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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **June 30, 2016**  
or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.  
Commission File Number: **001-36733**

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**AXALTA COATING SYSTEMS LTD.**

(Exact name of registrant as specified in its charter)

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**Bermuda**  
(State or other jurisdiction of  
incorporation or organization)

**98-1073028**  
(I.R.S. Employer  
Identification No.)

**Two Commerce Square**  
**2001 Market Street**  
**Suite 3600**  
**Philadelphia, Pennsylvania 19103**  
**(855) 547-1461**

(Address, including zip code, and telephone number, including area code, of the registrant's principal executive offices)

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Securities registered pursuant to Section 12(b) of the Act:

**Common Shares, \$1.00 par value**  
(title of class)

**New York Stock Exchange**  
(Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Company is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Non-accelerated filer  Accelerated filer  Small reporting company

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 21, 2016, there were 239,130,298 shares of the registrant's common shares outstanding.

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**Table of Contents**

|                        |  |           |
|------------------------|--|-----------|
| <b><u>PART I</u></b>   | <b><u>Financial Information</u></b>  |           |
| <b><u>ITEM 1.</u></b>  | <u>Financial Statements (Unaudited)</u>  | <u>3</u>  |
|                        | <u>Condensed Consolidated Statements of Operations</u>                                       | <u>3</u>  |
|                        | <u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>                      | <u>4</u>  |
|                        | <u>Condensed Consolidated Balance Sheets</u>   | <u>5</u>  |
|                        | <u>Condensed Consolidated Statements of Cash Flows</u>                                       | <u>6</u>  |
|                        | <u>Notes to Condensed Consolidated Financial Statements</u>                                  | <u>7</u>  |
| <b><u>ITEM 2.</u></b>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>27</u> |
| <b><u>ITEM 3.</u></b>  | <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | <u>44</u> |
| <b><u>ITEM 4.</u></b>  | <u>Controls and Procedures</u>   | <u>44</u> |
| <b><u>PART II</u></b>  | <b><u>Other Information</u></b>  |           |
| <b><u>ITEM 1.</u></b>  | <u>Legal Proceedings</u>   | <u>45</u> |
| <b><u>ITEM 1A.</u></b> | <u>Risk Factors</u>  | <u>45</u> |
| <b><u>ITEM 2.</u></b>  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | <u>45</u> |
| <b><u>ITEM 3.</u></b>  | <u>Defaults Upon Senior Securities</u>   | <u>45</u> |
| <b><u>ITEM 4.</u></b>  | <u>Mine Safety Disclosures</u>   | <u>45</u> |
| <b><u>ITEM 5.</u></b>  | <u>Other Information</u>   | <u>45</u> |
| <b><u>ITEM 6.</u></b>  | <u>Exhibits</u>  | <u>45</u> |
|                        | <u>Signatures</u>  | <u>46</u> |
|                        | <u>Exhibit Index</u>   | <u>47</u> |

**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**AXALTA COATING SYSTEMS LTD.**  
Condensed Consolidated Statements of Operations (Unaudited)  
(In millions, except per share data)

|   | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2016                        | 2015       | 2016                      | 2015       |
| Net sales   | \$ 1,065.1                  | \$ 1,094.1 | \$ 2,020.7                | \$ 2,083.3 |
| Other revenue   | 7.0                         | 7.0        | 13.0                      | 15.3       |
| Total revenue   | 1,072.1                     | 1,101.1    | 2,033.7                   | 2,098.6    |
| Cost of goods sold  | 649.0                       | 679.7      | 1,255.4                   | 1,329.5    |
| Selling, general and administrative expenses              | 237.7                       | 245.5      | 456.8                     | 458.5      |
| Research and development expenses                         | 14.1                        | 12.8       | 26.7                      | 25.7       |
| Amortization of acquired intangibles                      | 20.3                        | 20.1       | 40.5                      | 40.1       |
| Income from operations                                    | 151.0                       | 143.0      | 254.3                     | 244.8      |
| Interest expense, net                                     | 47.8                        | 49.2       | 97.9                      | 99.2       |
| Other expense, net  | 32.8                        | 88.6       | 40.8                      | 92.5       |
| Income before income taxes                                | 70.4                        | 5.2        | 115.6                     | 53.1       |
| Provision for income taxes                                | 20.3                        | 29.5       | 34.9                      | 30.7       |
| Net income (loss)   | 50.1                        | (24.3)     | 80.7                      | 22.4       |
| Less: Net income attributable to noncontrolling interests | 1.6                         | 0.8        | 2.5                       | 2.4        |
| Net income (loss) attributable to controlling interests   | \$ 48.5                     | \$ (25.1)  | \$ 78.2                   | \$ 20.0    |
| Basic net income (loss) per share                         | \$ 0.20                     | \$ (0.11)  | \$ 0.33                   | \$ 0.09    |
| Diluted net income (loss) per share                       | \$ 0.20                     | \$ (0.11)  | \$ 0.32                   | \$ 0.08    |
| Basic weighted average shares outstanding                 | 237.7                       | 232.3      | 237.4                     | 231.1      |
| Diluted weighted average shares outstanding               | 242.4                       | 232.3      | 242.0                     | 238.1      |

*The accompanying notes are an integral part of these financial statements.*

**AXALTA COATING SYSTEMS LTD.**  
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)  
(In millions)

|   | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2016                        | 2015      | 2016                      | 2015      |
| Net income (loss)   | \$ 50.1                     | \$ (24.3) | \$ 80.7                   | \$ 22.4   |
| Other comprehensive income (loss), before tax:                                |                             |           |                           |           |
| Foreign currency translation adjustments                                      | (13.6)                      | 27.3      | 2.1                       | (82.3)    |
| Unrealized gain (loss) on securities  | 0.1                         | (0.1)     | (0.3)                     | 0.4       |
| Unrealized gain (loss) on derivatives   | 0.5                         | 0.3       | (1.7)                     | (4.5)     |
| Unrealized gain (loss) on pension and other benefit plan obligations          | 0.2                         | (2.8)     | 0.1                       | (4.0)     |
| Other comprehensive income (loss), before tax                                 | (12.8)                      | 24.7      | 0.2                       | (90.4)    |
| Income tax (benefit) provision related to items of other comprehensive income | (0.8)                       | 0.8       | —                         | 3.4       |
| Other comprehensive income (loss), net of tax                                 | (13.6)                      | 25.5      | 0.2                       | (87.0)    |
| Comprehensive income (loss)   | 36.5                        | 1.2       | 80.9                      | (64.6)    |
| Less: Comprehensive income attributable to noncontrolling interests           | 1.4                         | 1.0       | 2.3                       | 2.2       |
| Comprehensive income (loss) attributable to controlling interests             | \$ 35.1                     | \$ 0.2    | \$ 78.6                   | \$ (66.8) |

*The accompanying notes are an integral part of these financial statements.*

**AXALTA COATING SYSTEMS LTD.**  
Condensed Consolidated Balance Sheets (Unaudited)  
(In millions, except per share data)

|  | June 30, 2016 | December 31, 2015 |
|--|---------------|-------------------|
| <b>Assets</b>  |               |                   |
| Current assets:  |               |                   |
| Cash and cash equivalents  | \$ 480.1      | \$ 485.0          |
| Restricted cash  | 3.1           | 2.7               |
| Accounts and notes receivable, net   | 838.6         | 765.8             |
| Inventories  | 519.7         | 530.7             |
| Prepaid expenses and other   | 62.1          | 63.6              |
| Deferred income taxes  | 58.2          | 69.5              |
| Total current assets   | 1,961.8       | 1,917.3           |
| Property, plant and equipment, net   | 1,358.5       | 1,382.9           |
| Goodwill   | 931.1         | 928.2             |
| Identifiable intangibles, net  | 1,152.8       | 1,191.6           |
| Other assets   | 431.6         | 434.2             |
| Total assets   | \$ 5,835.8    | \$ 5,854.2        |
| <b>Liabilities, Shareholders' Equity</b>   |               |                   |
| Current liabilities:   |               |                   |
| Accounts payable   | \$ 438.2      | \$ 454.7          |
| Current portion of borrowings  | 55.1          | 50.1              |
| Deferred income taxes  | 6.8           | 6.6               |
| Other accrued liabilities  | 350.0         | 370.2             |
| Total current liabilities  | 850.1         | 881.6             |
| Long-term borrowings   | 3,298.1       | 3,391.4           |
| Long-term employee benefits  | 243.4         | 252.3             |
| Deferred income taxes  | 160.9         | 165.5             |
| Other liabilities  | 28.5          | 22.2              |
| Total liabilities  | 4,581.0       | 4,713.0           |
| Commitments and contingencies (Note 5)   |               |                   |
| Shareholders' equity   |               |                   |
| Common shares, \$1.00 par, 1,000.0 shares authorized, 239.1 and 237.9 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively | 237.9         | 237.0             |
| Capital in excess of par   | 1,272.1       | 1,238.8           |
| Accumulated deficit  | (54.6)        | (132.8)           |
| Accumulated other comprehensive loss   | (268.9)       | (269.3)           |
| Total Axalta shareholders' equity  | 1,186.5       | 1,073.7           |
| Noncontrolling interests   | 68.3          | 67.5              |
| Total shareholders' equity   | 1,254.8       | 1,141.2           |
| Total liabilities and shareholders' equity   | \$ 5,835.8    | \$ 5,854.2        |

*The accompanying notes are an integral part of these financial statements.*

**AXALTA COATING SYSTEMS LTD.**  
Condensed Consolidated Statements of Cash Flows (Unaudited)  
(In millions)

|  | Six Months Ended June 30, |          |
|--|---------------------------|----------|
|  | 2016                      | 2015     |
| <b>Operating activities:</b>   |                           |          |
| Net income   | \$ 80.7                   | \$ 22.4  |
| Adjustment to reconcile net income to cash provided by operating activities: |                           |          |
| Depreciation and amortization  | 154.6                     | 150.1    |
| Amortization of financing costs and original issue discount                  | 10.1                      | 10.2     |
| Debt extinguishment  | 2.3                       | —        |
| Deferred income taxes  | (6.8)                     | (7.1)    |
| Realized and unrealized foreign exchange losses, net                         | 26.0                      | 66.5     |
| Stock-based compensation   | 21.6                      | 14.2     |
| Asset impairment   | 10.5                      | 30.6     |
| Other non-cash, net  | (2.9)                     | 3.6      |
| Changes in operating assets and liabilities:                                 |                           |          |
| Trade accounts and notes receivable  | (89.7)                    | (124.9)  |
| Inventories  | 13.4                      | (41.1)   |
| Prepaid expenses and other   | (20.2)                    | (46.0)   |
| Accounts payable   | 4.0                       | (16.2)   |
| Other accrued liabilities  | (17.9)                    | (42.0)   |
| Other liabilities  | (6.4)                     | (15.3)   |
| Cash provided by operating activities  | 179.3                     | 5.0      |
| <b>Investing activities:</b>   |                           |          |
| Business acquisitions (net of cash acquired)                                 | —                         | (3.1)    |
| Purchase of property, plant and equipment                                    | (64.8)                    | (56.6)   |
| Restricted cash  | (0.4)                     | 1.9      |
| Other investing  | (2.4)                     | 0.9      |
| Cash used for investing activities   | (67.6)                    | (56.9)   |
| <b>Financing activities:</b>   |                           |          |
| Proceeds from short-term borrowings  | —                         | 3.1      |
| Payments on short-term borrowings  | (5.5)                     | (13.7)   |
| Payments on long-term borrowings   | (113.7)                   | (13.6)   |
| Dividends paid to noncontrolling interests                                   | (1.5)                     | (4.1)    |
| Proceeds from option exercises and associated tax benefits                   | 12.6                      | 51.9     |
| Other financing  | (0.2)                     | (0.2)    |
| Cash provided by (used for) financing activities                             | (108.3)                   | 23.4     |
| Increase (decrease) in cash and cash equivalents                             | 3.4                       | (28.5)   |
| Effect of exchange rate changes on cash                                      | (8.3)                     | (45.8)   |
| Cash and cash equivalents at beginning of period                             | 485.0                     | 382.1    |
| Cash and cash equivalents at end of period                                   | \$ 480.1                  | \$ 307.8 |
| <b>Supplemental cash flow information</b>                                    |                           |          |
| Non-cash investing activities:   |                           |          |
| Accrued capital expenditures   | \$ 15.3                   | \$ 19.7  |

*The accompanying notes are an integral part of these financial statements.*

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**(1) BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The interim condensed consolidated financial statements included herein are unaudited. In the opinion of management, these statements include all adjustments, consisting only of normal, recurring adjustments, necessary for a fair statement of the financial position of Axalta Coating Systems Ltd., a Bermuda exempted company limited by shares, and its consolidated subsidiaries ("Axalta," the "Company," "we," "our" and "us") at June 30, 2016 and December 31, 2015, the results of operations and comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015, and their cash flows for the six months then ended. All intercompany balances and transactions have been eliminated. These interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated and combined financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying financial statements include the interim unaudited condensed consolidated balance sheets of Axalta at June 30, 2016 and December 31, 2015, the related interim unaudited condensed consolidated statements of operations and statements of comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 and of cash flows for the six months ended June 30, 2016 and 2015. The interim unaudited condensed consolidated financial statements include the accounts of Axalta and its subsidiaries, and entities in which a controlling interest is maintained. Certain of our joint ventures are accounted for on a one-month lag basis, the effect of which is not material.

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results to be expected for a full year.

***The Acquisition***

The acquisition ("Acquisition") by Axalta and certain of its indirect subsidiaries of all the capital stock, other equity interests and assets of certain entities which, together with their subsidiaries, comprised the DuPont Performance Coatings business ("DPC"), which was formerly owned by E. I. du Pont de Nemours and Company ("DuPont"), closed on February 1, 2013.

***The Carlyle Offerings***

In November 2014, we priced our initial public offering (the "Offering", or the "IPO"), in which certain selling shareholders affiliated with The Carlyle Group L.P. ("Carlyle") sold 57,500,000 common shares at a price of \$19.50 per share.

In April 2015, we completed a secondary offering (the "Secondary Offering") in which Carlyle sold an aggregate of 46,000,000 common shares at a price of \$28.00 per share. In addition, Carlyle sold 20,000,000 common shares in a private placement to an affiliate of Berkshire Hathaway Inc. (together with the Secondary Offering, the "April 2015 Secondary Offerings") for \$28.00 per share. Following these sales, Carlyle ceased to control a majority of our common shares.

In August 2015, May 2016 and June 2016, we completed secondary offerings (together with the IPO and the April 2015 Secondary Offerings, the "Carlyle Offerings") in which Carlyle sold an aggregate of 34,500,000, 25,000,000 and 3,190,000 common shares, respectively, at public offering prices of \$29.75 per share, \$27.93 per share and \$27.93 per share, respectively.

We did not receive any proceeds from the sale of common shares in any of the Carlyle Offerings.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**(2) RECENT ACCOUNTING GUIDANCE**

*Accounting Guidance Issued But Not Yet Adopted*

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Stock Compensation", which provides various areas of simplification surrounding the accounting for stock-based compensation. This standard is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted prior to this date. We are in the process of assessing the impact the adoption of this standard will have on our balance sheets, statements of operations and statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases", which requires lessees to recognize the assets and liabilities arising from all leases (both finance and operating) on the balance sheet. In addition to this main provision, this standard included a number of additional changes to lease accounting. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted prior to this date. We are in the process of assessing the impact the adoption of this standard will have on our balance sheets, statements of operations and statements of cash flows.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes", which requires that all deferred tax assets and liabilities be classified as non-current on the balance sheet. The standard is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We intend to early adopt this standard during 2016. The impacts to the accompanying condensed consolidated balance sheets would have resulted in corresponding net reclassifications from current assets and liabilities to non-current assets and liabilities at June 30, 2016 and December 31, 2015 of \$51.4 million and \$62.9 million, respectively.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which sets forth the guidance that an entity should use related to revenue recognition. This standard was effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date," which delayed the effective date of the new revenue accounting standard to fiscal years beginning after December 15, 2017, and the interim periods within those fiscal years. Companies will be allowed to early adopt the guidance as of the original effective date. Early adoption is not permitted prior to this date. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," which provides clarification around identifying performance obligations and the treatment of different licensing contracts. Additional standards related to revenue from contracts with customers have been issued during 2016 to provide narrow scope improvements and clarification. We are in the process of assessing the impact the adoption of this standard will have on our balance sheets, statements of operations and statements of cash flows.

We have determined that all other recently issued accounting standards will not have a material impact on our interim condensed consolidated financial statements or do not apply to our operations.

**(3) GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS**

*Goodwill*

The following table shows changes in the carrying amount of goodwill from December 31, 2015 to June 30, 2016 by reportable segment:

|                              | Performance Coatings |       | Transportation Coatings |      | Total    |
|------------------------------|----------------------|-------|-------------------------|------|----------|
| December 31, 2015            | \$                   | 866.1 | \$                      | 62.1 | \$ 928.2 |
| Foreign currency translation |                      | 2.7   |                         | 0.2  | 2.9      |
| June 30, 2016                | \$                   | 868.8 | \$                      | 62.3 | \$ 931.1 |



**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**Identifiable Intangible Assets**

The following table summarizes the gross carrying amounts and accumulated amortization of identifiable intangible assets by major class:

| June 30, 2016                 | Gross Carrying Amount | Accumulated Amortization | Net Book Value    | Weighted average amortization periods (years) |
|-------------------------------|-----------------------|--------------------------|-------------------|---|
| Technology                    | \$ 413.8              | \$ (137.9)               | \$ 275.9          | 10.0  |
| Trademarks - indefinite-lived | 284.4                 | —                        | 284.4             | Indefinite                                    |
| Trademarks - definite-lived   | 45.8                  | (10.1)                   | 35.7              | 14.8  |
| Customer relationships        | 676.4                 | (120.1)                  | 556.3             | 19.3  |
| Non-compete agreements        | 1.9                   | (1.4)                    | 0.5               | 4.6   |
| <b>Total</b>                  | <b>\$ 1,422.3</b>     | <b>\$ (269.5)</b>        | <b>\$ 1,152.8</b> |   |

| December 31, 2015           | Gross Carrying Amount | Accumulated Amortization | Net Book Value    | Weighted average amortization periods (years) |
|-----------------------------|-----------------------|--------------------------|-------------------|---|
| Technology                  | \$ 413.0              | \$ (117.2)               | \$ 295.8          | 10.0  |
| Trademarks—indefinite-lived | 284.4                 | —                        | 284.4             | Indefinite                                    |
| Trademarks—definite-lived   | 45.2                  | (8.5)                    | 36.7              | 14.7  |
| Customer relationships      | 676.1                 | (102.1)                  | 574.0             | 19.3  |
| Non-compete agreements      | 1.9                   | (1.2)                    | 0.7               | 4.6   |
| <b>Total</b>                | <b>\$ 1,420.6</b>     | <b>\$ (229.0)</b>        | <b>\$ 1,191.6</b> |   |

The estimated amortization expense related to the fair value of acquired intangible assets for the remainder of 2016 and each of the succeeding four years is:

|                   |         |
|-------------------|---------|
| Remainder of 2016 | \$ 40.1 |
| 2017              | \$ 79.9 |
| 2018              | \$ 79.8 |
| 2019              | \$ 79.8 |
| 2020              | \$ 79.7 |

**(4) RESTRUCTURING**

In accordance with the applicable guidance for Nonretirement Postemployment Benefits, we accounted for termination benefits and recognized liabilities when it was considered probable that employees were entitled to termination benefits and the amounts could be reasonably estimated.

We have incurred costs associated with involuntary termination benefits associated with our corporate-related initiatives, including our transition to a standalone entity and cost-saving opportunities associated with our Fit For Growth and Axalta Way initiatives. During the three and six months ended June 30, 2016, we incurred restructuring costs of \$5.1 million and \$5.6 million, respectively. During the three and six months ended June 30, 2015, we incurred restructuring costs of \$14.5 million and \$16.7 million, respectively. These amounts are recorded within selling, general and administrative expenses in the condensed consolidated statements of operations. The payments associated with these actions are expected to be completed within 12 to 15 months from June 30, 2016.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

The following table summarizes the activities related to the restructuring reserves and expenses from December 31, 2015 to June 30, 2016:

|                                     | <b>2016 Activity</b> |
|-------------------------------------|----------------------|
| <b>Balance at December 31, 2015</b> | <b>\$ 41.3</b>       |
| Expense Recorded                    | 5.6                  |
| Payments Made                       | (15.4)               |
| Foreign Currency Impacts            | 0.2                  |
| <b>Balance at June 30, 2016</b>     | <b>\$ 31.7</b>       |

## **(5) COMMITMENTS AND CONTINGENCIES**

### *Guarantees*

We directly guarantee various debt obligations with third parties related to the following: equity affiliates, customers, suppliers and other affiliated companies. No amounts were accrued at June 30, 2016 and December 31, 2015.

### *Leases*

At June 30, 2016, we have recorded approximately \$23.1 million in property, plant and equipment representing our landlord's estimated costs incurred to construct properties under two separate build-to-suit lease arrangements. Both leases commenced construction during 2015 with construction expected to be completed during 2016 and 2017 for the two properties. The construction related to the build-to-suit leases have estimated total costs of approximately \$55.0 million.

For accounting purposes, we are deemed the owner of the assets during the construction period and are required to record these costs as construction in progress during the construction period, with an offsetting liability in the same amount recorded to current and long-term borrowings, depending on the expected construction completion dates. These costs do not reflect the Company's cash obligations, but represent the landlord's costs to construct the properties, including costs for tenant improvements.

### *Other*

We are subject to various pending lawsuits and other claims including civil, regulatory, and environmental matters. Certain of these lawsuits and other claims may have an impact on us. These litigation matters may involve indemnification obligations by third parties and/or insurance coverage covering all or part of any potential damage awards against DuPont and/or us. All of the above matters are subject to many uncertainties and, accordingly, we cannot determine the ultimate outcome of the lawsuits at this time.

The potential effects, if any, on the unaudited condensed consolidated financial statements of Axalta will be recorded in the period in which these matters are probable and estimable, and such effects could be material.

In addition to the aforementioned matters, we are party to various legal proceedings in the ordinary course of business. Although the ultimate resolution of these various proceedings cannot be determined at this time, management does not believe that such proceedings, individually or in the aggregate, will have a material adverse effect on the unaudited condensed consolidated financial statements of Axalta.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**(6) LONG-TERM EMPLOYEE BENEFITS**

*Components of Net Periodic Benefit Cost*

The following table sets forth the components of net periodic benefit cost for the three and six months ended June 30, 2016 and 2015:

|   | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|---|-----------------------------|---------------|---------------------------|---------------|
|   | 2016                        | 2015          | 2016                      | 2015          |
| Components of net periodic benefit cost:  |                             |               |                           |               |
| Net periodic benefit cost:                |                             |               |                           |               |
| Service cost                              | \$ 2.6                      | \$ 3.3        | \$ 5.1                    | \$ 6.4        |
| Interest cost                             | 3.9                         | 4.6           | 7.8                       | 9.2           |
| Expected return on plan assets            | (3.4)                       | (3.6)         | (6.6)                     | (7.3)         |
| Amortization of actuarial loss, net       | 0.2                         | 0.2           | 0.1                       | 0.5           |
| Amortization of prior service credit, net | —                           | —             | —                         | (0.1)         |
| Net periodic benefit cost                 | <u>\$ 3.3</u>               | <u>\$ 4.5</u> | <u>\$ 6.4</u>             | <u>\$ 8.7</u> |

Net periodic benefit gains associated with other long-term employee benefits consisted of amortization of prior service credits of \$1.0 million and \$1.9 million for the three and six months ended June 30, 2015, respectively. At June 30, 2016, there were no liabilities associated with other long-term employee benefits as the plan was effectively settled at December 31, 2015.

**(7) STOCK-BASED COMPENSATION**

During the three and six months ended June 30, 2016, we recognized \$11.4 million and \$21.6 million, respectively, in stock-based compensation expense which was allocated between costs of goods sold and selling, general and administrative expenses on the condensed consolidated statements of operations. We recognized a tax benefit of \$1.6 million and \$5.5 million for the three and six months ended June 30, 2016, respectively.

During the three and six months ended June 30, 2015, we recognized \$12.4 million and \$14.2 million, respectively, in stock-based compensation expense which was allocated to cost of goods sold, selling, general and administrative expenses and research and development expenses on the condensed consolidated statements of operations. We recognized a tax benefit of \$3.3 million and \$3.8 million for the three and six months ended June 30, 2015, respectively.

Included in the \$12.4 million of stock-based compensation expense recorded during the three months ended June 30, 2015 was \$8.2 million of stock-based compensation expense attributable to the accelerated vesting of all issued and outstanding stock options issued under the Axalta Coating Systems Bermuda Co., Ltd. 2013 Equity Incentive Plan (the "2013 Plan") as a result of a change in control (the "Change in Control") in April 2015 when Carlyle's interest in Axalta decreased below 50%, which triggered a liquidity event as defined in the 2013 Plan.

During the six months ended June 30, 2016, we granted 1.1 million non-qualified, service-based stock options to certain employees and directors under the 2014 Incentive Award Plan (the "2014 Plan") with a strike price of \$23.25 per share. In addition, we granted 0.8 million shares of restricted stock awards and restricted stock units. We also granted 0.3 million shares of performance stock awards and performance share units.

Compensation cost is recorded net of forfeitures. The forfeiture rate assumption is the estimated annual rate at which unvested awards are expected to be forfeited during the vesting period. Periodically, management will assess whether it is necessary to adjust the estimated rate to reflect changes in actual forfeitures or changes in expectations. At June 30, 2016, the Company has estimated its annual forfeiture rate at 0% due to its historical trends and expectations of forfeitures.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**Stock Options**

The Black-Scholes option pricing model is used to estimate fair values of the options as of the date of the grant. The weighted average fair value of options granted in 2016 was \$5.68 per share. Principal weighted average assumptions used in applying the Black-Scholes model were as follows:

|                | <b>2016 Grants</b> |
|----------------|--------------------|
| Expected Term  | 6.00 years         |
| Volatility     | 21.63%             |
| Dividend Yield | —                  |
| Discount Rate  | 1.45%              |

Options granted under the 2014 Plan vest ratably over three years and have a life of no more than 10 years. For the option grants, the market value of the stock is the closing price of the stock on the date of grant. The expected term assumptions used for the 2016 and 2015 grants were also determined using the simplified method and resulted in an expected term of 6 years. We do not anticipate paying cash dividends in the foreseeable future and, therefore, used an expected dividend yield of zero. Volatility for outstanding options is based upon an industry peer group since the Company was either privately-held at the date of grant or had a limited history as a public company. The discount rate was derived from the U.S. Treasury yield curve. The exercise price and market value per share amounts presented above were as of the date the stock options were granted.

A summary of stock option award activity as of and for the six months ended June 30, 2016, is presented below:

|  | <b>Awards/Units (millions)</b> |    | <b>Weighted-Average Exercise Price</b> |    | <b>Aggregate Intrinsic Value (millions)</b> |  | <b>Weighted Average Remaining Contractual Life (years)</b> |
|--|--------------------------------|----|--|----|---|--|--|
| Outstanding at January 1, 2016               | 11.0                           | \$ | 12.19                                  |    |   |  |  |
| Granted                                      | 1.1                            | \$ | 23.25                                  |    |   |  |  |
| Exercised                                    | (0.7)                          | \$ | 8.46                                   |    |   |  |  |
| Forfeited                                    | (0.3)                          | \$ | 7.65                                   |    |   |  |  |
| Outstanding at June 30, 2016                 | 11.1                           | \$ | 13.59                                  |    |   |  |  |
| Vested and expected to vest at June 30, 2016 | 11.1                           | \$ | 13.59                                  | \$ | 149.9                                       |  | 7.62   |
| Exercisable at June 30, 2016                 | 9.2                            | \$ | 10.77                                  | \$ | 146.3                                       |  | 7.27   |

Cash received by the Company upon exercise of options for the six months ended June 30, 2016 was \$12.6 million, inclusive of tax benefits of \$6.7 million. The future tax benefit related to exercises during the six months ended June 30, 2016 was \$4.2 million. The Company may settle option exercises by issuing new shares, treasury shares or shares purchased on the open market. The intrinsic value of options exercised for the six months ended June 30, 2016 was \$13.6 million.

At June 30, 2016, there was \$8.2 million of unrecognized compensation cost relating to outstanding unvested stock options expected to be recognized over the weighted average period of 2.3 years. Compensation expense is recognized for the fair values of the stock options over the requisite service period of the awards using the graded-vesting attribution method.

**Restricted Stock Awards and Restricted Stock Units**

During the six months ended June 30, 2016, we issued 0.8 million shares of restricted stock awards and restricted stock units (collectively referred to as "RSUs") with an average grant price of \$23.33 per share. A portion of these awards vest ratably over three years. Other awards granted to certain members of management cliff vest over two and three year periods and are subject to accelerated vesting in the event of the award recipient's termination of employment under certain circumstances.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

A summary of restricted stock and restricted stock unit award activity as of June 30, 2016 is presented below:

|                                | Awards<br>(millions) | Weighted-Average<br>Fair Value |
|--------------------------------|----------------------|--------------------------------|
| Outstanding at January 1, 2016 | 1.7                  | \$ 32.22                       |
| Granted                        | 0.8                  | \$ 23.33                       |
| Vested                         | (0.2)                | \$ 31.79                       |
| Forfeited                      | —                    | \$ —                           |
| Outstanding at June 30, 2016   | 2.3                  | \$ 29.39                       |

Tax benefits on the vesting of restricted stock were \$1.8 million.

At June 30, 2016, there was \$39.3 million of unamortized expense relating to unvested restricted stock and restricted stock units that is expected to be amortized over a weighted average period of 2.8 years. Compensation expense is recognized for the fair values of the awards over the requisite service period of the awards using the graded-vesting attribution method.

***Performance Stock Awards and Performance Share Units***

During the six months ended June 30, 2016, the Company granted performance stock awards and performance share units (collectively referred to as "PSUs") to certain employees of the Company as part of their annual share compensation award.

PSUs are tied to the Company's total shareholder return ("TSR") relative to the TSR of a selected industry peer group. Each award covers a three-year performance cycle starting January 1, 2016 through December 31, 2018 with a three-year service period vesting requirement. Awards will cliff vest upon meeting the applicable TSR thresholds and the three-year service requirement. The actual number of shares awarded is adjusted to between zero and 200% of the target award amount based upon achievement of pre-determined objectives. TSR relative to peers is considered a market condition under applicable authoritative guidance.

A summary of performance stock and performance stock unit award activity as of June 30, 2016 is presented below:

|                                | Awards<br>(millions) | Weighted-Average<br>Fair Value |
|--------------------------------|----------------------|--------------------------------|
| Outstanding at January 1, 2016 | —                    | \$ —                           |
| Granted                        | 0.3                  | \$ 24.74                       |
| Vested                         | —                    | \$ —                           |
| Forfeited                      | —                    | \$ —                           |
| Outstanding at June 30, 2016   | 0.3                  | \$ 24.74                       |

At June 30, 2016, there was \$7.4 million of unamortized expense relating to unvested PSUs that is expected to be amortized over a weighted average period of 2.6 years. Compensation expense is recognized for the fair values of the awards over the requisite service period of the awards using the graded-vesting attribution method.

**(8) OTHER EXPENSE, NET**

|   | Three Months Ended June 30, |         | Six Months Ended June 30, |         |
|---|-----------------------------|---------|---------------------------|---------|
|   | 2016                        | 2015    | 2016                      | 2015    |
| Foreign exchange losses, net              | \$ 18.0                     | \$ 57.8 | \$ 25.5                   | \$ 66.5 |
| Impairment of real estate investment      | 10.5                        | 30.6    | 10.5                      | 30.6    |
| Debt extinguishment                       | 2.3                         | —       | 2.3                       | —       |
| Other miscellaneous expense (income), net | 2.0                         | 0.2     | 2.5                       | (4.6)   |
| Total                                     | \$ 32.8                     | \$ 88.6 | \$ 40.8                   | \$ 92.5 |

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

Our net exchange (gains) losses for the three and six months ended June 30, 2016 and 2015 consist of the impacts related to the remeasurement of intercompany transactions denominated in currencies different from the functional currency of the relevant subsidiary, partially offset by the impacts on our Euro borrowings. Our Venezuela subsidiary contributed to the net exchange losses for all periods, resulting from the impacts of losses related to the remeasurement of the non-U.S. dollar denominated monetary assets and liabilities, and was also directly impacted by impairment charges on our non-operational real estate investment (discussed further at Note 20).

Other miscellaneous expense (income), net included a gain for the six months ended June 30, 2015 resulting from the acquisition of an additional 25% interest in an equity method investee for a purchase price of \$4.3 million. As a result of the acquisition, we obtained a controlling interest and recognized a gain of \$5.4 million on the remeasurement of our previously held equity interest as of the acquisition date.

**(9) INCOME TAXES**

Our effective income tax rates for the six months ended June 30, 2016 and 2015 are as follows:

|                    | Six Months Ended June 30, |       |
|--------------------|---------------------------|-------|
|                    | 2016                      | 2015  |
| Effective Tax Rate | 30.2%                     | 57.8% |

The lower effective tax rate for the six months ended June 30, 2016 was primarily due to impairment charges in Venezuela with no tax benefit. The 2016 impairment charge was less than the 2015 impairment charge, resulting in less of a negative impact to our effective tax rate. The effective tax rate for the six months ended June 30, 2016 differs from the U.S. Federal statutory rate due to various items that impacted the effective rate both favorably and unfavorably. We recorded favorable adjustments for earnings in jurisdictions where the statutory rate is lower than the U.S. Federal statutory rate and currency exchange losses, which were partially offset by the unfavorable impact of pre-tax losses attributable to jurisdictions where a tax benefit is not expected to be realized, non-deductible expenses and interest and a pre-tax impairment charge in Venezuela that was non-deductible.

**(10) NET INCOME (LOSS) PER COMMON SHARE**

Basic net income (loss) per common share excludes the dilutive impact of potentially dilutive securities and is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per common share includes the effect of potential dilution from the exercise of outstanding stock options, restricted shares and performance shares. Potentially dilutive securities have been excluded in the weighted average number of common shares used for the calculation of net income (loss) per share in periods of net loss because the effect of such securities would be anti-dilutive. A reconciliation of our basic and diluted net income (loss) per common share is as follows:

| (In millions, except per share data)        | Three Months Ended June 30, |           | Six Months Ended June 30, |         |
|---|-----------------------------|-----------|---------------------------|---------|
|   | 2016                        | 2015      | 2016                      | 2015    |
| Net income (loss) to common shareholders    | \$ 48.5                     | \$ (25.1) | \$ 78.2                   | \$ 20.0 |
| Basic weighted average shares outstanding   | 237.7                       | 232.3     | 237.4                     | 231.1   |
| Diluted weighted average shares outstanding | 242.4                       | 232.3     | 242.0                     | 238.1   |
| Net income (loss) per common share:         |                             |           |                           |         |
| Basic net income (loss) per share           | \$ 0.20                     | \$ (0.11) | \$ 0.33                   | \$ 0.09 |
| Diluted net income (loss) per share         | \$ 0.20                     | \$ (0.11) | \$ 0.32                   | \$ 0.08 |

The number of anti-dilutive shares that have been excluded in the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2016 were 1.1 million and 1.5 million, respectively. The number of anti-dilutive shares that have been excluded in the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2015 were 16.1 million and 0.8 million, respectively.

**(11) ACCOUNTS AND NOTES RECEIVABLE, NET**

|                                | June 30, 2016   | December 31, 2015 |
|--------------------------------|-----------------|-------------------|
| Accounts receivable—trade, net | \$ 720.0        | \$ 647.2          |
| Notes receivable               | 36.3            | 43.0              |
| Other                          | 82.3            | 75.6              |
| Total                          | <u>\$ 838.6</u> | <u>\$ 765.8</u>   |

Accounts and notes receivable are carried at amounts that approximate fair value. Accounts receivable—trade, net are net of allowances of \$12.1 million and \$10.7 million at June 30, 2016 and December 31, 2015, respectively. Bad debt expense, within selling, general and administration expenses for the three and six months ended June 30, 2016, was \$1.0 million and \$1.1 million, respectively, and \$2.8 million and \$3.5 million for the three and six months ended June 30, 2015, respectively.

**(12) INVENTORIES**

|                            | June 30, 2016   | December 31, 2015 |
|----------------------------|-----------------|-------------------|
| Finished products          | \$ 309.1        | \$ 313.1          |
| Semi-finished products     | 83.0            | 88.5              |
| Raw materials and supplies | 127.6           | 129.1             |
| Total                      | <u>\$ 519.7</u> | <u>\$ 530.7</u>   |

Stores and supplies inventories of \$20.8 million and \$20.8 million at June 30, 2016 and December 31, 2015, respectively, were valued under the weighted average cost method.

**(13) PROPERTY, PLANT AND EQUIPMENT, NET**

Depreciation expense amounted to \$43.9 million and \$85.6 million for the three and six months ended June 30, 2016, respectively, and \$44.4 million and \$85.7 million for the three and six months ended June 30, 2015, respectively.

|                                     | June 30, 2016     | December 31, 2015 |
|-------------------------------------|-------------------|-------------------|
| Property, plant and equipment       | \$ 1,916.7        | \$ 1,855.3        |
| Accumulated depreciation            | (558.2)           | (472.4)           |
| Property, plant, and equipment, net | <u>\$ 1,358.5</u> | <u>\$ 1,382.9</u> |

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**(14) BORROWINGS**

Borrowings are summarized as follows:

|   | June 30, 2016 | December 31, 2015 |
|---|---------------|-------------------|
| Dollar Term Loan                          | \$ 1,931.0    | \$ 2,042.5        |
| Euro Term Loan                            | 428.9         | 428.0             |
| Dollar Senior Notes                       | 750.0         | 750.0             |
| Euro Senior Notes                         | 276.4         | 274.4             |
| Short-term and other borrowings           | 36.0          | 26.5              |
| Unamortized original issue discount       | (11.8)        | (14.0)            |
| Unamortized deferred financing costs, net | (57.3)        | (65.9)            |
|   | \$ 3,353.2    | \$ 3,441.5        |
| Less:                                     |               |                   |
| Short term borrowings                     | \$ 27.7       | \$ 22.7           |
| Current portion of long-term borrowings   | 27.4          | 27.4              |
| Long-term debt                            | \$ 3,298.1    | \$ 3,391.4        |

***Senior Secured Credit Facilities, as amended***

On February 3, 2014 (the "Amendment Effective Date"), Axalta Coating Systems Dutch B.B.V. ("Dutch B.B.V."), as "Dutch Borrower", and its indirect wholly-owned subsidiary, Axalta Coating Systems U.S. Holdings Inc. ("Axalta US Holdings"), as "US Borrower", executed the second amendment to the Senior Secured Credit Facilities (the "Amendment" or the "Refinancing"). The Amendment (i) converted all of the outstanding Dollar Term Loans (\$2,282.8 million) into a new class of term loans (the "New Dollar Term Loans"), and (ii) converted all of the outstanding Euro Term Loans (€397.0 million) into a new class of term loans (the "New Euro Term Loans" and, together with the New Dollar Term Loans and the Revolving Credit Facility (as defined herein), the "Senior Secured Credit Facilities"). The New Dollar Term Loans are subject to a floor of 1.00%, plus an applicable rate after the Amendment Effective Date. The applicable rate for such New Dollar Term Loans is 3.00% per annum for Eurocurrency Rate Loans as defined in the credit agreement governing the Senior Secured Credit Facilities (the "Credit Agreement") and 2.00% per annum for Base Rate Loans as defined in the Credit Agreement. The applicable rate for both Eurocurrency Rate Loans as well as Base Rate Loans is subject to a further 25 basis point reduction if the Total Net Leverage Ratio as defined in the Credit Agreement governing the Senior Secured Credit Facilities is less than or equal to 4.50:1.00. The New Euro Term Loans are also subject to a floor of 1.00%, plus an applicable rate after the Amendment Effective Date. The applicable rate for such New Euro Term Loans is 3.25% per annum for Eurocurrency Rate Loans. New Euro Term Loans may not be Base Rate Loans. The applicable rate is subject to a further 25 basis point reduction if the Total Net Leverage Ratio is less than or equal to 4.50:1.00. During the third quarter of 2014, our Total Net Leverage Ratio was and has continued to be less than 4.50:1.00. Consequently, the applicable rates were changed to 2.75% for the New Dollar Term Loans and 3.00% for the New Euro Term Loans through June 30, 2016.

The Senior Secured Credit Facilities are secured by substantially all assets of Axalta Coating Systems Dutch A.B.V. ("Dutch A.B.V.") and the guarantors. The Dollar Term Loan and Euro Term Loan mature on February 1, 2020 and the Revolving Credit Facility matures on February 1, 2018. Principal is paid quarterly on both the Dollar Term Loan and the Euro Term Loan based on 1% per annum of the original principal amount with the unpaid balance due at maturity.

Interest is payable quarterly on both the New Dollar Term Loan and the New Euro Term Loan. Prior to the Amendment, interest on the Dollar Term Loan was subject to a floor of 1.25% for Eurocurrency Rate Loans plus an applicable rate of 3.50%. For Base Rate Loans, the interest was subject to a floor of the greater of the federal funds rate plus 0.50%, the Prime Lending Rate, an Adjusted Eurocurrency Rate, or 2.25% plus an applicable rate of 2.50%. Interest on the Euro Term Loan, a Eurocurrency Loan, was subject to a floor of 1.25% plus an applicable rate of 4.00%.



**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

Under the Senior Secured Credit Facilities, interest on any outstanding borrowings under the Revolving Credit Facility is subject to a floor of 1.00% for Eurocurrency Rate Loans plus an applicable rate of 3.50% (subject to an additional step-down to 3.25%). For Base Rate Loans, the interest is subject to a floor of the greater of the federal funds rate plus 0.50%, the Prime Lending Rate, an Adjusted Eurocurrency Rate, or 2.00% plus an applicable rate of 2.50% (subject to an additional step-down to 2.25%).

Under circumstances described in the Credit Agreement, we may increase available revolving or term facility borrowings by up to \$400.0 million plus an additional amount subject to the Company not exceeding a maximum first lien leverage ratio described in the Credit Agreement.

Any indebtedness under the Senior Secured Credit Facilities may be voluntarily prepaid in whole or in part, in minimum amounts, subject to the make-whole provisions set forth in the Credit Agreement. Such indebtedness is subject to mandatory prepayments amounting to the proceeds of asset sales over \$25.0 million annually, proceeds from certain debt issuances not otherwise permitted under the Credit Agreement and 50% (subject to a step-down to 25.0% or 0% if the First Lien Leverage Ratio falls below 4.25:1.00 or 3.50:1.00, respectively) of Excess Cash Flow.

At June 30, 2016 and December 31, 2015 there were no borrowings under the Revolving Credit Facility. At June 30, 2016 and December 31, 2015, letters of credit issued under the Revolving Credit Facility totaled \$21.9 million and \$24.9 million, respectively, which reduced the availability under the Revolving Credit Facility. Availability under the Revolving Credit Facility was \$378.1 million and \$375.1 million at June 30, 2016 and December 31, 2015, respectively.

We are subject to customary negative covenants as well as a maximum First Lien Leverage Ratio financial covenant. This financial covenant is applicable only when greater than 25% of the Revolving Credit Facility (including letters of credit not cash collateralized to at least 103%) is outstanding at the end of the fiscal quarter. At June 30, 2016, the financial covenant is not applicable. In addition, the Senior Secured Credit Facility, among other things, includes customary restrictions (subject to certain exceptions) on the Company's ability to incur certain indebtedness, grant certain liens, make certain investments, declare or pay certain dividends, or repurchase shares of the Company's common stock. As of June 30, 2016, the Company is in compliance with all covenants under the Senior Secured Credit Facility.

In April 2016, we voluntarily prepaid \$100.0 million in principal of the outstanding New Dollar Term Loan. Concurrently, we recorded a pre-tax loss on extinguishment of \$2.3 million for the three and six months ended June 30, 2016, consisting of the write-off of \$1.7 million and \$0.6 million of unamortized deferred financing costs and original issue discounts, respectively.

Deferred financing costs of \$92.9 million and original issue discounts of \$25.7 million were incurred at the inception of the Senior Secured Credit Facilities. These amounts are recorded as direct deductions of the associated debt obligations, with the exception of deferred financing costs related to the Revolving Credit Facility, which are classified within other assets on the condensed consolidated balance sheets as the associated debt has been undrawn since inception, and are amortized as interest expense over the life of the Senior Secured Credit Facilities. At June 30, 2016 and December 31, 2015, the remaining unamortized balances related to the deferred financing costs on the Senior Secured Credit Facilities were \$42.5 million and \$50.6 million, respectively.

Amortization expense related to deferred financing costs, net for the three and six months ended June 30, 2016 was \$3.2 million and \$6.5 million, respectively. These amounts were exclusive of the \$1.7 million write-off associated with the \$100.0 million prepayment on our New Dollar Term Loan in 2016. Amortization expense related to deferred financing costs, net for the three and six months ended June 30, 2015 was \$3.4 million and \$6.6 million, respectively.

Amortization expense related to original issue discounts for the three and six months ended June 30, 2016 was \$0.8 million and \$1.6 million, respectively. These amounts were exclusive of the \$0.6 million write-off associated with the \$100.0 million prepayment on our New Dollar Term Loan in 2016. Amortization expense related to original issue discounts for the three and six months ended June 30, 2015 was \$0.8 million and \$1.6 million, respectively.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

***Significant Terms of the Senior Notes***

On February 1, 2013, Dutch B B.V., as "Dutch Issuer", and Axalta US Holdings, as "US Issuer" (collectively the "Issuers") issued \$750.0 million aggregate principal amount of 7.375% senior unsecured notes due 2021 (the "Dollar Senior Notes") and related guarantees thereof. Additionally, the Issuers issued €250.0 million aggregate principal amount of 5.750% senior secured notes due 2021 (the "Euro Senior Notes" and, together with the Dollar Senior Notes, the "Senior Notes") and related guarantees thereof. Cash fees related to the issuance of the Senior Notes of \$33.1 million were recorded as direct deductions of the associated debt obligations, and are amortized as interest expense over the life of the Senior Notes. At June 30, 2016 and December 31, 2015, the remaining unamortized balances were \$19.3 million and \$21.3 million, respectively. The expense related to the amortization of the deferred financing costs, net was \$1.0 million and \$2.0 million for both of the three and six months ended June 30, 2016 and 2015, respectively.

The Senior Notes are unconditionally guaranteed on a senior basis by Dutch A B.V. and certain of the Issuers' subsidiaries.

The indentures governing the Senior Notes contain covenants that restrict the ability of the Issuers and their subsidiaries to, among other things, incur additional debt, make certain payments including payment of dividends or repurchase equity interest of the Issuers, make loans or acquisitions or capital contributions and certain investments, incur certain liens, sell assets, merge or consolidate or liquidate other entities, and enter into transactions with affiliates.

(i) *Euro Senior Notes*

The Euro Senior Notes were sold at par and are due February 1, 2021. The Euro Senior Notes bear interest at 5.750% and are payable semi-annually on February 1 and August 1. Cash fees related to the issuance of the Euro Senior Notes were \$10.2 million. At June 30, 2016 and December 31, 2015, the remaining unamortized balances were \$5.9 million and \$6.5 million, respectively.

We have the option to redeem all or part of the Euro Senior Notes at the following redemption prices (expressed as percentages of principal amount) on February 1 of the years indicated:

| Period              | Euro Notes Percentage |
|---------------------|-----------------------|
| 2016                | 104.313%              |
| 2017                | 102.875%              |
| 2018                | 101.438%              |
| 2019 and thereafter | 100.000%              |

Upon the occurrence of certain events constituting a change of control, holders of the Euro Senior Notes have the right to require us to repurchase all or any part of the Euro Senior Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest, if any, to the repurchase date.

The indebtedness evidenced by the Euro Senior Notes and related guarantees is secured on a first-lien basis by the same assets that secure the obligations under the Senior Secured Credit Facilities, subject to permitted liens and applicable local law limitations, is senior in right of payment to all future subordinated indebtedness of the Issuers, is equal in right of payment to all existing and future senior indebtedness of the Issuers and is effectively senior to any unsecured indebtedness of the Issuers, including the Dollar Senior Notes, to the extent of the value securing the Euro Senior Notes.

(ii) *Dollar Senior Notes*

The Dollar Senior Notes were sold at par and are due May 1, 2021. The Dollar Senior Notes bear interest at 7.375% and are payable semi-annually on February 1 and August 1. Cash fees related to the issuance of the Dollar Senior Notes were \$22.9 million. At June 30, 2016 and December 31, 2015, the remaining unamortized balances were \$13.4 million and \$14.8 million, respectively.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

We have the option to redeem all or part of the Dollar Senior Notes at the following redemption prices (expressed as percentages of principal amount) on February 1 of the years indicated:

| Period              | Dollar Notes Percentage |
|---------------------|-------------------------|
| 2016                | 105.531%                |
| 2017                | 103.688%                |
| 2018                | 101.844%                |
| 2019 and thereafter | 100.000%                |

Upon the occurrence of certain events constituting a change of control, holders of the Dollar Senior Notes have the right to require us to repurchase all or any part of the Dollar Senior Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest, if any, to the repurchase date.

The indebtedness evidenced by the Dollar Senior Notes is senior unsecured indebtedness of the Issuers, is senior in right of payment to all future subordinated indebtedness of the Issuers and is equal in right of payment to all existing and future senior indebtedness of the Issuers. The Dollar Senior Notes are effectively subordinated to any secured indebtedness of the Issuers (including indebtedness of the Issuers outstanding under the Senior Secured Credit Facilities and the Euro Senior Notes) to the extent of the value of the assets securing such indebtedness.

***Future repayments***

Below is a schedule of required future repayments of all borrowings outstanding at June 30, 2016.

|                   |            |
|-------------------|------------|
| Remainder of 2016 | \$ 22.9    |
| 2017              | 29.5       |
| 2018              | 28.2       |
| 2019              | 27.6       |
| 2020              | 2,264.2    |
| Thereafter        | 1,026.8    |
|                   | \$ 3,399.2 |

**(15) FAIR VALUE ACCOUNTING**

***Fair value of financial instruments***

*Available for sale securities* - The fair value of available for sale securities at June 30, 2016 and December 31, 2015 was \$4.1 million and \$4.2 million, respectively. The fair value was based upon either Level 1 inputs when the securities are actively traded with quoted market prices or Level 2 when the securities are not frequently traded.

*Long-term borrowings* - The fair values of the Dollar Senior Notes and Euro Senior Notes at June 30, 2016 were \$791.3 million and \$287.1 million, respectively. The fair values at December 31, 2015 were \$787.5 million and \$285.4 million, respectively. The estimated fair values of these notes are based on recent trades, as reported by a third party pricing service. Due to the infrequency of trades of the Dollar Senior Notes and the Euro Senior Notes, these inputs are considered to be Level 2 inputs.

The fair values of the New Dollar Term Loan and the New Euro Term Loan at June 30, 2016 were \$1,928.6 million and \$430.0 million, respectively. The fair values at December 31, 2015 were \$2,024.6 million and \$427.5 million, respectively. The estimated fair values of the Dollar Term Loan and the Euro Term Loan are based on recent trades, as reported by a third party pricing service. Due to the infrequency of trades of the Dollar Term Loan and the Euro Term Loan, these inputs are considered to be Level 2 inputs.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**(16) DERIVATIVE FINANCIAL INSTRUMENTS**

We selectively use derivative instruments to reduce market risk associated with changes in foreign currency exchange rates and interest rates. The use of derivatives is intended for hedging purposes only and we do not enter into derivative instruments for speculative purposes. A description of each type of derivative used to manage risk is included in the following paragraphs.

During the year ended December 31, 2013, we entered into five interest rate swaps with notional amounts totaling \$1,173.0 million to hedge interest rate exposures related to variable rate borrowings under the Senior Secured Credit Facilities. The interest rate swaps are in place until September 29, 2017. The interest rate swaps qualify and are designated as cash flow hedges.

The following table presents the location and fair values using Level 2 inputs of derivative instruments that qualify and have been designated as cash flow hedges included in our condensed consolidated balance sheet:

|                           | June 30, 2016 | December 31, 2015 |
|---------------------------|---------------|-------------------|
| <b>Other assets:</b>      |               |                   |
| Interest rate swaps       | \$ —          | \$ 0.4            |
| <b>Total assets</b>       | <b>\$ —</b>   | <b>\$ 0.4</b>     |
| <b>Other liabilities:</b> |               |                   |
| Interest rate swaps       | \$ 6.4        | \$ 1.8            |
| <b>Total liabilities</b>  | <b>\$ 6.4</b> | <b>\$ 1.8</b>     |

We periodically enter into foreign currency forward contracts to reduce market risk and hedge our balance sheet exposures and cash flows for subsidiaries with exposures denominated in currencies different from the functional currency of the relevant subsidiary. These contracts have not been designated as hedges and all gains and losses are marked to market through other expense, net in the condensed consolidated statement of operations.

The following table presents the location and fair values using Level 2 inputs of derivative instruments that have not been designated as hedges included in our condensed consolidated balance sheet:

|                                   | June 30, 2016 | December 31, 2015 |
|-----------------------------------|---------------|-------------------|
| <b>Prepaid and other assets:</b>  |               |                   |
| Foreign currency contracts        | \$ —          | \$ 0.3            |
| <b>Total assets</b>               | <b>\$ —</b>   | <b>\$ 0.3</b>     |
| <b>Other accrued liabilities:</b> |               |                   |
| Foreign currency contracts        | \$ 3.5        | \$ —              |
| <b>Total liabilities:</b>         | <b>\$ 3.5</b> | <b>\$ —</b>       |

For derivative instruments that qualify and are designated as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

The following tables set forth the locations and amounts recognized during the three and six months ended June 30, 2016 and 2015 for these cash flow hedges.

| Derivatives in Cash Flow Hedging Relationships | Amount of (Gain) Loss Recognized in OCI on Derivatives (Effective Portion) |                                  | Location of (Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of (Gain) Loss Reclassified from Accumulated OCI to Income (Effective Portion) |                                  | Location of (Gains) Losses Recognized in Income on Derivatives (Ineffective Portion) | Amount of (Gain) Loss Recognized in Income on Derivatives (Ineffective Portion) |                                  |
|--|--|----------------------------------|---|---|----------------------------------|--|---|----------------------------------|
|  | Three Months Ended June 30, 2016   | Three Months Ended June 30, 2015 |   | Three Months Ended June 30, 2016  | Three Months Ended June 30, 2015 |  | Three Months Ended June 30, 2016  | Three Months Ended June 30, 2015 |
| Interest rate contracts                        | \$ (0.5)   | \$ (0.3)                         | Interest expense, net   | \$ 1.6  | \$ 1.6                           | Interest expense, net  | \$ 0.9  | \$ 0.2                           |

| Derivatives in Cash Flow Hedging Relationships | Amount of (Gain) Loss Recognized in OCI on Derivatives (Effective Portion) |                                | Location of (Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of (Gain) Loss Reclassified from Accumulated OCI to Income (Effective Portion) |                                | Location of (Gains) Losses Recognized in Income on Derivatives (Ineffective Portion) | Amount of (Gain) Loss Recognized in Income on Derivatives (Ineffective Portion) |                                |
|--|--|--------------------------------|---|---|--------------------------------|--|---|--------------------------------|
|  | Six Months Ended June 30, 2016   | Six Months Ended June 30, 2015 |   | Six Months Ended June 30, 2016  | Six Months Ended June 30, 2015 |  | Six Months Ended June 30, 2016  | Six Months Ended June 30, 2015 |
| Interest rate contracts                        | \$ 1.7   | \$ 4.5                         | Interest expense, net   | \$ 3.2  | \$ 3.2                         | Interest expense, net  | \$ 3.3  | \$ 1.4                         |

Also during the year ended December 31, 2013, we purchased a €300.0 million 1.5% interest rate cap on our Euro Term Loan that is in place until September 29, 2017. We paid a premium of \$3.1 million for the interest rate cap. The interest rate cap was not designated as a hedge and the changes in the fair value of the derivative instrument are recorded in current period earnings and are included in interest expense.

Fair value gains and losses of derivative contracts, as determined using Level 2 inputs, that do not qualify for hedge accounting treatment are recorded in income as follows:

| Derivatives Not Designated as Hedging Instruments under ASC 815 | Location of (Gain) Loss Recognized in Income on Derivatives | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|---|---|-----------------------------|----------|---------------------------|----------|
|   |   | 2016                        | 2015     | 2016                      | 2015     |
| Foreign currency forward contracts                              | Other expense, net  | \$ 1.6                      | \$ (0.1) | \$ 4.0                    | \$ (1.9) |
| Interest rate cap   | Interest expense, net                                       | —                           | (0.1)    | —                         | (0.1)    |
|   |   | \$ 1.6                      | \$ (0.2) | \$ 4.0                    | \$ (2.0) |

**(17) SEGMENTS**

The Company identifies an operating segment as a component: (i) that engages in business activities from which it may earn revenues and incur expenses; (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance; and (iii) that has available discrete financial information.

We have two operating segments, which are also our reportable segments: Performance Coatings and Transportation Coatings. The CODM reviews financial information at the operating segment level to allocate resources and to assess the operating results and financial performance for each operating segment. Our CODM is identified as the Chief Executive Officer because he has final authority over performance assessment and resource allocation decisions. Our segments are based on the type and concentration of customers served, service requirements, methods of distribution and major product lines.

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

Through our Performance Coatings segment, we provide high-quality liquid and powder coatings solutions to a fragmented and local customer base. We are one of only a few suppliers with the technology to provide precise color matching and highly durable coatings systems. The end-markets within this segment are refinish and industrial.

Through our Transportation Coatings segment, we provide advanced coating technologies to OEMs of light and commercial vehicles. These increasingly global customers require a high level of technical support coupled with cost-effective, environmentally responsible coatings systems that can be applied with a high degree of precision, consistency and speed. The end-markets within this segment are light vehicle and commercial vehicle.

Our business serves four end-markets globally as follows:

|   | Three Months Ended June 30, |                   | Six Months Ended June 30, |                   |
|---|-----------------------------|-------------------|---------------------------|-------------------|
|   | 2016                        | 2015              | 2016                      | 2015              |
| <b>Performance Coatings</b>             |                             |                   |                           |                   |
| Refinish                                | \$ 448.8                    | \$ 460.1          | \$ 827.5                  | \$ 853.3          |
| Industrial                              | 183.3                       | 178.7             | 347.6                     | 342.7             |
| Total Net sales Performance Coatings    | 632.1                       | 638.8             | 1,175.1                   | 1,196.0           |
| <b>Transportation Coatings</b>          |                             |                   |                           |                   |
| Light Vehicle                           | 344.4                       | 347.2             | 673.8                     | 680.4             |
| Commercial Vehicle                      | 88.6                        | 108.1             | 171.8                     | 206.9             |
| Total Net sales Transportation Coatings | 433.0                       | 455.3             | 845.6                     | 887.3             |
| <b>Total Net sales</b>                  | <b>\$ 1,065.1</b>           | <b>\$ 1,094.1</b> | <b>\$ 2,020.7</b>         | <b>\$ 2,083.3</b> |

Asset information is not reviewed or included with our internal management reporting. Therefore, the Company has not disclosed asset information for each reportable segment.

|   | Three Months Ended June 30, |                         |            |                      |                         |            |
|---|-----------------------------|-------------------------|------------|----------------------|-------------------------|------------|
|   | 2016                        |                         |            | 2015                 |                         |            |
|   | Performance Coatings        | Transportation Coatings | Total      | Performance Coatings | Transportation Coatings | Total      |
| Net sales <sup>(1)</sup>                        | \$ 632.1                    | \$ 433.0                | \$ 1,065.1 | \$ 638.8             | \$ 455.3                | \$ 1,094.1 |
| Equity in earnings in unconsolidated affiliates | 0.1                         | —                       | 0.1        | 0.2                  | 0.2                     | 0.4        |
| Adjusted EBITDA <sup>(2)</sup>                  | 157.3                       | 95.3                    | 252.6      | 162.1                | 93.4                    | 255.5      |
| Investment in unconsolidated affiliates         | 3.9                         | 11.2                    | 15.1       | 5.7                  | 6.8                     | 12.5       |

|   | Six Months Ended June 30, |                         |            |                      |                         |            |
|---|---------------------------|-------------------------|------------|----------------------|-------------------------|------------|
|   | 2016                      |                         |            | 2015                 |                         |            |
|   | Performance Coatings      | Transportation Coatings | Total      | Performance Coatings | Transportation Coatings | Total      |
| Net sales <sup>(1)</sup>                        | \$ 1,175.1                | \$ 845.6                | \$ 2,020.7 | \$ 1,196.0           | \$ 887.3                | \$ 2,083.3 |
| Equity in earnings in unconsolidated affiliates | 0.2                       | 0.1                     | 0.3        | 0.3                  | 0.5                     | 0.8        |
| Adjusted EBITDA <sup>(2)</sup>                  | 267.4                     | 180.0                   | 447.4      | 269.2                | 168.3                   | 437.5      |
| Investment in unconsolidated affiliates         | 3.9                       | 11.2                    | 15.1       | 5.7                  | 6.8                     | 12.5       |

(1) The Company has no intercompany sales between segments.

(2) The primary measure of segment operating performance is Adjusted EBITDA, which is defined as net income before interest, taxes, depreciation and amortization and other unusual items impacting operating results. Adjusted EBITDA is a key metric that is used by management to evaluate business performance in comparison to budgets, forecasts, and prior year financial results, providing a measure that management believes reflects the Company's core operating performance. Reconciliation of Adjusted EBITDA to income before income taxes follows:

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2016                        | 2015     | 2016                      | 2015     |
| Income before income taxes   | \$ 70.4                     | \$ 5.2   | \$ 115.6                  | \$ 53.1  |
| Interest expense, net  | 47.8                        | 49.2     | 97.9                      | 99.2     |
| Depreciation and amortization  | 78.6                        | 77.5     | 154.6                     | 150.1    |
| EBITDA   | 196.8                       | 131.9    | 368.1                     | 302.4    |
| Debt extinguishment <sup>(a)</sup>                                   | 2.3                         | —        | 2.3                       | —        |
| Foreign exchange remeasurement losses <sup>(b)</sup>                 | 18.0                        | 57.8     | 25.5                      | 66.5     |
| Long-term employee benefit plan adjustments <sup>(c)</sup>           | 0.7                         | 0.2      | 1.3                       | 0.4      |
| Termination benefits and other employee related costs <sup>(d)</sup> | 7.0                         | 14.8     | 8.9                       | 18.5     |
| Consulting and advisory fees <sup>(e)</sup>                          | 2.6                         | 6.8      | 5.6                       | 9.9      |
| Offering and transactional costs <sup>(f)</sup>                      | 1.4                         | 0.3      | 1.4                       | (3.7)    |
| Stock-based compensation <sup>(g)</sup>                              | 11.4                        | 12.4     | 21.6                      | 14.2     |
| Other adjustments <sup>(h)</sup>                                     | 1.9                         | 1.3      | 3.7                       | 2.8      |
| Dividends in respect of noncontrolling interest <sup>(i)</sup>       | —                           | (0.6)    | (1.5)                     | (4.1)    |
| Asset impairment <sup>(j)</sup>                                      | 10.5                        | 30.6     | 10.5                      | 30.6     |
| Adjusted EBITDA  | \$ 252.6                    | \$ 255.5 | \$ 447.4                  | \$ 437.5 |

- (a) In April 2016, we prepaid \$100.0 million of the outstanding principal on the New Dollar Term Loan and recorded a non-cash pre-tax loss on extinguishment of \$2.3 million for the three and six months ended June 30, 2016.
- (b) Eliminates foreign exchange gains and losses resulting from the remeasurement of assets and liabilities denominated in foreign currencies, net of gains associated with our foreign currency instruments used to hedge our balance sheet exposures. Exchange losses attributable to the remeasurement of our Venezuelan subsidiary represented \$15.6 million and \$22.7 million for the three and six months ended June 30, 2016, respectively, and \$55.6 million and \$54.8 million for the three and six months ended June 30, 2015, respectively.
- (c) Eliminates the non-cash, non-service cost components of long-term employee benefit costs.
- (d) Represents expenses primarily related to employee termination benefits and other employee-related costs including our initiative to improve overall cost structure within the European region as well as costs associated with our Axalta Way initiatives, which are not considered indicative of our ongoing operating performance.
- (e) Represents fees paid to consultants for professional services primarily related to our Axalta Way initiatives, which are not considered indicative of our ongoing operating performance.
- (f) Represents costs associated with the secondary offerings of our common shares by Carlyle, acquisition-related costs, including a \$5.4 million gain recognized during the six months ended June 30, 2015 resulting from the remeasurement of our previously held interest in an equity method investee upon the acquisition of a controlling interest and costs associated with changes in the fair value of contingent consideration associated with our acquisitions, all of which are not considered indicative of our ongoing operating performance.
- (g) Represents non-cash costs associated with stock-based compensation, including \$8.2 million of expense during the three and six months ended June 30, 2015 attributable to the accelerated vesting of all issued and outstanding stock options issued under the 2013 Plan as a result of the Change in Control.
- (h) Represents costs for certain unusual or non-operational (gains) and losses, including equity investee dividends, indemnity losses (gains) associated with the Acquisition, losses (gains) on sale and disposal of property, plant and equipment, losses (gains) on the remaining foreign currency derivative instruments and non-cash fair value inventory adjustments associated with our 2015 acquisitions.
- (i) Represents the payment of dividends to our joint venture partners by our consolidated entities that are not wholly owned, which are considered indicative of our ongoing operating performance.
- (j) As a result of currency devaluations in Venezuela, we recorded non-cash impairment charges relating to a real estate investment of \$10.5 million and \$30.6 million during both the three and six months ended June 30, 2016 and 2015, respectively (discussed further at Note 20).

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

**(18) SHAREHOLDERS' EQUITY**

The following tables present the change in total shareholders' equity for the six months ended June 30, 2016 and 2015, respectively.

|  | Total Axalta | Noncontrolling<br>Interests | Total      |
|--|--------------|-----------------------------|------------|
| Balance January 1, 2016                        | \$ 1,073.7   | \$ 67.5                     | \$ 1,141.2 |
| Net income                                     | 78.2         | 2.5                         | 80.7       |
| Other comprehensive income (loss), net of tax  | 0.4          | (0.2)                       | 0.2        |
| Exercise of stock options                      | 12.6         | —                           | 12.6       |
| Recognition of stock-based compensation        | 21.6         | —                           | 21.6       |
| Dividends declared to noncontrolling interests | —            | (1.5)                       | (1.5)      |
| Balance June 30, 2016                          | \$ 1,186.5   | \$ 68.3                     | \$ 1,254.8 |

|   | Total Axalta | Noncontrolling<br>Interests | Total      |
|---|--------------|-----------------------------|------------|
| Balance January 1, 2015                           | \$ 1,044.7   | \$ 67.3                     | \$ 1,112.0 |
| Net income  | 20.0         | 2.4                         | 22.4       |
| Other comprehensive (loss), net of tax            | (86.8)       | (0.2)                       | (87.0)     |
| Exercise of stock options                         | 50.4         | —                           | 50.4       |
| Recognition of stock-based compensation           | 14.2         | —                           | 14.2       |
| Noncontrolling interests of acquired subsidiaries | —            | 4.3                         | 4.3        |
| Dividends declared to noncontrolling interests    | —            | (4.1)                       | (4.1)      |
| Balance June 30, 2015                             | \$ 1,042.5   | \$ 69.7                     | \$ 1,112.2 |

**(19) ACCUMULATED OTHER COMPREHENSIVE LOSS**

|   | Unrealized<br>Currency<br>Translation<br>Adjustments | Pension and<br>Other<br>Long-term<br>Employee<br>Benefit<br>Adjustments | Unrealized<br>Gain (Loss) on<br>Securities | Unrealized<br>Gain (Losses) on<br>Derivatives | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|--|---|--|---|---|
| December 31, 2015                         | \$ (232.8)   | \$ (33.4)   | \$ 0.1                                     | \$ (3.2)                                      | \$ (269.3)                                    |
| Current year deferrals to AOCI            | 2.3  | —   | (0.3)                                      | (2.1)   | (0.1)   |
| Reclassifications from AOCI to Net income | —  | (0.5)   | —  | 1.0   | 0.5   |
| Net Change                                | 2.3  | (0.5)   | (0.3)                                      | (1.1)   | 0.4   |
| June 30, 2016                             | \$ (230.5)   | \$ (33.9)   | \$ (0.2)                                   | \$ (4.3)                                      | \$ (268.9)                                    |



**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

The income tax provision related to the changes in pension and other long-term employee benefits for the six months ended June 30, 2016 was \$0.6 million. The cumulative income tax benefit related to the adjustments for pension and other long-term employee benefits at June 30, 2016 was \$12.8 million. The income tax benefit related to the change in the unrealized loss on derivatives for the six months ended June 30, 2016 was \$0.6 million. The cumulative income tax benefit related to the adjustments for unrealized loss on derivatives at June 30, 2016 was \$2.5 million.

|   | Unrealized<br>Currency<br>Translation<br>Adjustments | Pension and<br>Other<br>Long-term<br>Employee<br>Benefit<br>Adjustments | Unrealized<br>Loss on<br>Securities | Unrealized<br>Gain (Loss) on<br>Derivatives | Accumulated<br>Other<br>Comprehensive<br>Loss |
|---|--|---|-------------------------------------|---|---|
| December 31, 2014                         | \$ (72.1)  | \$ (31.2)   | \$ (0.2)                            | \$ 0.2                                      | \$ (103.3)                                    |
| Current year deferrals to AOCI            | (82.1)   | (3.1)   | 0.4                                 | 0.4   | (84.4)  |
| Reclassifications from AOCI to Net income | —  | 0.8   | —                                   | (3.2)                                       | (2.4)   |
| Net Change                                | (82.1)   | (2.3)   | 0.4                                 | (2.8)                                       | (86.8)  |
| June 30, 2015                             | \$ (154.2)   | \$ (33.5)   | \$ 0.2                              | \$ (2.6)                                    | \$ (190.1)                                    |

The income tax benefit related to the changes in pension and other long-term employee benefits for the six months ended June 30, 2015 was \$1.7 million. The cumulative income tax benefit related to the adjustments for pension and other long-term employee benefits at June 30, 2015 was \$15.1 million. The income tax benefit related to the change in the unrealized loss on derivatives for the six months ended June 30, 2015 was \$1.7 million. The cumulative income tax benefit related to the adjustment for unrealized loss on derivatives at June 30, 2015 was \$1.5 million.

**(20) VENEZUELA**

*Venezuela Currency Devaluation*

As a result of challenging economic conditions, Venezuela's foreign currency exchange mechanisms have continued to develop which have impacted our Venezuela operations.

From December 31, 2014 through June 30, 2015, we used the Complementary System of Foreign Currency Administration (SICAD) rate of 12.0 Venezuelan bolivars to 1.0 U.S. dollar. At June 30, 2015, we changed the exchange rate we used to remeasure our Venezuelan bolivars from the SICAD rate to the Marginal Foreign Exchange System (SIMADI) rate of 197.7 Venezuelan bolivars to 1.0 U.S. dollar. We believed it was appropriate to move from using the SICAD rate to using the SIMADI rate based on the culmination of relevant facts and circumstances, including our expectation that future dividend remittances would be made at the SIMADI rate.

In March 2016, the Venezuelan government enacted additional changes to its foreign currency exchange regime. The changes resulted in a reduction of its three-tiered exchange rate system to two tiers by eliminating the SICAD rate. The changes also devalued the official DIPRO rate (formerly CENCOEX), to 10.0 Venezuelan bolivars to 1.0 U.S. dollar from 6.3 Venezuelan bolivars to 1.0 U.S. dollar, while also creating a replacement floating supplementary market exchange rate, DICOM, which fully replaced SIMADI. DICOM is intended to provide limited access to a free market rate of exchange. At June 30, 2016, both the DIPRO and DICOM exchange mechanisms are operational. At June 30, 2016, DIPRO remained at 10.0 Venezuelan bolivars to 1.0 U.S. dollar and the exchange rate for DICOM was 626.0 Venezuelan bolivars to 1.0 U.S. dollar.

We believe that significant uncertainty still exists regarding the exchange mechanisms in Venezuela, including how any such mechanisms will operate in the future and the availability of U.S. dollars under each mechanism.

At June 30, 2016, we continue to believe that the DICOM rate is the appropriate rate to use in the remeasurement of the monetary assets and liabilities of our Venezuelan subsidiary.

Primarily as a result of the devalued Venezuelan bolivar, we recorded currency exchange losses of \$15.6 million and \$22.7 million for the three and six months ended June 30, 2016, respectively and \$55.6 million and \$54.8 million for the three and six months ended June 30, 2015, respectively. Included in the losses for the three and six months ended June

**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
(In millions, unless otherwise noted)

30, 2015 was a loss of \$53.2 million resulting from the devaluation caused by the change in exchange mechanism used at June 30, 2015.

***Venezuela Financial Results***

As a result of economic uncertainty and the resulting impact on our operations, we re-evaluated the carrying value of long-lived assets for our Venezuelan subsidiary at December 31, 2015. Based on an analysis of estimated undiscounted future cash flows expected to result from the use of our productive long-lived assets with finite lives, we determined that their carrying values were recoverable. The recoverability analysis was heavily dependent on continued demand and price assumptions of our local operations. Our price assumptions and the associated increases are expected to continue and are intended to allow us to keep pace with the changes in exchange rates and inflation. We believe these price increases are probable given our market share, customer base and historical success of implementing price increases in similar situations in the past. With the exception of intercompany inventory purchases, our operations in Venezuela were and are expected to be entirely self-funded. Due to the ability of our Venezuelan operations to procure raw materials through Axalta subsidiaries, we do not foresee any impact on our Venezuelan subsidiary's ability to operate. We have no current need or intention to repatriate Venezuelan earnings and remain committed to the business for the foreseeable future based on our current expectations.

If assumptions regarding our continued demand and ability to successfully implement and sustain price increases differ from actual results, or our ability to control the operations of our Venezuelan subsidiary change as a result of economic uncertainty or political instability, there is a risk that our productive long-lived assets may be impaired. Additionally, if DICOM continues to weaken, this could result in a material unfavorable impact on our results of operations and financial condition. Although through June 30, 2016, our operations continued to be challenged by further deteriorating macro-economic conditions within the country, we believe that the demand and price assumptions used at December 31, 2015 continue to be reasonable for assessing our operations recoverability.

At June 30, 2015, we separately evaluated the carrying value of our non-operating real estate investment as it is not part of our core operational activities. Based on this evaluation, we concluded that the carrying value of the real estate investment of \$52.6 million was impaired as a result of the current real estate market prices and movement of our translation rate from 12.0 Venezuelan bolivars to 1.0 U.S. dollar to 197.7 Venezuelan bolivars to 1.0 U.S. dollar.

At June 30, 2016, we performed a separate evaluation of the carrying value of our non-operating real estate investment. Based on this evaluation, we concluded that the carrying value of the real estate investment of \$21.5 million was impaired as a result of the current real estate market prices and movement of our translation rate from 270.5 Venezuelan bolivars to 1.0 U.S. dollar at March 31, 2016 to 626.0 Venezuelan bolivars to 1.0 U.S. dollar at June 30, 2016.

As a result of these evaluations on our real estate investment property we recorded impairments to write down the carrying value of the asset to its fair value at June 30, 2016 and 2015. An impairment of \$10.5 million was recorded within other expense, net for both the three and six months ended June 30, 2016. An impairment of \$30.6 million was recorded within other expense, net for both the three and six months ended June 30, 2015. The method used to determine fair values of the real estate investment included using Level 2 inputs in the form of observable market quotes from local real estate broker service firms.

At June 30, 2016 and December 31, 2015, our Venezuelan subsidiary had total assets of \$129.1 million and \$152.9 million, respectively, and total liabilities of \$40.3 million and \$42.2 million, respectively, which represent less than 3% of our consolidated assets and liabilities at the end of each respective period. Total liabilities include \$30.8 million and \$25.9 million of intercompany liabilities designated in U.S. dollars at June 30, 2016 and December 31, 2015, respectively. At June 30, 2016 and December 31, 2015, total non-monetary assets, net, were \$96.3 million and \$112.4 million, respectively.

For the three and six months ended June 30, 2016, our Venezuelan subsidiary's net sales represented \$19.3 million and \$29.2 million of our consolidated net sales, respectively, which represented less than 2% for the respective periods. For the three and six months ended June 30, 2015, our Venezuelan subsidiary represented \$65.1 million and \$95.1 million of our consolidated net sales, respectively, which represented less than 6% for the respective periods. For the three and six months ended June 30, 2016, our Venezuelan subsidiary represented \$9.7 million and \$13.2 million of our consolidated income from operations, respectively, which represented less than 7% for the respective periods. For the three and six months ended June 30, 2015, our Venezuelan subsidiary represented \$37.8 million and \$52.6 million of our consolidated income from operations, respectively, which represented less than 27% for the respective periods.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations includes statements regarding industry outlook, our expectations regarding the performance of our business and other forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Non-GAAP Financial Measures," and "Forward-Looking Statements" as well as "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015. These statements include those that are related to estimates reflected in our financial results as well as management's plan and outlook. Our actual results may differ materially from those contained in or implied by any forward-looking statements. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the interim unaudited condensed consolidated financial statements and the condensed notes thereto included elsewhere in this quarterly report, as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2015.*

### FORWARD-LOOKING STATEMENTS

Many statements made in this Quarterly Report on Form 10-Q that are not statements of historical fact, including statements about our beliefs and expectations, are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and should be evaluated as such. Forward-looking statements include information concerning possible or assumed future results of operations, including descriptions of our business plan, strategies and capital structure. These statements often include words such as "anticipate," "expect," "suggests," "plan," "believe," "intend," "estimates," "targets," "projects," "should," "could," "would," "may," "will," "forecast," and other similar expressions. We base these forward-looking statements or projections on our current expectations, plans and assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances and at such time. As you read and consider this Quarterly Report on Form 10-Q, you should understand that these statements are not guarantees of performance or results. The forward-looking statements and projections are subject to and involve risks, uncertainties and assumptions and you should not place undue reliance on these forward-looking statements or projections. Although we believe that these forward-looking statements and projections are based on reasonable assumptions at the time they are made, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements and projections. Factors that may materially affect such forward-looking statements and projections include:

- adverse developments in economic conditions and, particularly, in conditions in the automotive and transportation industries;
- volatility in the capital, credit and commodities markets;
- our inability to successfully execute on our growth strategy;
- risks associated with our non-U.S. operations;
- currency-related risks;
- increased competition;
- risks of the loss of any of our significant customers or the consolidation of MSOs, distributors and/or body shops;
- our reliance on our distributor network and third-party delivery services for the distribution and export of certain of our products
- price increases or interruptions in our supply of raw materials;
- failure to develop and market new products and manage product life cycles;
- litigation and other commitments and contingencies;
- significant environmental liabilities and costs as a result of our current and past operations or products, including operations or products related to our business prior to the Acquisition;
- unexpected liabilities under any pension plans applicable to our employees;
- risk that the insurance we maintain may not fully cover all potential exposures;
- failure to comply with the anti-corruption laws of the United States and various international jurisdictions;
- failure to comply with anti-terrorism laws and regulations and applicable trade embargoes;
- business disruptions, security threats and security breaches;

- our ability to protect and enforce intellectual property rights;
- intellectual property infringement suits against us by third parties;
- our substantial indebtedness;
- our ability to obtain additional capital on commercially reasonable terms may be limited;
- our ability to realize the anticipated benefits of any acquisitions and divestitures;
- our joint ventures' ability to operate according to our business strategy should our joint venture partners fail to fulfill their obligations;
- the risk of impairment charges related to goodwill, identifiable intangible assets and fixed assets;
- our ability to recruit and retain the experienced and skilled personnel we need to compete;
- work stoppages, union negotiations, labor disputes and other matters associated with our labor force;
- terrorist acts, conflicts, wars and natural disasters that may materially adversely affect our business, financial condition and results of operations;
- transporting certain materials that are inherently hazardous due to their toxic nature;
- weather conditions that may temporarily reduce the demand for some of our products;
- reduced demand for some of our products as a result of improved safety features on vehicles and insurance company influence;
- the amount of the costs, fees, expenses and charges related to being a public company;
- any statements of belief and any statements of assumptions underlying any of the foregoing;
- Carlyle's ability to control our common shares;
- other factors disclosed in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2015 and our other filings with the Securities and Exchange Commission; and
- other factors beyond our control.

These cautionary statements should not be construed by you to be exhaustive and are made only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise

## OVERVIEW

We are a leading global manufacturer, marketer and distributor of high performance coatings systems. We have a 150-year heritage in the coatings industry and are known for manufacturing high-quality products with well-recognized brands supported by market-leading technology and customer service. Our diverse global footprint of 38 manufacturing facilities, 4 technology centers, 46 customer training centers and approximately 12,800 employees allows us to meet the needs of customers in approximately 130 countries. We serve our customer base through an extensive sales force and technical support organization, as well as through approximately 4,000 independent, locally-based distributors.

We operate our business in two operating segments, Performance Coatings and Transportation Coatings. Our segments are based on the type and concentration of customers served, service requirements, methods of distribution and major product lines.

Through our Performance Coatings segment we provide high-quality liquid and powder coatings solutions to a fragmented and local customer base. We are one of only a few suppliers with the technology to provide precise color matching and highly durable coatings systems. The end-markets within this segment are refinish and industrial.

Through our Transportation Coatings segment we provide advanced coating technologies to OEMs of light and commercial vehicles. These increasingly global customers require a high level of technical support coupled with cost-effective, environmentally responsible, coatings systems that can be applied with a high degree of precision, consistency and speed. The end-markets within this segment are light vehicle and commercial vehicle.

**BUSINESS HIGHLIGHTS AND TRENDS**

Our net sales decreased 3.0% for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, due to a decline of 6.7% from unfavorable currency translation. Partially offsetting the decrease were increases in net sales as a result of higher average selling prices as well as stronger volumes which contributed to 3.7% of growth. The following trends have impacted our segment and end-market sales performance:

- *Performance Coatings:* Net sales decreased as a result of unfavorable foreign currency translation impacts, primarily driven by the weakening of certain currencies within Latin America and Asia, and weaker average selling prices in our Asia region. Foreign currency was largely offset by higher average selling prices in our North America, EMEA and Latin America refinish end-markets and stronger volumes in both our industrial and refinish end-markets, particularly in EMEA and Asia.
- *Transportation Coatings:* Net sales decreased as a result of unfavorable foreign currency translation impacts, primarily driven by the weakening of certain currencies within Latin America, and weaker volumes in our Latin America region and North America commercial vehicle end-market. These decreases were offset by stronger volumes in the North America light vehicle end-market and higher average selling prices in both our light vehicle and commercial vehicle end-markets, particularly in Latin America and EMEA.

Our business serves four end-markets globally as follows:

| (In millions)                           | Three Months Ended June 30, |            | 2016 vs 2015 | Six Months Ended June 30, |            | 2016 vs 2015 |
|---|-----------------------------|------------|--------------|---------------------------|------------|--------------|
|   | 2016                        | 2015       | % change     | 2016                      | 2015       | % change     |
| <b>Performance Coatings</b>             |                             |            |              |                           |            |              |
| Refinish                                | \$ 448.8                    | \$ 460.1   | (2.5)%       | \$ 827.5                  | \$ 853.3   | (3.0)%       |
| Industrial                              | 183.3                       | 178.7      | 2.6 %        | 347.6                     | 342.7      | 1.4 %        |
| Total Net sales Performance Coatings    | 632.1                       | 638.8      | (1.0)%       | 1,175.1                   | 1,196.0    | (1.7)%       |
| <b>Transportation Coatings</b>          |                             |            |              |                           |            |              |
| Light Vehicle                           | 344.4                       | 347.2      | (0.8)%       | 673.8                     | 680.4      | (1.0)%       |
| Commercial Vehicle                      | 88.6                        | 108.1      | (18.0)%      | 171.8                     | 206.9      | (17.0)%      |
| Total Net sales Transportation Coatings | 433.0                       | 455.3      | (4.9)%       | 845.6                     | 887.3      | (4.7)%       |
| Total Net sales                         | \$ 1,065.1                  | \$ 1,094.1 | (2.7)%       | \$ 2,020.7                | \$ 2,083.3 | (3.0)%       |

## **FACTORS AFFECTING OUR OPERATING RESULTS**

There have been no changes in the factors affecting our operating results previously reported in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015.

## **NON-GAAP FINANCIAL MEASURES**

### ***Reconciliation of Net Income (Loss) to EBITDA and Adjusted EBITDA***

To supplement our financial information presented in accordance with U.S. GAAP, we use the following non-GAAP financial measures to clarify and enhance an understanding of past performance: EBITDA and Adjusted EBITDA. We believe that the presentation of these financial measures enhances an investor's understanding of our financial performance. We further believe that these financial measures are useful financial metrics to assess our operating performance from period-to-period by excluding certain items that we believe are not representative of our core business. We use certain of these financial measures for business planning purposes and in measuring our performance relative to that of our competitors. We utilize Adjusted EBITDA as the primary measure of segment performance.

EBITDA consists of net income before interest, taxes, depreciation and amortization. Adjusted EBITDA consists of EBITDA adjusted for (i) non-operating income or expense, (ii) the impact of certain non-cash or other items that are included in net income and EBITDA that we do not consider indicative of our ongoing operating performance and (iii) certain unusual items impacting results in a particular period. We believe that making such adjustments provides investors meaningful information to understand our operating results and ability to analyze financial and business trends on a period-to-period basis.

We believe these financial measures are commonly used by investors to evaluate our performance and that of our competitors. However, our use of the terms EBITDA and Adjusted EBITDA may vary from that of others in our industry. These financial measures should not be considered as alternatives to income before income taxes, net income, earnings per share or any other performance measures derived in accordance with U.S. GAAP as measures of operating performance.

EBITDA and Adjusted EBITDA have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- EBITDA and Adjusted EBITDA:
  - do not reflect the significant interest expense on our debt, including the Senior Secured Credit Facilities and the Senior Notes; and
  - eliminate the impact of income taxes on our results of operations;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any expenditures for such replacements; and
- other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations by using EBITDA and Adjusted EBITDA along with other comparative tools, together with U.S. GAAP measurements, to assist in the evaluation of operating performance. Such U.S. GAAP measurements include income before income taxes, net income, earnings per share and other performance measures.

In evaluating these financial measures, you should be aware that in the future we may incur expenses similar to those eliminated in this presentation. Our presentation of EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or nonrecurring items.

The following table reconciles the net income (loss) to EBITDA and Adjusted EBITDA calculations discussed above for the periods presented:

| (In millions)  | Three Months Ended June 30, |           | Six Months Ended June 30, |          |
|--|-----------------------------|-----------|---------------------------|----------|
|  | 2016                        | 2015      | 2016                      | 2015     |
| Net income (loss)  | \$ 50.1                     | \$ (24.3) | \$ 80.7                   | \$ 22.4  |
| Interest expense, net  | 47.8                        | 49.2      | 97.9                      | 99.2     |
| Provision for income taxes   | 20.3                        | 29.5      | 34.9                      | 30.7     |
| Depreciation and amortization  | 78.6                        | 77.5      | 154.6                     | 150.1    |
| EBITDA   | 196.8                       | 131.9     | 368.1                     | 302.4    |
| Debt extinguishment <sup>(a)</sup>                                   | 2.3                         | —         | 2.3                       | —        |
| Foreign exchange remeasurement losses <sup>(b)</sup>                 | 18.0                        | 57.8      | 25.5                      | 66.5     |
| Long-term employee benefit plan adjustments <sup>(c)</sup>           | 0.7                         | 0.2       | 1.3                       | 0.4      |
| Termination benefits and other employee related costs <sup>(d)</sup> | 7.0                         | 14.8      | 8.9                       | 18.5     |
| Consulting and advisory fees <sup>(e)</sup>                          | 2.6                         | 6.8       | 5.6                       | 9.9      |
| Offering and transactional costs <sup>(f)</sup>                      | 1.4                         | 0.3       | 1.4                       | (3.7)    |
| Stock-based compensation <sup>(g)</sup>                              | 11.4                        | 12.4      | 21.6                      | 14.2     |
| Other adjustments <sup>(h)</sup>                                     | 1.9                         | 1.3       | 3.7                       | 2.8      |
| Dividends in respect of noncontrolling interest <sup>(i)</sup>       | —                           | (0.6)     | (1.5)                     | (4.1)    |
| Asset impairment <sup>(j)</sup>                                      | 10.5                        | 30.6      | 10.5                      | 30.6     |
| Adjusted EBITDA  | \$ 252.6                    | \$ 255.5  | \$ 447.4                  | \$ 437.5 |

- (a) In April 2016, we prepaid \$100.0 million of the outstanding principal on the New Dollar Term Loan and recorded a non-cash pre-tax loss on extinguishment of \$2.3 million for the three and six months ended June 30, 2016.
- (b) Eliminates foreign exchange gains and losses resulting from the remeasurement of assets and liabilities denominated in foreign currencies, net of gains associated with our foreign currency instruments used to hedge our balance sheet exposures. Exchange losses attributable to the remeasurement of our Venezuelan subsidiary represented \$15.6 million and \$22.7 million for the three and six months ended June 30, 2016, respectively, and \$55.6 million and \$54.8 million for the three and six months ended June 30, 2015, respectively.
- (c) Eliminates the non-cash, non-service cost components of long-term employee benefit costs.
- (d) Represents expenses primarily related to employee termination benefits and other employee-related costs including our initiative to improve overall cost structure within the European region as well as costs associated with our Axalta Way initiatives, which are not considered indicative of our ongoing operating performance.
- (e) Represents fees paid to consultants for professional services primarily related to our Axalta Way initiatives, which are not considered indicative of our ongoing operating performance.
- (f) Represents costs associated with the secondary offerings of our common shares by Carlyle, acquisition-related costs, including a \$5.4 million gain recognized during the six months ended June 30, 2015 resulting from the remeasurement of our previously held interest in an equity method investee upon the acquisition of a controlling interest and costs associated with changes in the fair value of contingent consideration associated with our acquisitions, all of which are not considered indicative of our ongoing operating performance.
- (g) Represents non-cash costs associated with stock-based compensation, including \$8.2 million of expense during the three and six months ended June 30, 2015 attributable to the accelerated vesting of all issued and outstanding stock options issued under the 2013 Plan as a result of the Change in Control.
- (h) Represents costs for certain unusual or non-operational (gains) and losses, including equity investee dividends, indemnity losses (gains) associated with the Acquisition, losses (gains) on sale and disposal of property, plant and equipment, losses (gains) on the remaining foreign currency derivative instruments and non-cash fair value inventory adjustments associated with our 2015 acquisitions.
- (i) Represents the payment of dividends to our joint venture partners by our consolidated entities that are not wholly owned, which are not considered indicative of our ongoing operating performance.
- (j) As a result of currency devaluations in Venezuela, we recorded non-cash impairment charges relating to a real estate investment of \$10.5 million and \$30.6 million during both the three and six months ended June 30, 2016 and 2015, respectively (See Note 20 to the condensed consolidated financial statements included elsewhere in this in this Quarterly Report on Form 10-Q).

**RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the information contained in the accompanying unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. Our historical results of operations set forth below may not necessarily reflect what will occur in the future.

**Three months ended June 30, 2016 compared to the three months ended June 30, 2015**

The following table was derived from the unaudited condensed consolidated statements of operations for the three months ended June 30, 2016 and 2015 included elsewhere in this Quarterly Report on Form 10-Q.

| (In millions)   | Three Months Ended June 30, |            |
|---|-----------------------------|------------|
|   | 2016                        | 2015       |
| Net sales   | \$ 1,065.1                  | \$ 1,094.1 |
| Other revenue   | 7.0                         | 7.0        |
| Total revenue   | 1,072.1                     | 1,101.1    |
| Cost of goods sold  | 649.0                       | 679.7      |
| Selling, general and administrative expenses              | 237.7                       | 245.5      |
| Research and development expenses                         | 14.1                        | 12.8       |
| Amortization of acquired intangibles                      | 20.3                        | 20.1       |
| Income from operations                                    | 151.0                       | 143.0      |
| Interest expense, net                                     | 47.8                        | 49.2       |
| Other expense, net  | 32.8                        | 88.6       |
| Income before income taxes                                | 70.4                        | 5.2        |
| Provision for income taxes                                | 20.3                        | 29.5       |
| Net income (loss)   | 50.1                        | (24.3)     |
| Less: Net income attributable to noncontrolling interests | 1.6                         | 0.8        |
| Net income (loss) attributable to controlling interests   | \$ 48.5                     | \$ (25.1)  |

**Net sales**

Net sales decreased \$29.0 million, or 2.7%, to \$1,065.1 million for the three months ended June 30, 2016, compared to net sales of \$1,094.1 million for the three months ended June 30, 2015. Our net sales decrease for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 was primarily attributable to unfavorable impacts of currency exchange, which reduced net sales by 6.9% due to the impact of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. This net sales decline was partially offset by increases in volumes, primarily in Europe and North America, which contributed to net sales growth of 2.8%. Higher average selling prices, primarily in Latin America, also contributed to an increase of 1.4% compared to the three months ended June 30, 2015.

**Other revenue**

Other revenue remained consistent at \$7.0 million for both the three months ended June 30, 2016 and 2015. The impacts of currency exchange did not have a material impact on the comparable periods.

**Cost of sales**

Cost of sales decreased \$30.7 million, or 4.5%, to \$649.0 million for the three months ended June 30, 2016, compared to \$679.7 million for the three months ended June 30, 2015. The decrease for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 resulted primarily from a 2.3% decrease associated with currency exchange due to the impact of the weakening of certain currencies within Latin America and Asia. Partially offsetting the decrease were higher volumes of 2.8%. Cost of sales as a percentage of net sales decreased from 62.1% for the three months ended June 30, 2015 to 60.9% for the three months ended June 30, 2016 primarily due to reductions in costs resulting from our cost-savings initiatives as well as lower raw material prices and higher average selling prices.



***Selling, general and administrative expenses***

Selling, general and administrative expenses decreased \$7.8 million, or 3.2%, to \$237.7 million for the three months ended June 30, 2016 compared to \$245.5 million for the three months ended June 30, 2015. Selling, general and administrative expenses for the three months ended June 30, 2016 included \$11.3 million of costs related to our 2015 cost savings initiatives as compared to \$21.9 million of costs for the three months ended June 30, 2015, resulting in a decrease of \$10.6 million over the comparable period. Further contributing to the decrease was the favorable impact of currency exchange during the three months ended June 30, 2016 which contributed to a 3.1% reduction in selling, general and administrative expenses due to the impact of the weakening of certain currencies within Latin America compared to the U.S. dollar. Offsetting the decrease over comparable periods was an increase in selling expense associated with increased sales volumes and ongoing operational expenditures for planned growth initiatives for the three months ended June 30, 2016.

***Research and development expenses***

Research and development expenses increased \$1.3 million, or 10.2%, to \$14.1 million for the three months ended June 30, 2016 compared to \$12.8 million for the three months ended June 30, 2015. This increase was a result of additional spend as we focus on developing new and existing products in the market, partially offset by the impacts of currency exchange, which contributed to a 0.5% decrease primarily as a result of the impact of the weakening of certain currencies within Asia compared to the U.S. dollar.

***Amortization of acquired intangibles***

Amortization of acquired intangibles remained relatively consistent, increasing \$0.2 million, or 1.0%, to \$20.3 million for the three months ended June 30, 2016 compared to \$20.1 million for the three months ended June 30, 2015. This increase was primarily attributable to amortization of the definite-lived intangible assets acquired through our 2015 acquisitions, offset slightly by the impacts of the weakening of certain currencies within Latin America compared to the U.S. dollar.

***Interest expense, net***

Interest expense, net decreased \$1.4 million, or 2.8%, to \$47.8 million for the three months ended June 30, 2016 compared to \$49.2 million for the three months ended June 30, 2015. The decrease was primarily driven by reductions in principal balances associated with our New Dollar Term Loans, resulting from separate \$100.0 million repayments made in October 2015 and April 2016, partially offset by an increase of \$0.7 million resulting from losses on our interest rate swaps of \$0.9 million for the three months ended June 30, 2016 compared to \$0.2 million for the three months ended June 30, 2015.

***Other expense, net***

Other expense, net decreased \$55.8 million from \$88.6 million for the three months ended June 30, 2015 to \$32.8 million for the three months ended June 30, 2016. This decrease relates primarily to a reduction in exchange losses, net of \$18.0 million during the three months ended June 30, 2016 as compared to \$57.8 million for the three months ended June 30, 2015, coupled with a decrease in impairment charges related to our real estate investment in Venezuela of \$10.5 million during the three months ended June 30, 2016 compared to \$30.6 million during the three months ended June 30, 2015.

Exchange losses, net decreased over the comparable period primarily due to decreases in losses resulting from the revaluation of our Venezuela subsidiary from \$56.2 million for the three months ended June 30, 2015 to \$15.6 million for the three months ended June 30, 2016.

Additionally, during the three months ended June 30, 2016, we incurred losses on extinguishment of debt of \$2.3 million from the April 2016 debt prepayment which did not occur during the three months ended June 30, 2015.

***Provision for income taxes***

We recorded an income tax provision of \$20.3 million for the three months ended June 30, 2016, which represents a 28.8% effective tax rate in relation to income before income taxes of \$70.4 million. The effective tax rate for the three months ended June 30, 2016 differs from the U.S. Federal statutory rate by 6.2%, which is the result of various items that impacted the effective rate both favorably and unfavorably. We recorded favorable adjustments for earnings in jurisdictions where the statutory rate is lower than the U.S. Federal statutory rate of \$8.5 million and we recognized a benefit of \$5.7 million associated with currency exchange losses. These adjustments were partially offset by the impact of pre-tax losses attributable to jurisdictions where a tax benefit is not expected to be realized of \$1.7 million and non-deductible expenses and interest of \$2.0 million. In addition, our pre-tax impairment charge in Venezuela of \$10.5 million had an unfavorable \$3.7 million impact on the effective rate as it was non-deductible.

We recorded an income tax provision of \$29.5 million for the three months ended June 30, 2015, which represents a 567.3% effective tax rate in relation to income before income taxes of \$5.2 million. The effective tax rate for the three months ended June 30, 2015 differs from the U.S. Federal statutory rate by 532.3%, which is primarily the result of non-deductible pre-tax expenses. Non-deductible expenses and interest, currency exchange losses, as well as pre-tax losses in jurisdictions where a tax benefit is not expected to be realized, resulted in a negative impact to our provision for income taxes of \$5.0 million, \$7.3 million and \$2.4 million, respectively. In addition, our pre-tax impairment charge in Venezuela of \$30.6 million had an unfavorable \$10.7 million impact on the effective rate as it was non-deductible.

**Six months ended June 30, 2016 compared to the six months ended June 30, 2015**

The following table was derived from the interim unaudited condensed consolidated statements of operations for the six months ended June 30, 2016 and 2015 included elsewhere in this Quarterly Report on Form 10-Q.

| (In millions)   | Six Months Ended June 30, |            |
|---|---------------------------|------------|
|   | 2016                      | 2015       |
| Net sales   | \$ 2,020.7                | \$ 2,083.3 |
| Other revenue   | 13.0                      | 15.3       |
| Total revenue   | 2,033.7                   | 2,098.6    |
| Cost of goods sold  | 1,255.4                   | 1,329.5    |
| Selling, general and administrative expenses              | 456.8                     | 458.5      |
| Research and development expenses                         | 26.7                      | 25.7       |
| Amortization of acquired intangibles                      | 40.5                      | 40.1       |
| Income from operations                                    | 254.3                     | 244.8      |
| Interest expense, net                                     | 97.9                      | 99.2       |
| Other expense, net  | 40.8                      | 92.5       |
| Income before income taxes                                | 115.6                     | 53.1       |
| Provision for income taxes                                | 34.9                      | 30.7       |
| Net income  | 80.7                      | 22.4       |
| Less: Net income attributable to noncontrolling interests | 2.5                       | 2.4        |
| Net income attributable to controlling interests          | \$ 78.2                   | \$ 20.0    |

**Net sales**

Net sales decreased \$62.6 million, or 3.0%, to \$2,020.7 million for the six months ended June 30, 2016, compared to net sales of \$2,083.3 million for the six months ended June 30, 2015. Our net sales decrease for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 was primarily attributable to unfavorable impacts of currency exchange, which reduced net sales by 6.7% due to the impact of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. This net sales decline was partially offset by higher average selling prices, primarily in Latin America, which contributed to net sales growth of 3.2%. Higher volumes across all regions, with the exception of Latin America, also contributed to an increase of 0.5% compared to the six months ended June 30, 2015.

**Other revenue**

Other revenue decreased \$2.3 million, or 15.0%, to \$13.0 million for the six months ended June 30, 2016, compared to \$15.3 million for the six months ended June 30, 2015, primarily due to decreases in royalty revenues. Further contributing to the decrease were the impacts of weakening currencies against the U.S. dollar, which contributed to a decrease of \$0.7 million, or 4.4%.

**Cost of sales**

Cost of sales decreased \$74.1 million, or 5.6%, to \$1,255.4 million for the six months ended June 30, 2016 compared to \$1,329.5 million for the six months ended June 30, 2015. The decrease for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 resulted primarily from a 2.8% decrease associated with currency exchange due primarily to the impact of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. The decrease from currency translation was slightly offset by higher volumes of 0.5% over the comparable periods. Cost of sales as a percentage of net sales decreased from 63.8% for the six months ended June 30, 2015 to 62.1% for the six months ended June 30, 2016 primarily due to our cost-savings initiatives as well as lower raw material prices and higher average selling prices.

***Selling, general and administrative expenses***

Selling, general and administrative expenses decreased \$1.7 million, or 0.4%, to \$456.8 million for the six months ended June 30, 2016 compared to \$458.5 million for the six months ended June 30, 2015. Selling, general and administrative expenses for the six months ended June 30, 2016 included \$16.2 million of costs related to our 2015 cost savings initiatives as compared to \$30.1 million of costs for the six months ended June 30, 2015, resulting in a decrease of \$13.9 million over the comparable period. Further contributing to the decrease was the favorable impact of currency exchange during the six months ended June 30, 2016 which contributed to a 4.0% reduction in selling, general and administrative expenses due to the impact of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. Offsetting the decrease over comparable periods was an increase of \$6.0 million in stock-based compensation for the six months ended June 30, 2016, resulting primarily from the issuance of equity incentive awards during 2015 and 2016. Further offsetting the decrease over comparable periods was an increase in selling expense associated with increased sales volumes and ongoing operational expenditures for planned growth initiatives for the six months ended June 30, 2016.

***Research and development expenses***

Research and development expenses increased \$1.0 million, or 3.9%, to \$26.7 million for the six months ended June 30, 2016 compared to \$25.7 million for the six months ended June 30, 2015. This increase was a result of additional spend as we focus on developing new and existing products in the market, partially offset by the impacts of currency exchange, which contributed to a 1.2% decrease primarily as a result of the impact of the weakening of certain currencies within Asia compared to the U.S. dollar.

***Amortization of acquired intangibles***

Amortization of acquired intangibles remained relatively consistent, increasing \$0.4 million, or 1.0%, to \$40.5 million for the six months ended June 30, 2016 compared to \$40.1 million for the six months ended June 30, 2015. This increase was primarily attributable to amortization of the definite-lived intangible assets acquired through our 2015 acquisitions, offset slightly by the impacts of the weakening of certain currencies within Latin America compared to the U.S. dollar.

***Interest expense, net***

Interest expense, net decreased \$1.3 million, or 1.3%, to \$97.9 million for the six months ended June 30, 2016 compared to \$99.2 million for the six months ended June 30, 2015. The decrease was primarily driven by reductions in principal balances associated with our New Dollar Term Loans, resulting from separate \$100.0 million repayments made in October 2015 and April 2016, partially offset by an increase of \$1.9 million resulting from losses on our interest rate swaps of \$3.3 million for the six months ended June 30, 2016 compared to \$1.4 million for the six months ended June 30, 2015.

***Other expense, net***

Other expense, net decreased \$51.7 million to \$40.8 million for the six months ended June 30, 2016 compared to \$92.5 million for the six months ended June 30, 2015. This decrease relates primarily to a decrease in exchange losses, net of \$25.5 million during the six months ended June 30, 2016 as compared to \$66.5 million for the six months ended June 30, 2015, coupled with a decrease in impairment charges related to our real estate investment in Venezuela of \$10.5 million during the six months ended June 30, 2016 compared to \$30.6 million during the six months ended June 30, 2015.

Exchange losses, net decreased over the comparable period primarily due to a decrease in losses resulting from the revaluation of our Venezuela subsidiary from \$55.8 million in losses for the six months ended June 30, 2015 to \$22.7 million in losses for the six months ended June 30, 2016. In addition, we incurred \$2.3 million in gains related to the remeasurement of intercompany transactions denominated in currencies different from the functional currency of the relevant subsidiary during the six months ended June 30, 2016, compared to \$76.5 million in losses during the six months ended June 30, 2015. The decreases in exchange losses were substantially offset by \$5.1 million in losses on our Euro borrowings during the six months ended June 30, 2016 as compared to \$64.8 million in gains during the six months ended June 30, 2015.

Additionally, during the six months ended June 30, 2016, we incurred losses on extinguishment of debt of \$2.3 million which did not occur during the six months ended June 30, 2015.

***Provision for income taxes***

We recorded an income tax provision of \$34.9 million for the six months ended June 30, 2016, which represents a 30.2% effective tax rate in relation to the income before income taxes of \$115.6 million. The effective tax rate for the six months ended June 30, 2016 differs from the U.S. Federal statutory rate by 4.8%, which is the result of various items that impacted the effective rate both favorably and unfavorably. We recorded favorable adjustments for earnings in jurisdictions where the statutory rate is lower than the U.S. Federal statutory rate of 35% and we recognized a benefit of \$11.0 million associated with currency exchange losses. These adjustments were partially offset by the impact of pre-tax losses attributable to jurisdictions where a tax benefit is not expected to be realized of \$9.3 million and non-deductible expenses and interest of \$3.7 million. In addition, our pre-tax impairment charge in Venezuela of \$10.5 million had an unfavorable \$3.7 million impact on the effective rate as it was non-deductible.

We recorded a provision for income taxes of \$30.7 million for the six months ended June 30, 2015, which represents a 57.8% effective tax rate in relation to the income before income taxes of \$53.1 million. The effective tax rate for the six months ended June 30, 2015 differs from the U.S. Federal statutory rate by 22.8%, which is the result of various items that impacted the effective rate both favorably and unfavorably. We recorded favorable adjustments for earnings in jurisdictions where the statutory rate is lower than the U.S. Federal statutory rate of 35% and we recognized a benefit of \$9.3 million associated with currency exchange losses. These adjustments were offset by our pre-tax impairment charge in Venezuela of \$30.6 million which had an unfavorable \$10.7 million impact on the effective rate as it was non-deductible, the unfavorable impact of pre-tax losses in jurisdictions where a tax benefit is not expected to be realized of \$6.1 million, and non-deductible expenses and interest of \$11.5 million.

**SEGMENT RESULTS****Three months ended June 30, 2016 compared to the three months ended June 30, 2015**

The following table presents net sales by segment and segment Adjusted EBITDA for the periods presented:

| (In millions)                  | Three Months Ended June 30, |            |
|--------------------------------|-----------------------------|------------|
|                                | 2016                        | 2015       |
| <b>Net Sales</b>               |                             |            |
| Performance Coatings           | \$ 632.1                    | \$ 638.8   |
| Transportation Coatings        | 433.0                       | 455.3      |
| Total                          | \$ 1,065.1                  | \$ 1,094.1 |
| <b>Segment Adjusted EBITDA</b> |                             |            |
| Performance Coatings           | \$ 157.3                    | \$ 162.1   |
| Transportation Coatings        | 95.3                        | 93.4       |
| Total                          | \$ 252.6                    | \$ 255.5   |

***Performance Coatings Segment***

Net sales decreased \$6.7 million, or 1.0%, to \$632.1 million for the three months ended June 30, 2016 compared to net sales of \$638.8 million for the three months ended June 30, 2015. The decrease in net sales for the three months ended June 30, 2016 was driven by unfavorable impacts of currency exchange, which contributed to an 8.8% reduction in net sales, resulting from the impacts of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. This net sales decrease was partially offset by an increase in volumes across all regions, which contributed to net sales growth of 5.9%. Further offsetting this decrease were higher average selling prices, primarily within Latin America and North America, which contributed to an increase of 1.9% compared to the three months ended June 30, 2015.

Adjusted EBITDA decreased \$4.8 million, or 3.0%, to \$157.3 million for the three months ended June 30, 2016 compared to Adjusted EBITDA of \$162.1 million for the three months ended June 30, 2015. The decrease in Adjusted EBITDA for the three months ended June 30, 2016 was driven by unfavorable impacts of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar, and higher operating costs associated with support of our volume growth within the refinish end-market. These decreases were partially offset by increases in refinish end-market volumes across all regions, lower variable costs across all regions and end-markets and higher refinish end-market average selling prices.

***Transportation Coatings Segment***

Net sales decreased \$22.3 million, or 4.9%, to \$433.0 million for the three months ended June 30, 2016 compared to net sales of \$455.3 million for the three months ended June 30, 2015. The decrease in net sales for the three months ended June 30, 2016 was driven by unfavorable impacts of currency exchange, which contributed to a 4.2% reduction in net sales, resulting primarily from the impacts of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. Further contributing to the decrease for the three months ended June 30, 2016 was a decrease in volumes, primarily in Latin America and Asia, which contributed to a net sales decrease of 1.5%, offset partially by higher average selling prices, primarily in Latin America, which contributed to an increase of 0.8%.

Adjusted EBITDA increased \$1.9 million, or 2.0%, to \$95.3 million for the three months ended June 30, 2016 compared to Adjusted EBITDA of \$93.4 million for the three months ended June 30, 2015. The increase in Adjusted EBITDA in the three months ended June 30, 2016 was driven by higher average selling prices and lower variable costs, which were partially offset by higher fixed costs associated with support of our volume growth within the light vehicle end-market, unfavorable impacts of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar, and decreases in volumes in the commercial vehicle end-market.

**Six months ended June 30, 2016 compared to the six months ended June 30, 2015**

The following table presents net sales by segment and segment Adjusted EBITDA for the periods presented:

| (In millions)                  | Six Months Ended June 30, |            |
|--------------------------------|---------------------------|------------|
|                                | 2016                      | 2015       |
| <b>Net Sales</b>               |                           |            |
| Performance Coatings           | \$ 1,175.1                | \$ 1,196.0 |
| Transportation Coatings        | 845.6                     | 887.3      |
| Total                          | \$ 2,020.7                | \$ 2,083.3 |
| <b>Segment Adjusted EBITDA</b> |                           |            |
| Performance Coatings           | \$ 267.4                  | \$ 269.2   |
| Transportation Coatings        | 180.0                     | 168.3      |
| Total                          | \$ 447.4                  | \$ 437.5   |

***Performance Coatings Segment***

Net sales decreased \$20.9 million, or 1.7%, to \$1,175.1 million for the six months ended June 30, 2016 compared to net sales of \$1,196.0 million for the six months ended June 30, 2015. The decrease in net sales for the six months ended June 30, 2016 was driven by the unfavorable impacts of currency exchange, which contributed to an 8.1% reduction in net sales. Currency exchange was primarily impacted by the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. The decrease in net sales was partially offset by increases in average selling price, primarily through the Latin America and North America refinish business, which contributed to an increase of 3.5%. Further offsetting this decrease was an increase in volume, primarily in Europe within both the refinish and industrial end-markets, which contributed to a net sales increase of 2.9%.

Adjusted EBITDA decreased \$1.8 million, or 0.7%, to \$267.4 million for the six months ended June 30, 2016 compared to Adjusted EBITDA of \$269.2 million for the six months ended June 30, 2015. The decrease in Adjusted EBITDA in the six months ended June 30, 2016 was primarily driven by unfavorable impacts of the weakening of certain currencies within Latin America compared to the U.S. dollar, and higher operating costs associated with support of our volume growth across all regions. These decreases were partially offset by higher average selling prices within the refinish end-market, increases in volumes across all regions within the refinish end-market and lower variable costs across all regions and end-markets. Additionally, dividends from our consolidated joint ventures to our noncontrolling partners negatively impacted Adjusted EBITDA by \$1.2 million for the six months ended June 30, 2016 as compared to \$3.1 million for the six months ended June 30, 2015.

***Transportation Coatings Segment***

Net sales decreased \$41.7 million, or 4.7%, to \$845.6 million for the six months ended June 30, 2016 compared to net sales of \$887.3 million for the six months ended June 30, 2015. The decrease in net sales for the six months ended June 30, 2016 was driven by unfavorable impacts of currency exchange, which contributed to a 4.7% reduction in net sales, resulting primarily from the impacts of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar. Further contributing to the net sales decrease was a decrease in volumes, primarily within Latin America, which contributed to net sales decline of 2.7%. These decreases were partially offset by higher average selling prices, primarily within Latin America, which contributed to an increase of 2.7% compared to the six months ended June 30, 2015.

Adjusted EBITDA increased \$11.7 million, or 7.0%, to \$180.0 million for the six months ended June 30, 2016 compared to Adjusted EBITDA of \$168.3 million for the six months ended June 30, 2015. The increase in Adjusted EBITDA in the six months ended June 30, 2016 was driven by higher average selling prices and lower variable costs, which were partially offset by higher fixed costs associated with support of our volume growth within the light vehicle end-market, unfavorable impacts of the weakening of certain currencies within Latin America and Asia compared to the U.S. dollar, and decreases in volumes in the commercial vehicle end-market.

**LIQUIDITY AND CAPITAL RESOURCES**

Our primary sources of liquidity are cash on hand, cash flow from operations and available borrowing capacity under our Senior Secured Credit Facilities.

At June 30, 2016, availability under the Revolving Credit Facility was \$378.1 million, net of the letters of credit issued which reduced the availability under the Revolving Credit Facility by \$21.9 million. All such availability may be utilized without violating any covenants under the credit agreement governing the Revolving Credit Facility or the indentures governing the Dollar Senior Notes and the Euro Senior Notes. At June 30, 2016, we had no outstanding borrowings under other lines of credit. Our remaining available borrowing capacity under other lines of credit in certain non-U.S. jurisdictions totaled \$5.0 million.

We or our affiliates, at any time and from time to time, may purchase the Dollar Senior Notes, the Euro Senior Notes or other indebtedness. Any such purchases may be made through the open market or privately negotiated transactions with third parties or pursuant to one or more redemption, tender or exchange offers or otherwise, upon such terms and at such prices, as well as with such consideration, as we, or any of our affiliates, may determine.

Our operations in Venezuela are subject to foreign exchange and price controls which have historically limited our ability to convert Venezuelan bolivars to U.S. dollars and transfer funds out of Venezuela. Approximately 1.0% and 2.7% of the consolidated cash and cash equivalents as of June 30, 2016 and December 31, 2015, respectively, were held in Venezuela. In Venezuela, government restrictions on the transfer of cash out of the country have limited our ability to repatriate cash. We do not consider the net assets of Venezuela to be integral to our ability to service our debt and operational requirements.

**Cash Flows**

*Six months ended June 30, 2016 and 2015*

| (In millions)   | Six Months Ended June 30, |           |
|---|---------------------------|-----------|
|   | 2016                      | 2015      |
| Net cash provided by (used for):                            |                           |           |
| Operating activities:                                       |                           |           |
| Net income  | \$ 80.7                   | \$ 22.4   |
| Depreciation and amortization                               | 154.6                     | 150.1     |
| Amortization of financing costs and original issue discount | 10.1                      | 10.2      |
| Debt extinguishment   | 2.3                       | —         |
| Deferred income taxes                                       | (6.8)                     | (7.1)     |
| Realized and unrealized foreign exchange losses, net        | 26.0                      | 66.5      |
| Stock-based compensation                                    | 21.6                      | 14.2      |
| Asset impairment  | 10.5                      | 30.6      |
| Other non-cash, net   | (2.9)                     | 3.6       |
| Net income adjusted for non-cash items                      | 296.1                     | 290.5     |
| Changes in operating assets and liabilities                 | (116.8)                   | (285.5)   |
| Operating activities  | 179.3                     | 5.0       |
| Investing activities  | (67.6)                    | (56.9)    |
| Financing activities  | (108.3)                   | 23.4      |
| Effect of exchange rate changes on cash                     | (8.3)                     | (45.8)    |
| Net decrease in cash and cash equivalents                   | \$ (4.9)                  | \$ (74.3) |

*Six months ended June 30, 2016*

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities for the six months ended June 30, 2016 was \$179.3 million. Net income before deducting depreciation, amortization and other non-cash items generated cash of \$296.1 million. This was partially offset by net increases in working capital of \$116.8 million. The most significant drivers in working capital were increases in accounts receivables and other assets of \$109.9 million, primarily due to the seasonal increase in net sales during the six months ended June 30, 2016 and increases in other accrued liabilities of \$17.9 million related to payments of normal operating activities, including interest payments on our long-term indebtedness and timing of cash payments for annual employee performance related benefits.



This is partially offset by a decrease in inventory of \$13.4 million as a result of normal inventory turnover and timing.

*Net Cash Used for Investing Activities*

Net cash used in investing activities for the six months ended June 30, 2016 was \$67.6 million. This use was substantially driven by purchases of property, plant and equipment of \$64.8 million and the capital contribution of an investment affiliate of \$3.1 million partially offset by a decrease of \$0.4 million in restricted cash.

*Net Cash Used for Financing Activities*

Net cash used in financing activities for the six months ended June 30, 2016 was \$108.3 million. The use was substantially driven by payments on our long-term borrowings for \$113.7 million, including a \$100.0 million prepayment of the outstanding New Dollar Term Loan. Adding to this use were repayments of short-term borrowings of \$5.5 million as well as dividends paid to noncontrolling interests of \$1.5 million for the six months ended June 30, 2016. Offsetting these payments was cash received from stock options exercised for \$12.6 million (net of tax associated tax benefits).

*Other Impacts on Cash*

Exchange impacts on cash for the six months ended June 30, 2016 were \$8.3 million, primarily driven by the impacts on cash resulting from the change in our translation rates for our Venezuelan subsidiary of \$10.3 million, which was offset by favorable exchange impacts from other foreign currencies.

**Six months ended June 30, 2015**

*Net Cash Provided by Operating Activities*

Net cash provided by operating activities was \$5.0 million for the six months ended June 30, 2015. Net income before deducting depreciation, amortization and other non-cash items generated cash of \$290.5 million. This was partially offset by net increases in working capital of \$285.5 million. The most significant drivers in working capital were increases in trade receivables, inventory and other assets of \$212.0 million due to the seasonal timing of sales during the six months ended June 30, 2015 and increased inventory builds to support ongoing operational demands. Increases of other accrued liabilities of \$42.0 million related to payments of normal operating activities, timing of cash payments for annual employee performance related benefits, as well as restructuring costs and transition-related costs incurred during 2014 and 2015.

*Net Cash Used for Investing Activities*

Net cash used in investing activities for the six months ended June 30, 2015 was \$56.9 million. This use was substantially driven by purchases of property, plant and equipment of \$56.6 million and the acquisition of a controlling interest in an investment affiliate of \$3.1 million (net of cash received), partially offset by a decrease of \$1.9 million in restricted cash.

*Net Cash Provided by Financing Activities*

Net cash provided by financing activities for the six months ended June 30, 2015 was \$23.4 million. The change was substantially driven by cash received from stock options exercised of \$45.2 million, the recognition of a tax benefit of \$6.7 million due to stock options exercised within the quarter, and by proceeds received from short-term borrowings during the period of \$3.1 million. These were offset by repayments of short-term borrowings and Term Loans of \$13.7 million and \$13.6 million, respectively, as well as dividends paid to noncontrolling interests of \$4.1 million for the six months ended June 30, 2015.

*Other Impacts on Cash*

Exchange impacts on cash for the six months ended June 30, 2015 were \$45.8 million primarily driven by the impacts on cash resulting from the change in our translation rates for our Venezuelan subsidiary which contributed \$37.4 million.

**Financial Condition**

We had cash and cash equivalents at June 30, 2016 and December 31, 2015 of \$480.1 million and \$485.0 million, respectively. Of these balances, \$332.2 million and \$372.6 million were maintained in non-U.S. jurisdictions as of June 30, 2016 and December 31, 2015, respectively. We believe our organizational structure allows us the necessary flexibility to move funds throughout our subsidiaries to meet our operational working capital needs.

Our primary sources of liquidity are cash on hand, cash flow from operations and available borrowing capacity under our Revolving Credit Facility. Based on our forecasts, we believe that cash flow from operations, available cash on hand and available borrowing capacity under our Senior Secured Credit Facilities and existing lines of credit will be adequate to service debt, fund our cost-savings initiatives, meet liquidity needs and fund necessary capital expenditures for the next twelve months.

[Table of Contents](#)

Our ability to make scheduled payments of principal or interest on, or to refinance, our indebtedness or to fund working capital requirements, capital expenditures and other current obligations will depend on our ability to generate cash from operations. Such cash generation is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

If required, our ability to raise additional financing and our borrowing costs may be impacted by short and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on our performance as measured by certain credit metrics such as interest coverage and leverage ratios. Our highly leveraged nature may limit our ability to procure additional financing in the future.

The following table details our borrowings outstanding at the end of the periods indicated:

| (In millions)                           | June 30, 2016     | December 31, 2015 |
|---|-------------------|-------------------|
| Dollar Term Loan                        | \$ 1,931.0        | \$ 2,042.5        |
| Euro Term Loan                          | 428.9             | 428.0             |
| Dollar Senior Notes                     | 750.0             | 750.0             |
| Euro Senior Notes                       | 276.4             | 274.4             |
| Short-term and other borrowings         | 36.0              | 26.5              |
| Unamortized original issue discount     | (11.8)            | (14.0)            |
| Deferred financing costs, net           | (57.3)            | (65.9)            |
|   | <u>\$ 3,353.2</u> | <u>\$ 3,441.5</u> |
| Less:                                   |                   |                   |
| Short term borrowings                   | 27.7              | 22.7              |
| Current portion of long-term borrowings | 27.4              | 27.4              |
| Long-term debt                          | <u>\$ 3,298.1</u> | <u>\$ 3,391.4</u> |

Our indebtedness, including the Senior Secured Credit Facilities and Senior Notes, is more fully described in Note 14 to the interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

We continue to maintain sufficient liquidity to meet our requirements, including our leverage and associated interest as well as our working capital needs. At June 30, 2016 and December 31, 2015, we had total availability under the Revolving Credit Facility \$378.1 million and \$375.1 million, respectively, all of which may be borrowed by us without violating any covenants under the credit agreement governing such facility or the indentures governing the Dollar Senior Notes and the Euro Senior Notes.

The Company continues to focus on optimizing our capital structure and we are actively monitoring developments in the debt markets. We currently expect to opportunistically refinance certain indebtedness along with amending the tenure of our Revolving Credit Facility if we can do so on attractive terms and conditions.

#### Contractual Obligations

Information related to our contractual obligations can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes in the Company's contractual obligations since December 31, 2015.

**Scheduled Maturities**

Below is a schedule of required future repayments of all borrowings outstanding at June 30, 2016.

| <b>(In millions)</b> |                   |
|----------------------|-------------------|
| Remainder of 2016    | \$ 22.9           |
| 2017                 | 29.5              |
| 2018                 | 28.2              |
| 2019                 | 27.6              |
| 2020                 | 2,264.2           |
| Thereafter           | 1,026.8           |
| <b>Total</b>         | <b>\$ 3,399.2</b> |

**Off-Balance Sheet Arrangements**

We directly guarantee certain obligations under agreements with third parties. At June 30, 2016 and December 31, 2015 these off-balance sheet arrangements were not material to our interim unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

**Recent Accounting Guidance**

See Note 2 "Recent Accounting Guidance" to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a summary of recent accounting guidance.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Critical accounting policies are those accounting policies that can have a significant impact on the presentation of our financial condition and results of operations, and that require the use of complex and subjective estimates based upon past experience and management's judgment. Because of the uncertainty inherent in such estimates, actual results may differ materially from these estimates. The policies applied in preparing our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q are those that management believes are the most dependent on estimates and assumptions. There have been no material changes to our critical accounting policies and estimates previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015. For a description of our critical accounting policies and estimates as well as a listing of our significant accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" and "Note 3 - Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in the market risks previously disclosed in our financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

**ITEM 4. CONTROLS AND PROCEDURES**

*Evaluation of disclosure controls and procedures*

As required by Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

*Changes in internal control over financial reporting*

There were no changes in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

We are from time to time party to legal proceedings that arise in the ordinary course of business. We are not involved in any litigation other than that which has arisen in the ordinary course of business. We do not expect that any currently pending lawsuits will have a material effect on us.

### **ITEM 1A. RISK FACTORS**

Except for as set forth below, there have been no material changes in our risk factors from the risks previously reported in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015.

#### **Risks Related to our Global Operations**

*The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.*

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last at least two years after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. We have substantial R&D and manufacturing operations in Europe and a significant portion of our business involves cross border transactions throughout the region. We cannot predict how the British referendum or similar votes by other European Union member states will impact our operations and business. In addition, these developments, or the perception that any of them could occur, have caused and may continue to cause significant volatility in the global financial markets as well as business conditions in Europe and beyond. This volatility may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our common shares.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

See the Exhibit Index for the exhibits filed with this Quarterly Report on Form 10-Q or incorporated by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

AXALTA COATING SYSTEMS LTD.

Date: July 26, 2016

By: /s/ Charles W. Shaver

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Charles W. Shaver  
Chairman of the Board and Chief Executive Officer

Date: July 26, 2016

By: /s/ Robert W. Bryant

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Robert W. Bryant  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: July 26, 2016

By: /s/ Sean M. Lannon

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Sean M. Lannon  
Vice President Corporate Finance and Global Controller  
(Principal Accounting Officer)

**EXHIBIT INDEX**

| <b>EXHIBIT NO.</b> | <b>DESCRIPTION OF EXHIBITS</b>  |
|--------------------|---|
| 31.1               | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2               | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1††             | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 32.2††             | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |
| 101†               | INS - XBRL Instance Document  |
| 101†               | SCH - XBRL Taxonomy Extension Schema Document   |
| 101†               | CAL - XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101†               | DEF - XBRL Taxonomy Extension Definition Linkbase Document  |
| 101†               | LAB - XBRL Taxonomy Extension Label Linkbase Document   |
| 101†               | PRE - XBRL Taxonomy Extension Presentation Linkbase Document  |
| †                  | In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections.                    |
| ††                 | This certificate is being furnished solely to accompany the report pursuant to 18 U.S.C. Section 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. |

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Charles W. Shaver, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Axalta Coating Systems Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2016

By: /s/ Charles W. Shaver  
Name: Charles W. Shaver  
Title: Chairman of the Board and Chief Executive Officer



## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert W. Bryant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Axalta Coating Systems Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2016

By: /s/ Robert W. Bryant  
Name: Robert W. Bryant  
Title: Executive Vice President and Chief Financial Officer

**Certification of CEO Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Charles W. Shaver, Chairman of the Board and Chief Executive Officer of Axalta Coating Systems Ltd. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2016

By: /s/ Charles W. Shaver  
Name: Charles W. Shaver  
Title: Chairman of the Board and Chief Executive Officer

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to liability pursuant to that section. The certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of CFO Pursuant to 18 U.S.C. Section 1350,  
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

I, Robert W. Bryant, Executive Vice President and Chief Financial Officer of Axalta Coating Systems Ltd. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2016 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, 2016

By: /s/ Robert W. Bryant  
Name: Robert W. Bryant  
Title: Executive Vice President and Chief Financial Officer

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or otherwise subject to liability pursuant to that section. The certification shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.