

Q4 Report

Report for the fourth quarter and full-year 2018

AkzoNobel

**PAINT
THE
FUTURE**

We've created a major buzz in the coatings industry with the launch of our Paint the Future startup challenge. We want to combine our global scale, know-how and expertise with the ingenious solutions of startups and scale-ups across the planet. It's all about connecting with new disruptive technologies and accelerating innovation in the dynamic world of paints and coatings. www.letspaintthefuture.com

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Highlights 2018

- **Completed sale of Specialty Chemicals business on October 1, 2018; returning a total of €6.5 billion to shareholders**
- **Robust pricing initiatives and cost-saving programs successfully fueled revenue growth in constant currencies and higher profitability in the second half of the year**
- **Progress towards delivering our Winning together: 15 by 20 strategy, despite continued headwinds from adverse currencies and higher raw material costs**
- **Phase one of our transformation to create a fit-for-purpose organization fully delivered on the €110 million planned savings for 2018**
- **Next step taken in our transformation to deliver the next €200 million cost savings by 2020**
- **Strong bolt-on acquisitions including Fabryo in Romania; Xylazel in Spain; Colourland Paints in Malaysia**
- **Acquisition of minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China at opportune moment, enabling strategic flexibility**

Outlook:

We are delivering towards our Winning together: 15 by 20 strategy and continue creating a fit-for-purpose organization for a focused paints and coatings company, contributing to the achievement of our 2020 guidance.

Demand trends differ per region and segment in an uncertain macro-economic environment. Raw material inflation is expected to continue during the first half of 2019, although at a lower rate than 2018. Robust pricing initiatives and cost saving programs are in place to address the current challenges.

We continue executing our transformation to deliver the next €200 million cost savings by 2020, incurring one-off costs in 2019 and 2020.

We target a leverage ratio of between 1.0-2.0 times net debt/ EBITDA by the end of 2020 and commit to retain a strong investment grade credit rating.



* Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption

Our results at a glance

Q4 2018 highlights:

- **Revenue up 1% and up 4% in constant currencies, with positive price/mix partly offset by lower volumes**
- **Pricing initiatives contributed to positive price/mix of 9% overall in response to higher raw material cost**
- **Volumes were 7% lower (excluding China, volumes were 2% lower). Volumes in China normalized at 2016 level versus an exceptionally strong quarterly volume in Decorative Paints China last year**
- **ROS, excluding unallocated costs, was up at 9.0% (2017: 8.4%)**
- **Completed sale of Specialty Chemicals business on October 1, 2018; net profit on the sale was €5.8 billion**
- **Acquisition of Colourland Paints in Malaysia and minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China**

Q4 2018:

- Revenue 1% up, and 4% up in constant currencies, with positive price/mix partly offset by lower volumes
- Adjusted operating income was up €3 million at €181 million (2017: €178 million) driven by pricing initiatives and cost-saving programs
- Operating income at €68 million (2017: €139 million) includes €113 million adverse impact from identified items, mainly related to one-off non-cash pension costs (€57 million) based on a UK legal precedent set in October 2018 for the Guaranteed Minimum Pensions equalization regulations and transformation costs (€56 million)
- ROS, excluding unallocated costs, was 9.0% (2017: 8.4%); ROS at 7.8% was the same as 2017
- Performance Coatings ROS up at 10.9% (2017: 9.7%); higher selling prices contributed to price/mix of 11%
- Decorative Paints ROS at 5.8% (2017: 6.3%) was impacted by lower volumes in China and supported by 8% positive price/mix, driven by pricing initiatives
- Net income from total operations at €5,849 million (2017: €75 million), including discontinued operations at €5,814 million (2017: €46 million)

Full-year 2018:

- Revenue 4% lower, although up 1% in constant currencies, with positive price/mix partly offset by lower volumes
- Adjusted operating income at €798 million (2017: €905 million) impacted by adverse currencies, higher raw material costs and lower volumes, not yet fully offset by pricing initiatives and cost-saving programs
- Operating income was €605 million (2017: €825 million) and includes the adverse impact of identified items of €193 million, mainly related to transformation cost (€130 million) and one-off non-cash pension costs (€57 million)
- ROS, excluding unallocated costs, was 10.6% (2017: 10.6%); ROS at 8.6% (2017: 9.4%); ROI at 12.6% (2017: 13.9%)
- Final dividend proposed of €1.43 per share (post consolidation)

Summary of financial outcomes

Fourth quarter			January - December		
2017	2018	Δ%	in € millions	2017	2018 Δ%
2,283	2,308	1%	Revenue	9,612	9,256 (4%)
240	240	–	Adjusted EBITDA	1,181	1,037 (12%)
178	181	2%	Adjusted operating income	905	798 (12%)
139	68	(51%)	Operating income	825	605 (27%)
7.8	7.8		ROS%	9.4	8.6
6.1	2.9		OPI margin	8.6	6.5
8.4	9.0		ROS% excl. unallocated costs	10.6	10.6
			Average invested capital	6,494	6,340
			ROI%	13.9	12.6
85	54	(36%)	Capital expenditures	250	160 (36%)
			Net debt	1,951	(5,861)
			Number of employees	35,700	34,500 (3%)
302	319	6%	Net cash from operating activities - continuing operations	278	162 (42%)
29	35	21%	Net income from continuing operations	443	410 (7%)
46	5,814		Net income from discontinued operations	389	6,264
75	5,849		Net income attributable to shareholders	832	6,674
0.29	22.83		Earnings per share from total operations (in €)	3.31	26.19
0.54	0.43	(20%)	Adjusted earnings per share from continuing operations (in €)*	2.35	1.91 (19%)
0.86	0.41	(52%)	Adjusted earnings per share from total operations (in €)*	4.06	3.78 (7%)

* Represented for the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges

Financial highlights

Revenue

Q4 2018:

Revenue was 1% up, and 4% up in constant currencies. Price/mix was up 9% overall, mainly driven by higher selling prices. Volumes were 7% lower versus an exceptionally strong quarter last year in China and driven by our value over volume strategy.

- Decorative Paints revenue was up 3% in constant currencies. Price/mix was 8% positive. Pricing initiatives and acquisitions offset lower volumes
- Performance Coatings revenue was up 4% in constant currencies. Price/mix was 11% positive, driven by pricing initiatives, while volumes were lower
- Other revenue includes service revenue related to services for the Specialty Chemicals business

Full-year 2018:

Revenue was 4% lower, although up 1% in constant currencies. Volumes were 5% lower versus an exceptionally strong last year in China, and driven by our value over volume strategy.

- Decorative Paints revenue was up 1% in constant currencies. Price/mix was 4% positive. Pricing initiatives offset lower volumes
- Performance Coatings revenue was up 1% in constant currencies. Price/mix effect was 7% positive, whilst volumes were lower

Raw material price development

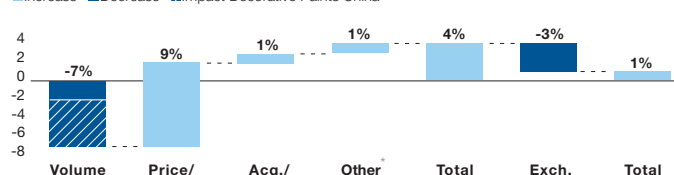
Raw material prices in 2018 were higher compared with the previous year. Robust pricing initiatives continue being implemented to deal with these higher raw material costs. Raw material inflation continued in Q4 2018, although at a slower rate than during the start of the year.

Acquisitions

The acquisition of Xylazel in Spain and Doves Decorating Supplies in the UK were completed in September 2018. The acquisition of Fabryo in Romania was completed on October 1, 2018. The acquisition of Colourland Paints in Malaysia was completed in November 2018. The acquisition of the minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China was completed in December 2018.

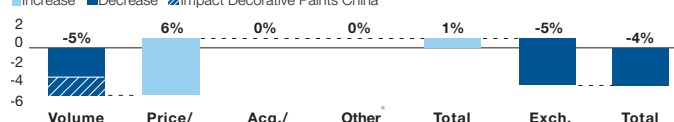
Revenue development Q4 2018

■ Increase ■ Decrease ■ Impact Decorative Paints China



Revenue development 2018

■ Increase ■ Decrease ■ Impact Decorative Paints China

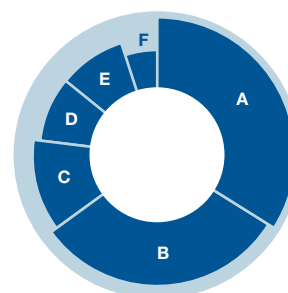


* Other includes service revenues

AkzoNobel around the world Revenue by destination

	%
A Mature Europe	34
B Asia Pacific	31
C North America	12
D South America	9
E Emerging Europe	9
F Other regions	5
	100

(Based on the full-year 2018)



Revenue

Fourth quarter

January - December

2017	2018	Δ%	Δ% CC *	in € millions	2017	2018	Δ%	Δ% CC *
923	896	(3%)	3%	Decorative Paints	3,898	3,699	(5%)	1%
1,372	1,403	2%	4%	Performance Coatings	5,775	5,587	(3%)	1%
(12)	9			Other activities/eliminations	(61)	(30)		
2,283	2,308	1%	4%	Total	9,612	9,256	(4%)	1%

in % versus Q4 2017	Volume	Price/mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(6)	8	1	–	(6)	(3)
Performance Coatings	(7)	11	–	–	(2)	2
Total	(7)	9	1	1	(3)	1

in % versus 2017	Volume	Price/mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(3)	4	–	–	(6)	(5)
Performance Coatings	(6)	7	–	–	(4)	(3)
Total	(5)	6	–	–	(5)	(4)

Volume development per quarter
(year-on-year in %)

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Decorative Paints	12	(1)	(2)	(4)	(6)
Performance Coatings	(2)	(5)	(3)	(7)	(7)
Total	3	(3)	(3)	(5)	(7)

Price/mix development per quarter
(year-on-year in %)

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Decorative Paints	(5)	–	4	5	8
Performance Coatings	–	3	5	7	11
Total	(1)	2	5	6	9

Currency development per quarter
(year-on-year in %)

	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
Decorative Paints	(4)	(7)	(6)	(6)	(6)
Performance Coatings	(5)	(8)	(5)	(3)	(2)
Total	(5)	(7)	(5)	(4)	(3)

* Change in constant currencies

Financial highlights

Q4 2018

Adjusted operating income

Adjusted operating income at €181 million (2017: €178 million) was up, driven by pricing initiatives and cost-saving programs. ROS was 7.8%, at the same level as 2017.

- Decorative Paints was lower, although up in constant currencies. Higher prices and cost savings did compensate for raw material costs and lower volumes. ROS was 5.8% (2017: 6.3%)
- Performance Coatings improved as a result of pricing initiatives and cost savings more than offsetting higher raw material costs, adverse currencies and lower volumes. ROS was up at 10.9% (2017: 9.7%)
- Other activities/eliminations was €11 million lower, as Q4 2017 was favorably impacted by one-off items related to sale of assets

Operating income

Operating income decreased €71 million and included identified items of €113 million, relating to one-off non-cash pension costs (€ 57 million) based on a UK legal precedent set in October 2018 for the Guaranteed Minimum Pensions equalization regulations and cost for the second phase of the transformation (€56 million).

Full-year 2018

Adjusted operating income

Adjusted operating income at €798 million (2017: €905 million), was impacted by adverse currencies, higher raw material costs and lower volumes, partly compensated by pricing initiatives. Savings from continuous improvement more than offset fixed cost inflation. Creating a fit-for-purpose organization fully delivered on the €110 million planned savings for 2018.

- Decorative Paints was impacted by higher raw material costs and adverse currency effects, partly compensated by higher selling prices and cost savings. ROS was 9.4% (2017: 9.0%)
- Performance Coatings was also impacted by foreign currencies, higher raw material costs, as well as lower volumes. ROS was 11.3% (2017: 11.6%)
- Other activities/eliminations decreased by €62 million. 2017 was impacted by one-off items, as well as lower pension and insurance related costs

Operating income

Operating income was negatively impacted by identified items totaling €193 million, mainly related to restructuring costs for the transformation (€130 million) and a one-off non-cash pension cost (€57 million) based on a UK legal precedent set in October 2018 for the Guaranteed Minimum Pensions equalization regulations.

Net financing income/(expenses)

Net financing expenses decreased by €26 million, mainly due to a one-off interest benefit on a tax settlement and lower interest on discounted provisions driven by discount rate developments.

Income tax

The 2018 effective tax rate was 20.6% (2017: 33.1%) mainly as a result of re-recognition of certain deferred tax assets and a tax settlement. Excluding these the 2018 effective tax rate was 28%.

Profit from discontinued operations

Included in the profit from discontinued operations is the deal result on the sale of the Specialty Chemicals business to The Carlyle Group and GLC for an enterprise value of €10.1 billion, which was completed on October 1, 2018. At year-end 2018, AkzoNobel made a best estimate of the expected deal proceeds for the sale of the Specialty Chemicals business, including the net debt/working capital settlement that is to be finalized in 2019. The profit on the sale after tax is €5.8 billion. Reference is made to page 10 for further details.

Profit from discontinued operations also includes the operational results of the Specialty Chemicals business until October 1, 2018. During that period, revenue was impacted by currencies and positive price/mix. Adjusted operating income was negatively impacted by restructuring costs related to manufacturing network optimization projects, environmental and other one-off costs and adverse currencies, partly offset by strong price/mix and productivity improvements.

Net income

Net income attributable to shareholders was €6.7 billion, of which €410 million was attributable to continuing operations and €6.3 billion to discontinued operations.

Adjusted operating income

Fourth quarter				January - December		
2017	2018	Δ%	in € millions	2017	2018	Δ%
58	52	(10%)	Decorative Paints	351	346	(1%)
133	153	15%	Performance Coatings	669	629	(6%)
(13)	(24)		Other activities/eliminations	(115)	(177)	
178	181	2%	Total	905	798	(12%)

ROS%

Fourth quarter				January - December		
2017	2018	Δ	in € millions	2017	2018	Δ
6.3%	5.8%	(0.5%)	Decorative Paints	9.0%	9.4%	0.4%
9.7%	10.9%	1.2%	Performance Coatings	11.6%	11.3%	(0.3%)
7.8%	7.8%	—	Total	9.4%	8.6%	(0.8%)
8.4%	9.0%	0.6%	excl. unallocated costs	10.6%	10.6%	—

Operating income

Fourth quarter				January - December		
2017	2018	Δ%	in € millions	2017	2018	Δ%
41	37	(10%)	Decorative Paints	334	308	(8%)
132	130	(2%)	Performance Coatings	668	577	(14%)
(34)	(99)		Other activities/eliminations	(177)	(280)	
139	68	(51%)	Total	825	605	(27%)

Operating income to net income

Fourth quarter				January - December	
2017	2018	in € millions		2017	2018
139	68	Operating income		825	605
(15)	(23)	Net financing expenses		(78)	(52)
2	6	Results from associates and joint ventures		17	20
126	51	Profit before tax		764	573
(81)	(6)	Income tax		(253)	(118)
45	45	Profit from continuing operations		511	455
47	5,814	Profit from discontinued operations		393	6,274
92	5,859	Profit for the period		904	6,729
(17)	(10)	Non-controlling interests		(72)	(55)
75	5,849	Net income		832	6,674

Decorative Paints

Highlights Q4 2018:

- **ROS at 5.8% (2017: 6.3%) with 8% positive price/mix driven by pricing initiatives**
- **Acquisition of Colourland Paints in Malaysia; minority interest share to obtain full ownership of the Swire Paints joint venture in China**
- **Volumes in China normalized to 2016 levels versus an exceptionally strong quarter last year**

Q4 2018:

- Revenue 3% lower, and 3% up in constant currencies; price/mix was 8% positive, driven by pricing initiatives, while acquisitions contributed 1%
- Adjusted operating income decreased to €52 million (2017: €58 million) and was up in constant currencies, with higher prices and cost savings compensating for raw material costs and lower volumes
- Volumes were 6% lower versus an exceptionally strong quarter last year in China and driven by our value over volume strategy (excluding China volumes were 1% lower)
- Adverse currency effects were driven by various currencies including the Argentinian peso, Brazilian real and Turkish lira
- ROS at 5.8% (2017: 6.3%)

Full-year 2018:

- Revenue 5% lower, although up 1% in constant currencies, with price/mix effects more than compensating for lower volumes versus an exceptionally strong last year in China
- Adjusted operating income of €346 million (2017: €351 million) was impacted by higher raw material costs and adverse currency effects, almost fully compensated by pricing initiatives and cost savings
- ROS increased to 9.4% (2017: 9.0%); ROS in the second half-year of 2018 increased to 9.0% (2017: 7.9%)
- ROI at 12.4% (2017: 12.5%)

Q4 2018:

Revenue was up 3% in constant currencies. Price realization continued to gain momentum and selling prices were up overall. Volumes were lower versus an exceptionally strong quarter last year in China, mainly due to continued focus on pricing initiatives.

Adjusted operating income decreased to €52 million (2017: €58 million), and was up in constant currencies. Improved pricing and cost savings offset higher raw material costs and lower volumes, resulting in ROS of 5.8% (2017: 6.3%).

Operating income was adversely impacted by €15 million identified items relating to the transformation of the organization.

Full-year 2018:

Revenue was 5% lower, although up 1% in constant currencies. Price/mix effects were up 4% overall. Volumes were 3% lower, driven by our value over volume strategy and versus an exceptionally strong last year.

Adjusted operating income was €5 million lower, and up in constant currencies. Higher selling prices and cost savings offset higher raw material costs.

Operating income was impacted by €38 million identified items relating to the transformation of the organization.

Revenue

Fourth quarter

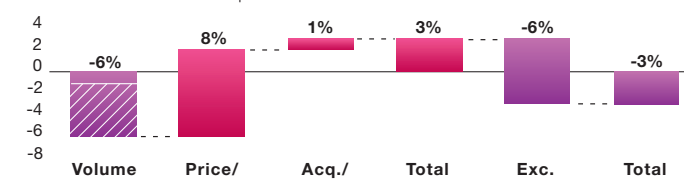
January - December

2017	2018	Δ%	Δ% CC ¹	in € millions	2017	2018	Δ%	Δ% CC ¹
443	465	5%	6%	Decorative Paints Europe, Middle East and Africa	2,095	2,093	-	2%
154	138 ²	(12%)	7%	Decorative Paints Latin America	520	468 ²	(10%)	10%
328	295	(10%)	(7%)	Decorative Paints Asia	1,289	1,144	(11%)	(7%)
(2)	(2)			Other/intragroup eliminations	(6)	(6)		
923	896	(3%)	3%	Total	3,898	3,699	(5%)	1%

¹ Change in constant currencies² Including positive impact of hyperinflation accounting as per IAS 29 for our Argentinian operations

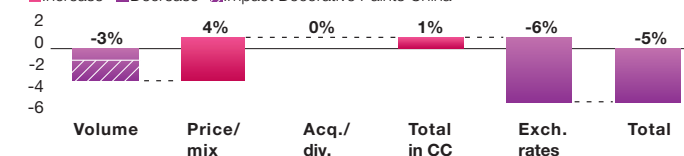
Revenue development Q4 2018

■ Increase ■ Decrease ■ Impact Decorative Paints China



Revenue development 2018

■ Increase ■ Decrease ■ Impact Decorative Paints China



Key financial figures

Fourth quarter

January - December

2017	2018	Δ%	in € millions	2017	2018	Δ%
58	52	(10%)	Adjusted operating income	351	346	(1%)
41	37	(10%)	Operating income	334	308	(8%)
6.3	5.8		ROS%	9.0	9.4	
			Average invested capital	2,803	2,798	
			ROI%	12.5	12.4	

Decorative Paints

Europe, Middle East and Africa

Revenue in Q4 was up 5%, and up 6% in constant currencies. Price increases are taking effect, while volumes were lower.

Adverse currency impacts were mainly driven by the Turkish lira.

The acquisition of Fabryo in Romania, Xylazel in Spain and Doves Decorating Supplies in the UK contributed 1% to Q4 revenues.

Full-year revenue was flat, although up 2% in constant currencies, driven by volume growth and positive price/mix effects.

Latin America

Revenue in Q4 was 12% lower, although up 7% in constant currencies, mainly driven by positive price/mix effects. Pricing initiatives and cost control offset increased raw material costs.

Full-year revenue was 10% lower, although up 10% in constant currencies. Adverse currency impact was driven by the Brazilian real and the Argentinian peso, which was partly offset by the application of IAS 29 for hyperinflation accounting.

Asia

Revenue in Q4 was 10% lower and 7% lower in constant currencies. Selling prices increased, as a result of continued focus on pricing initiatives. Volumes were lower in China versus an exceptionally strong quarter last year and grew in India, Malaysia and Vietnam.

Full-year revenue was 11% lower, and 7% lower in constant currencies. Adverse currency effects resulted from most Asian currencies. Volumes in China were lower, while growth continued in India, Malaysia and Vietnam.

The acquisition of Colourland Paints in Malaysia to strengthen the business in Asia was announced and closed in November 2018.

The acquisition of minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China was announced and closed in December 2018.



Asian acquisitions underline commitment to key markets

Two transactions in the final months of 2018 highlighted our continued focus on further strengthening our positions in Asia. In December, we acquired the minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture, giving us greater control over our future growth and direction. A month earlier, we acquired Colourland Paints in Malaysia, which will boost our growth ambitions in the country itself and throughout South East Asia.

Performance Coatings

Highlights Q4 2018:

- **ROS up at 10.9% (2017: 9.7%) with a price/mix of 11%, driven by pricing initiatives**
- **Marine and Protective Coatings revenue was up 5% in constant currencies; profitability improved due to cost savings and pricing actions**
- **Powder Coatings continued the positive trend with growth of 6% in constant currencies**

Q4 2018:

- Revenue 2% up and up 4% in constant currencies, with 11% positive price/mix driven by pricing initiatives
- Adjusted operating income was up €20 million at €153 million (2017: €133 million) mainly driven by pricing initiatives and cost control more than offsetting adverse currencies, higher raw material costs and lower volumes
- ROS at 10.9% (2017: 9.7%)

Full-year 2018:

- Revenue was 3% lower, although up 1% in constant currencies, mainly due to positive price/mix, partially offset by lower volumes
- Adjusted operating income at €629 million (2017: €669 million) due to adverse currencies, higher raw material costs and lower volumes, partly compensated by pricing initiatives, continuous improvement and cost savings
- ROS at 11.3% (2017: 11.6%); ROS in the second half-year increased to 11.5% (2017: 10.0%)
- ROI at 20.5% (2017: 23.4%)

Q4 2018:

Revenue was up 2% and up 4% in constant currencies. Pricing initiatives continued to gain traction. Volumes were lower in all segments.

Adjusted operating income increased as pricing initiatives and cost control more than offset adverse currencies, higher raw material costs and lower volumes.

Operating income was adversely impacted by €23 million identified items relating to the transformation of the organization.

Full-year 2018:

Revenue was 3% lower and up 1% in constant currencies. Pricing initiatives continued to gain traction, with further increases planned. Volumes were lower.

Adjusted operating income decreased. The impact of pricing initiatives, asset network optimization and cost control did not yet fully offset adverse currencies, higher raw material costs and lower volumes.

Operating income was adversely impacted by €52 million identified items relating to the transformation of the organization.

Revenue

Fourth quarter

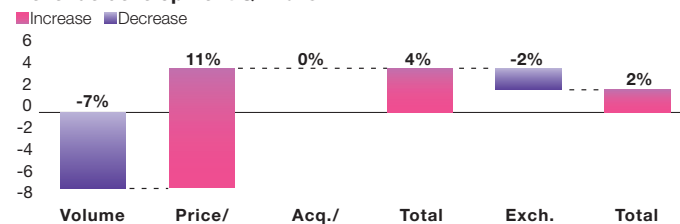
January - December

2017 ¹	2018	Δ%	Δ% CC ²	in € millions	2017 ¹	2018	Δ%	Δ% CC ²
296	307	4%	6%	Powder Coatings	1,173	1,218	4%	8%
320	333	4%	5%	Marine and Protective Coatings	1,424	1,291	(9%)	(5%)
353	341	(3%)	(2%)	Automotive and Specialty Coatings	1,426	1,392	(2%)	2%
419	421	—	3%	Industrial Coatings	1,805	1,738	(4%)	1%
(16)	1			Other/intragroup eliminations	(53)	(52)		
1,372	1,403	2%	4%	Total	5,775	5,587	(3%)	1%

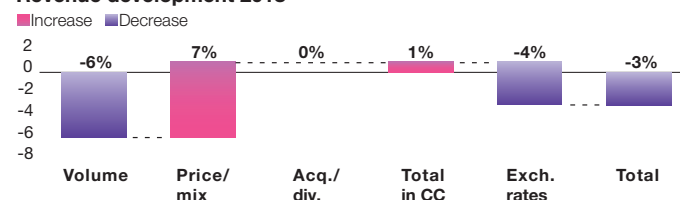
¹ 2017 figures have been represented for the new business unit structure

² Change in constant currencies

Revenue development Q4 2018



Revenue development 2018



Key financial figures

Fourth quarter

January - December

2017	2018	Δ%	in € millions	2017	2018	Δ%
133	153	15%	Adjusted operating income	669	629	(6%)
132	130	(2%)	Operating income	668	577	(14%)
9.7	10.9		ROS%	11.6	11.3	
			Average invested capital	2,860	3,066	
			ROI%	23.4	20.5	

Performance Coatings

Powder Coatings

Revenue in Q4 was up 4% and up 6% in constant currencies. Growth was supported by new applications and pricing initiatives.

Full-year revenue was up 4%, and up 8% in constant currencies, due to volume growth and positive price/mix effects.

The acquisition of the V. Powdertech business in Thailand in 2017 helped to fuel growth and strengthen our leading powder coatings business in South East Asia.

Marine and Protective Coatings

Revenue in Q4 was up 4%, and 5% higher in constant currencies. Continued focus on pricing initiatives and cost-saving programs increased profitability. Demand stabilized.

Full-year revenue was 9% lower, and 5% lower in constant currencies, due to lower volumes.

We continue to implement measures focused on restructuring and right sizing.

Automotive and Specialty Coatings

Revenue in Q4 was 3% lower and 2% lower in constant currencies due to lower volumes, partly offset by positive price/mix. Aerospace Coatings revenue was driven by strong demand and customer wins, while Specialty Coatings was impacted by softer demand, especially in Asia.

Full-year revenue was 2% lower, although up 2% in constant currencies, due to favorable price/mix and the acquisition of Disa Technology (Disatech) in 2017 offsetting lower volumes.

Industrial Coatings

Revenue in Q4 was flat and up 3% in constant currencies as a result of continued focus on pricing initiatives. Price/mix effects more than offset lower volumes. Volumes for Packaging Coatings were higher due to customer line wins with our next generation product.

Full-year revenue was 4% lower, although up 1% in constant currencies. Positive price/mix more than offset lower volumes. Demand differed per region and segment.



Awlgrip HDT offers extreme performance for yacht owners

Yacht owners can now benefit from advanced coatings technology which passed the ultimate test during the latest edition of the Volvo Ocean Race. Our new Awlgrip HDT (high definition technology) polyurethane clearcoat is not only more durable and abrasion resistant than current market offerings, but it's also repairable and lower in VOCs (volatile organic compounds).

Discontinued operations (including Specialty Chemicals)

The sale of the Specialty Chemicals business was completed on October 1, 2018

Discontinued operations and held for sale

The results and cash flows from discontinued operations in 2018, as well as 2017, almost completely relate to the Specialty Chemicals business. The balance sheet at divestment date relates to the Specialty Chemicals business.

This business consists of the former Specialty Chemicals activities and certain other assets and liabilities and income and expenses which are directly attributed to the Specialty Chemicals business from the Other activities. As from December 22, 2017, the Specialty Chemicals business is classified as held for sale and discontinued operations, therefore the consolidated statement of income for 2017 has been represented to show the results of the Specialty Chemicals business as discontinued operations. The sale of the Specialty Chemicals business closed on October 1, 2018; hence in this report the business is included as discontinued operations until October 1, 2018.

Profit and loss discontinued operations

Fourth quarter		in € millions	January-December	
2017	2018		2017	2018
1,222	–	Revenues	4,963	3,791
(1,123)	4	Expenses	(4,402)	(3,158)
99	4	Profit before tax	561	633
(52)	(1)	Income tax	(168)	(168)
47	3	Profit for the period after tax	393	465
1	–	Results related to discontinued operations in previous years	1	(2)
(1)	–	Tax related to discontinued operations in previous years	(1)	–
47	3	Profit for the period	393	463
–	5,811	Gain on the sale of the Specialty Chemicals Business	–	5,811
47	5,814	Total profit for the period from discontinued operations	393	6,274

Deal result

Included in the profit from discontinued operations is the deal result on the sale of the Specialty Chemicals business to The Carlyle Group and GIC for an enterprise value of €10.1 billion, which was completed on October 1, 2018. At year-end 2018, AkzoNobel made a best estimate of the expected deal proceeds for the sale of the Specialty Chemicals business, including the net debt/working capital settlement that is to be finalized in 2019. The deal result after tax is €5.8 billion.

Deal result

In € millions	2018
Consideration for shares sold	8,284
Net assets and liabilities	(2,112)
Liabilities assumed, cost allocated, recycling of currency translation and cash flow hedge reserves and taxes	(361)
Deal result after tax	5,811

Cash flows from discontinued operations

Fourth quarter		in € millions	January-December	
2017	2018		2017	2018
227	(76)	Net cash from operating activities	691	351
(117)	9,000*	Net cash from investing activities	(354)	8,723*
332	–	Net cash from financing activities	323	(116)
442	8,924	Cash flows from discontinued operations	660	8,958

* Including the cash inflow from the divestment of €9,321 million

Cash inflow from divestment

In € millions	2018
Consideration for shares sold	8,284
Repayment of intercompany loan indebtedness	1,037
Total cash inflow	9,321

Specialty Chemicals business

Profit from discontinued operations also includes the operational results of the Specialty Chemicals business until October 1, 2018. During that period, revenue was impacted by currencies and positive price/mix. Adjusted operating income was negatively impacted by restructuring costs related to manufacturing network optimization projects, environmental and other one-off costs and adverse currencies, partly offset by strong price/mix and productivity improvements.

Balance sheet at divestment date

In € millions	2018
Intangible assets	796
Property, plant and equipment	2,490
Financial non-current assets	253
Inventories	540
Other current assets	283
Non-current liabilities	(792)
Short-term borrowings	(232)
Other current liabilities	(1,226)
Net assets and liabilities	2,112

Assets and liabilities held for sale

In € millions	December 31, 2017	December 31, 2018
Intangible assets	787	–
Property, plant and equipment	2,266	–
Financial non-current assets	205	–
Inventories	503	–
Receivables	840	–
Assets held for sale	4,601	–
Non-current liabilities	765	–
Short-term borrowings	341	–
Current payables	1,090	–
Liabilities held for sale	2,196	–

Condensed consolidated financial statements

Condensed consolidated statement of income

The Specialty Chemicals business is reported as discontinued operations. Therefore, the results of the Specialty Chemicals business and the deal result on the sale of the Specialty Chemicals business are presented on the line Profit for the period from discontinued operations in the consolidated statement of income.

Condensed consolidated statement of income

Fourth quarter			January-December	
2017	2018	in € millions	2017	2018
Continuing operations				
2,283	2,308	Revenue	9,612	9,256
(1,300)	(1,357)	Cost of sales	(5,378)	(5,329)
983	951	Gross profit	4,234	3,927
(840)	(879)	SG&A costs	(3,370)	(3,318)
(4)	(4)	Other results	(39)	(4)
139	68	Operating income	825	605
(15)	(23)	Net financing expenses	(78)	(52)
2	6	Results from associates and joint ventures	17	20
126	51	Profit before tax	764	573
(81)	(6)	Income tax	(253)	(118)
45	45	Profit for the period from continuing operations	511	455
Discontinued operations				
47	5,814	Profit for the period from discontinued operations	393	6,274
92	5,859	Profit for the period	904	6,729
Attributable to				
75	5,849	Shareholders of the company	832	6,674
17	10	Non-controlling interests	72	55
92	5,859	Profit for the period	904	6,729

Q4 Operating income

Operating income decreased €71 million and included identified items relating to one-off non-cash pension costs (€57 million) based on a UK legal precedent set in October 2018 for the Guaranteed Minimum Pensions equalization regulations and cost for the second phase of the transformation (€56 million).

Condensed consolidated statement of comprehensive income

The consolidated statement of comprehensive income includes both continuing and discontinued operations.

Condensed consolidated statement of comprehensive income

Fourth quarter			January-December	
2017	2018	in € millions	2017	2018
92	5,859	Profit for the period	904	6,729
Other comprehensive income				
(79)	103	Exchange differences arising on translation of foreign operations	(535)	(110)
7	(66)	Cash flow hedges	16	(20)
634	(17)	Post-retirement benefits	479	(23)
(86)	49	Tax relating to components of other comprehensive income	(108)	46
476	69	Other comprehensive income for the period (net of tax)	(148)	(107)
568	5,928	Comprehensive income for the period	756	6,622
Comprehensive income for the period attributable to				
551	5,905	Shareholders of the company	722	6,578
17	23	Non-controlling interests	34	44
568	5,928	Comprehensive income for the period	756	6,622

Condensed consolidated balance sheet

The assets and liabilities of the Specialty Chemicals business, divested as per October 1, 2018 are reported on the line Assets held for sale and Liabilities held for sale in the balance sheet of December 31, 2017.

Condensed consolidated balance sheet

in € millions	December 31, 2017	December 31, 2018
Assets		
Non-current assets		
Intangible assets	3,409	3,458
Property, plant and equipment	1,832	1,748
Other financial non-current assets	1,894	1,965
Total non-current assets	7,135	7,171
Current assets		
Inventories	1,094	1,139
Trade and other receivables	1,964	2,141
Other current assets	62	74
Short-term investments	–	5,460
Cash and cash equivalents	1,322	2,799
Assets held for sale	4,601	–
Total current assets	9,043	11,613
Total assets	16,178	18,784
Equity and liabilities		
Group equity		
	6,307	12,038
Non-current liabilities		
Provisions and deferred tax liabilities	1,249	1,267
Long-term borrowings	2,300	1,799
Total non-current liabilities	3,549	3,066
Current liabilities		
Short-term borrowings	973	599
Trade and other payables	2,794	2,645
Other short-term liabilities	359	436
Liabilities held for sale	2,196	–
Total current liabilities	6,322	3,680
Total equity and liabilities	16,178	18,784

Shareholders' equity

Shareholders' equity increased from €5.9 billion at year-end 2017 to €11.8 billion at the end of December 31, 2018, mainly due to the net effect of:

- Net income of €6,674 million, including net income from discontinued operations of €6,264 million
- Dividend payments of €390 million
- Adverse currency effects of €82 million (including taxes)
- Goodwill related to the buy-out of non-controlling interests of €223 million

Dividend

Our dividend policy is to pay a stable to rising dividend. In 2018, an interim dividend of €0.37 per share (2017: €0.56) was paid.

In line with our announcement on April 19, 2017, we intend to return the vast majority of the net proceeds from the separation of the Specialty Chemicals business to our shareholders:

- The Extraordinary General Meeting of November 13, 2018, approved to return an amount of €2.0 billion to shareholders by means of a capital repayment and share consolidation which was executed in January 2019. A share consolidation ratio of 9:8 was applied.
- We will distribute €1.0 billion by means of a special cash dividend of €4.50 per common share (post consolidation) on February 25, 2019.
- A share buyback program to repurchase common shares up to the value of €2.5 billion is due to be completed at the end of 2019. We intend to cancel these shares after repurchase.

We propose a 2018 final dividend of €1.43 per share (post consolidation), which would equal a total 2018 dividend of €1.80 (2017: €2.50, including €0.85 related to the Specialty Chemicals business) per share.

Please refer to the final page of this report for dividend payment dates.

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Cumulative translation reserves	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
Balance at January 1, 2017	504	746	3	(47)	5,347	6,553	481	7,034
Profit for the period	–	–	–	–	832	832	72	904
Other comprehensive income	–	–	12	(502)	380	(110)	(38)	(148)
Comprehensive income for the period	–	–	12	(502)	1,212	722	34	756
Dividend	4	180	–	–	(1,471)	(1,287)	(73)	(1,360)
Equity-settled transactions	–	–	–	–	37	37	–	37
Issue of common shares	2	(2)	–	–	–	–	–	–
Share repurchase	(5)	(155)	–	–	–	(160)	–	(160)
Balance at December 31, 2017	505	769	15	(549)	5,125	5,865	442	6,307
Balance at December 31, 2017	505	769	15	(549)	5,125	5,865	442	6,307
Impact adoption IFRS 9	–	–	–	–	(3)	(3)	–	(3)
Impact adoption IFRS 15	–	–	–	–	(48)	(48)	(5)	(53)
Impact application IAS 29	–	–	–	23	–	23	–	23
Balance at January 1, 2018	505	769	15	(526)	5,074	5,837	437	6,274
Profit for the period	–	–	–	–	6,674	6,674	55	6,729
Other comprehensive income	–	–	(15)	(82)	1	(96)	(11)	(107)
Comprehensive income for the period	–	–	(15)	(82)	6,675	6,578	44	6,622
Dividend	5	191	–	–	(586)	(390)	(57)	(447)
Equity-settled transactions	–	–	–	–	32	32	–	32
Issue of common shares	2	(2)	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	(223)	(223)	(220)	(443)
Balance at December 31, 2018	512	958	–	(608)	10,972	11,834	204	12,038

Invested capital

Invested capital of continuing operations at the end of December 31, 2018, totaled €6.2 billion, up €0.2 billion from year-end 2017. Operating working capital as percentage of revenue increased to 12.3% in Q4 2018 compared with 10.2% in Q4 2017, mainly due to higher trade receivables and increased inventories, driven by higher raw material costs.

Pensions

The net balance sheet position (IAS19) of the pension plans at the year-end 2018 was a surplus of €0.4 billion (year-end 2017: a surplus of €0.4 billion).

The development during 2018 was the result of the net effect of:

- Top-up payments of €187 million
- Higher discount rates in key countries
- Net demographic assumption gains

Offset by:

- Lower asset returns and higher inflation in key countries
- Cost of equalizing benefits due to Guaranteed Minimum Pensions (regulations in the UK following a precedent set in court (€57 million))

In February 2019, negotiations on the triennial review of the main UK defined benefit pension schemes were concluded. A total of £432 million (€481 million) of cash payments have been agreed in relation to deficit recovery plans for the ICI Pension Fund and Akzo Nobel (CPS) Pension Scheme, including £142 million (€158 million) of pre-funding into an escrow account for the Akzo Nobel (CPS) Pension Scheme. This is in addition to a top-up payment of £125 million (€139 million) which was paid in January 2019, in accordance with the previously agreed recovery plan.

Workforce

At December 31, 2018, the number of people employed in the continuing operations was 34,500 (year-end 2017: 35,700), including around 850 employees added from acquisitions during the year.

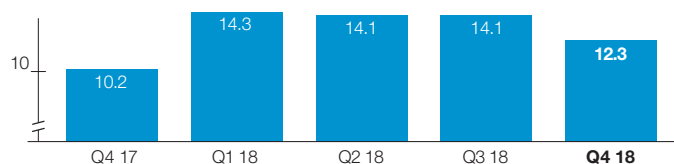
Invested capital (continuing operations)

in € millions	December 31, 2017*	December 31, 2018
Trade receivables	1,699	1,843
Inventories	1,094	1,139
Trade payables	(1,866)	(1,843)
Operating working capital	927	1,139
Other working capital items	(719)	(655)
Non-current assets	7,135	7,171
Less investments in associates and joint ventures	(118)	(137)
Less pension assets	(895)	(947)
Deferred tax liabilities	(285)	(368)
Invested capital	6,045	6,203

* The assets and liabilities of the Specialty Chemicals business are classified as held for sale as from December 22, 2017. These assets and liabilities are therefore not included in the invested capital as per December 31, 2017

Operating working capital (continuing operations)

In % of revenue



Boeing partnership reaches milestone

Special aircraft livery was developed to mark a major milestone in our paint partnership with Boeing. To celebrate the delivery of Boeing's 787th 787 aircraft, our industry-leading base coat/clear coat system was used as part of a one-off design painted onto the landmark plane, which was ordered by China Southern Airlines. Boeing also hit another milestone recently, delivering its 1,000th new aircraft to have been painted with our unrivalled Aerodur 3001/3002 paint system.

Cash flows and net debt

Operating activities in Q4 2018 resulted in an inflow of €319 million (2017: €302 million). This was mainly driven by higher working capital inflow compared with 2017.

Investing activities in Q4 2018 resulted in an outflow of €5,559 million, mainly driven by investment of the cash proceeds for the sale of the Specialty Chemicals business in short-term investments.

At December 31, 2018, net debt was € 5,861 million negative versus €1,951 million positive at year-end 2017. The decrease was mainly driven by the receipt of the cash proceeds for the sale of the Specialty Chemicals business.

Outlook

We are delivering towards our Winning together: 15 by 20 strategy and continue creating a fit-for-purpose organization for a focused paints and coatings company, contributing to the achievement of our 2020 guidance.

Demand trends differ per region and segment in an uncertain macro-economic environment. Raw material inflation is expected to continue during the first half of 2019, although at a lower rate than 2018. Robust pricing initiatives and cost-saving programs are in place to address the current challenges.

We continue executing our transformation to deliver the next €200 million cost savings by 2020, incurring one-off costs in 2019 and 2020.

We target a leverage ratio of between 1.0-2.0 times net debt/ EBITDA by the end of 2020 and commit to retain a strong investment grade credit rating.

Amsterdam, February 13, 2019 The Board of Management

Thierry Vanlancker
Maarten de Vries

Condensed consolidated statements of cash flows

Fourth quarter		in € millions	January-December	
2017*	2018		2017*	2018
1,032	952	Net cash and cash equivalents at beginning of period	1,441	1,278
45	45	Profit for the period	511	455
62	59	Amortization and depreciation	276	239
239	250	Changes in working capital	(105)	(177)
(9)	45	Changes in provisions	(338)	(203)
(44)	(48)	Interest paid	(81)	(89)
(62)	(53)	Income tax paid	(266)	(164)
71	21	Other changes	281	101
302	319	Net cash from operating activities	278	162
(85)	(54)	Capital expenditures	(250)	(160)
(11)	(80)	Acquisitions and divestments net of cash acquired	(39)	(74)
–	(5,541)	Investment in short-term investments	–	(5,541)
–	76	Other changes	5	107
(96)	(5,599)	Net cash from investing activities	(284)	(5,668)
559	(1,340)	Changes from borrowings	585	(922)
(960)	(135)	Dividend paid	(1,184)	(636)
–	–	Share repurchase	(160)	–
–	(407)	Buy-out of non-controlling interests	–	(437)
–	3	Other changes	–	5
(401)	(1,879)	Net cash from financing activities	(759)	(1,990)
(195)	(7,159)	Net cash used for continuing operations	(765)	(7,496)
442	8,924	Cash flows from discontinued operations	660	8,958
247	1,765	Net change in cash and cash equivalents of continued and discontinued operations	(105)	1,462
(1)	15	Effect of exchange rate changes on cash and cash equivalents	(58)	(8)
1,278	2,732	Net Cash and cash equivalents at December 31	1,278	2,732

* Represented to present the Specialty Chemicals business as discontinued operations

Paints and Coatings (continuing operations)

Quarterly statistics

	Q1	Q2	Q3	Q4	2017 year	in € millions	Q1	Q2	Q3	Q4	2018 year-to-date
Revenue											
	922	1,046	1,007	923	3,898	Decorative Paints	846	1,006	951	896	3,699
	1,471	1,504	1,428	1,372	5,775	Performance Coatings	1,342	1,454	1,388	1,403	5,587
	(16)	(17)	(16)	(12)	(61)	Other activities/eliminations	(12)	(14)	(13)	9	(30)
	2,377	2,533	2,419	2,283	9,612	Total	2,176	2,446	2,326	2,308	9,256
Adjusted EBITDA (excluding identified items)											
	109	152	124	87	472	Decorative Paints	79	145	138	76	438
	225	242	185	165	817	Performance Coatings	169	207	204	187	767
	(53)	(28)	(15)	(12)	(108)	Other activities/eliminations	(39)	(67)	(39)	(23)	(168)
	281	366	294	240	1,181	Total	209	285	303	240	1,037
	11.8	14.4	12.2	10.5	12.3	Adjusted EBITDA margin (in %)	9.6	11.7	13.0	10.4	11.2
Depreciation											
	(23)	(23)	(23)	(22)	(91)	Decorative Paints	(18)	(18)	(17)	(19)	(72)
	(25)	(27)	(26)	(27)	(105)	Performance Coatings	(26)	(26)	(24)	(25)	(101)
	(3)	(1)	(1)	(1)	(6)	Other activities/eliminations	(2)	(2)	(4)	–	(8)
	(51)	(51)	(50)	(50)	(202)	Total	(46)	(46)	(45)	(44)	(181)
Amortization											
	(9)	(8)	(6)	(7)	(30)	Decorative Paints	(5)	(4)	(6)	(5)	(20)
	(13)	(13)	(12)	(5)	(43)	Performance Coatings	(9)	(9)	(10)	(9)	(37)
	–	–	(1)	–	(1)	Other activities/eliminations	–	(1)	1	(1)	(1)
	(22)	(21)	(19)	(12)	(74)	Total	(14)	(14)	(15)	(15)	(58)
Adjusted operating income (excluding identified items)											
	77	121	95	58	351	Decorative Paints	56	123	115	52	346
	187	202	147	133	669	Performance Coatings	134	172	170	153	629
	(56)	(29)	(17)	(13)	(115)	Other activities/eliminations	(41)	(70)	(42)	(24)	(177)
	208	294	225	178	905	Total	149	225	243	181	798
	8.8	11.6	9.3	7.8	9.4	ROS%	6.8	9.2	10.4	7.8	8.6
	11.1	12.8	10.0	8.4	10.6	ROS% excluding unallocated costs	8.7	12.1	12.3	9.0	10.6

Paints and Coatings (continuing operations)

Quarterly statistics

2017					2018					
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Q3	Q4	year-to-date
Operating income										
77	121	95	41	334	Decorative Paints	48	111	112	37	308
187	202	147	132	668	Performance Coatings	121	162	164	130	577
(56)	(60)	(27)	(34)	(177)	Other activities/eliminations	(61)	(81)	(39)	(99)	(280)
208	263	215	139	825	Total	108	192	237	68	605
Identified items per Business Area										
–	–	–	(17)	(17)	Decorative Paints	(8)	(12)	(3)	(15)	(38)
–	–	–	(1)	(1)	Performance Coatings	(13)	(10)	(6)	(23)	(52)
–	(31)	(10)	(21)	(62)	Other activities/eliminations	(20)	(11)	3	(75)	(103)
–	(31)	(10)	(39)	(80)	Total	(41)	(33)	(6)	(113)	(193)
Reconciliation net financing income/(expenses)										
6	6	3	8	23	Financing income	6	5	3	2	16
(22)	(22)	(23)	(23)	(90)	Financing expenses	(22)	(22)	(24)	(24)	(92)
(16)	(16)	(20)	(15)	(67)	Net interest on net debt	(16)	(17)	(21)	(22)	(76)
Other interest movements										
(1)	(2)	(1)	(3)	(7)	Financing expenses related to post-retirement benefits	2	3	2	3	10
(2)	(2)	(14)	2	(16)	Interest on provisions	–	(1)	–	(2)	(3)
2	5	4	1	12	Other items	33	(13)	(1)	(2)	17
(1)	1	(11)	–	(11)	Net other financing charges	35	(11)	1	(1)	24
(17)	(15)	(31)	(15)	(78)	Net financing expenses	19	(28)	(20)	(23)	(52)
Quarterly net income analysis										
6	6	3	2	17	Results from associates and joint ventures	4	6	4	6	20
197	254	187	126	764	Profit before tax	131	170	221	51	573
(52)	(63)	(57)	(81)	(253)	Income tax	1	(47)	(66)	(6)	(118)
145	191	130	45	511	Profit for the period from continuing operations	132	123	155	45	455
26	25	30	64	33	Effective tax rate (in %)	(1)	28	30	12	21

AkzoNobel (continuing and discontinued operations)

Quarterly statistics

	Q1	Q2	Q3	Q4	2017 year		Q1	Q2	Q3	Q4	2018 year-to-date
Earnings per share from continuing operations (in €)											
	0.50	0.67	0.48	0.11	1.76	Basic	0.47	0.42	0.58	0.14	1.61
	0.50	0.67	0.48	0.11	1.75	Diluted	0.47	0.42	0.58	0.14	1.60
Earnings per share from discontinued operations (in €)											
	0.46	0.53	0.38	0.18	1.55	Basic	0.53	0.64	0.60	22.69	24.58
	0.45	0.53	0.37	0.18	1.54	Diluted	0.53	0.64	0.59	22.61	24.47
Earnings per share from total operations (in €)											
	0.96	1.20	0.86	0.29	3.31	Basic	1.00	1.06	1.18	22.83	26.19
	0.95	1.20	0.85	0.29	3.29	Diluted	1.00	1.06	1.17	22.75	26.07
Number of shares (in millions)											
	251.3	251.1	251.9	252.3	251.6	Weighted average number of shares	252.9	254.5	255.8	256.2	254.9
	252.6	254.3	251.9	252.6	252.6	Number of shares at end of quarter	253.2	255.8	255.8	256.2	256.2
Adjusted earnings from continuing operations (in € millions) *											
	197	254	187	126	764	Profit before tax from continuing operations	131	170	221	51	573
	–	31	10	39	80	Identified items reported in operating income	41	33	6	113	193
	–	–	–	–	–	Interest on tax settlement	(31)	1	–	–	(30)
	(52)	(68)	(53)	(12)	(185)	Adjusted income tax	(39)	(55)	(67)	(43)	(204)
	(19)	(23)	(9)	(17)	(68)	Non-controlling interests	(13)	(16)	(6)	(10)	(45)
	126	194	135	136	591	Adjusted net income from continuing operations	89	133	154	111	487
	0.50	0.78	0.53	0.54	2.35	Adjusted earnings per share from continuing operations (in €)	0.35	0.52	0.60	0.43	1.91
Adjusted earnings from total operations (in € millions) *											
	362	430	307	225	1,324	Profit before tax from total operations	320	404	425	6,129	7,278
	–	20	45	64	129	Identified items reported in operating income	55	41	21	(5,969)	(5,852)
	–	–	–	–	–	Interest on tax settlement	(31)	1	–	–	(30)
	(101)	(110)	(93)	(55)	(359)	Adjusted income tax	(87)	(125)	(121)	(45)	(378)
	(21)	(24)	(10)	(17)	(72)	Non-controlling interests	(21)	(17)	(7)	(10)	(55)
	240	316	249	217	1,022	Adjusted net income from total operations	236	304	318	105	963
	0.96	1.26	0.99	0.86	4.06	Adjusted earnings per share from total operations (in €)	0.93	1.19	1.24	0.41	3.78

* Represented for the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges

Notes to the condensed financial statements

General information

Akzo Nobel N.V. is a public limited liability company headquartered in Amsterdam, the Netherlands. The condensed consolidated financial statements include the financial statements of Akzo Nobel N.V. and its consolidated subsidiaries (hereafter referred to as "AkzoNobel", "Group" or "the company").

The company was incorporated under the laws of the Netherlands and is listed on Euronext Amsterdam.

Basis of preparation

All quarterly figures are unaudited. The interim condensed consolidated financial statements have been prepared in accordance with IAS 34. The condensed consolidated financial statements were discussed and approved by the Board of Management and Supervisory Board. These condensed financial statements have been authorized for issue.

The full-year 2018 numbers included in the condensed consolidated financial statements are derived from the financial statements 2018. The financial statements have not yet been published by law and still have to be adopted by the Annual General Meeting of shareholders. In accordance with Article 393 of Book 2 of the Dutch Civil Code, PricewaterhouseCoopers Accountants N.V. has issued an unqualified auditor's opinion on these financial statements, which will be published on March 7, 2019.

Accounting policies and restatements

The significant accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in AkzoNobel's consolidated financial statements for the year ended December 31, 2017, except for the following changes in accounting policies and disclosures:

IFRS 15, "Revenue from contracts with customers", replaces pre-existing revenue recognition guidance in IFRS. Further information on the implementation of IFRS 15, is included on page 19 of this report.

IFRS 9, "Financial Instruments" introduces new requirements for classifying and measuring financial assets and liabilities. This standard encompasses an overall change of accounting principles for financial instruments and replaces IAS 39 – the current standard on financial instruments. The standard contains new requirements for impairment of financial assets and for hedge accounting. AkzoNobel has adopted IFRS 9 as per January 1, 2018, and has not restated its 2017 comparative figures. The transition effect on group equity as per January 1, 2018, is €3 million negative after tax. The impact on the interim condensed consolidated financial statements is not significant.

The impact of the adoption of IFRS 9, IFRS 15 and application of IAS 29 has been reflected in the table below "Impact of adoption of IFRS 9 and IFRS 15 and application of IAS 29".

Furthermore, IFRS 16 "Leases" is an important upcoming change. We expect that adoption of the standard as per January 1, 2019, will result in recognition of the Right-of-use assets of approximately €350 million, a financial lease receivable of €20 million and additional lease liabilities of €370 million. In addition, assets with a book value of €59 million will be reclassified to Right-of-use assets, including amongst others current finance leases. The operating lease expenses, previously recorded in operating income, will be replaced by the depreciation charge of the right-of-use assets. The interest charge on the lease liability will be recorded in Financing income and expenses. The net effect of these changes will be not significant. The payments for the operating leases, currently in the cash flow from operating activities, will be included in the cash flow from financing activities. The company is still in the process of finalizing the review of all input and assumptions for the calculation of the opening balance sheet adjustments, including among others lease contracts concluded in late 2018, discount rates and the assessment whether contracts contain a lease. Finalization of this review may still result in changes to these opening entries in the course of 2019.

IAS 29, "Financial Reporting in Hyperinflationary Economies" is applied to the financial statements for entities whose functional currency is the currency of a hyperinflationary economy. Since July 1, 2018, Argentina qualifies as a so-called hyperinflationary country under IFRS. As a consequence, special accounting procedures have been applied to eliminate hyperinflation effects from the accounts of the Argentinian operations, starting on January 1, 2018. The revaluation effect on the non-monetary assets at January 1, 2018, was a gain of €23 million after taxes, recorded as an adjustment to opening shareholders' equity. Effects during the year were not significant.

Related parties

We purchased and sold goods and services to various related parties in which we hold a 50% or less equity interest (associates and joint ventures). Such transactions were conducted at arm's length with terms comparable with transactions with third parties. We consider the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 "Related parties". In the ordinary course of business, we have transactions with various organizations with which certain of the members of the Supervisory Board and Executive Committee are associated. All related party transactions were conducted at arm's length.

Seasonality

Revenue and results in Decorative Paints are impacted by seasonal influences. Revenue and profitability tend to be higher in the second and third quarter of the year as weather conditions determine whether paints and coatings can be applied. In Performance Coatings, revenue and profitability vary with building patterns from original equipment manufacturers.

Other activities

In Other activities, we report activities which are not allocated to a particular segment.

Impact of adoption of IFRS 9 and IFRS 15 and application of IAS 29

in € millions	As reported at December 31, 2017	Adjustments due to adoption of IFRS 9	Adjustments due to adoption of IFRS 15	Adjustment due to application of IAS 29	Adjusted opening balance at January 1, 2018
Other reserves	5,865	(3)	(48)	23	5,837
Non-controlling interests	442	–	(5)	–	437
Total impact on group equity	6,307	(3)	(53)	23	6,274

Adoption of IFRS 15, "Revenue from contracts with customers"

IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. AkzoNobel has adopted IFRS 15 as per January 1, 2018, and has not restated its 2017 comparative figures.

The transition effect on group equity as per January 1, 2018, is €53 million after tax. For further information, reference is made to Note 1 of the 2017 Financial Statements. The impact on the interim condensed consolidated financial statements is not significant. The table below reflects the disaggregation of revenue. Additional disaggregation of revenue is included on page 6 for Decorative Paints and page 8 for Performance Coatings.

Revenue disaggregation

January-December
2018

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets - revenue from third parties				
The Netherlands	202	91	25	318
Other European countries	1,684	2,042	–	3,726
USA and Canada	–	1,134	–	1,134
Latin America	461	353	1	815
Asia	1,136	1,568	–	2,704
Other regions	184	375	–	559
Total	3,667	5,563	26	9,256
Timing of revenue recognition - revenue from third parties				
Goods transferred at a point in time	3,638	5,374	–	9,012
Services transferred over time	29	189	26	244
Total	3,667	5,563	26	9,256

Adjusted earnings per share are the basic earnings per share from operations, excluding identified items and taxes thereon.

Adjusted EBIT is equal to adjusted operating income.

Adjusted EBITDA is operating income excluding depreciation, amortization and identified items.

Adjusted operating income is operating income excluding identified items.

Comprehensive income is the change in equity during a period resulting from transactions and other events other than those changes resulting from transactions with shareholders in their capacity as shareholders.

Constant currencies calculations exclude the impact of changes in foreign exchange rates.

EBIT is equal to operating income.

EBITDA is operating income excluding depreciation and amortization.

EBITDA margin is EBITDA as percentage of revenue.

Emerging Europe: Central and Eastern Europe (excluding Austria), Baltic States and Turkey.

Mature Europe: Western Europe including Austria

Identified items are special charges and benefits, results on acquisitions and divestments, major restructuring and impairment charges, and charges and benefits related to major legal, anti-trust, environmental and tax cases.

Invested capital is total assets (excluding cash and cash equivalents, investments in associates, the receivable from pension funds in an asset position, assets held for sale) less current income tax payable, deferred tax liabilities and trade and other payables.

Mature markets comprise of Western Europe including Austria, the US, Canada, Japan and Oceania.

Net debt is defined as long-term borrowings plus short-term borrowings less cash and cash equivalents.

Operating income is defined in accordance with IFRS and includes the identified items to the extent these relate to lines included in operating income.

Operating working capital is defined as the sum of inventories, trade receivables and trade payables of the total company. When expressed as a ratio, operating working capital is measured against four times last quarter revenue.

OPI margin is operating income as percentage of revenue.

ROI is adjusted operating income of the last 12 months as percentage of average invested capital.

ROS is adjusted operating income as percentage of revenue.

ROS excluding unallocated cost is adjusted operating income as percentage of revenue, excluding unallocated corporate center costs consistent with our 2020 guidance

SG&A costs includes selling and distribution expenses, general and administrative expenses and research, development and innovation expenses.

Safe Harbor Statement

This report contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecast and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures, as well as the sale of the Specialty Chemicals business. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more comprehensive discussion of the risk factors affecting our business, please see our latest annual report.

Brand and trademarks

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Akzo Nobel N.V.

Christiaan Neefstraat 2
P.O. Box 75730
1070 AS Amsterdam, the Netherlands
T +31 88 969 7555
www.akzonobel.com

For more information:

The explanatory sheets used during the
press conference can be viewed on AkzoNobel's
corporate website www.akzonobel.com/quarterlyresults

AkzoNobel Global Communications
T +31 88 969 7833
E info@akzonobel.com

AkzoNobel Investor Relations
T +31 88 969 7856
E investor.relations@akzonobel.com

Financial calendar

Ex-dividend date of special cash dividend	February 20, 2019
Record date of special cash dividend	February 21, 2019
Payment of special cash dividend	February 25, 2019
Publication annual report	March 7, 2019
Report for the first quarter 2019	April 24, 2019
Annual General Meeting of shareholders	April 25, 2019
Ex-dividend date of 2018 final dividend	April 29, 2019
Record date of 2018 final dividend	April 30, 2019
Payment of 2018 final dividend	May 6, 2019



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AkzoNobel has a passion for paint. We're experts in the proud craft of making paints and coatings, setting the standard in color and protection since 1792. Our world class portfolio of brands – including Dulux, International, Sikkens and Interpon – is trusted by customers around the globe. Headquartered in the Netherlands, we are active in over 150 countries and employ around 35,000 talented people who are passionate about delivering the high performance products and services our customers expect.

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