AkzoNobel

Q4 Report

2019

AkzoNobel's powder coatings take landmark building to another level
Europe will soon have a new tallest building – and it's being protected from the ravages of the Warsaw weather by a high class powder coatings system supplied by AkzoNobel. Standing 310 meters tall, the Varso Tower – developed by international workspace provider HB Reavis – will dominate the skyline of the Polish capital. It features a sleek black exterior which has been created by using the company's Interpon D2525 super-durable topcoat on the cladding and profiles in a striking Noir Sablé shade. Meanwhile, the Interpon Redox Plus primer provides a super tough core.

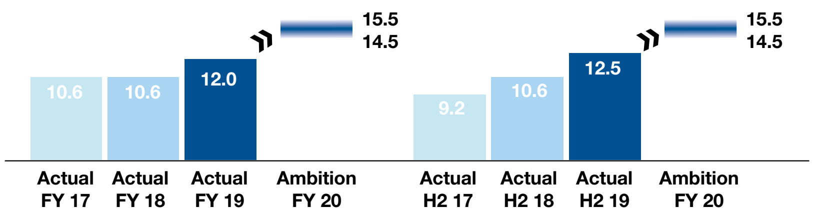
Interpon®
POWDER COATINGS

Highlights 2019

- **Progress towards delivering our Winning together: 15 by 20 strategy, by delivery of strong ROS, despite softer end market demand**
- **Continued pricing initiatives and cost-saving programs successfully improved profitability**
- **Progress towards delivering €200 million of savings planned for 2020: €80 million delivered in 2019**
- **Acquisition of Mapaero closed, strengthening our global position in steadily growing aerospace coatings industry**
- **Delivered on commitment by returning €6.5 billion to our shareholders following the sale of Specialty Chemicals**
- **New €500 million share buyback program announced in October 2019, to be completed in the first half of 2020**
- **Final dividend proposed of €1.49 per share**

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 ambition. Demand trends differ per region and segment in an uncertain macro-economic environment. Raw material costs are expected to have a moderately favorable impact for the first half of 2020. Continued margin management and cost-saving programs are in place to address the current challenges. We continue executing our transformation, incurring one-off costs, to deliver the previously announced €200 million cost savings. We target a leverage ratio of 1.0-2.0 times net debt/EBITDA by the end of 2020 and commit to retain a strong investment grade credit rating.

ROS excluding unallocated cost[1]
In % of revenue



In 2019, ROI excluding unallocated costs[2] was 17.2% (2018: 16.6%).

The ambition for ROI excluding unallocated costs for 2020 is > 20%.

[1] ROS excluding unallocated cost is adjusted operating income as percentage of revenue for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs, consistent with our 2020 ambition.
[2] ROI excluding unallocated cost is adjusted operating income of the last 12 months as percentage of average invested capital, for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs and invested capital, consistent with our 2020 ambition.
Assumes no significant market disruption.

Our results at a glance:

Highlights Q4 2019:

- **Adjusted operating income up 23% at €223 million (2018: €181 million), despite softer end market demand**
- **ROS, excluding unallocated costs, increased to 11.0% (2018: 9.0%)**
- **Operating income at €173 million (2018: €68 million); OPI margin improved to 7.7% (2018: 2.9%)**
- **Progress towards delivering cost savings; delivered €10 million cost savings in this quarter**

Q4 2019:

- Revenue 3% lower and 4% lower in constant currencies, with positive price/mix of 1% more than offset by 4% lower volumes
- Operating income at €173 million includes €50 million negative impact from identified items, related to transformation costs and non-cash impairments (2018: €68 million including €113 million negative identified items); OPI margin improved to 7.7% (2018: 2.9%)
- Net income from total operations at €81 million, including €6 million from discontinued operations (2018: €5,849 million, including €5,814 million from discontinued operations)
- Adjusted EPS from continuing operations up 72% at €0.74 (2018: €0.43), EPS from total operations at €0.41 (2018: €22.83, including profit on the sale of Specialty Chemicals); both including impact of the share consolidation and cancellation of shares following buyback

Full-year 2019:

- Revenue was flat, with positive price/mix of 4% and acquisitions contributing 1%, offset by 5% lower volumes due to our value over volume strategy
- Adjusted operating income up 24% at €991 million (2018: €798 million) driven by pricing initiatives and cost savings; ROS up at 10.7% (2018: 8.6%); ROS excluding unallocated costs up at 12.0% (2018: 10.6%)
- Operating income up 39% at €841 million, including €150 million negative impact from identified items, mainly related to transformation costs and non-cash impairments, partly offset by a gain on disposal following asset network optimization (2018: €605 million including €193 million negative impact from identified items, mainly related to €130 million transformation costs and €57 million one-off non-cash pension costs); OPI margin improved at 9.1% (2018: 6.5%)
- Net income from total operations at €539 million, including €22 million discontinued operations (2018: €6,674 million, including €6,264 million from discontinued operations)

Alternative performance measures (APM)

AkzoNobel uses APM adjustments to the IFRS measures to provide supplementary information on the reporting of the underlying developments of the business. These APM adjustments may affect the IFRS measures operating income, net profit and earnings per share. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the tables on page 15.

Summary of financial outcomes

Fourth quarter				January-December		
2018	2019	Δ%	in € millions	2018	2019	Δ%
2,308	2,242	(3%)	Revenue	9,256	9,276	–%
240	312	30%	Adjusted EBITDA [1]	1,037	1,341	29%
127	272	114%	EBITDA [1]	844	1,201	42%
181	223	23%	Adjusted operating income [1,2]	798	991	24%
(113)	(50)	(56%)	Identified items [1,2]	(193)	(150)	(22%)
68	173	154%	Operating income [1]	605	841	39%
7.8	9.9		ROS% [1,2]	8.6	10.7	
2.9	7.7		OPI margin [1,2]	6.5	9.1	
			Average invested capital [1,2]	6,340	7,026	
			ROI% [1,2]	12.6	14.1	
9.0	11.0		ROS% excl. unallocated costs [1,2]	10.6	12.0	
			ROI% excl. unallocated costs [1,2]	16.6	17.2	
64	79	23%	Capital expenditures	184	214	16%
			Net debt	(5,861)	802	
			Number of employees	34,500	33,800	
319	454	42%	Net cash from operating activities - continuing operations [1]	162	33	
35	75	114%	Net income from continuing operations [1]	410	517	26%
5,814	6		Net income from discontinued operations	6,264	22	
5,849	81		Net income attributable to shareholders [1]	6,674	539	
0.43	0.74	72%	Adjusted earnings per share from continuing operations (in €)	1.91	3.10	62%
22.83	0.41		Earnings per share from total operations (in €)	26.19	2.53	

[1] The statement of income, statement of cash flows and the balance sheet for 2019 include the impact from the adoption of IFRS 16 "Leases" (as per January 1, 2019). The 2018 comparative figures have not been restated. Further details and a quantification of the impact are provided on pages 5 and 14.

[2] Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on page 15.

Financial highlights

Revenue

Q4 2019:

Revenue was 3% lower, and 4% lower in constant currencies. Price/mix was up 1% overall. Volumes were 4% lower mainly due to softer end market demand.

- Decorative Paints revenue was 2% lower, with positive price/mix up 2%, more than offset by 4% lower volumes mainly due to softer end market demand
- Performance Coatings revenue was 3% lower and 4% lower in constant currencies. Volumes were 4% lower mainly due to softer end market demand
- Other revenue includes royalty and service revenue related to continued services to the former Specialty Chemicals business

Full-year 2019:

Revenue was flat. Price/mix was up 4% overall, mainly driven by pricing initiatives. Acquisitions contributed 1%. Volumes were 5% lower due to our value over volume strategy.

- Decorative Paints revenue was flat, and up 1% in constant currencies, with positive price/mix up 4%. Pricing initiatives and acquisitions more than offset lower volumes due to our value over volume strategy
- Performance Coatings revenue was flat and 1% lower in constant currencies. Price/mix was up 4%, driven by pricing initiatives, while volumes were 5% lower
- Other revenue includes royalty and service revenue related to continued services to the former Specialty Chemicals business

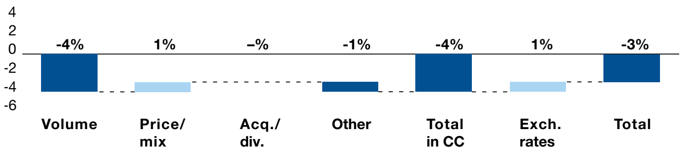
Raw materials

Raw material costs in 2019 were €64 million higher compared with 2018. In Q4 2019 raw material costs were €42 million lower compared with Q4 2018.

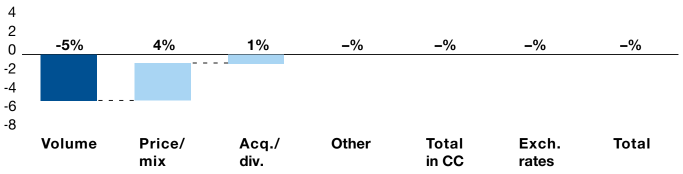
Acquisitions

The impact of acquisitions on revenue was 2% for Decorative Paints and 1% for AkzoNobel overall. The acquisition of Mapaero was completed in Q4. The intended acquisition of Mauvilac Industries was announced on December 12, 2019.

Revenue development Q4 2019

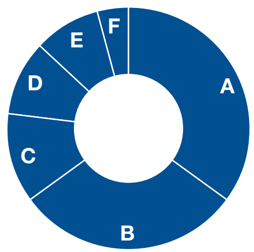


Revenue development 2019



AkzoNobel around the world
Revenue by destination

		%
A	Mature Europe	35
B	Asia Pacific	30
C	North America	12
D	Emerging Europe	10
E	South America	9
F	Other regions	4
		100



(Based on the full-year 2019)

Revenue

Fourth quarter					January-December			
2018	2019	Δ%	Δ% CC *	in € millions	2018	2019	Δ%	Δ% CC *
896	877	(2%)	(2%)	Decorative Paints	3,699	3,703	–%	1%
1,403	1,361	(3%)	(4%)	Performance Coatings	5,587	5,563	–%	(1%)
9	4			Other activities/ eliminations	(30)	10		
2,308	**2,242**	(3%)	(4%)	**Total**	9,256	**9,276**	–%	–%

* Change excluding currency impact

in % versus Q4 2018	Volume	Price/ mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(4)	2	–	–	–	(2)
Performance Coatings	(4)	–	–	–	1	(3)
Total	**(4)**	**1**	**–**	**(1)**	**1**	**(3)**

in % versus full-year 2018	Volume	Price/ mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(5)	4	2	–	(1)	–
Performance Coatings	(5)	4	–	–	1	–
Total	**(5)**	**4**	**1**	**–**	**–**	**–**

Volume development per quarter (year-on-year) in %	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Decorative Paints	(6)	(6)	(4)	(5)	(4)
Performance Coatings	(7)	(8)	(7)	(3)	(4)
Total	(7)	(7)	(6)	(4)	**(4)**

Price/mix development per quarter (year-on-year) in %	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Decorative Paints	8	6	4	5	2
Performance Coatings	11	7	7	3	–
Total	9	6	5	4	**1**

Currency development per quarter (year-on-year) in %	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Decorative Paints	(6)	(2)	(2)	1	–
Performance Coatings	(2)	1	(1)	2	1
Total	(3)	(1)	(1)	1	**1**

Financial highlights

Q4 2019:

Adjusted operating income

Adjusted operating income was up at €223 million (2018: €181 million), driven by margin management and cost-saving programs. Continuous improvement initiatives successfully offset inflation, while cost savings resulting from the ongoing transformation delivered €10 million in the quarter. ROS was up 2.1% at 9.9% (2018: 7.8%).

- Decorative Paints continued to improve. Price/mix effects, margin managment and cost savings more than compensated for lower volumes. ROS was up at 9.9% (2018: 5.8%)
- Performance Coatings improved as margin management and cost savings more than offset lower volumes. ROS was up at 11.7% (2018: 10.9%)
- Other activities/eliminations improved €1 million to €23 million (2018: €24 million) and included cost for claims, offset by one-off gains on disposals

Operating income

Operating income increased to €173 million (2018: €68 million) and included negative identified items of €50 million, mainly related to transformation costs and non-cash impairments, following the implementation of our strategic portfolio review (2018: €113 million negative identified items, mainly related to transformation costs (€56 million) and one-off pension costs (€57 million)). OPI margin improved to 7.7% (2018: 2.9%)

Full-year 2019:

Adjusted operating income

Adjusted operating income was up at €991 million (2018: €798 million), driven by pricing initiatives and cost-saving programs. ROS was up 2.1% at 10.7% (2018: 8.6%).

- Decorative Paints continued to improve. Price/mix effects and cost savings more than offset raw material inflation and lower volumes. ROS was up at 11.3% (2018: 9.4%)
- Performance Coatings improved as pricing initiatives and cost savings more than offset higher raw material costs and lower volumes. ROS was up at 12.4% (2018: 11.3%)
- Other activities/eliminations improved €62 million to €115 million (2018: €177 million), mainly due to lower costs and one-off gains on disposals

Operating income

Operating income was up 39% at €841 million, and includes €150 million negative impact from identified items, mainly related to transformation costs and non-cash impairments partly offset by a gain on disposal of €54 million following asset network optimization (2018: €605 million, including €193 million negative impact from identified items). OPI margin improved to 9.1% (2018: 6.5%).

Net financing income/(expenses)

Net financing expenses increased by €24 million to €76 million, mainly due to an interest benefit on a tax settlement in 2018 and the inclusion in 2019 of interest on lease liabilities, following adoption of IFRS 16 per January 1, 2019.

Income tax

The 2019 effective tax rate was 29% (2018: 21%). Excluding identified items the effective tax rate in 2019 was 25%. The 2018 income tax expenses were positively impacted by a net re-recognition of deferred tax assets and a tax settlement.

Profit from discontinued operations

Profit from discontinued operations was €22 million. In 2018, the profit after tax on the sale of the Specialty Chemicals business (€5.8 billion) was included as profit from discontinued operations.

Net income

Net income attributable to shareholders was €539 million, of which €22 million was attributable to discontinued operations. In 2018 net income attributable to shareholders was €6,674 million, of which €6,264 million was attributable to discontinued operations and related to the divested Specialty Chemicals business. Adjusted earnings per share from continuing operations increased to €3.10 (2018: €1.91), including the impact of share consolidation and share buyback program.

Adoption IFRS 16 "Leases"

IFRS 16 “Leases” was adopted per January 1, 2019, applying the modified retrospective method. The 2018 comparative figures have not been restated. As a result, right-of-use assets and lease liabilities have been recognized on the balance sheet. In the P&L, the operating lease expenses in operating income have been replaced by depreciation of the right-of-use assets (operating income) and interest on the lease liabilities (net financing expenses). In the cash flow statement, the payments for operating leases are now recognized in the net cash from financing activities instead of net cash from operating activities. Further details are provided on page 14.

Adjusted operating income [1]

Fourth quarter				January-December		
2018	2019	Δ%	in € millions	2018	2019	Δ%
52	87	67%	Decorative Paints	346	418	21%
153	159	4%	Performance Coatings	629	688	9%
(24)	(23)		Other activities/eliminations	(177)	(115)	
181	**223**	**23%**	**Total**	**798**	**991**	**24%**

ROS%

Fourth quarter				January-December		
2018	2019	Δ	in € millions	2018	2019	Δ
5.8%	9.9%	4.1%	Decorative Paints	9.4%	11.3%	1.9%
10.9%	11.7%	0.8%	Performance Coatings	11.3%	12.4%	1.1%
			Other activities/eliminations [2]			
7.8%	**9.9%**	**2.1%**	**Total**	**8.6%**	**10.7%**	**2.1%**
9.0%	**11.0%**	**2.0%**	**Excl. Unallocated costs**	**10.6%**	**12.0%**	**1.4%**

Operating income [1]

Fourth quarter				January-December		
2018	2019	Δ%	in € millions	2018	2019	Δ%
37	75	103%	Decorative Paints	308	425	38%
130	138	6%	Performance Coatings	577	565	(2%)
(99)	(40)		Other activities/eliminations	(280)	(149)	
68	**173**	**154%**	**Total**	**605**	**841**	**39%**

Operating income to net income

Fourth quarter			January-December	
2018	2019	in € millions	2018	2019
68	**173**	**Operating income [1]**	605	**841**
(23)	(18)	Net financing expenses [1]	(52)	(76)
6	4	Results from associates and joint ventures	20	20
51	**159**	**Profit before tax**	**573**	**785**
(6)	(79)	Income tax	(118)	(230)
45	**80**	**Profit from continuing operations**	**455**	**555**
5,814	6	Profit from discontinued operations	6,274	22
5,859	**86**	**Profit for the period**	**6,729**	**577**
(10)	(5)	Non-controlling interests	(55)	(38)
5,849	**81**	**Net income**	**6,674**	**539**

[1] Adjusted operating income and Operating income in 2019 include the impact from adoption of IFRS 16 “Leases” (as per January 1, 2019). As a result, €8 million of interest expenses, which previously were included in Lease expenses within operating income, are now recorded in Net financing expenses. The 2018 comparative figures have not been restated. Further details are provided on page 14.
[2] ROS% for Other activities/eliminations is not shown, as this is not meaningful.

Decorative Paints

Highlights Q4 2019:
- **ROS up 4.1% at 9.9% driven by margin management and continued strong performance in EMEA; OPI margin up at 8.6% (2018: 4.1%)**
- **Price/mix was up 2% and volumes were 4% lower as a result of softer end market demand**

Q4 2019:
- Revenue was 2% lower; price/mix of 2% positive was more than offset by 4% lower volumes mainly due to softer end market demand
- Adjusted operating income increased to €87 million (2018: €52 million) driven by margin management, cost savings and lower raw material costs more than offsetting lower volumes; ROS up at 9.9% (2018: 5.8%)
- Operating income improved to €75 million (2018: €37 million); OPI margin up at 8.6% (2018: 4.1%)

Full-year 2019:
- Revenue was flat and up 1% in constant currencies; price/mix (4% positive, driven by pricing initiatives) and acquisitions (2% positive) together more than offset 5% lower volumes
- Adjusted operating income increased to €418 million (2018: €346 million) with pricing initiatives, margin management and cost savings more than compensating for higher raw material costs and lower volumes due to our value over volume strategy; ROS up at 11.3% (2018: 9.4%)
- Operating income improved to €425 million (2018: €308 million); OPI margin up at 11.5% (2018: 8.3%)
- ROI up at 13.4% (2018: 12.4%)

Q4 2019:

Revenue was 2% lower as price/mix of 2% positive was more than offset by 4% lower volumes mainly due to softer end market demand.

Adjusted operating income increased to €87 million (2018: €52 million). Margin management, cost savings and lower raw material costs more than offset lower volumes, resulting in ROS of 9.9% (2018: 5.8%).

Operating income increased to €75 million and was negatively impacted by €12 million identified items related to transformation costs. In 2018, operating income of €37 million was adversely impacted by €15 million identified items.

Full-year 2019:

Revenue was flat and up 1% in constant currencies. Continued focus on pricing initiatives contributed to positive price/mix of 4%, while volumes were 5% lower, mainly due to our value over volume strategy. Acquisitions contributed 2% to revenues.

Adjusted operating income increased to €418 million (2018: €346 million). Continued pricing initiatives and cost savings offset higher raw material costs and lower volumes, resulting in ROS of 11.3% (2018: 9.4%).

Operating income increased to €425 million and was positively impacted by €7 million identified items related to a gain on a disposal following asset network optimization (€54 million), partly offset by transformation costs (€47 million). In 2018, operating income of €308 million was adversely impacted by €38 million identified items.

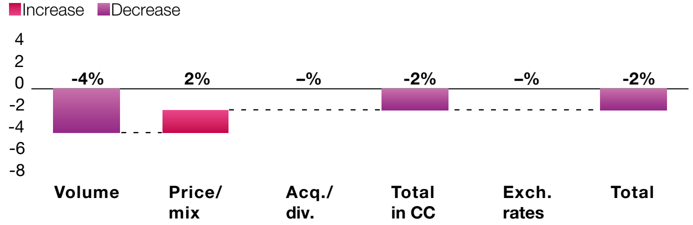
Revenue

Fourth quarter | January-December

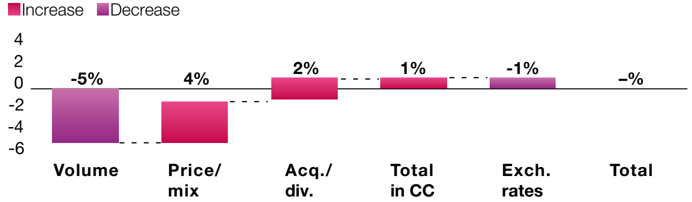
2018	2019	Δ%	Δ% CC *	in € millions	2018	2019	Δ%	Δ% CC *
465	462	(1%)	(2%)	Decorative Paints Europe, Middle East and Africa	2,093	2,161	3%	4%
138	139	1%	10%	Decorative Paints South America	468	463	(1%)	10%
295	277	(6%)	(9%)	Decorative Paints Asia	1,144	1,084	(5%)	(7%)
(2)	(1)			Other/intragroup eliminations	(6)	(5)		
896	877	(2%)	(2%)	Total	3,699	3,703	–%	1%

* Change excluding currency impact

Revenue development Q4 2019



Revenue development 2019



Key financial figures

Fourth quarter | January-December

2018	2019	Δ%	in € millions	2018	2019	Δ%
52	87	67%	Adjusted operating income [1]	346	418	21%
(15)	(12)	(20%)	Identified items	(38)	7	(118%)
37	75	103%	Operating income [1]	308	425	38%
5.8	9.9		ROS%	9.4	11.3	
4.1	8.6		OPI margin%	8.3	11.5	
			Average invested capital [2]	2,798	3,106	
			ROI%	12.4	13.4	

[1] Adjusted operating income and Operating income in 2019 include the impact from adoption of IFRS 16 "Leases" (as per January 1, 2019). As a result interest expenses, which previously were included in Lease expenses within operating income, are now recorded in Net financing expenses. The 2018 comparative figures have not been restated. Further details are provided on page 14.

[2] Average invested capital includes the impact from adoption of IFRS 16 "Leases" (as per January 1, 2019). Right-of-use assets (€165 million as per January 1, 2019) have been added to Invested capital whereas Lease liabilities remain excluded from Invested capital. The 2018 comparative figures have not been restated.

Decorative Paints

Europe, Middle East and Africa

Revenue in Q4 was 1% lower and 2% lower in constant currencies, due to successful margin management being more than offset by lower volumes. Performance improved, including the UK and France.

Full-year revenue was 3% higher and up 4% in constant currencies, driven by positive price/mix effects, partly offset by lower volumes. The acquisitions of Fabryo in Romania, Xylazel in Spain and Doves Decorating Supplies in the UK contributed 3% to revenues.

The intended acquisition of Mauvilac Industries to support our position in the African decorative paints market was announced on December 12, 2019.

South America

Revenue in Q4 was up 1% and up 10% in constant currencies, mainly driven by positive price/mix effects following our focus on value over volume and further market penetration. Pricing initiatives and cost control offset inflation.

Full-year revenue was 1% lower, although up 10% in constant currencies, mainly driven by positive price/mix effects. 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 for Argentina.

Asia

Revenue in Q4 was 6% lower, and 9% lower in constant currencies. Profitability continued to improve due to margin management and cost savings. Overall revenues were impacted by a slowdown in some of our Asian end markets. In China, profitability improved due to margin management and growth in the premium segment, partly offset by slowdown in the wood care segment.

Full-year revenue was 5% lower, and 7% lower in constant currencies. Positive price/mix was more than offset by lower volumes. The acquisition of Colourland Paints in Malaysia contributed 1% to revenues.

Launch of Global Brand Dulux Ambiance in Super Premium Interior paints in India
Dulux has introduced six special effects paints, viz. Dulux Ambiance Marble, Metallic, Linen, Silk, Dulux ColourMotion and Desert in India. These special effects paints create entirely new designs and patterns which are inspired by artisans. For consumers, the collection of designs provides the perfect balance of craftsmanship and personalization by bringing lively never-seen-before design on their walls.

As part of the Ambiance range, Dulux has also launched Dulux Ambiance Velvet Touch Elastoglo that is powered with cutting edge elastomeric property that increases the elasticity of the paint film by three times in comparison to other premium interior paints. This paint film covers hairline cracks and protects the wall, providing an unmatched finish to the beautiful walls.

Performance Coatings

Highlights Q4 2019:

- **ROS up at 11.7% (2018: 10.9%) driven by margin management and cost discipline; OPI margin up at 10.1% (2018: 9.3%)**
- **Revenue down due to softer end market demand, including the automotive industry**

Q4 2019:

- Revenue was 3% lower and 4% lower in constant currencies, with 4% lower volumes mainly due to softer end market demand including the automotive industry
- Adjusted operating income was up at €159 million (2018: €153 million) as margin management, lower raw material costs and cost savings more than offset lower volumes; ROS up at 11.7% (2018: 10.9%)
- Operating income improved to €138 million (2018: €130 million); OPI margin up at 10.1% (2018: 9.3%)

Full-year 2019:

- Revenue was flat, and decreased 1% in constant currencies, with 4% positive price/mix more than offset by 5% lower volumes
- Adjusted operating income was up at €688 million (2018: €629 million) as pricing initiatives and cost savings more than offset higher raw material costs and lower volumes; ROS up at 12.4% (2018: 11.3%)
- Operating income decreased to €565 million (2018: €577 million); OPI margin was 10.2% (2018: 10.3%)
- ROI up at 20.7% (2018: 20.5%)

Q4 2019:

Revenue was 3% lower and 4% lower in constant currencies. Price/mix was flat, while volumes were lower in all businesses mainly due to softer end market demand, including the automotive industry.

Adjusted operating income increased to €159 million (2018: €153 million) as margin management and cost control more than compensated for lower volumes, while raw material costs were lower.

Operating income at €138 million was adversely impacted by €21 million identified items, mainly related to the transformation of the organization and non-cash impairments, following the implementation of our portfolio management. In 2018, operating income of €130 million was adversely impacted by €23 million identified items.

Full-year 2019:

Revenue was flat, and 1% lower in constant currencies. Price/mix was more than offset by lower volumes due to our value over volume strategy.

Adjusted operating income increased to €688 million (2018: €629 million) as pricing initiatives and cost control more than compensated for higher raw material costs and lower volumes.

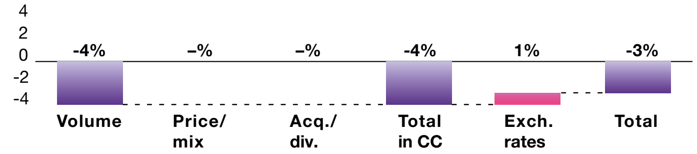
Operating income at €565 million was adversely impacted by €123 million identified items, mainly related to the transformation of the organization (€59 million) and non-cash impairments (€64 million), following the implementation of our portfolio management. In 2018, operating income of €577 million was adversely impacted by €52 million identified items.

Revenue

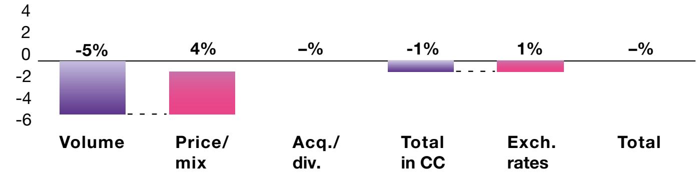
Fourth quarter					January-December			
2018	2019	Δ%	Δ% CC [1]	in € millions	2018	2019	Δ%	Δ% CC [1]
307	305	(1%)	(2%)	Powder Coatings	1,218	1,234	1%	–%
333	330	(1%)	(2%)	Marine and Protective Coatings	1,291	1,306	1%	–%
354	344	(3%)	(4%)	Automotive and Specialty Coatings [2]	1,392	1,388	–%	(2%)
421	411	(2%)	(4%)	Industrial Coatings	1,738	1,731	–%	(2%)
(12)	(29)			Other/intragroup eliminations [2]	(52)	(96)		
1,403	**1,361**	(3%)	(4%)	**Total**	5,587	**5,563**	–%	(1%)

[1] Change excluding currency impact
[2] Q4 2018 revenues Automotive and Specialty Coatings and eliminations represented for improved comparability purposes

Revenue development Q4 2019



Revenue development 2019



Key financial figures

Fourth quarter				January-December		
2018	2019	Δ%	in € millions	2018	2019	Δ%
153	159	4%	Adjusted operating income [1]	629	688	9%
(23)	(21)	(9%)	Identified items	(52)	(123)	137%
130	138	6%	Operating income [1]	577	565	(2%)
10.9	11.7		ROS%	11.3	12.4	
9.3	10.1		OPI margin%	10.3	10.2	
			Average invested capital [2]	3,066	3,325	
			ROI%	20.5	20.7	

[1] Adjusted operating income and Operating income in 2019 include the impact from adoption of IFRS 16 "Leases" (as per January 1, 2019). As a result interest expenses, which previously were included in Lease expenses within operating income, are now recorded in Net financing expenses. The 2018 comparative figures have not been restated. Further details are provided on page 14.
[2] Average invested capital includes the impact from adoption of IFRS 16 "Leases" (as per January 1, 2019). Right-of-use assets (€126 million as per January 1, 2019) have been added to Invested capital whereas Lease liabilities remain excluded from Invested capital. The 2018 comparative figures have not been restated.

Performance Coatings

Powder Coatings
Revenue in Q4 was 1% lower and 2% lower in constant currencies. Positive price/mix was more than offset by lower volumes, including for the automotive industry.

The new Interpon Redox range offers customers the simplest route to maximum corrosion protection. It covers a full array of substrates, surfaces and environments – from cable cars and chemical plants to window frames and wind turbines.

Full-year revenue was up 1%, but flat in constant currencies, due to positive price/mix effects, offset by lower volumes.

Marine and Protective Coatings
Revenue in Q4 was 1% lower and 2% lower in constant currencies. Profitability continued to improve due to measures focused on restructuring and right-sizing, in particular in Marine Coatings.

The recently introduced Awlfair SF is a high-performance filler which can be applied by pressurized airless spray, rather than by hand. The breakthrough innovation boosts productivity for our customers.

Full-year revenue was up 1%, and flat in constant currencies, due to positive price/mix offsetting lower volumes following our value over volume strategy.

Automotive and Specialty Coatings
Revenue in Q4 was 3% lower and 4% lower in constant currencies, with positive price/mix offset by lower volumes.

Automotive and Specialty Coatings was impacted by continued reduced demand from the automotive industry. Demand for aerospace coatings remained solid.

The 15th edition of ColorSurfaces, our trend color collection, was launched and reflects the design trends impacting the automotive and consumer electronics industries, to inspire our customers. The acquisition of Mapaero to further strengthen our global position in the steadily growing aerospace coatings industry was completed in the fourth quarter and added 1% to revenue.

Full-year revenue was flat and was 2% lower in constant currencies, due to lower volumes as a result of our focus on value over volume.

Industrial Coatings
Revenue in Q4 was down 2%, and down 4% in constant currencies, mainly due to lower volumes following our value over volume strategy. Strategic portfolio management was implemented. Demand for packaging coatings continued to remain strong in all regions. Demand for wood coatings remained slow, in particular in North America, as well as parts of Asia.

Full-year revenue was flat and 2% lower in constant currencies. Positive price/mix was more than offset by lower volumes. Demand differed per region and segment.

Yacht market primed for revolutionary spray filler
Superyacht builders and applicators can now benefit from revolutionary spray filler technology, which is all set to make waves in the industry. Part of our Awlgrip range, Awlfair SF is a high-performance filler, which can be applied by pressurized airless spray, rather than by hand. The breakthrough innovation not only allows for wet-on-wet application, it also means up to two coats per day can be applied, without the need for sanding in-between.

Condensed consolidated financial statements

Condensed consolidated statement of income

IFRS 16 "Leases" was adopted per January 1, 2019, applying the modified retrospective method. In the Statement of income, the Operating lease expenses (€113 million), previously recorded in operating income, are replaced by the depreciation charge on Right-of-use assets (€105 million; remains recorded in operating income) and by Interest expenses for the lease liability (€8 million; recorded in Net financing expenses). In addition, we recorded a non-cash impairment charge of Right-of-use assets of €5 million, presented as identified items. The 2018 comparative figures have not been restated.

On a net basis, the adoption of IFRS 16 has led to an increase of operating income by €3 million and an increase of Net financing expenses by €8 million; Profit before tax was €5 million lower and Profit for the period was €3 million lower.

The Specialty Chemicals business is reported as discontinued operations. Therefore, the results of the Specialty Chemicals business are included on the line Profit for the period from discontinued operations in the Condensed consolidated statement of income.

Condensed consolidated statement of comprehensive income

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

Condensed consolidated balance sheet

IFRS 16 was adopted per January 1, 2019, applying the modified retrospective approach. The adoption of IFRS 16 has led to recognition on the balance sheet of €432 million Right-of-use assets, of which €65 million previously was recorded on other lines in the balance sheet (€374 million as at December 31, 2019), as well as €400 million lease liabilities, of which €37 million were previously recorded as financial lease liabilities (€352 million as at December 31, 2019). The 2018 comparative figures have not been restated. For more information on the 2019 opening balance sheet adjustments, please refer to page 14 of this report.

Condensed consolidated statement of income

Fourth quarter 2018	Fourth quarter 2019	in € millions	January-December 2018	January-December 2019
		Continuing operations		
2,308	2,242	Revenue	9,256	9,276
(1,357)	(1,276)	Cost of sales	(5,329)	(5,309)
951	**966**	**Gross profit**	**3,927**	**3,967**
(879)	(789)	SG&A costs	(3,318)	(3,121)
(4)	(4)	Other results	(4)	(5)
68	**173**	**Operating income**	**605**	**841**
(23)	(18)	Net financing expenses	(52)	(76)
6	4	Results from associates and joint ventures	20	20
51	**159**	**Profit before tax**	**573**	**785**
(6)	(79)	Income tax	(118)	(230)
45	**80**	**Profit for the period from continuing operations**	**455**	**555**
		Discontinued operations		
5,814	6	Profit for the period from discontinued operations	6,274	22
5,859	**86**	**Profit for the period**	**6,729**	**577**
		Attributable to		
5,849	81	Shareholders of the company	6,674	539
10	5	Non-controlling interests	55	38
5,859	**86**	**Profit for the period**	**6,729**	**577**

Condensed consolidated statement of comprehensive income

Fourth quarter 2018	Fourth quarter 2019	in € millions	January-December 2018	January-December 2019
5,859	**86**	**Profit for the period**	**6,729**	**577**
		Other comprehensive income		
103	39	Exchange differences arising on translation of foreign operations	(110)	127
(66)	–	Cash flow hedges	(20)	–
(17)	(149)	Post-retirement benefits	(23)	(249)
49	(14)	Tax relating to components of other comprehensive income	46	35
69	**(124)**	**Other comprehensive income for the period (net of tax)**	**(107)**	**(87)**
5,928	**(38)**	**Comprehensive income for the period**	**6,622**	**490**
		Comprehensive income for the period attributable to		
5,905	(39)	Shareholders of the company	6,578	453
23	1	Non-controlling interests	44	37
5,928	**(38)**	**Comprehensive income for the period**	**6,622**	**490**

Condensed consolidated balance sheet

in € millions	December 31, 2018	December 31, 2019
Assets		
Non-current assets		
Intangible assets	3,458	3,625
Property, plant and equipment	1,748	1,700
Right-of-use assets	–	374
Other non-current assets	1,965	2,541
Total non-current assets	**7,171**	**8,240**
Current assets		
Inventories	1,139	1,139
Trade and other receivables	2,141	2,133
Other current assets	74	63
Short-term investments	5,460	138
Cash and cash equivalents	2,799	1,271
Total current assets	**11,613**	**4,744**
Total assets	**18,784**	**12,984**
Equity and liabilities		
Group equity	**12,038**	**6,568**
Non-current liabilities		
Provisions and deferred tax liabilities	1,267	1,372
Long-term borrowings	1,799	2,042
Total non-current liabilities	**3,066**	**3,414**
Current liabilities		
Short-term borrowings	599	169
Trade and other payables	2,645	2,406
Other short-term liabilities	436	427
Total current liabilities	**3,680**	**3,002**
Total equity and liabilities	**18,784**	**12,984**

Shareholders' equity

Shareholders' equity decreased from €11.8 billion at year-end 2018 to €6.4 billion at the end of December, 2019, due to the net effect of:

- Share repurchase of €2.5 billion
- Capital repayment and share consolidation of €2.0 billion
- Special cash dividend of €1.0 billion
- Profit for the period of €539 million
- Final 2018 dividend of €315 million
- Interim 2019 dividend of €82 million
- Currency effects of €139 million positive (including taxes)
- Actuarial losses of €225 million (including taxes)

Dividend

Our dividend policy is to pay a stable to rising dividend. The final 2018 dividend of €1.43 per consolidated share was approved by the AGM in April 2019 and was paid to our shareholders. The total 2018 dividend amounted to €1.80 per share (2017: €2.50, including €0.85 related to the Specialty Chemicals business).

In 2019, an interim dividend of €0.41 (2018: €0.37) per share was paid. We propose a 2019 final dividend of €1.49 (2018: €1.43) per share. Please refer to the final page of this report for dividend payment dates.

In line with our announcement on April 19, 2017, we have returned 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 distributed €1.0 billion by means of a special cash dividend of €4.50 per common share (post consolidation) on February 25, 2019, in addition to the €1.0 billion special cash dividend already distributed in December 2017
- The share buyback program to repurchase common shares up to the value of €2.5 billion was completed at the end of 2019, acquiring 31.2 million common shares.

On October 23, 2019, a new €500 million share buyback program was announced, of which 0.4 million common shares were bought back in Q4 2019.

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 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**
Balance at December 31, 2018	**512**	**958**	**–**	**(608)**	**10,972**	**11,834**	**204**	**12,038**
Profit for the period	–	–	–	–	539	539	38	577
Other comprehensive income	–	–	–	139	(225)	(86)	(1)	(87)
Comprehensive income for the period	**–**	**–**	**–**	**139**	**314**	**453**	**37**	**490**
Dividend	–	–	–	–	(1,423)	(1,423)	(23)	(1,446)
Share buyback	(14)	–	–	–	(2,520)	(2,534)	–	(2,534)
Capital repayment and share consolidation	(399)	(957)	–	–	(644)	(2,000)	–	(2,000)
Equity-settled transactions	–	–	–	–	20	20	–	20
Issue of common shares	1	(1)	–	–	–	–	–	–
Balance at December 31, 2019	**100**	**–**	**–**	**(469)**	**6,719**	**6,350**	**218**	**6,568**

Outstanding share capital

The outstanding share capital was 199.6 million common shares at the end of December 2019. This included 3.2 million shares acquired in the share buyback program, which had not yet been cancelled. The weighted average number of shares in Q4 2019 was 198.5 million. This number of shares was the basis for the calculation of earnings per share in Q4 2019.

Condensed consolidated statement of cash flows

IFRS 16 "Leases" was adopted per January 1, 2019, applying the modified retrospective method. The payments for the operating leases, in 2018 reported in the cash flow from operating activities, as from January 1, 2019, are included in the cash flow from financing activities. In 2019, the adoption of IFRS 16 resulted in €108 million of lease expenses being presented as redemption of lease liabilities in Net cash from financing activities; this amount was previously recorded in Net cash from operating activities. The 2018 comparative figures have not been restated.

Cash flows and net debt

Net cash from operating activities in Q4 2019 resulted in an inflow of €454 million (2018: inflow of €319 million). This increase was driven by the aforementioned implementation of IFRS 16, increased profit for the period and lower interest paid, which was partly offset by changes in provisions. Full-year 2019 Pension pre-funding concerns the €161 million of pre-funding payments into an escrow account for the Akzo Nobel (CPS) Pension Scheme. Full-year 2019 changes in pension provisions include top-up payments of €481million (2018: €187 million).

Net cash from investing activities in Q4 2019 resulted in an inflow of €546 million (2018: outflow of €5,599 million). Net cash from investing activities was mainly impacted by an outflow for acquisitions and the net cash inflow from the short-term investments of €834 million.

Net cash from financing activities in Q4 2019 resulted in an outflow of €936 million (2018: outflow of €1,879 million). Net cash from financing activities was mainly impacted by the repayments of loans, the interim dividend 2019, the share buyback (€314 million) and the impact of the implementation of IFRS 16 leading to €25 million redemption of lease liabilities.

At December 31, 2019, net debt was positive €802 million versus negative €5,861 million at year-end 2018. This was mainly due to the share buyback (€2.5 billion), a capital repayment (€2.0 billion), a special cash dividend payment (€1.0 billion), pension related payments (€642 million), the final dividend 2018 (€315 million), capital expenditures (€214 million) and net cash outflow for acquisitions and divestments (€120 million).

Condensed consolidated statements of cash flows

Fourth quarter			January-December	
2018	2019	in € millions	2018	2019
952	1,155	**Net cash and cash equivalents at beginning of period**	1,278	2,732
		Adjustments to reconcile earnings to cash generated from operating activities		
45	80	Profit for the period from continuing operations	455	555
59	99	Amortization and depreciation	239	360
1	5	Impairment losses	1	66
23	18	Financing income and expenses	52	76
(6)	(4)	Results from associates and joint ventures	(20)	(20)
(2)	(12)	Pre-tax result on acquisitions and divestments	(42)	(83)
6	79	Income tax	118	230
250	258	Changes in working capital	(177)	(244)
–	–	Pension pre-funding*	–	(161)
61	(12)	Changes in pension provisions	(157)	(509)
(16)	(4)	Changes in other provisions	(46)	(15)
(48)	(16)	Interest paid	(89)	(66)
(53)	(52)	Income tax paid	(164)	(184)
(1)	15	Other changes	(8)	28
319	**454**	**Net cash from operating activities**	**162**	**33**
(64)	(79)	Capital expenditures	(184)	(214)
(80)	(212)	Acquisitions and divestments net of cash acquired/divested	(74)	(120)
(5,541)	(760)	Investment in short-term investments	(5,541)	(2,325)
80	1,594	Repayments of short-term investments	80	7,663
6	3	Other changes	51	8
(5,599)	**546**	**Net cash from investing activities**	**(5,668)**	**5,012**
(1,340)	(528)	Changes from borrowings	(922)	(613)
(135)	(93)	Dividend paid	(636)	(1,446)
–	–	Capital repayment	–	(2,000)
–	(314)	Share buyback	–	(2,520)
(407)	–	Buy-out of non-controlling interests	(437)	–
3	(1)	Other changes	5	–
(1,879)	**(936)**	**Net cash from financing activities**	**(1,990)**	**(6,579)**
(7,159)	**64**	**Net cash used for continuing operations**	**(7,496)**	**(1,534)**
8,924	(5)	Cash flows from discontinued operations	8,958	(10)
1,765	**59**	**Net change in cash and cash equivalents of continued and discontinued operations**	**1,462**	**(1,544)**
15	(4)	Effect of exchange rate changes on cash and cash equivalents	(8)	22
2,732	**1,210**	**Net Cash and cash equivalents at December 31**	**2,732**	**1,210**

Free cash flows

The cash generation in Q4 2019 improved compared to Q4 2018, mainly due to higher EBITDA and lower interest paid, partly offset by lower Other changes in provisions.

EBITDA was impacted by the adoption of IFRS 16 as per January 1, 2019. As a result, in 2019, some €113 million of lease expenses were recognized as depreciation of Right-of-use assets (€105 million) and as interest expense (€8 million). The 2018 comparative figures have not been restated.

Consolidated statement of free cash flows

Fourth quarter			January-December	
2018	2019	in € millions	2018	2019
127	**272**	**EBITDA**	**844**	**1,201**
1	5	Impairment losses	1	66
(2)	(12)	Pre-tax results on acquisitions and divestments	(42)	(83)
250	258	Changes in working capital	(177)	(244)
–	–	Pension pre-funding *	–	(161)
(1)	–	Pension top-up payments	(187)	(481)
46	(16)	Other changes in provisions	(16)	(43)
(48)	(16)	Interest paid	(89)	(66)
(53)	(52)	Income tax paid	(164)	(184)
(1)	15	Other	(8)	28
319	**454**	**Net cash from operating activities**	**162**	**33**
(64)	(79)	Capital expenditures	(184)	(214)
255	**375**	**Free cash flow**	**(22)**	**(181)**

* Pension pre-funding for the full-year 2019 has been included in net cash from operating activities, whereas in the first quarter of 2019, when the payment was made, this was included in the net cash from investing activities.

Invested capital

Invested capital at December 31, 2019, totaled €7.0 billion, up €0.8 billion from year-end 2018, mainly due to higher operating working capital, the impact of the adoption of IFRS 16 and increased goodwill and other intangible assets due to acquisitions.

Operating working capital (Trade)

Operating working capital as percentage of revenue increased to 11.9% in Q4 of 2019, compared with 9.7% in Q4 of 2018, mainly due to lower trade payables, including an adverse impact from acquisitions.

Pension

The net balance sheet position (according to IAS19) of the pension plans at the end of 2019 was a surplus of €0.8 billion (year-end 2018: surplus of €0.4 billion). The development during 2019 was the result of the net effect of:

- Top-up payments into defined benefit pension plans
- Higher asset returns in key countries
- Net demographic assumption gains

Offset by:

- Lower discount rates in key countries

In February 2019, negotiations on the triennial review of the main UK defined benefit pension schemes were concluded, leading to a total of €640 million of cash payments:

- An amount of £290 million (€333 million) of top-up payments have been made in relation to deficit recovery plans for the ICI Pension Fund and Akzo Nobel (CPS) Pension Scheme
- Top-up payments of £129 million (€146 million) were paid in accordance with the previously agreed recovery plans
- An amount of £142 million (€161 million) of pre-funding was paid into an escrow account for the Akzo Nobel (CPS) Pension Scheme

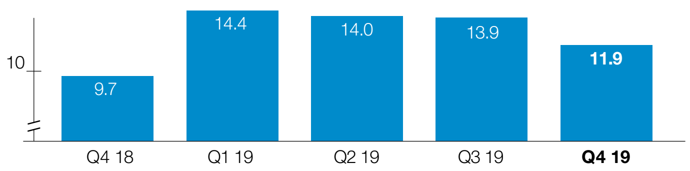
Other top-up payments amounted to €2 million.

Invested capital

in € millions	December 31, 2018	**December 31, 2019**
Trade receivables	1,843	1,812
Inventories	1,139	1,139
Trade payables [1]	(2,084)	(1,883)
Operating working capital (Trade)	**898**	**1,068**
Other working capital items [1]	(414)	(335)
Non-current assets [2]	7,171	8,240
Less investments in associates and joint ventures	(137)	(150)
Less pension assets	(947)	(1,418)
Deferred tax liabilities	(368)	(391)
Invested capital [2]	**6,203**	**7,014**

Operating working capital (Trade)

In % of revenue



[1] Trade payables now include certain other payables, which were previously classified as Other working capital. Trade payables, Operating working capital and Other working capital items reported in the quarters of 2018 have been represented for this change of definition for some €240 million.
[2] Invested capital includes the impact from adoption of IFRS 16 "Leases" (as per January 1, 2019). Right-of-use assets (€363 million as per January 1, 2019) have been added to Invested capital whereas Lease liabilities remain excluded from Invested capital. The 2018 comparative figures have not been restated. Further details and a quantification of the impact are provided on page 14.

Workforce

At December 31, 2019, the number of people employed was 33,800 (December 31, 2018: 34,500). Acquisitions in 2019 added around 150 people.

Notes to the condensed financial statements

General information

Akzo Nobel N.V. is a public limited liability company headquartered in Amsterdam, the Netherlands. The interim condensed consolidated financial statements include the financial statements of Akzo Nobel N.V. and its consolidated subsidiaries (in this document 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 "Interim financial reporting". The interim condensed consolidated financial statements were discussed and approved by the Board of Management and Supervisory Board. These condensed financial statements have been autorized for issue. The full-year 2019 numbers included in the condensed consolidated financial statements are derived from the consolidated financial statements 2019. The consolidated 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 10, 2020.

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, 2018, except for the following changes in accounting policies and disclosures:

IFRS 16 "Leases" is the most important change. IFRS 16 replaces the previous standard on lessee accounting for leases. It requires lessees to bring most leases on balance sheet in a single lease accounting model, recognizing a Right-of-use asset and a Lease liability. Compared with the previous standard for operating leases, it also impacts the classification and timing of expenses and consequently the classification between net cash from operating activities and net cash from financing activities. AkzoNobel has adopted IFRS 16 as per January 1, 2019, applying the modified retrospective approach. All Right-of-use assets are measured at the amount of the lease liability at transition, adjusted for any prepaid or accrued lease expenses. Short-term and low-value leases are exempted. AkzoNobel has not restated its 2018 comparative figures. The adoption did not have an impact on group equity.

IFRS 16 requires the Right-of-use asset and the Lease liability to be recognized at discounted value and assumptions with regards to termination and renewal options should be taken into consideration.

The blended incremental borrowing rate applied to the lease liabilities at January 1, 2019, was 2.2%. The table below reflects the reconciliation of the operating lease commitments as at December 31, 2018, and the lease liabilities recognized as at January 1, 2019.

Changes in lease accounting

in € millions	Reconciliation
Operating lease commitments as at December 31, 2018	**420**
Adjustments as a result of a re-assessment of service contracts	(7)
Low-value and short-term leases recognized on a straight-line basis as expense	(10)
Total undiscounted lease commitments	**403**
Discounting of lease commitments	(40)
Lease liabilities recognized as at January 1, 2019	**363**

The adoption of IFRS 16 as per January 1,2019, has resulted in the recognition of Right-of-use assets of €367 million, and additional lease liabilities of €363 million. In addition, assets with a book value of €65 million have been reclassified to Right-of-use assets, including among others finance leases. In the Consolidated statement of income, the Operating lease expenses (€113 million), previously recorded in Operating income, are replaced by the depreciation charge on Right-of-use assets (€105 million; remains recorded in Operating income) and by Interest expenses for the lease liability (€8 million; recorded in Net financing expenses). In addition we recorded a non-cash impairment charge of Right-of-use assets of €5 million, presented as identified item. On a net basis, the adoption of IFRS 16 has led to an increase of operating income by €3 million and an increase of Net financing expenses by €8 million; Profit before tax was €5 million lower and Profit for the period was €3 million lower. The payments for the Operating leases (€108 million), previously included in the net cash from operating activities, are now included in the net cash from financing activities.

Impact of adoption IFRS 16 on the condensed consolidated balance sheet

in € millions	As reported at December 31, 2018	Restatement due to adoption IFRS 16	Restated opening balance at January 1, 2019
Intangible assets	3,458	(36)	3,422
Property, plant and equipment	1,748	(29)	1,719
Right-use-of asset	–	432	432
Other non-current assets	1,965	–	1,965
Current assets	11,613	(4)	11,609
Total assets	**18,784**	**363**	**19,147**
Group equity	12,038	–	12,038
Non-current liabilities	3,066	270	3,336
Currrent liabilities	3,680	93	3,773
Total liabilites	**18,784**	**363**	**19,147**

Impact of adoption IFRS 16 on the condensed consolidated statement of income

Fourth quarter				January-December		
Before IFRS 16	Impact	Including IFRS 16	in € millions	Before IFRS 16	Impact	Including IFRS 16
282	30	312	Adjusted EBITDA	1,228	113	1,341
242	30	272	EBITDA	1,088	113	1,201
(72)	(27)	(99)	Depreciation and amortization	(255)	(105)	(360)
220	3	223	Adjusted operating income	983	8	991
(50)	–	(50)	Impairment reported as identified items *	(145)	(5)	(150)
170	3	173	Operating income	838	3	841
(15)	(3)	(18)	Net financing expenses	(68)	(8)	(76)
(79)	–	(79)	Income tax	(232)	2	(230)
75	–	75	Net income from continuing operations	520	(3)	517
429	25	454	Net cash from operating activities	(75)	108	33
(911)	(25)	(936)	Net cash from financing activities	(6,471)	(108)	(6,579)
9.8	0.1	9.9	ROS%	10.6	0.1	10.7
7.6	0.1	7.7	OPI margin	9.0	(0.1)	9.1
			ROI%	14.7	(0.6)	14.1

* The IFRS 16 impact of €5 million relates to a non-cash impairment of Right-of-use assets following the implementation of our strategic portfolio review.

AkzoNobel's activities as a lessor are not truly material and hence the impact on the financial statements is not significant.

Several other new accounting standards were issued. These include, among others, IFRIC 23 "Uncertainty over income tax treatments" and "Plan Amendment, Curtailment and Settlement" (Amendments to IAS 19), both effective as from January 1, 2019. These changes do not have a material effect on AkzoNobel's Consolidated financial statements, as to a large extent we already complied with these clarifications on IFRS.

Application of IAS 29 "Financial Reporting in Hyperinflationary economies"

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 subsequent periods were not significant.

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.

Revenue disaggregation

The table below reflects the disaggregation of revenue. Additional disaggregation of revenue is included on the respective pages of Decorative Paints and Performance Coatings.

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.

Revenue disaggregation

January-December

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets - revenue from third parties				
The Netherlands	202	100	57	359
Other European Countries	1,747	2,001	–	3,748
USA and Canada	–	1,139	–	1,139
South America	456	359	–	815
Asia	1,075	1,581	–	2,656
Other regions	190	369	–	559
Total	**3,670**	**5,549**	**57**	**9,276**
Timing of revenue recognition				
Goods transferred at a point in time	3,621	5,311	–	8,932
Services transferred over time	49	238	57	344
Total	**3,670**	**5,549**	**57**	**9,276**

Alternative performance measures

In presenting and discussing AkzoNobel's operating results, management uses certain alternative performance measures (APM) not defined by IFRS, which exclude the so-called identified items that are generated outside the normal course of business. These alternative performance measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. Alternative performance measures do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Where a non-financial measure is used to calculate an operational or statistical ratio, this is also considered an APM.

AkzoNobel uses APM adjustments to the IFRS measures to provide supplementary information on the reporting of the underlying developments of the business. These APM adjustments may affect the IFRS measures operating income, net profit and earnings per share. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the tables for adjusted operating income and adjusted earnings from continuing operations on the next page.

OPI margin, ROS% and ROS% excluding unallocated costs are used as performance measures. OPI margin is operating income as percentage of revenue. ROS% is adjusted operating income as percentage of revenue. ROS% excluding unallocated costs is adjusted operating income as percentage of revenue for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs consistent with our 2020 guidance. The calculations are based on the Revenue as disclosed in the revenue table on page 4.

ROI is adjusted operating income of the last 12 months as percentage of average invested capital. ROI excluding unallocated cost is adjusted operating income of the last 12 months as percentage of average invested capital, for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs and invested capital, consistent with our 2020 ambition.

Operating income

Fourth quarter 2018	2019	Δ%	in € millions	January-December 2018	2019	Δ%
37	75	103%	Decorative Paints	308	425	38%
130	138	6%	Performance Coatings	577	565	(2%)
(99)	(40)		Other activities/eliminations	(280)	(149)	
68	173	154%	Total	605	841	39%

Identified items

Fourth quarter 2018	2019	Δ%	in € millions	January-December 2018	2019	Δ%
(15)	(12)	(20%)	Decorative Paints	(38)	7	(118%)
(23)	(21)	(9%)	Performance Coatings	(52)	(123)	137%
(75)	(17)	(77%)	Other activities/eliminations	(103)	(34)	(67%)
(113)	(50)	(56%)	Total	(193)	(150)	(22%)

Adjusted operating income

Fourth quarter 2018	2019	Δ%	in € millions	January-December 2018	2019	Δ%
52	87	67%	Decorative Paints	346	418	21%
153	159	4%	Performance Coatings	629	688	9%
205	246	20%	Excluding unallocated costs	975	1,106	13%
(24)	(23)		Other activities/eliminations	(177)	(115)	
181	223	23%	Total	798	991	24%

OPI margin

Fourth quarter 2018	2019	Δ	in € millions	January-December 2018	2019	Δ
4.1%	8.6%	4.5%	Decorative Paints	8.3%	11.5%	2.2%
9.3%	10.1%	0.8%	Performance Coatings	10.3%	10.2%	(0.1%)
			Other activities/eliminations *			
2.9%	7.7%	4.8%	Total	6.5%	9.1%	2.6%

ROS%

Fourth quarter 2018	2019	Δ	in € millions	January-December 2018	2019	Δ
5.8%	9.9%	4.1%	Decorative Paints	9.4%	11.3%	1.9%
10.9%	11.7%	0.8%	Performance Coatings	11.3%	12.4%	1.1%
			Other activities/eliminations *			
7.8%	9.9%	2.1%	Total	8.6%	10.7%	2.1%

* ROS% and OPI margin for Other activities/eliminations is not shown, as this is not meaningful.

ROS% excluding unallocated costs

Fourth quarter 2018	2019	in € millions	January-December 2018	2019
2,308	2,242	Total revenue	9,256	9,276
(24)	(8)	less: revenue unallocated	(24)	(57)
2,284	2,234	Revenue excluding unallocated revenue	9,232	9,219
205	246	Adjusted operating income excluding unallocated costs *	975	1,106
9.0	11.0	ROS% excluding unallocated costs	10.6	12.0

* Adjusted operating income excluding unallocated costs equals the totals of the adjusted operating incomes of Decorative Paints and Performance Coatings as calculated in the table Adjusted operating income.

Adjusted earnings per share from continuing operations

Fourth quarter 2018	2019	in € millions	January-December 2018	2019
51	159	Profit before tax from continuing operations	573	785
113	50	Identified items reported in operating income	193	150
–	–	Interest on tax settlements	(30)	–
(43)	(57)	Adjusted income tax	(204)	(237)
(10)	(5)	Non-controlling interests	(45)	(38)
111	147	Adjusted net income from continuing operations	487	660
256.2	198.5	Weighted average number of shares	254.9	213.1
0.43	0.74	Adjusted earnings per share from continuing operations	1.91	3.10

Average invested capital

in € millions	January-December 2018	2019	Δ%
Decorative Paints	2,798	3,106	11%
Performance Coatings	3,066	3,325	8%
Other activities/eliminations	476	595	25%
Total	6,340	7,026	11%

ROI%

in € millions	January-December 2018	2019	Δ
Decorative Paints	12.4%	13.4%	1.0%
Performance Coatings	20.5%	20.7%	0.2%
Other activities/eliminations*			
Total	12.6%	14.1%	1.5%

* ROI% for Other activities/eliminations is not shown, as this is not meaningful.

ROI% excluding unallocated costs

in € millions	January-December 2018	2019
Average invested capital	6,340	7,026
less: unallocated average invested capital	(476)	(595)
Average invested capital excluding unallocated capital	5,864	6,431
Adjusted operating income excluding unallocated costs	975	1,106
ROI% excluding unallocated costs	16.6	17.2

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 ambition. Demand trends differ per region and segment in an uncertain macro-economic environment. Raw material costs are expected to have a moderately favorable impact for the first half of 2020. Continued margin management and cost-saving programs are in place to address the current challenges. We continue executing our transformation, incurring one-off costs, to deliver the previously announced €200 million cost savings. We target a leverage ratio of 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 11, 2020
The Board of Management

Thierry Vanlancker
Maarten de Vries

Top Employer status for AkzoNobel employees
Our team in China has gained Top Employer status from the Top Employers Institute for the seventh year in a row. The award recognizes the company's excellence in creating the best conditions for its employees. AkzoNobel also received similar recognition in Brazil, the UK, the Netherlands and the US during the course of 2019.

Paints and Coatings (continuing operations)

Quarterly statistics

Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018 year	in € millions	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019 year
					Revenue					
846	1,006	951	896	3,699	Decorative Paints	844	1,005	977	877	3,703
1,342	1,454	1,388	1,403	5,587	Performance Coatings	1,339	1,445	1,418	1,361	5,563
(12)	(14)	(13)	9	(30)	Other activities/eliminations	2	1	3	4	10
2,176	**2,446**	**2,326**	**2,308**	**9,256**	**Total**	**2,185**	**2,451**	**2,398**	**2,242**	**9,276**
					Adjusted EBITDA (excluding identified items)					
79	145	138	76	438	Decorative Paints	95	177	174	127	573
169	207	204	187	767	Performance Coatings	182	241	238	200	861
(39)	(67)	(39)	(23)	(168)	Other activities/eliminations	(29)	(24)	(25)	(15)	(93)
209	**285**	**303**	**240**	**1,037**	**Total**	**248**	**394**	**387**	**312**	**1,341**
9.6	**11.7**	**13.0**	**10.4**	**11.2**	**Adjusted EBITDA margin (in %)**	**11.4**	**16.1**	**16.1**	**13.9**	**14.4**
					Depreciation (excluding identified items) [1 2]					
(18)	(18)	(17)	(19)	(72)	Decorative Paints	(30)	(35)	(34)	(35)	(134)
(26)	(26)	(24)	(25)	(101)	Performance Coatings	(34)	(35)	(35)	(31)	(135)
(2)	(2)	(4)	–	(8)	Other activities/eliminations	(5)	(4)	(4)	(8)	(21)
(46)	**(46)**	**(45)**	**(44)**	**(181)**	**Total**	**(69)**	**(74)**	**(73)**	**(74)**	**(290)**
					Amortization (excluding identified items) [2]					
(5)	(4)	(6)	(5)	(20)	Decorative Paints	(5)	(6)	(5)	(5)	(21)
(9)	(9)	(10)	(9)	(37)	Performance Coatings	(10)	(9)	(9)	(10)	(38)
–	(1)	1	(1)	(1)	Other activities/eliminations	(1)	–	–	–	(1)
(14)	**(14)**	**(15)**	**(15)**	**(58)**	**Total**	**(16)**	**(15)**	**(14)**	**(15)**	**(60)**
					Adjusted operating income (excluding identified items)					
56	123	115	52	346	Decorative Paints	60	136	135	87	418
134	172	170	153	629	Performance Coatings	138	197	194	159	688
(41)	(70)	(42)	(24)	(177)	Other activities/eliminations	(35)	(28)	(29)	(23)	(115)
149	**225**	**243**	**181**	**798**	**Total**	**163**	**305**	**300**	**223**	**991**
6.8	**9.2**	**10.4**	**7.8**	**8.6**	**ROS%**	**7.5**	**12.4**	**12.5**	**9.9**	**10.7**
8.7	**12.1**	**12.3**	**9.0**	**10.6**	**ROS% excluding unallocated costs**	**9.1**	**13.7**	**13.8**	**11.0**	**12.0**

[1] Depreciation in 2019 includes the impact from the adoption of IFRS 16 "Leases", resulting in an additional depreciation charge on Right-of-use assets of €105 million in 2019. The 2018 comparative figures have not been restated.
[2] Depreciation and amortization of Q4 2019 and full-year 2019 is excluding €10 million of depreciation and amortization, which are recognized as identified items on the next page.

Paints and Coatings (continuing operations)

Quarterly statistics

2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 year	in € millions	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 year
Identified items per Business Area										
(8)	(12)	(3)	(15)	(38)	Decorative Paints	(6)	30	(5)	(12)	7
(13)	(10)	(6)	(23)	(52)	Performance Coatings	(41)	(23)	(38)	(21)	(123)
(20)	(11)	3	(75)	(103)	Other activities/eliminations	(3)	(4)	(10)	(17)	(34)
(41)	**(33)**	**(6)**	**(113)**	**(193)**	**Total**	**(50)**	**3**	**(53)**	**(50)**	**(150)**
Operating income										
48	111	112	37	308	Decorative Paints	54	166	130	75	425
121	162	164	130	577	Performance Coatings	97	174	156	138	565
(61)	(81)	(39)	(99)	(280)	Other activities/eliminations	(38)	(32)	(39)	(40)	(149)
108	**192**	**237**	**68**	**605**	**Total**	**113**	**308**	**247**	**173**	**841**
Reconciliation net financing income/(expenses)										
6	5	3	2	16	Financing income	5	4	4	4	17
(22)	(22)	(24)	(24)	(92)	Financing expenses	(17)	(20)	(21)	(18)	(76)
(16)	**(17)**	**(21)**	**(22)**	**(76)**	**Net interest on net debt**	**(12)**	**(16)**	**(17)**	**(14)**	**(59)**
Other interest movements										
2	3	2	3	10	Financing expenses related to post-retirement benefits	5	6	4	6	21
-	(1)	-	(2)	(3)	Interest on provisions	(3)	(2)	(8)	(1)	(14)
33	(13)	(1)	(2)	17	Other items	(3)	(6)	(6)	(9)	(24)
35	**(11)**	**1**	**(1)**	**24**	**Net other financing charges**	**(1)**	**(2)**	**(10)**	**(4)**	**(17)**
19	**(28)**	**(20)**	**(23)**	**(52)**	**Net financing expenses ***	**(13)**	**(18)**	**(27)**	**(18)**	**(76)**
Quarterly net income analysis										
4	6	4	6	20	Results from associates and joint ventures	5	5	6	4	20
131	170	221	51	573	Profit before tax	105	295	226	159	785
1	(47)	(66)	(6)	(118)	Income tax	(31)	(69)	(51)	(79)	(230)
132	123	155	45	455	Profit for the period from continuing operations	74	226	175	80	555
(1)	28	30	12	21	Effective tax rate (in %)	30	23	23	50	29

* Net financing expenses in 2019 include the impact of the adoption of IFRS 16 "Leases" resulting in Interest expenses from the lease liabilities (€8 million) in 2019, previously recorded as lease expenses in operating income. The 2018 comparative figures have not been restated.

AkzoNobel (continuing operations)

Quarterly statistics

2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 year		2019 Q1	2019 Q2	2019 Q3	2019 Q4	2019 year
Earnings per share from continuing operations (in €)										
0.47	0.42	0.58	0.14	1.61	Basic	0.28	1.00	0.79	0.38	2.43
0.47	0.42	0.58	0.14	1.60	Diluted	0.28	1.00	0.79	0.38	2.42
Earnings per share from discontinued operations (in €)										
0.53	0.64	0.60	22.69	24.58	Basic	–	0.07	–	0.03	0.10
0.53	0.64	0.59	22.61	24.47	Diluted	–	0.07	–	0.03	0.10
Earnings per share from total operations (in €)										
1.00	1.06	1.18	22.83	26.19	Basic	0.28	1.07	0.79	0.41	2.53
1.00	1.06	1.17	22.75	26.07	Diluted	0.28	1.07	0.79	0.41	2.52
Number of shares (in millions)										
252.9	254.5	255.8	256.2	254.9	Weighted average number of shares *	234.3	215.7	204.3	198.5	213.1
253.2	255.8	255.8	256.2	256.2	Number of shares at end of quarter *	223.9	208.7	200.2	196.4	196.4
Adjusted earnings from continuing operations (in € millions)										
131	170	221	51	573	Profit before tax from continuing operations	105	295	226	159	785
41	33	6	113	193	Identified items reported in operating income	50	(3)	53	50	150
(31)	1	–	–	(30)	Interest on tax settlement	–	–	–	–	–
(39)	(55)	(67)	(43)	(204)	Adjusted income tax	(39)	(73)	(68)	(57)	(237)
(13)	(16)	(6)	(10)	(45)	Non-controlling interests	(9)	(11)	(13)	(5)	(38)
89	**133**	**154**	**111**	**487**	Adjusted net income from continuing operations	**107**	**208**	**198**	**147**	**660**
0.35	**0.52**	**0.60**	**0.43**	**1.91**	**Adjusted earnings per share from continuing operations (in €)**	**0.46**	**0.96**	**0.97**	**0.74**	**3.10**

* in 2019 after share buyback

Glossary

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

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

Adjusted operating income is operating income excluding identified items.

Capital expenditures is the total of investments in property, plant and equipment and investments in intangible assets.

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.

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, Northern and Southern 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, short-term investments, 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 Mature Europe, the US, Canada, Japan and Oceania.

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

Operating income is defined as income excluding Net financing expenses, Results from associates and joint ventures, Income tax and Profit from discontinued operations. Operating income includes the share of Non-controlling interests. Operating income includes Identified items to the extent these relate to lines included in Operating Income.

Operating working capital (Trade) 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.

ROI excluding unallocated cost is adjusted operating income of the last 12 months as percentage of average invested capital, for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs and invested capital, consistent with our 2020 ambition.

ROS is adjusted operating income as percentage of revenue.

ROS excluding unallocated cost is adjusted operating income as percentage of revenue for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs, consistent with our 2020 ambition.

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

South America includes Central America.

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. 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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Financial calendar

Investor update - 2020 and beyond	February 13, 2020
Publication annual report	March 10, 2020
Report for the first quarter	April 22, 2020
Annual General Meeting of shareholders	April 23, 2020
Ex-dividend date of 2019 final dividend	April 27, 2020
Record date of 2019 final dividend	April 28, 2020
Payment of 2019 final dividend	May 7, 2020

AkzoNobel

www.akzonobel.com

About AkzoNobel
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 34,000 talented people who are passionate about delivering the high-performance products and services our customers expect.

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