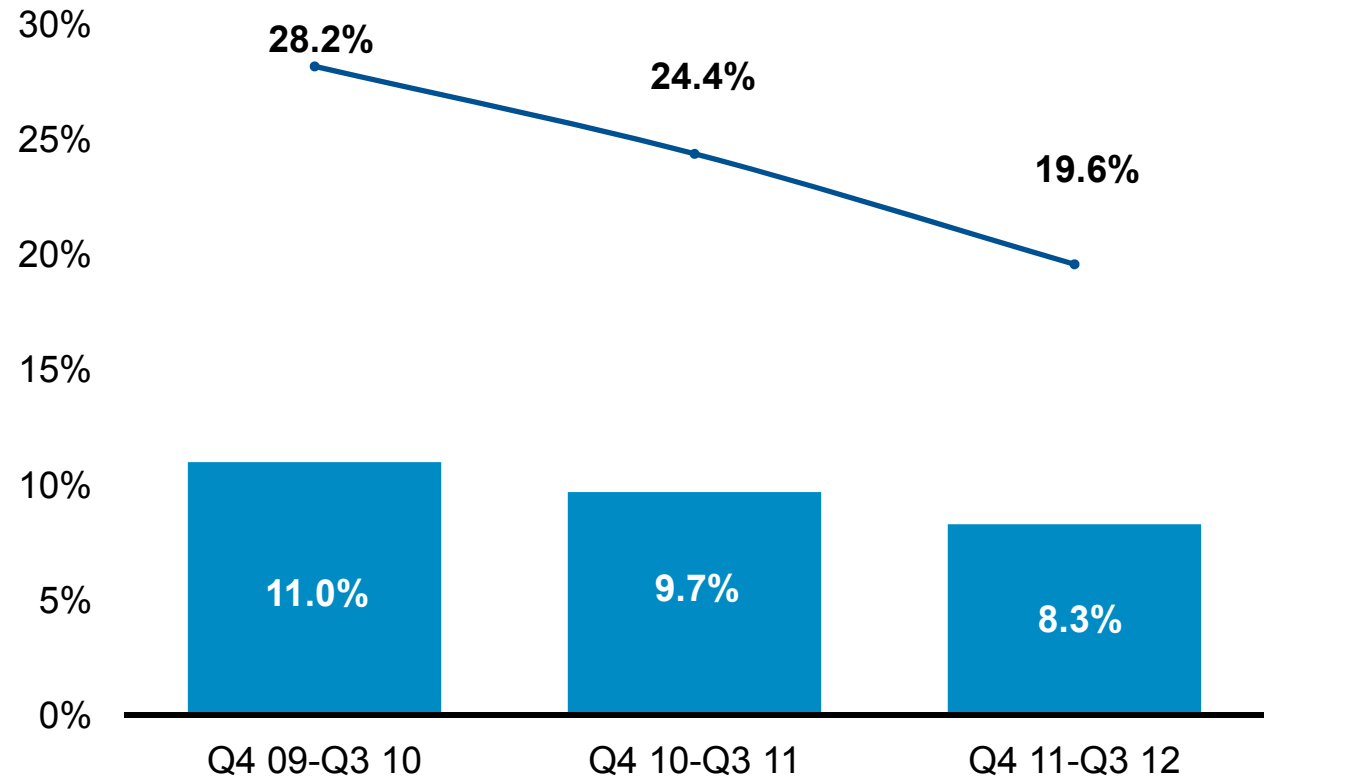
## Q3 2012 incidentals impacted by impairment

| <i>€ million</i>   | Q3 2012        | Q3 2011     |
|--|----------------|-------------|
| Impairment of intangibles  | (2,478)        | -           |
| Restructuring costs  | (101)          | (47)        |
| Results related to major legal, anti-trust and environmental cases | (5)            | 2           |
| Results of acquisitions and divestments                            | (6)            | (5)         |
| Other incidental results   | (11)           | (1)         |
| <b>Total</b>   | <b>(2,601)</b> | <b>(51)</b> |

- Non-cash impairment charge relates to Decorative Paints intangible assets (€1.9 billion in Europe, €0.4 billion in North America and €0.2 billion in Latin America), reflecting deteriorating market conditions in these regions.
- Higher restructuring costs across most businesses, related to implementation of performance improvement program in mature markets



## Operating returns on invested capital reflect economic slowdown



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

■ Moving average ROI %  
— Operating ROI %\*



## Cash flows Q3 2012 clearly improved on last year

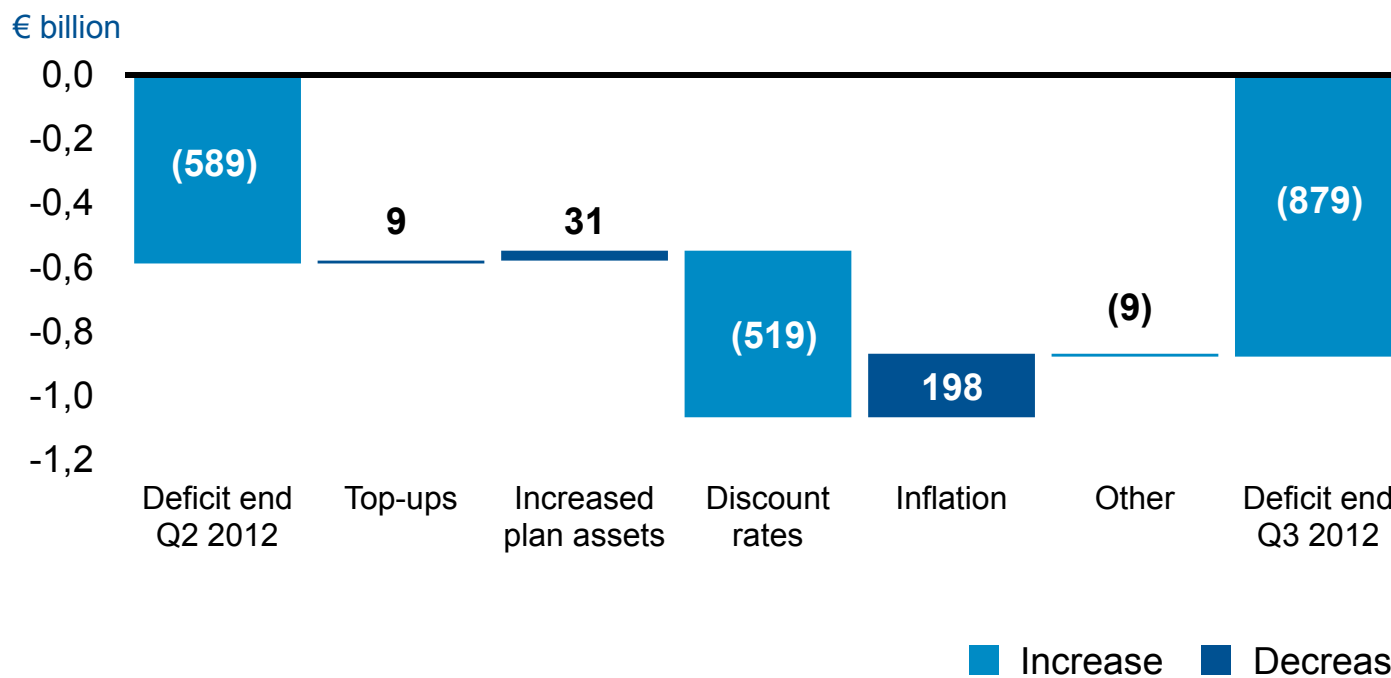
| € million  | Q3 2012    | Q3 2011    |
|--|------------|------------|
| Profit for the period from continuing operations | (2,350)    | 166        |
| Amortization, depreciation and impairments       | 2,672      | 157        |
| Change working capital                           | 256        | 41         |
| - Pension provisions                             | (27)       | (63)       |
| - Restructuring                                  | 24         | 23         |
| - Other provisions                               | (136)      | 13         |
| Change provisions                                | (139)      | (27)       |
| Other changes                                    | 41         | 72         |
| <b>Net cash from operating activities</b>        | <b>480</b> | <b>409</b> |
| Capital expenditures                             | (198)      | (158)      |
| Changes from borrowings                          | 70         | -          |
| Dividends  | (8)        | (10)       |
| Discontinued operations                          | (4)        | (7)        |
| Other changes                                    | (30)       | 5          |
| <b>Total cash flows</b>                          | <b>310</b> | <b>239</b> |



## Pension deficit increases to €0.9 billion

| <i>Key pension metrics</i> | Q3 2012 | Q2 2012 |
|----------------------------|---------|---------|
| Discount rate              | 3.9%    | 4.2%    |
| Inflation assumptions      | 2.1%    | 2.3%    |

### Pension deficit development during Q3 2012





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# Management update

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**Keith Nichols**

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## Senior management changes

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- Leif Darner has agreed to step down as Executive Committee member responsible for Performance Coatings at next year's AGM in April.
- He will be succeeded by Conrad Keijzer, currently Managing Director of Industrial Coatings
- Werner Fuhrmann, currently ExCo member responsible for the Specialty Chemicals business area on an interim basis, will take over the Specialty Chemicals portfolio full-time.



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# Conclusion

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**Keith Nichols**

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## Conclusion

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- Solid third quarter, despite economic slowdown
- Implementation of our performance improvement program on track
- Focus remains on return on capital and cash generation
- The major uncertainty remains the global economic environment



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# Appendix

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# AkzoNobel key facts

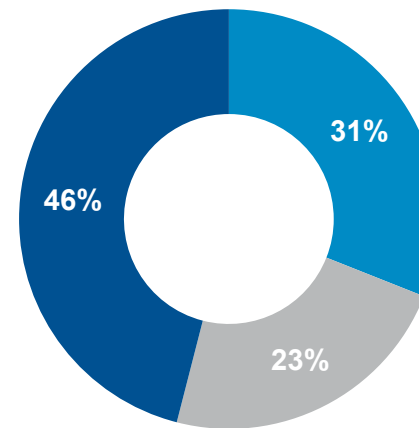
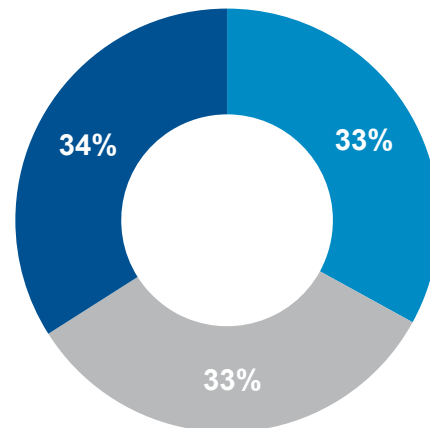
## 2011

- Revenue €15.7 billion
- 57,240 employees
- EBITDA: €1.8 billion\*
- Net income: €0.5 billion
- 40 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



# Decorative Paints key facts

## 2011

- Revenue €5.3 billion
- 22,340 employees
- EBITDA: €440 million\*
- 40 percent of revenue from high growth markets
- Largest global supplier of decorative paints
- Many leading positions, strong brands

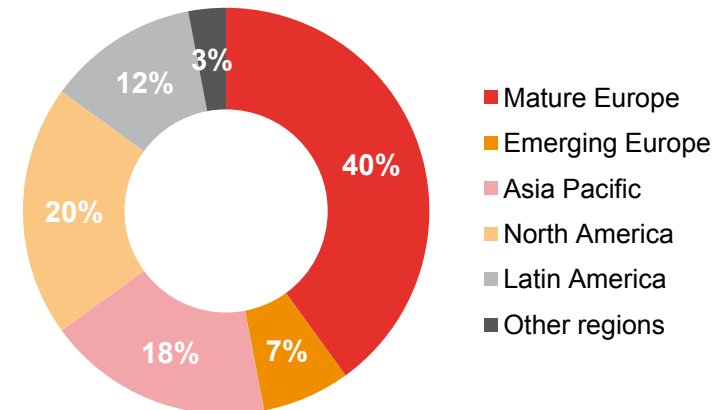


## Some of our strong brands



\* Before incidentals

## Revenue by geography



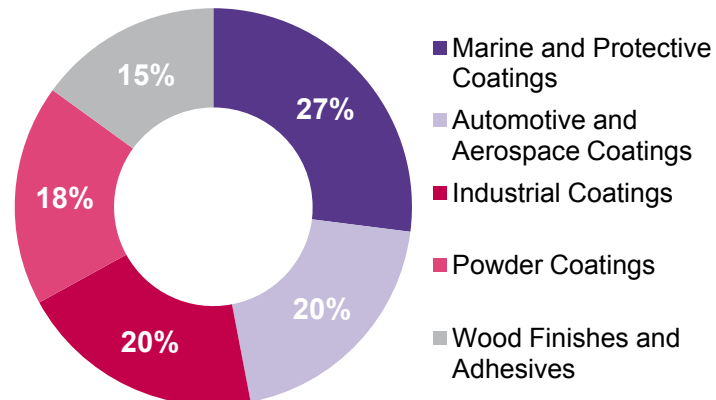
# Performance Coatings key facts

## 2011

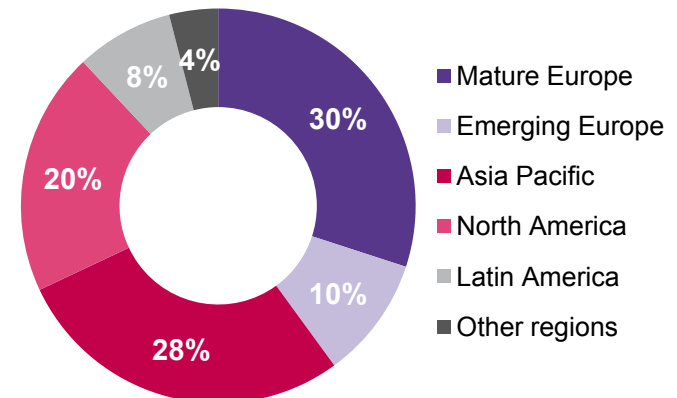
- Revenue €5.2 billion
- 21,960 employees
- EBITDA: €611 million\*
- 47 percent of revenue from high growth markets
- Leading positions in performance coatings industry
- Innovative technologies, strong brands



## Revenue by business unit



## Revenue by geography



\* Before incidentals

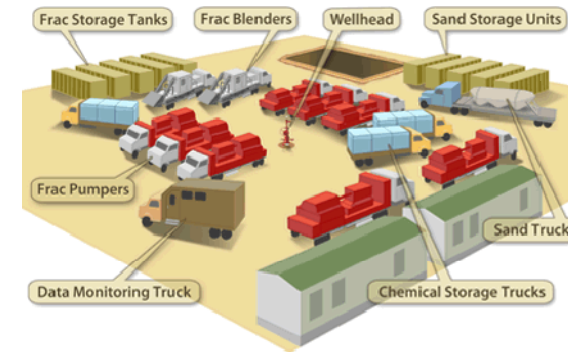




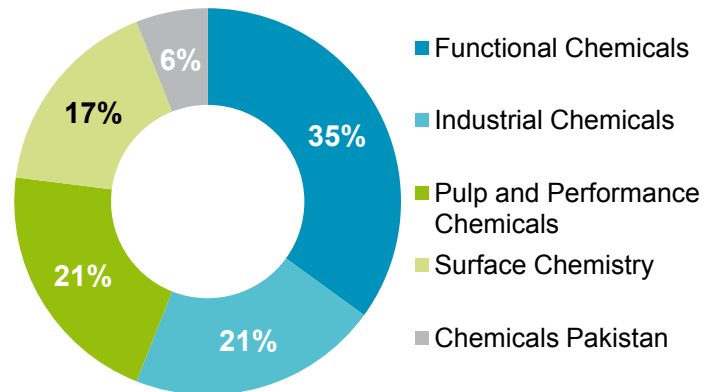
# Specialty Chemicals key facts

## 2011

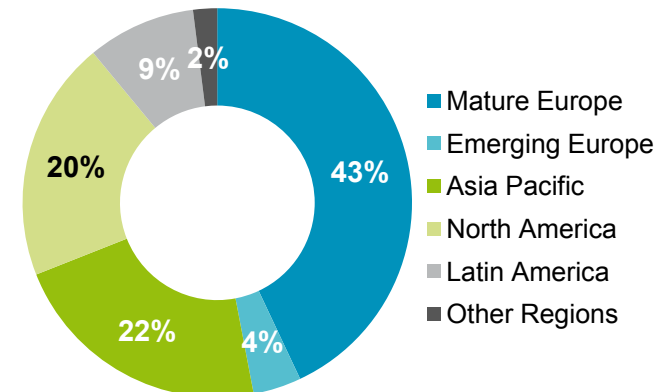
- Revenue €5.3 billion
- 11,510 employees
- EBITDA: €906 million\*
- 33 percent of revenue from high growth markets
- Major producer of specialty chemicals
- Leadership positions in many markets



## Revenue by business unit



## Revenue by geography

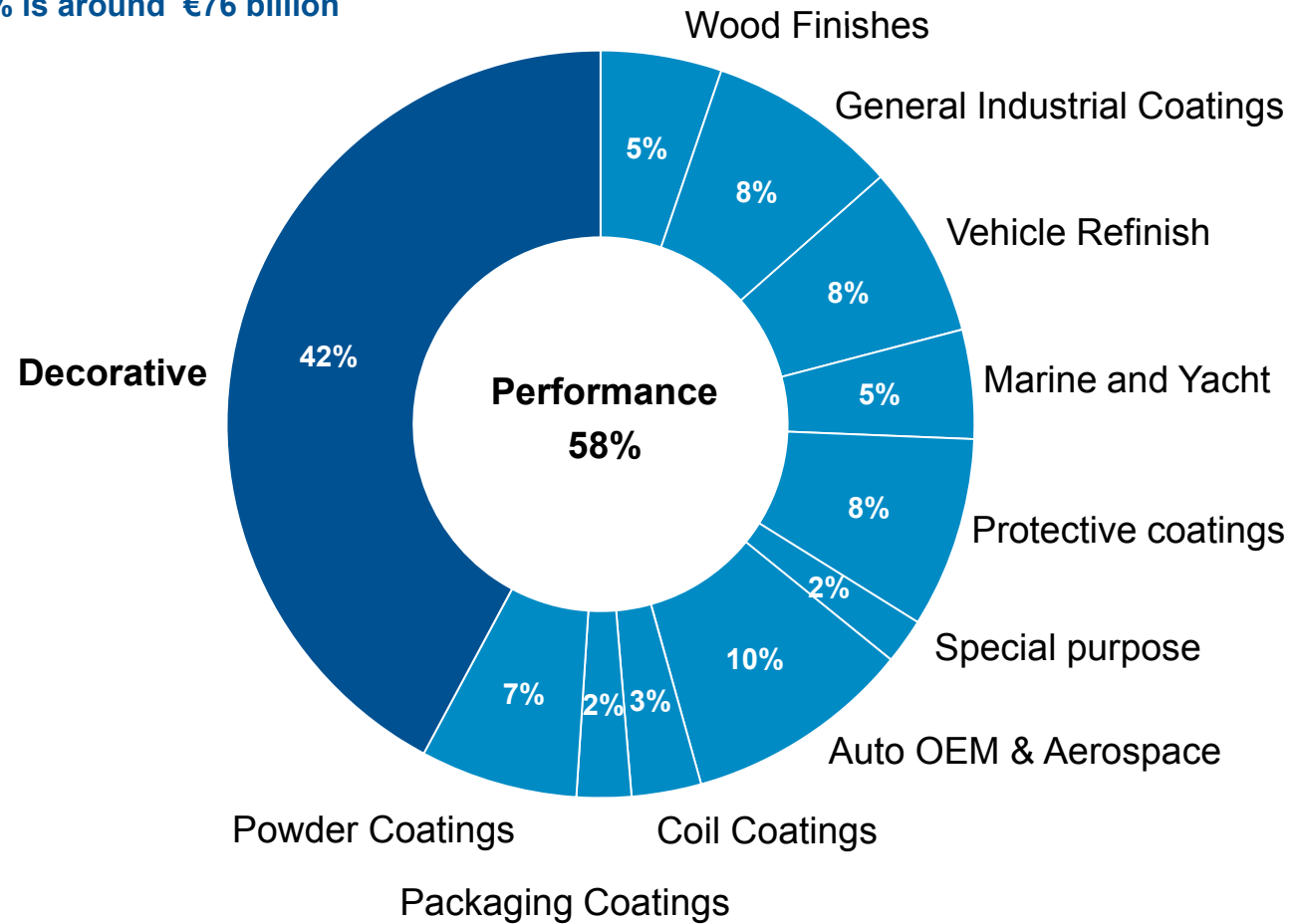


\* Before incidentals



# The global paints and coatings market is around €76 billion

% of 2011 market  
100% is around €76 billion

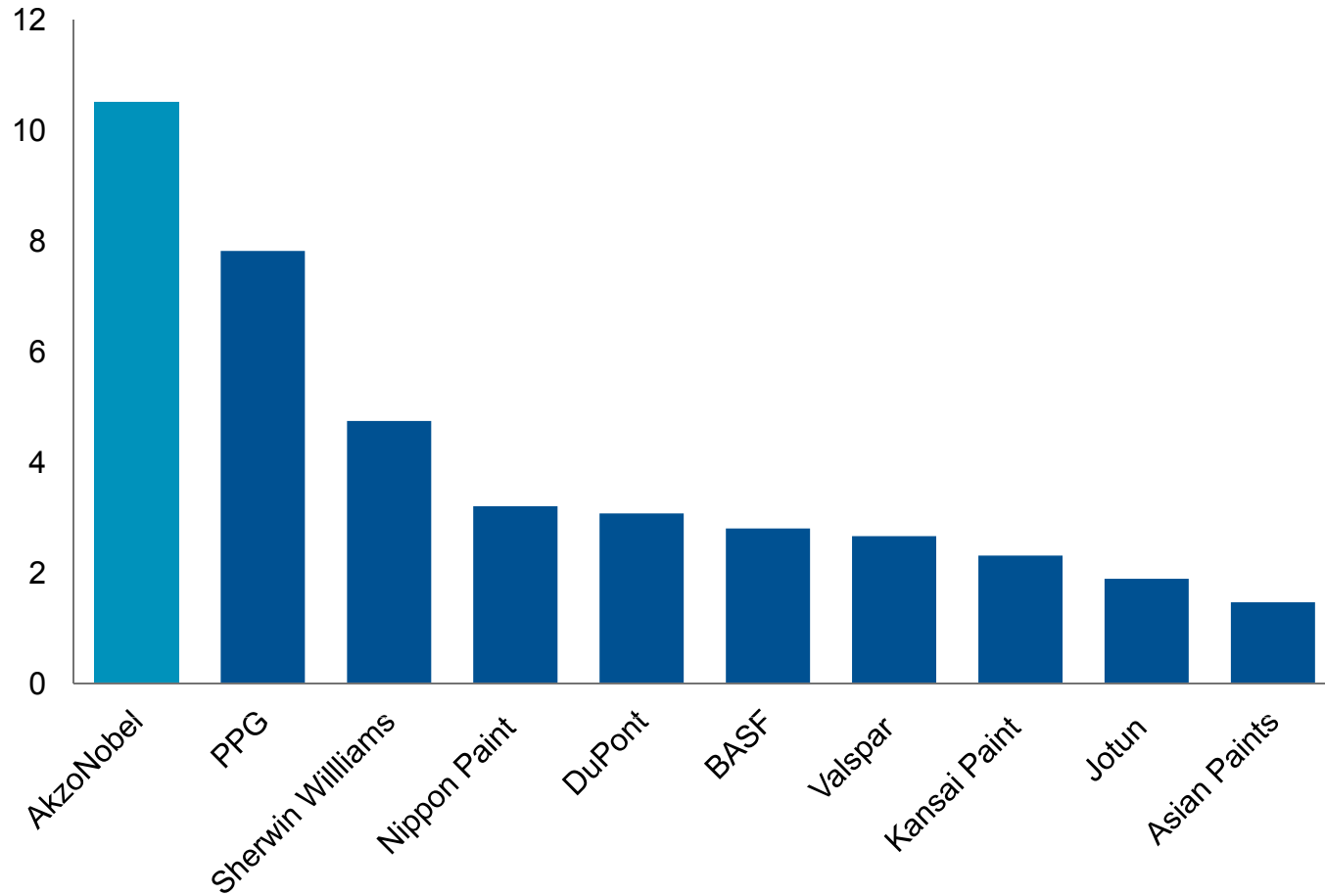


Source: Company Reports



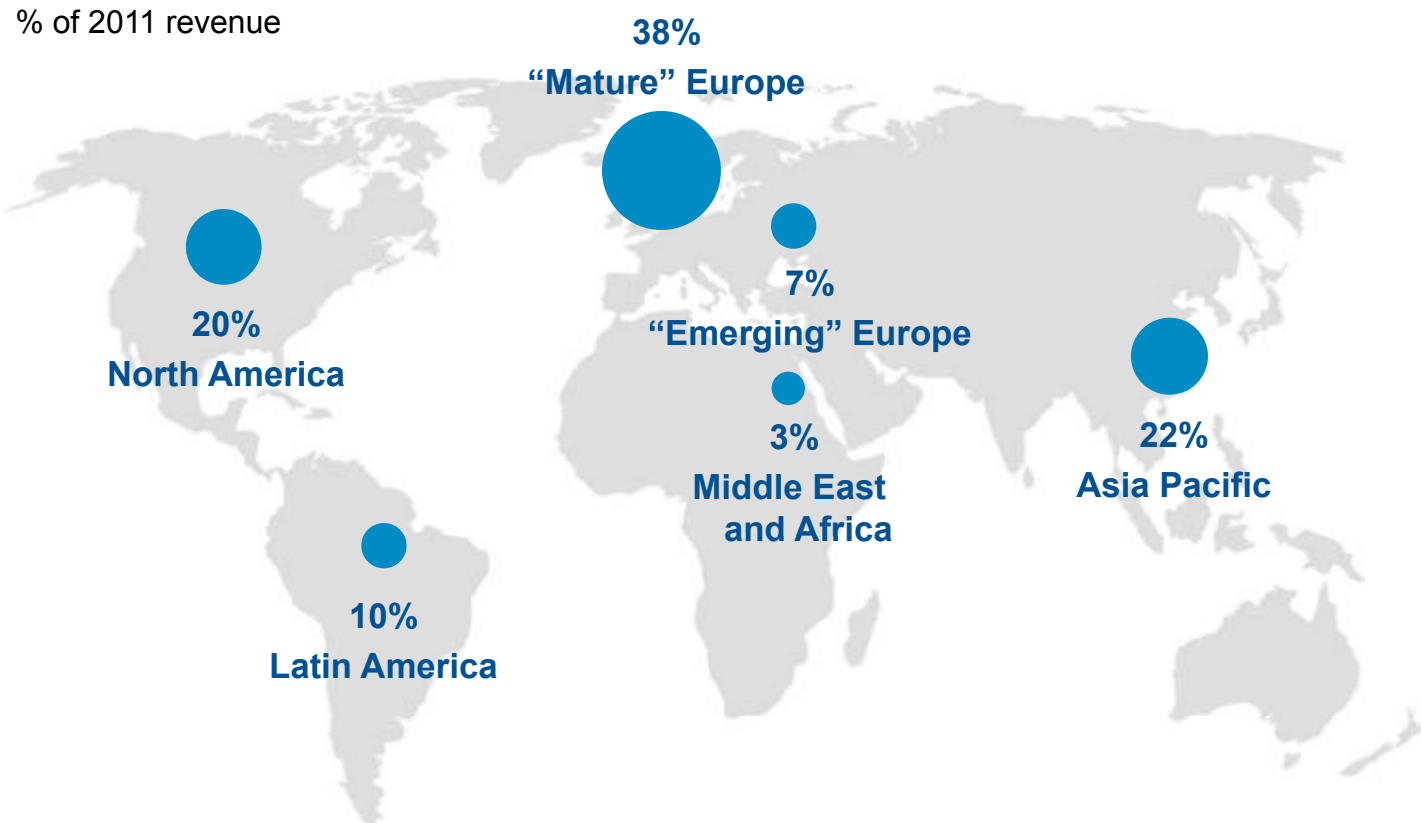
# AkzoNobel is the world's largest coatings supplier

2011 revenue in € billion



## Excellent geographic spread of both revenue and profits

High growth markets are important (40% of revenue)

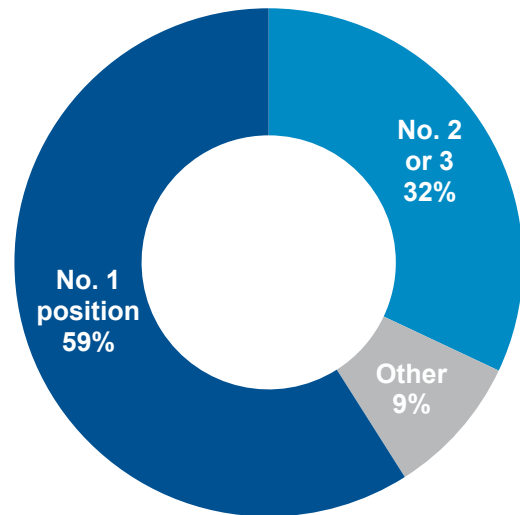


High growth markets' profitability is above average



## Leading positions and strong brands

### 2011 Revenue by market position



### Some of our strong brands



Decorative Paints



Performance Coatings



Specialty Chemicals

- Our leading market positions provide us with scale benefits
- Strong brands ensure customer loyalty
- Established relationships with key specifiers and regulatory approvals lead to significant barriers to entry



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# Our strategic ambition

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The world's leading  
coatings and specialty chemicals company



## Our medium term strategic goals

### Value Accelerated growth

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

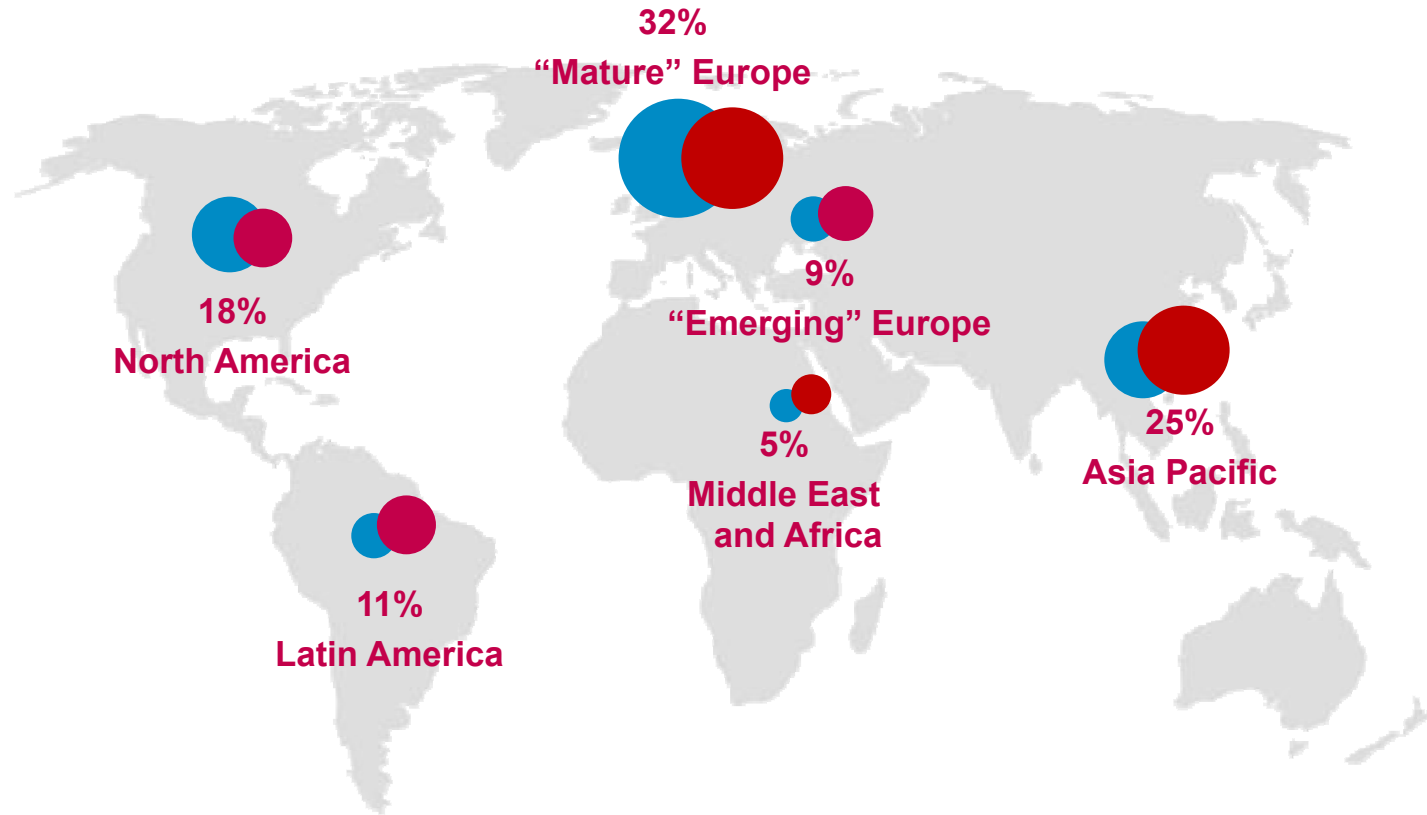
- Top quartile safety performance
- Top 3 position in sustainability
- Top quartile performance in diversity, employee engagement, and talent development
- Top quartile eco-efficiency improvement rate

### Values Sustainable growth



# High growth markets will become significantly more important

% of revenue, indicative



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



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

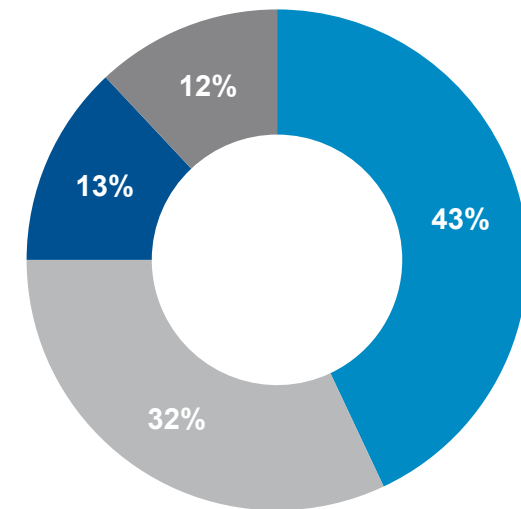
### How innovation will support our growth agenda:

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

**Our more centrally led RD&I efforts aim at delivering solutions for the future needs of our end markets**

**Our scale leads to superior absolute spend versus our peers**

### Revenue by key market segment



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

\* Major innovations that result in a significant competitive advantage

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



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## Clear sustainability focus

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### Accelerated sustainability strategy will deliver:

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

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



# Innovation in Decorative Paints

## Dulux Guardian

A premium interior paint that's good for your family and the environment

### Key Features

- A premium, low-VOC and low-odor soft-sheen emulsion for interior walls
- Contains Bacteria Shield, a best-in-class bactericide
- Tested by IMSL, UK and proven effective against six harmful bacteria, including MRSA, E.coli and salmonella

### Customer Benefits

- Offers a 'good for my family and the environment' well-being proposition at an affordable price
- Best-in-class for washability and stain and fungus resistance

### Growth potential

- Initial launch in India where the health and well-being category is expected to grow by 35-40% per annum
- Significant potential for use in public buildings where hygiene matters (hospitals, care homes, hotels, restaurants, kitchens, schools)



# Innovation in Performance Coatings Wood Adhesives - Forward Integration

Intelligent software package allowing effective control and optimization of the gluing process

## Key features

- Patent pending technology allowing effective optimization of glue amount and pressing conditions during gluing process
- Accurate quality control by reacting to real-time fluctuations in the production process
- Offers integral customer solution by combining world-class adhesives with effective process control



## Customers benefits

- Increased productivity and reduced production costs per unit
- Reduced glue consumption and waste
- Active logging of production parameters for future use

## Growth potential

- Launched in Central Europe and Russian Federation in H1 2012; Other regions to follow in H2 2012
- It will strengthen and potentially grow our current leading position in the Structural Elements market
- Use of Forward Integration tools to be expanded into Furniture and Flooring markets



# Innovation in Specialty Chemicals

## Surface Chemistry- Armovis® EHS

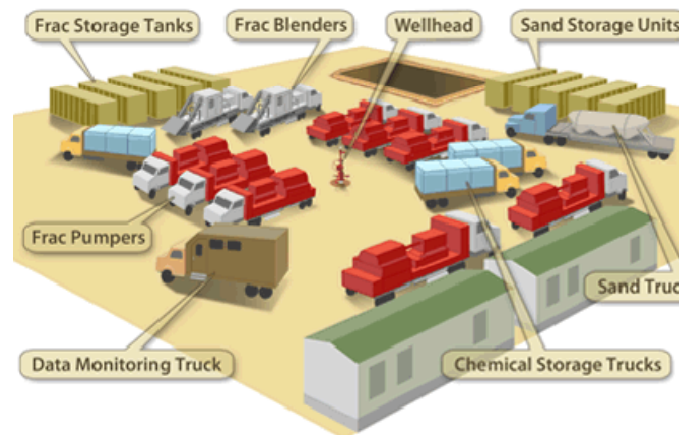
A biodegradable thickening agent for enhancing oil and gas recovery

### Key Features

- A thermally stable viscosity modifying system for oil and gas recovery
- Based on renewable feedstocks, readily biodegradable and very low aquatic toxicity

### Customer Benefits

- Improved oil and gas extraction under challenging field conditions
- Easy handling and good flow, even at low temperatures
- Excellent environmental profile



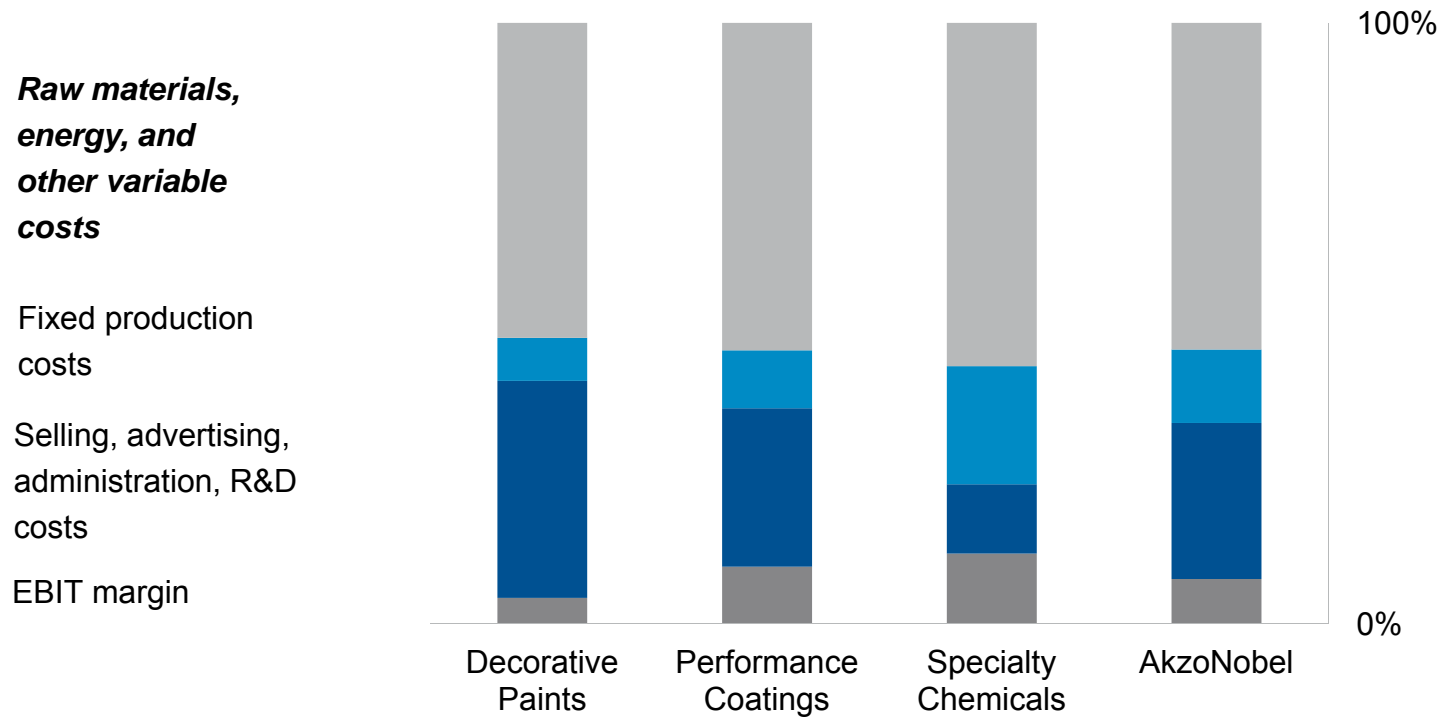
### Growth potential

- Acidizing is an increasingly employed technique in oil and gas fields globally.
- As fields deplete, higher performing thickening agents will be needed, particularly those that do not cause formation damage which limits extraction



# Variable costs represent 54.3% of revenue

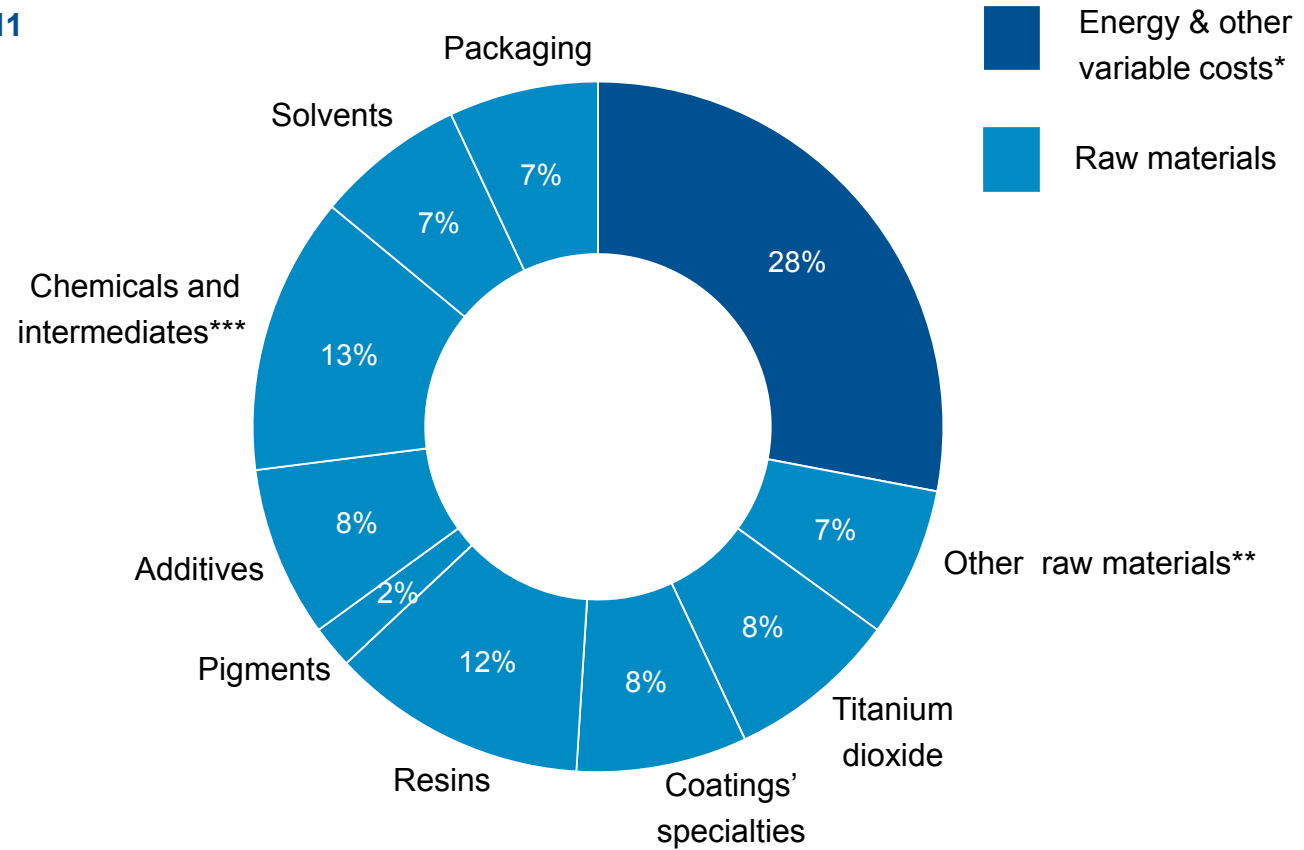
% of 2011 annual revenue\*



\* Rounded percentages, all data excluding incidentals

# Variable costs analysis

2011



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

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

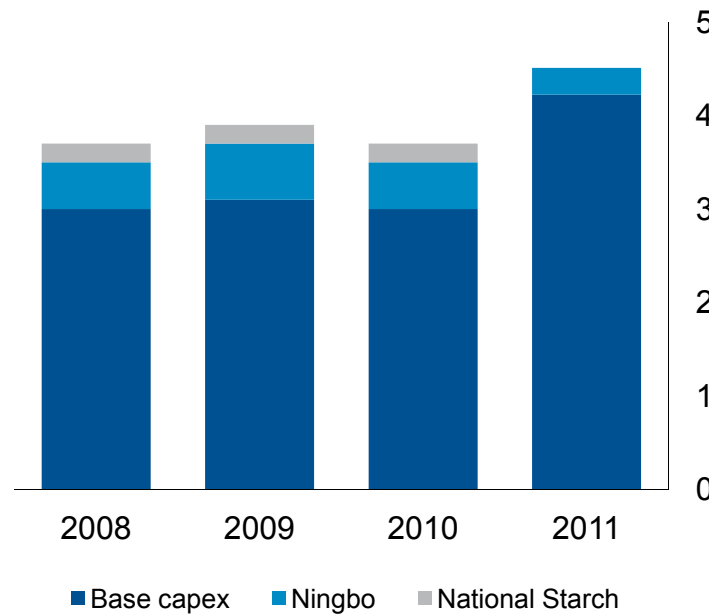
\*\*\* Chemicals and intermediates include caustic soda, acetic acid, tallow, ethylene, ethylene oxide, sulfur, amines etc.



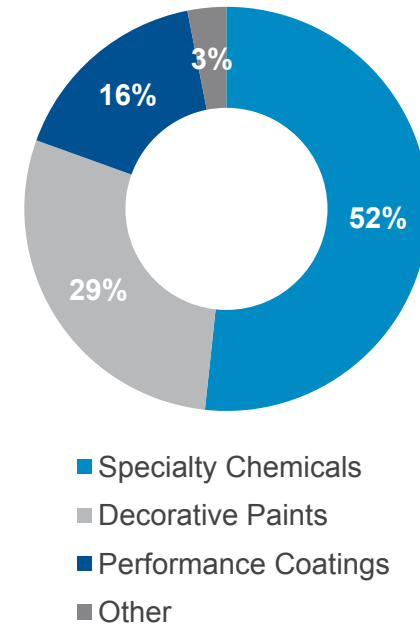
# Capital expenditure prioritization for growth

- Capex 2011 was €708 million (including Ningbo €45)
- Guidance for the medium term: Capex level to be at least 4 percent of revenues

## Capex as a % of revenue



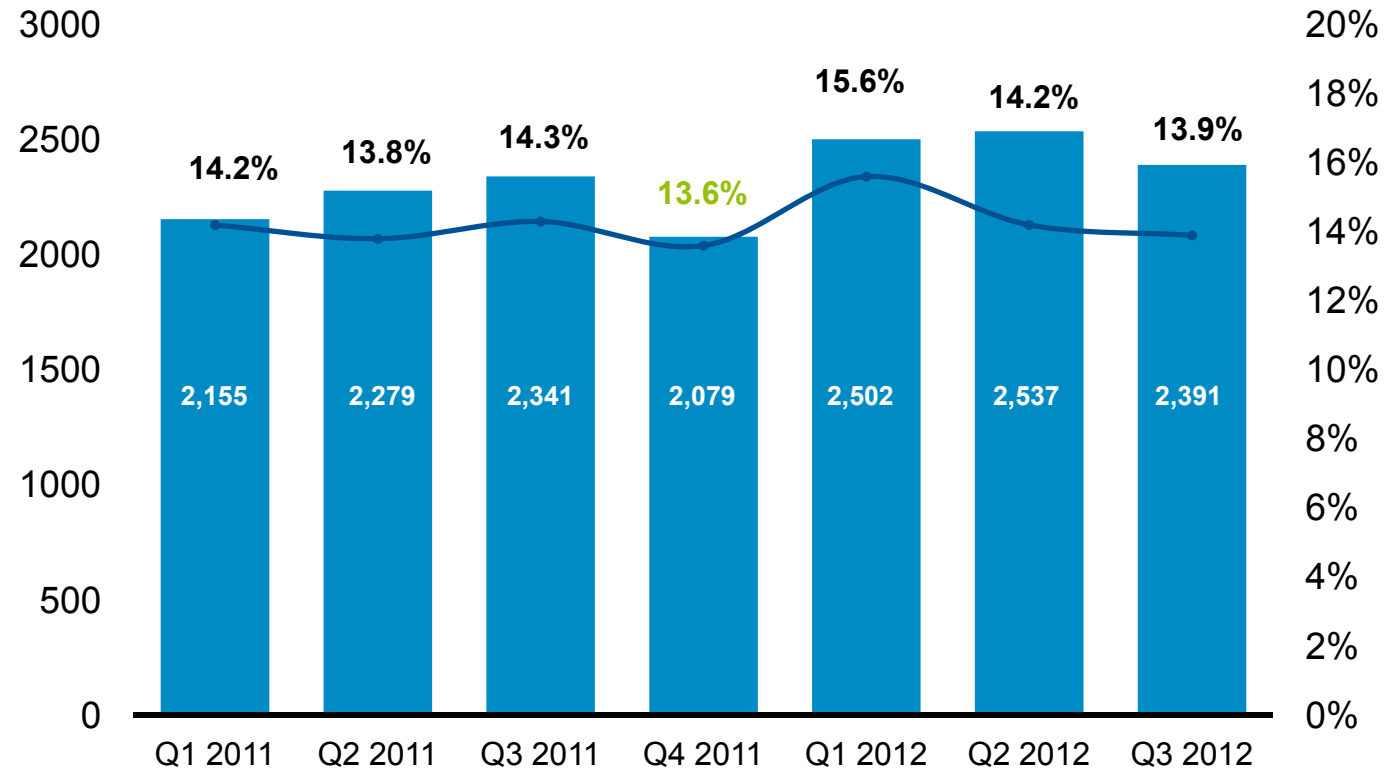
## 2011 Capex split





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

OWC  
€ million



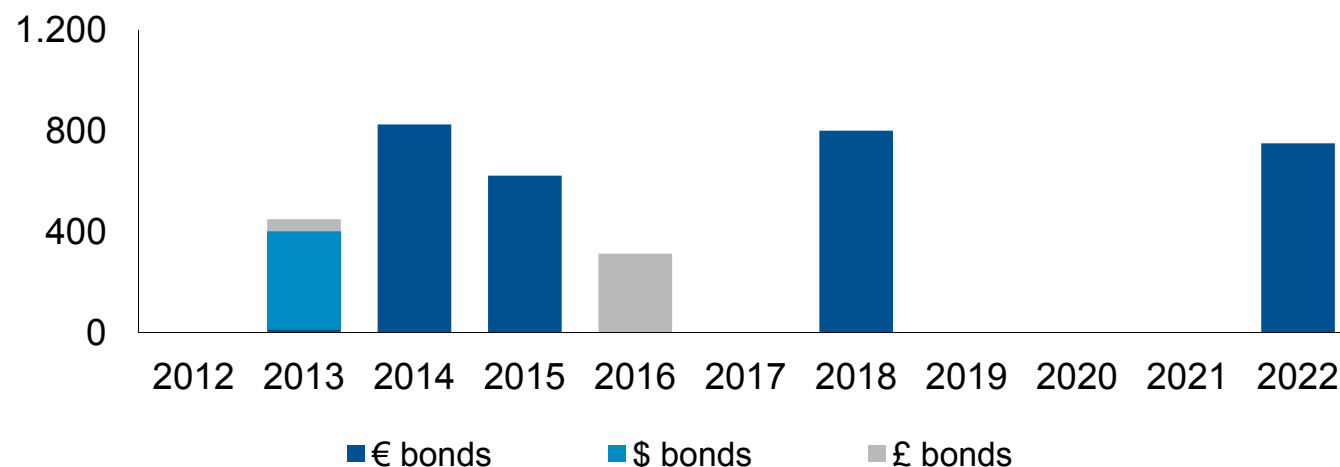
■ OWC — OWC as % of LQ revenue\*4



## Debt duration 4.4 years and no refinancing needed in 2012

### Debt maturities\*

€ million (nominal amounts)



### Strong liquidity position to support growth

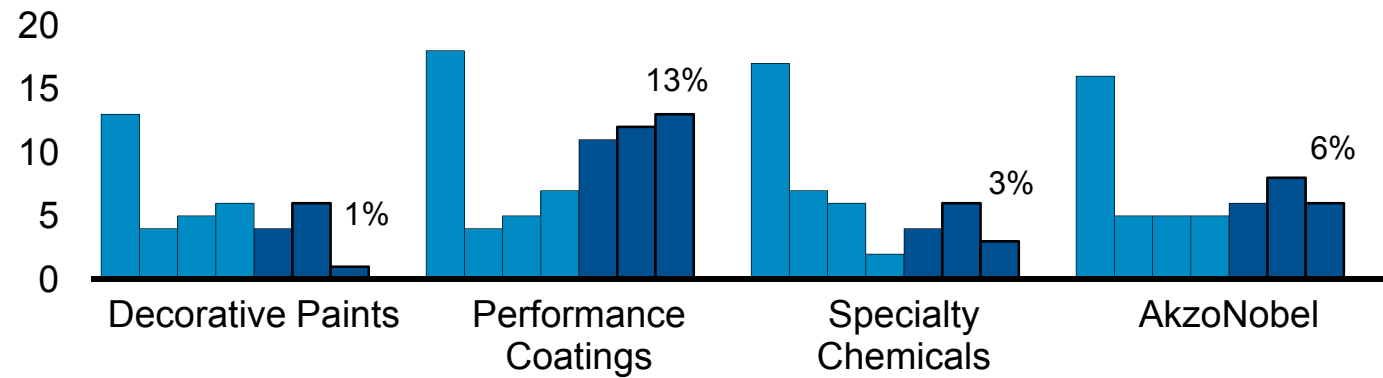
- Undrawn revolving credit facility of €1.7 billion (2017) and €0.1 billion (2016)
- €1.5 and \$3 billion commercial paper programs, backed by the revolving credit facility
- Net cash and cash equivalents €1.3 billion\*

\* At the end of Q3 2012

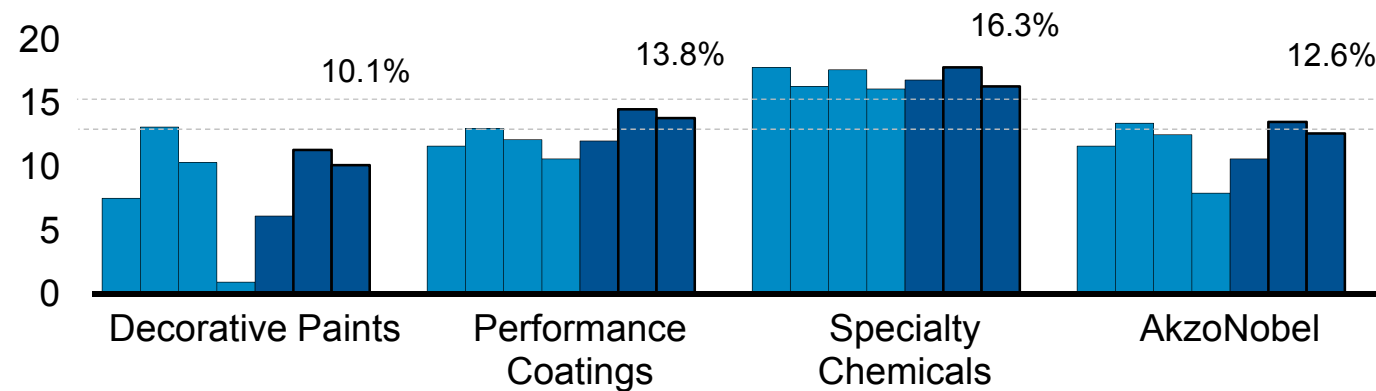


# Revenue growth leads EBITDA margin improvements

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



## Quarterly EBITDA\* margin in %



\* Before incidentals

■ 2011 ■ 2012 ..... Target range



## Pension cash contributions unrelated to positive IAS 19 accounting change impact

| € million       | Q3 2012 | Q2 2012 | Q1 2012 |
|-----------------|---------|---------|---------|
| Top-up payments | 9       | 14      | 322     |

- The majority of the pension top-up payments have been made in Q1 2012
- Latest estimate is for additional top-up payments of approximately €10 million in Q4 2012

| € million                            | 2012E      | 2011      |
|--------------------------------------|------------|-----------|
| IAS 19 charges in EBITDA             | 36         | 33        |
| IAS 19 charges in interest costs     | 64         | 59        |
| <b>Total non-cash IAS 19 charges</b> | <b>100</b> | <b>92</b> |

- Due to changes in IAS 19 from 2013, the amortization charges in EBITDA will cease and the charges in interest costs are expected to be significantly lower than in 2012



## Unchanged ambition to maintain strong balance sheet

| <i>€ million</i> | Sep 30, 2012 | Sep 30, 2011 |
|------------------|--------------|--------------|
| Total equity     | 7,590        | 9,589        |
| Net debt*        | 2,597        | 1,595        |

- Credit ratings unchanged at BBB+/Baa1, outlook stable
- Total equity mainly decreased by the net loss
- Net debt increased y-o-y mainly due to pension top-ups and an additional pension payment in Q1
- In Q3 we issued a 10-year bond of €750 million at a coupon of 2.625 percent



\* Before net pension deficit of €0.9 billion September 30, 2012 (September 30, 2011 €0.7 billion)

## Q3 2012 EBITDA – Cash bridge

| <i>€ million</i>                          | Q3 2012    | Q3 2011    |
|---|------------|------------|
| <b>EBITDA before incidentals</b>          | <b>540</b> | <b>507</b> |
| Incidentals (cash)                        | (90)       | (51)       |
| Change working capital                    | 256        | 41         |
| Change provisions                         | (139)      | (27)       |
| Interest paid                             | (10)       | (6)        |
| Income tax paid                           | (77)       | (55)       |
| <b>Net cash from operating activities</b> | <b>480</b> | <b>409</b> |

- Higher cash inflows from operating working capital
- Higher payments related to provisions. Following the judgement in the Metacrylates case by the General Court in June 2012 we paid €113 million in Q3



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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).*

