

Analyst Factsheet

Q1 2018

April 24, 2018

AkzoNobel makes progress on transformation into a focused Paints and Coatings company while headwinds continue

- Successfully completed the dual-track process for Specialty Chemicals; AkzoNobel to sell Specialty Chemicals to The Carlyle Group and GIC for €10.1 billion
- On track implementing our "Winning together: 15 by 20" strategy
- Transformation process gaining momentum: program office up and running
- Robust pricing initiatives ramping up: price increase successful in Q1 2018; second wave of increases to come in 2018

Q1 2018 Paints and Coatings:

- Selling prices up 3% overall and for all businesses
- Revenue down 8% mainly due to adverse foreign currencies (1% lower excluding currency impact) with positive price/mix offset by lower volumes
- Volumes 3% lower, mainly due to continued adverse market conditions in the marine, and oil and gas industries
- Savings from continuous improvement were €30m and creating a fit-for-purpose organization delivered €10m
- Adjusted operating income² at €149m (2017: €208m) due to adverse foreign currencies, higher raw material costs and lower volumes not yet fully offset by increased selling prices and cost discipline
- Adjusted EPS³ from continuing operations at €0.35 (2017: €0.50)
- Net income from total operations up 5% to €253m (2017: €240m), including discontinued operations at €134m (2017: €114m)

Outlook

Higher raw material costs and adverse effects from foreign currencies are projected to continue in 2018, especially during the start of the year.

We anticipate ongoing positive developments for Decorative Paints in all regions, particularly Asia. Trends for Performance Coatings are expected to be positive for most segments and regions, while still challenging for Marine and Protective Coatings.

We continue to implement various measures to mitigate current market challenges, including increased selling prices and cost discipline. Our "Winning Together: 15 by 20" strategy will create a focused Paints and Coatings company and deliver our 2020 guidance.

2020¹
guidance
ROS 15%
ROI >25%

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

2) Adjusted operating income equals operating income excluding identified items, which was previously called "EBIT". Calculations of ROS and ROI remain unchanged

3) Adjusted earnings per share now only excludes identified items, while adjustments for post-tax amortization are not made anymore.

Decorative Paints

Q1 revenue was 8% lower, mainly due to adverse currencies. Price realization is gaining momentum and selling prices were up 4% overall. Additional measures are being implemented. Volumes were up in EMEA, while volumes were lower in Latin America and Asia, compared to an exceptionally strong first quarter last year.

Adjusted operating income was lower, mainly due to currency effects and higher raw material costs, offset by continuous improvement and cost control.

Operating income was impacted by €8 million identified items relating to the transformation of the organization.

Performance Coatings

Q1 revenue was 9% lower mainly due to adverse currencies (1% lower excluding currencies). Pricing initiatives have continued to gain traction, with 2% price increases in the first quarter and further increases expected in the following quarters. Volumes increased for Powder Coatings, as well as Automotive and Specialty Coatings. Adverse conditions persisted in the marine, and oil and gas industries.

Adjusted operating income was impacted by adverse currencies, higher raw material costs and lower volumes, partly compensated by higher selling prices, continuous improvement and cost control. Productivity and cost control measures remain a key focus.

Operating income was negatively impacted by €13 million identified items relating to the transformation of the organization.

Specialty Chemicals (reported as discontinued operations)

Q1 revenue was 3% lower (up 4% excluding currency impact) with positive pricing impact more than offset by adverse currencies and lower volumes. Industrial Chemicals benefited from strong pricing.

Adjusted operating income was lower, mainly due to the impact of adverse currencies and restructuring costs of €32 million related to manufacturing network optimization projects, partly offset by stronger price/mix effects and productivity improvements.

Raw materials

Raw material prices in 2018 continue to be higher compared with the previous year. We are increasing selling prices to deal with these higher raw material costs. The continued inflationary environment means these measures are still expected to take several quarters before the necessary mitigating impact is fully realized.

Identified items

For Paints and Coatings, operating income was negatively impacted by identified items totaling €41 million, mainly related to restructuring costs for the transformation of the Paints and Coatings organization.

For discontinued operations, operating income was negatively impacted by identified items of €14 million related to the separation.

Cash flows and net debt

Operating activities in Q1 2018 resulted in an outflow of €456 million (2017: €379 million). Profit for the period in Q1 2018 included several non-cash gains due to a tax settlement and re-recognition of deferred tax assets.

At March 31, 2018, net debt was €2,596 million versus €1,951 million at year-end 2017. The increase is mainly due to seasonality of the operating working capital.

Financial summary

€ million	2017					2018
	Q1	Q2	Q3	Q4	FY	Q1
Revenue (incl. discontinued operations)	3,661	3,785	3,624	3,505	14,575	3,422
Paints and Coatings	2,377	2,533	2,419	2,283	9,612	2,176
Decorative Paints	922	1,046	1,007	923	3,898	846
Performance Coatings	1,471	1,504	1,428	1,372	5,775	1,342
Other activities/eliminations	(16)	(17)	(16)	(12)	(61)	(12)
Discontinued operations	1,284	1,252	1,205	1,222	4,963	1,246
Specialty Chemicals	1,289	1,259	1,209	1,228	4,985	1,252
Held for sale effects/other	(5)	(7)	(4)	(6)	(22)	(6)
Adjusted operating income (incl. discontinued operations)	376	461	383	305	1,525	357
Paints and Coatings	208	294	225	178	905	149
Decorative Paints	77	121	95	58	351	56
Performance Coatings	187	202	147	133	669	134
Other activities/eliminations	(56)	(29)	(17)	(13)	(115)	(41)
Discontinued operations	168	168	158	126	620	208
Specialty Chemicals	166	166	156	123	611	150
Held for sale effects/other	2	2	2	3	9	58
Identified items (incl. discontinued operations)	-	(20)	(45)	(64)	(129)	(55)
Paints and Coatings	-	(31)	(10)	(39)	(80)	(41)
Decorative Paints	-	-	-	(17)	(17)	(8)
Performance Coatings	-	-	-	(1)	(1)	(13)
Other activities/eliminations	-	(31)	(10)	(21)	(62)	(20)
Discontinued operations	-	10	(35)	(24)	(49)	(14)
Specialty Chemicals	-	18	-	-	18	-
Held for sale effects/other	-	(8)	(35)	(24)	(67)	(14)
Operating income (incl. discontinued operations)	376	441	338	241	1,396	302
Paints and Coatings	208	263	215	139	825	108
Decorative Paints	77	121	95	41	334	48
Performance Coatings	187	202	147	132	668	121
Held for sale effects/other	(56)	(60)	(27)	(34)	(177)	(61)
Discontinued operations	168	178	123	102	571	194
Specialty Chemicals	166	184	156	123	629	150
Held for sale effects/other	2	(6)	(33)	(21)	(58)	44

Revenue development Q1 2018

in % versus 2017	Volume	Price/mix	Acquisitions/Divestments	Exchange rates	Total
Decorative Paints	(1)	-	-	(7)	(8)
Performance Coatings	(5)	3	1	(8)	(9)
AkzoNobel Paints and Coatings	(3)	2	-	(7)	(8)
Specialty Chemicals	(1)	6	(1)	(7)	(3)

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