Q2 Report 2019

AkzoNobel

Operation Night Watch
We recently partnered with the Rijksmuseum in Amsterdam for one of the most innovative projects in the history of art – the live restoration of Rembrandt's Night Watch. In a spectacular fusion of old and new, Operation Night Watch will use ground-breaking techniques to preserve the painting for future generations. We'll also be contributing our color expertise to the historic project.

Our results at a glance

2020 guidance*

ROS 15%
ROI >25%

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

Q2 2019 results show continued progress towards our Winning together: 15 by 20 strategy
- **Adjusted operating income 36% higher at €305 million (2018: €225 million)**
- **ROS, excluding unallocated costs, increased to 13.7% (2018: 12.1%)**
- **Focus on value over volume resulted in price/mix up 5% and 6% lower volumes**
- **Transformation on track and delivered €43 million cost savings**
- **Acquisition of Mapaero, announced July 18, 2019, further strengthens our aerospace coatings business**

Q2 2019:
- Revenue was flat and up 1% in constant currencies, with positive price/mix of 5% and acquisitions contributing 1%, offset by 6% lower volumes
- Adjusted operating income up 36% at €305 million (2018: €225 million, which included €20 million of one-off costs) driven by ongoing pricing initiatives and cost-saving programs; ROS at 12.4% (2018: 9.2%)
- Operating income at €308 million includes €3 million positive impact from identified items, related to a gain on disposal following asset network optimization (€57 million) and transformation costs (€54 million); 2018 operating income at €192 million included €33 million negative identified items
- Decorative Paints ROS up at 13.5% (2018: 12.2%); Performance Coatings ROS up at 13.6% (2018: 11.8%)
- Adjusted EPS from continuing operations up 85% at €0.96 (2018: €0.52); EPS from total operations at €1.07 (2018: €1.06)

Half-year 2019:
- Revenue was flat and up 1% in constant currencies, with positive price/mix of 5%, acquisitions contributing 1% and 6% lower volumes due to focus on value over volume
- Adjusted operating income up 25% at €468 million (2018: €374 million) driven by pricing initiatives and cost savings
- Operating income up 40% at €421 million, includes €47 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: €300 million, including €74 million negative impact from identified items)
- Net income from total operations at €296 million, including €16 million discontinued operations (2018: €524 million, including €298 million from discontinued operations)
- €1.5 billion of the €2.5 billion share buyback program was completed

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 stabilize during the second half of 2019. Continued 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.

Summary of financial outcomes

Second quarter				January-June		
2018	2019	Δ%	in € millions	2018	2019	Δ%
2,446	2,451	–%	Revenue	4,622	4,636	–%
285	394	38%	Adjusted EBITDA [1]	494	642	30%
252	397	58%	EBITDA [1]	420	595	42%
225	305	36%	Adjusted operating income [1]	374	468	25%
192	308	60%	Operating income [1]	300	421	40%
9.2	12.4		ROS% [1]	8.1	10.1	
7.8	12.6		OPI margin [1]	6.5	9.1	
			Average invested capital [1]	6,351	6,648	
			ROI% [1]	12.2	13.4	
12.1	13.7		ROS% excl. unallocated costs [1]	10.5	11.5	
			ROI% excl. unallocated costs [1]	15.9	16.5	
42	46	10%	Capital expenditures	79	83	5%
			Net debt	2,887	62	
			Number of employees	35,000	34,500	(1%)
15	152		Net cash from operating activities - continuing	(441)	(572)	(30%)
107	215	101%	Net income from continuing operations	226	280	24%
164	16		Net income from discontinued operations	298	16	
271	231	(15%)	Net income attributable to shareholders	524	296	(44%)
1.06	1.07	1%	Earnings per share from total operations (in €)	2.07	1.32	(36%)
0.42	1.00	138%	Earnings per share from continuing operations (in €)	0.89	1.24	39%
0.52	0.96	85%	Adjusted earnings per share from continuing operations (in €)	0.87	1.40	61%

[1] The statement of income, statement of cash flows and the balance sheet for 2019 include the impact from 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 4 and 14.

Financial highlights

Revenue

Q2 2019:

Revenue was flat, and up 1% in constant currencies. Price/mix was up 5% overall, mainly driven by pricing initiatives. Volumes were 6% lower due to our value over volume strategy and lower volumes in China. Excluding China, volumes were 4% lower.

- Decorative Paints revenue was flat, and up 2% in constant currencies, with positive price/mix up 4%. Pricing initiatives and acquisitions more than offset lower volumes
- Performance Coatings revenue was 1% lower and flat in constant currencies. Price/mix was 7% positive, driven by pricing initiatives, while volumes were lower
- Other revenue includes royalty and service revenue related to continued services for the former Specialty Chemicals business

Half-year 2019:

Revenue was flat, and up 1% in constant currencies. Price/mix was up 5% overall, mainly driven by pricing initiatives. Volumes were 6% lower due to our focus on value over volume. Excluding China, volumes were 3% lower.

- Decorative Paints revenue was flat, and up 2% in constant currencies, with positive price/mix of 5%. Pricing initiatives and acquisitions more than offset lower volumes
- Performance Coatings revenue was flat, and 1% lower in constant currencies. Price/mix was 6% positive, driven by pricing initiatives, while volumes were lower
- Other revenue includes royalty and service revenue related to continued services for the former Specialty Chemicals business

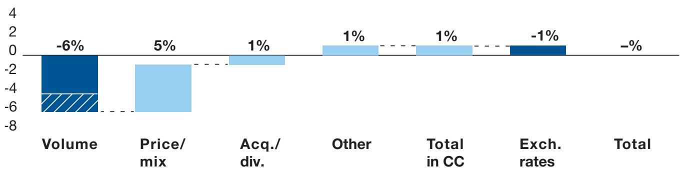
Raw material price development

Raw material inflation continued in Q2 2019, although at a lower rate than in 2018, adding €33 million of costs for the quarter. Pricing initiatives and cost-saving programs continue being implemented to deal with these higher raw material costs.

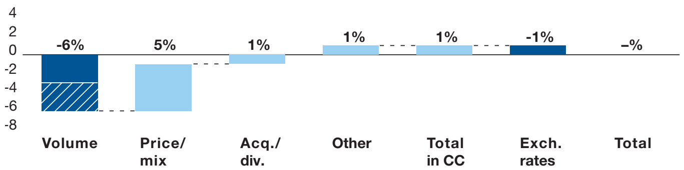
Acquisitions

The impact of acquisitions on revenue was 2% for Decorative Paints and 1% for AkzoNobel overall. The acquisition of Mapaero to further strengthen our global position in the steadily growing aerospace coatings industry was announced on July 18, 2019.

Revenue development Q2 2019

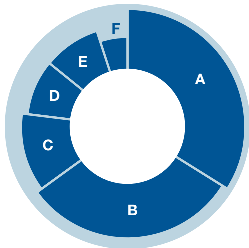


Revenue development half-year 2019



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

Second quarter					January-June			
2018	2019	Δ%	Δ% CC *	in € millions	2018	2019	Δ%	Δ% CC *
1,006	1,005	–	2%	Decorative Paints	1,852	1,849	–	2%
1,454	1,445	(1%)	–	Performance Coatings	2,796	2,784	–	(1%)
(14)	1			Other activities/ eliminations	(26)	3		
2,446	**2,451**	**–**	**1%**	**Total**	**4,622**	**4,636**	**–**	**1%**

* Change excluding currency impact

in % versus Q2 2018	Volume	Price/ mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(4)	4	2	–	(2)	–
Performance Coatings	(7)	7	–	–	(1)	(1)
Total	**(6)**	**5**	**1**	**1**	**(1)**	**–**

in % versus half-year 2018	Volume	Price/ mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(5)	5	2	–	(2)	–
Performance Coatings	(7)	6	–	–	1	–
Total	**(6)**	**5**	**1**	**1**	**(1)**	**–**

Volume development per quarter (year-on-year) in %	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Decorative Paints	(2)	(4)	(6)	(6)	(4)
Performance Coatings	(3)	(7)	(7)	(8)	(7)
Total	**(3)**	**(5)**	**(7)**	**(7)**	**(6)**

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

Currency development per quarter (year-on-year) in %	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
Decorative Paints	(6)	(6)	(6)	(2)	(2)
Performance Coatings	(5)	(3)	(2)	1	(1)
Total	**(5)**	**(4)**	**(3)**	**(1)**	**(1)**

Financial highlights

Q2 2019:

Adjusted operating income

Adjusted operating income was up at €305 million (2018: €225 million), driven by pricing initiatives and cost-saving programs. Continuous improvement successfully offset inflation and cost savings resulting from the announced transformation delivered €43 million in the quarter. We are on track to deliver €200 million of savings planned for 2020. ROS was up 3.2% at 12.4% (2018: 9.2%).

- Decorative Paints continued to improve. Price/mix effects and cost savings more than compensated for increased raw material costs and lower volumes. ROS was up at 13.5% (2018: 12.2%)
- Performance Coatings improved as a result of pricing initiatives and cost savings, more than offsetting higher raw material costs and lower volumes. ROS was up at 13.6% (2018: 11.8%)
- Other activities/eliminations improved €42 million to €28 million, mainly due to lower costs, and a one-off gain on a disposal (2018: €70 million, which included €20 million of one-off costs)

Operating income

Operating income increased to €308 million (2018: €192 million) and included positive identified items of €3 million, mainly relating to transformation costs and a gain on disposal of €57 million (2018: €33 million negative, mainly related to transformation costs).

Half-year 2019:

Adjusted operating income

Adjusted operating income was up at €468 million (2018: €374 million), driven by pricing initiatives and cost-saving programs. ROS was up 2.0% at 10.1% (2018: 8.1%).

- Decorative Paints continued to improve. Price/mix effects and cost savings more than offset continued raw material inflation and lower volumes. ROS was up at 10.6% (2018: 9.7%)
- Performance Coatings improved as a result of pricing initiatives and cost savings, more than offsetting higher raw material costs and lower volumes. ROS was up at 12.0% (2018: 10.9%)
- Other activities/eliminations improved €48 million to €63 million (2018: €111 million)

Operating income

Operating income was up 40% at €421 million, and includes €47 million negative impact from identified items, mainly related to transformation costs and non-cash impairments partly offset by a gain on disposal of €57 million following asset network optimization (2018: €300 million, including €74 million negative impact from identified items).

Net financing income/(expenses)

Net financing expenses increased by €22 million, mainly due to an interest benefit on a tax settlement in 2018.

Income tax

The effective tax rate in the first half-year was 25.0% (2018: 15.3%). The 2018 income tax expenses were positively impacted by a re-recognition of deferred tax assets and a tax settlement.

Profit from discontinued operations

Profit from discontinued operations was €16 million and includes the final purchase price settlement of the sale of the Specialty Chemicals business, which was divested per October 1, 2018. In 2018, the results of the Specialty Chemicals business were included as profit from discontinued operations.

Net income

Net income attributable to shareholders was €296 million (2018: €524 million), of which €16 million was attributable to discontinued operations. In 2018, €226 million was attributable to continuing operations and €298 million to discontinued operations related to the divested Specialty Chemicals business. Adjusted earnings per share from continuing operations increased to €1.40 (2018: €0.87).

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 liability (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 17.

Adjusted operating income [1]

Second quarter				January-June		
2018	2019	Δ%	in € millions	2018	2019	Δ%
123	136	11%	Decorative Paints	179	196	9%
172	197	15%	Performance Coatings	306	335	9%
(70)	(28)		Other activities/eliminations	(111)	(63)	
225	305	36%	**Total**	374	468	25%

ROS%

Second quarter				January-June		
2018	2019	Δ	in € millions	2018	2019	Δ
12.2%	13.5%	1.3%	Decorative Paints	9.7%	10.6%	0.9%
11.8%	13.6%	1.8%	Performance Coatings	10.9%	12.0%	1.1%
			Other activities/eliminations [2]			
9.2%	12.4%	3.2%	**Total**	8.1%	10.1%	2.0%
12.1%	13.7%	1.6%	**Excl. Unallocated costs**	10.5%	11.5%	1.0%

Operating income [1]

Second quarter				January-June		
2018	2019	Δ%	in € millions	2018	2019	Δ%
111	166	50%	Decorative Paints	159	220	38%
162	174	7%	Performance Coatings	283	271	(4%)
(81)	(32)		Other activities/eliminations	(142)	(70)	
192	308	60%	**Total**	300	421	40%

Operating income [1] to net income

Second quarter			January-June	
2018	2019	in € millions	2018	2019
192	308	**Operating income [1]**	300	421
(28)	(18)	Net financing expenses	(9)	(31)
6	5	Results from associates and joint ventures	10	10
170	295	**Profit before tax**	301	400
(47)	(69)	Income tax	(46)	(100)
123	226	**Profit from continuing operations**	255	300
165	16	Profit from discontinued operations	307	16
288	242	**Profit for the period**	562	316
(17)	(11)	Non-controlling interests	(38)	(20)
271	231	**Net income**	524	296

[1] Adjusted operating income and Operating income in HY1 2019 include the impact from adoption of IFRS 16 “Leases” (as per January 1, 2019). As a result, €3 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

- **ROS up at 13.5% driven by pricing initiatives and continued strong performance in EMEA**
- **Price/mix was up 4% and volumes were flat overall, excluding China**

Q2 2019:
- Revenue was flat and up 2% in constant currencies; price/mix was 4% positive, driven by pricing initiatives, while acquisitions contributed 2%
- Adjusted operating income increased to €136 million (2018: €123 million) with pricing initiatives and cost savings more than compensating for higher raw material costs and lower volumes
- Volumes were 4% lower due to our value over volume strategy and lower volumes in China (excluding China, volumes were flat)
- ROS up at 13.5% (2018: 12.2%); ROI up at 12.2% (2018: 11.8%)

Half-year 2019:
- Revenue was flat and up 2% in constant currencies; price/mix was 5% positive, driven by pricing initiatives, while acquisitions contributed 2%
- Adjusted operating income increased to €196 million (2018: €179 million) with pricing initiatives and cost savings more than compensating for higher raw material costs and lower volumes
- Volumes were 5% lower due to our value over volume strategy and lower volumes in China (excluding China, volumes were 1% lower)
- ROS up at 10.6% (2018: 9.7%)

Q2 2019:
Revenue was flat and up 2% in constant currencies. Continued focus on pricing initiatives contributed to positive price/mix of 4%, while volumes were lower. Acquisitions contributed 2% to revenues.

Adjusted operating income increased to €136 million (2018: €123 million). Continued pricing initiatives and cost savings more than offset higher raw material costs and lower volumes, resulting in ROS of 13.5% (2018: 12.2%).

Operating income increased to €166 million and was positively impacted by €30 million identified items related to a gain on a disposal following asset network optimization (€57 million) and transformation costs (€27 million). In 2018, operating income of €111 million was adversely impacted by €12 million identified items.

Half-year 2019:
Revenue was flat and up 2% in constant currencies. Continued focus on pricing initiatives contributed to positive price/mix of 5%, while volumes were lower. Acquisitions contributed 2% to revenues.

Adjusted operating income increased to €196 million (2018: €179 million). Continued pricing initiatives and cost savings offset higher raw material costs and lower volumes, resulting in ROS of 10.6% (2018: 9.7%).

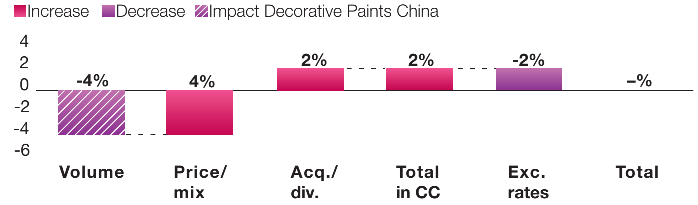
Operating income increased to €220 million and was positively impacted by €24 million identified items related to a gain on a disposal following asset network optimization (€57 million) and transformation costs (€33 million). In 2018, operating income of €159 million was adversely impacted by €20 million identified items.

Revenue

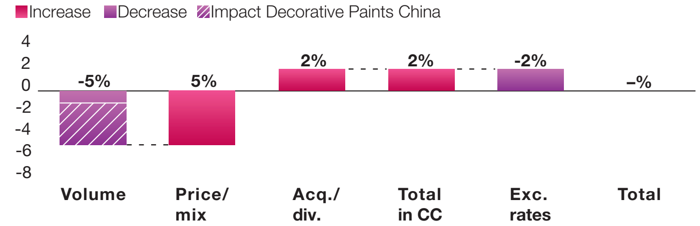
Second quarter					January-June			
2018	2019	Δ%	Δ% CC *	in € millions	2018	2019	Δ%	Δ% CC *
591	620	5%	6%	Decorative Paints Europe, Middle East and Africa	1,082	1,126	4%	6%
107	103	(4%)	4%	Decorative Paints South America	212	203	(5%)	9%
310	284	(8%)	(9%)	Decorative Paints Asia	561	524	(7%)	(8%)
(2)	(2)			Other/intragroup eliminations	(3)	(2)		
1,006	**1,005**	–%	2%	**Total**	1,852	**1,849**	–%	2%

* Change excluding currency impact

Revenue development Q2 2019



Revenue development half-year 2019



Key financial figures

Second quarter				January-June		
2018	2019	Δ%	in € millions	2018	2019	Δ%
123	136	11%	Adjusted operating income	179	196	9%
111	166	50%	Operating income [1]	159	220	38%
12.2	13.5		ROS%	9.7	10.6	
			Average invested capital [2]	2,813	2,984	
			ROI%	11.8	12.2	

[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 Q2 was up 5% and up 6% in constant currencies due to successful pricing initiatives, partly offset by lower volumes. The acquisition of Fabryo in Romania, Xylazel in Spain and Doves Decorating Supplies in the UK contributed 4% to revenues. The introduction of Extreme Stay Clean exterior woodstain and a next generation stain resistant wall paint continued to support our market positions in Eastern Europe and Italy. Our EasyCare product called Color Resist has been introduced worldwide, including France.

Revenue in the first half-year was 4% higher and up 6% in constant currencies, driven by volume growth and positive price/mix effects. Adverse currency impacts mainly related to the pound sterling.

South America

Revenue in Q2 was 4% lower, although up 4% in constant currencies, mainly driven by positive price/mix effects and a strengthened position in the premium segment. Pricing initiatives and cost control offset increased raw material costs.

Revenue in the first half-year was 5% lower, although up 9% in constant currencies. 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 Q2 decreased 8%, and was 9% lower in constant currencies. This follows the implementation of our value over volume strategy and continued focus on pricing initiatives. Volumes were lower in China, also impacted by macro-economic developments resulting in lower consumer confidence. Volumes grew in India, Thailand, Malaysia and Vietnam. The acquisition of Colourland Paints in Malaysia contributed 2% to revenues.

Revenue in the first half-year was 7% lower, and 8% lower in constant currencies. Volumes in China were lower, while growth continued in India, Malaysia and Vietnam.

New paint range pounces on French market
Our Dulux Valentine decorative paint brand in France has roared onto the market with a new EasyCare product called Color Resist. The EasyCare range (also known as EasyClean) has now been introduced in 26 countries worldwide, including brands such as Dulux and Marshall. The extensive launch in France proved to be a great success, with a widespread TV campaign due to continue into August. The French brand – which uses a distinctive black panther on its packaging – launched the Color Resist range in April.

Performance Coatings

- **ROS up at 13.6% driven by price/mix of 7% following pricing initiatives**
- **Volumes impacted by our focus on value over volume and softer market demand, including the automotive industry**

Q2 2019:
- Revenue decreased 1% and was flat in constant currencies, with 7% positive price/mix offset by lower volumes due to a focus on value over volume
- Adjusted operating income was up at €197 million (2018: €172 million) as pricing initiatives and cost savings more than offset higher raw material costs and lower volumes
- ROS up at 13.6% (2018: 11.8%); ROI at 20.6% (2018: 19.9%)

Half-year 2019:
- Revenue was flat, and decreased 1% in constant currencies, with 6% positive price/mix more than offset by lower volumes
- Adjusted operating income was up at €335 million (2018: €306 million) as pricing initiatives and cost savings more than offset higher raw material costs and lower volumes
- ROS up at 12.0% (2018: 10.9%)

Q2 2019:
Revenue was 1% lower and flat in constant currencies. Price/mix was offset by lower volumes in all segments due to our focus on value over volume and softer market demand, including the automotive industry.

Adjusted operating income increased to €197 million (2018: €172 million) as pricing initiatives and cost control more than compensated for higher raw material costs and lower volumes.

Operating income at €174 million was adversely impacted by €23 million identified items, mainly related to the transformation of the organization. In 2018, operating income of €162 million was adversely impacted by €10 million identified items.

Half-year 2019:
Revenue was flat, and 1% lower in constant currencies. Price/mix was more than offset by lower volumes.

Adjusted operating income increased to €335 million (2018: €306 million) as pricing initiatives and cost control more than compensated for higher raw material costs and lower volumes.

Operating income at €271 million was adversely impacted by €64 million identified items, mainly related to the transformation of the organization and non-cash impairments in Industrial Coatings, following the implementation of our portfolio management. In 2018, operating income of €283 million was adversely impacted by €23 million identified items.

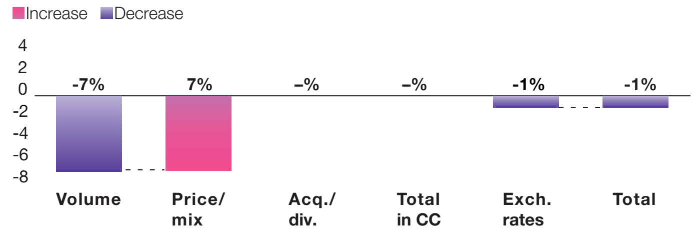
Revenue

Second quarter | January-June

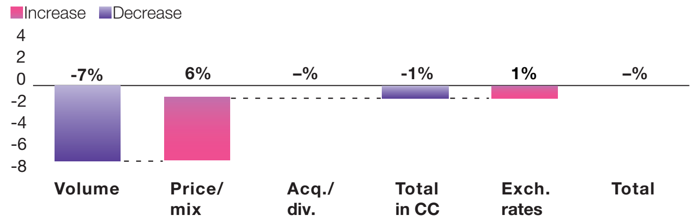
2018	2019	Δ%	Δ% CC *	in € millions	2018	2019	Δ%	Δ% CC *
317	317	–%	–%	Powder Coatings	609	615	1%	1%
340	341	–%	–%	Marine and Protective Coatings	640	641	–%	(1%)
359	364	1%	1%	Automotive and Specialty Coatings	705	700	(1%)	(2%)
456	445	(2%)	(3%)	Industrial Coatings	879	869	(1%)	(1%)
(18)	(22)			Other/intragroup eliminations	(37)	(41)		
1,454	**1,445**	(1%)	–%	**Total**	2,796	**2,784**	–%	(1%)

* Change excluding currency impact

Revenue development Q2 2019



Revenue development half-year 2019



Key financial figures

Second quarter | January-June

2018	2019	Δ%	in € millions	2018	2019	Δ%
172	197	15%	Adjusted operating income	306	335	9%
162	174	7%	Operating income [1]	283	271	(4%)
11.8	13.6		ROS%	10.9	12.0	
			Average invested capital [2]	2,949	3,200	
			ROI%	19.9	20.6	

[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.

Powder Coatings

Revenue in Q2 was flat. Continued focus on value over volume resulted in positive price/mix offset by lower volumes, including to the automotive industry. The recently launched Interpon 610 range is specifically engineered to lower curing temperatures to save energy and help our customers to improve efficiency.

Revenue in the first half-year was up 1%, and also up 1% in constant currencies, due to positive price/mix effects more than compensating for lower volumes.

Marine and Protective Coatings

Revenue in Q2 was flat. Profitability continued to improve due to our value over volume strategy and measures focused on restructuring and right sizing in particular in Marine Coatings. Our new innovation lab in the UK started to develop product innovations for the marine and the oil and gas industries.

Revenue in the first half-year was flat, and 1% lower in constant currencies, due to lower volumes following our value over volume strategy.

Automotive and Specialty Coatings

Revenue in Q2 was up 1% with positive price/mix more than compensating for lower volumes due to our focus on value over volume.

Automotive and Specialty Coatings was impacted by reduced demand from the automotive industry. Demand for aerospace coatings remained strong and the order pattern for vehicle refinishes normalized. To best meet the evolving needs of our refinish customers in the US, Dynacoat was introduced with a full product assortment including color tools.

Revenue in the first half-year decreased 1% and was 2% lower in constant currencies, due to lower volumes as a result of our focus on value over volume.

The acquisition of Mapaero to further strengthen our global position in the steadily growing aerospace coatings industry was announced on July 18, 2019.

Industrial Coatings

Revenue in Q2 was 2% lower and 3% lower in constant currencies. Positive price/mix effects partly offset lower volumes, while strategic portfolio management was implemented. Investments were announced to strengthen the wood coatings business in the US.

Revenue in the first half-year was 1% lower. Positive price/mix partly offset lower volumes. Demand differed per region and segment. Packaging demand is increasing, due to more conversion from single-use plastic bottles and customer wins, while wood demand was slow.

AkzoNobel rises to challenge of historic Hudson Yards project in New York
New York's historic Hudson Yards development – which is changing the city's iconic skyline – has reached its latest milestone, and AkzoNobel has made a major contribution. The largest private real estate development in US history, the ongoing project recently saw the completion of the two towers at 10 and 30 Hudson Yards. Taller than the Empire State Building, the impressive glass and steel structure of 30 Hudson Yards uses the company's high performance architectural powder coatings, while 10 Hudson Yards features AkzoNobel's industrial coatings.

Principal risks and uncertainties

Our 2018 annual report extensively describes our risk management framework and the major risk factors which may prevent full achievement of our objectives within the next three to five years, as well as beyond the five-year time horizon. We consider the medium-term and long-term risks as communicated in our Report 2018, including the four medium-term risks assessed to increase, to be still valid. Please refer to our 2018 Report website.

Risks assessed to increase in our 2018 annual report

Risk	Risk description	Mitigating actions
Global economy and the geo-political context	The world's geo-political situation remains unpredictable and, as a company, we operate in highly competitive markets. Failure to carefully manage and develop a good understanding of end-user segments could have an immediate impact on financial performance, resulting in the company not realizing its financial guidance.	• Continue our strategy to reduce both our operational cost base and complexity • Leverage our Global Business Services to further standardize core functional processes in all regions • Further deploy our commercial excellence programs and more sustainable product solutions to capture organic growth • Centralize management of foreign currency exposure and reduction of transactional exposure through natural hedges in our main currencies • Include political risk assessment in investment decisions and medium-term operational planning
Information technology and cybersecurity	The company's longer-term IT strategy means we increasingly rely on fewer consolidated critical applications. With the number of digital exchanges of business transactions increasing, the non-availability of IT systems – or unauthorized access – could have a direct impact on our business processes, competitive position and reputation.	• Focus on measures such as redundant design, back-up processes, virus protection, anti-spoofing, advanced forensic scanning and mission critical infrastructure support • Improve incident response and reporting by implementing a cyber Security Operations Center (SOC), providing improved coordination, monitoring and response to cybersecurity • Centrally monitor access control processes and identity and access enhancements • Roll-out of the new Information Management security standard for industrial control systems to all manufacturing locations • Further test and improve IT security response and incident management process • Further rationalize our application landscape to reduce complexity and enhance efficiency and effectiveness
Attraction and retention of talent	Ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce across the globe is an increasingly complex process. At the same time, it determines to a large extent the success of our organization.	• Strengthen AkzoNobel's employee value proposition • Focus on talent development programs and succession planning (for example, Talent and Opportunity Review, Your AkzoNobel, nomination of Talent Managers) • Fully embed values and behaviors in our Performance and Development Dialog annual appraisal
Management of change	Our Winning together: 15 by 20 strategy will help transform AkzoNobel into a long-term leader. But we also recognize the risks associated with such profound changes. This means we need to invest in building an organization structure which encourages and embraces change, while balancing opportunity and risk.	• Focus on core principles and values and embed these in reward systems to set desired behavioral changes in motion • Identify organizational health initiatives and track progress periodically • Roll-out principles of commercial excellence in all levels of the organization • Support adoption of a new organization model through the creation of a Planning and Transformation Office, including a network of Regional Transformation Leads • Implement standard solutions across the company under the responsibility of designated Global Process Owners • Continue the journey of creating fit-for-purpose support functions to drive synergies and standardization at a company-wide level • Roll-out R&D effectiveness program, including Innovation Team and startup challenge

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 for the first half-year of 2019, the Operating lease expenses (€54 million), previously recorded in operating income, are replaced by the depreciation charge on Right-of-use assets (€51 million; remains recorded in operating income) and by Interest expenses for the lease liability (€3 million; recorded in Net financing expenses). 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 €3 million; Profit before tax and profit for the period remained unchanged.

Condensed consolidated statement of income

Second quarter 2018	Second quarter 2019	in € millions	January-June 2018	January-June 2019
		Continuing operations		
2,446	2,451	Revenue	4,622	4,636
(1,390)	(1,375)	Cost of sales	(2,646)	(2,655)
1,056	**1,076**	**Gross profit**	**1,976**	**1,981**
(864)	(765)	SG&A costs	(1,676)	(1,556)
–	(3)	Other results	–	(4)
192	**308**	**Operating income**	**300**	**421**
(28)	(18)	Net financing expenses	(9)	(31)
6	5	Results from associates and joint ventures	10	10
170	**295**	**Profit before tax**	**301**	**400**
(47)	(69)	Income tax	(46)	(100)
123	**226**	**Profit for the period from continuing operations**	**255**	**300**
		Discontinued operations		
165	16	Profit for the period from discontinued operations	307	16
288	**242**	**Profit for the period**	**562**	**316**
		Attributable to		
271	231	Shareholders of the company	524	296
17	11	Non-controlling interests	38	20
288	**242**	**Profit for the period**	**562**	**316**

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 statement of comprehensive income

Second quarter 2018	Second quarter 2019	in € millions	January-June 2018	January-June 2019
288	**242**	**Profit for the period**	**562**	**316**
		Other comprehensive income		
–	(143)	Exchange differences arising on translation of foreign operations	(86)	7
31	–	Cash flow hedges	30	–
115	(54)	Post-retirement benefits	70	(165)
(11)	2	Tax relating to components of other comprehensive income	(4)	26
135	**(195)**	**Other comprehensive income for the period (net of tax)**	**10**	**(132)**
423	**47**	**Comprehensive income for the period**	**572**	**184**
		Comprehensive income for the period attributable to		
403	42	Shareholders of the company	537	167
20	5	Non-controlling interests	35	17
423	**47**	**Comprehensive income for the period**	**572**	**184**

Condensed consolidated balance sheet

IFRS 16 "Leases" 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 €420 million Right-of-use assets, of which €65 million previously was recorded on other lines in the balance sheet (€378 million as at June 30, 2019), as well as €355 million lease liabilities (€350 million as at June 30, 2019). The 2018 comparative figures have not been restated. For more information on the 2019 opening balance sheet adjustments, please refer to page 17 of this report.

Condensed consolidated balance sheet

in € millions	Dec. 31, 2018	June 30, 2019
Assets		
Non-current assets		
Intangible assets	3,458	3,397
Property, plant and equipment	1,748	1,673
Right-of-use assets	–	378
Other financial non-current assets	1,965	2,505
Total non-current assets	**7,171**	**7,953**
Current assets		
Inventories	1,139	1,225
Trade and other receivables	2,141	2,491
Other current assets	74	80
Short-term investments	5,460	1,526
Cash and cash equivalents	2,799	1,158
Total current assets	**11,613**	**6,480**
Total assets	**18,784**	**14,433**
Equity and liabilities		
Group equity	**12,038**	**7,377**
Non-current liabilities		
Provisions and deferred tax liabilities	1,267	1,326
Long-term borrowings	1,799	2,038
Total non-current liabilities	**3,066**	**3,364**
Current liabilities		
Short-term borrowings	599	709
Trade and other payables	2,645	2,550
Other short-term liabilities	436	433
Total current liabilities	**3,680**	**3,692**
Total equity and liabilities	**18,784**	**14,433**

Shareholders' equity

Shareholders' equity decreased from €11.8 billion at year-end 2018 to €7.2 billion at the end of June 30, 2019, mainly due to the net effect of:

- Capital repayment and share consolidation of €2.0 billion
- Share repurchase of €1.5 billion
- Special cash dividend of €1.0 billion
- Final 2018 dividend of €315 million
- Profit for the period of €296 million
- Actuarial losses of €139 million (including taxes)
- Currency effects of €10 million positive (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 May 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 line with our announcement on April 19, 2017, we are returning 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
- A share buyback program to repurchase common shares up to the value of €2.5 billion has started and is due to be completed at the end of 2019. €1.5 billion was executed in the first half-year of 2019. We intend to cancel these shares after repurchase. On July 22, 2019, 14.3 million shares were cancelled resulting in outstanding share capital of 213.7 million common shares.

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	–	–	–	–	(43)	(43)	(5)	(48)
Balance at January 1, 2018	505	769	15	(549)	5,079	5,819	437	6,256
Profit for the period	–	–	–	–	524	524	38	562
Other comprehensive income	–	–	23	(71)	61	13	(3)	10
Comprehensive income for the period	–	–	23	(71)	585	537	35	572
Dividend	5	191	–	–	(491)	(295)	(15)	(310)
Equity-settled transactions	–	–	–	–	17	17	–	17
Issue of common shares	2	(2)	–	–	–	–	–	–
Balance at June 30, 2018	512	958	38	(620)	5,190	6,078	457	6,535
Balance at December 31, 2018	**512**	**958**	**–**	**(608)**	**10,972**	**11,834**	**204**	**12,038**
Profit for the period	–	–	–	–	296	296	20	316
Other comprehensive income	–	–	–	10	(139)	(129)	(3)	(132)
Comprehensive income for the period	**–**	**–**	**–**	**10**	**157**	**167**	**17**	**184**
Dividend	–	–	–	–	(1,341)	(1,341)	(3)	(1,344)
Share repurchase	–	–	–	–	(1,510)	(1,510)	–	(1,510)
Capital repayment and share consolidation	(399)	(958)	–	–	(643)	(2,000)	–	(2,000)
Equity-settled transactions	–	–	–	–	9	9	–	9
Issue of common shares	1	–	–	–	(1)	–	–	–
Balance at June 30, 2019	**114**	**–**	**–**	**(598)**	**7,643**	**7,159**	**218**	**7,377**

Invested capital

Invested capital at the end of June 30, 2019, totaled €7.1 billion, up €0.9 billion from year-end 2018, mainly due to seasonality of operating working capital and the impact of the adoption of IFRS 16.

Operating working capital (Trade)

Operating working capital as percentage of revenue increased to 14.0% in Q2 of 2019 compared to 11.6% in Q2 of 2018, mainly due to higher trade receivables and 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 Q2 2019 was a surplus of €0.8 billion (year-end 2018: surplus of €0.4 billion). The development in the first half of 2019 was the result of the net effect of:

- Top-up payments into pension plans
- Higher asset returns in key countries

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 €639 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

Workforce

At June 30, 2019, the number of people employed was 34,500 (June 30, 2018: 35,000) including around 850 people added by acquisitions during 2018.

Consolidated statement of free cash flows

Second quarter			January-June	
2018	2019	in € millions	2018	2019
252	397	**EBITDA**	420	595
–	–	Impairment losses	–	33
(2)	(66)	Pre-tax results on acquisitions and divestments	(22)	(66)
(222)	(116)	Changes in working capital	(582)	(537)
(10)	(1)	Pension top-up payments	(185)	(479)
(8)	7	Other changes in provisions	(18)	(13)
(10)	(15)	Interest paid	(14)	(21)
14	(57)	Income tax paid	(37)	(87)
1	3	Other	(3)	3
15	**152**	**Net cash from operating activities**	(441)	**(572)**
(42)	(46)	Capital expenditures	(79)	(83)
(27)	**106**	**Free cash flow**	(520)	**(655)**

Free cash flows

The cash generation in Q2 2019 improved compared to Q2 2018, mainly due to higher EBITDA and lower working capital outflow.

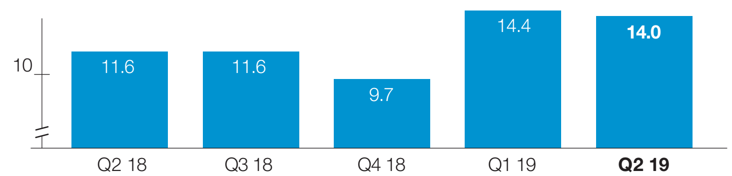
EBITDA was impacted by the adoption of IFRS 16 as per January 1, 2019. As a result, in the first half-year of 2019, some €54 million of lease expenses were recognized as depreciation of Right-of-use assets (€51 million) and as interest expense (€3 million). The 2018 comparative figures have not been restated.

Invested capital

in € millions	June 30, 2018	December 31, 2018	June 30, 2019
Trade receivables	2,113	1,843	2,129
Inventories	1,172	1,139	1,225
Trade payables [1]	(2.153)	(2,084)	(1,981)
Operating working capital (Trade)	**1,132**	**898**	**1,373**
Other working capital items [1]	(349)	(414)	(325)
Non-current assets [2]	7,285	7,171	7,953
Less investments in associates and joint ventures	(133)	(137)	(148)
Less pension assets	(1,103)	(947)	(1,384)
Deferred tax liabilities	(269)	(368)	(369)
Invested capital [2]	**6,563**	**6,203**	**7,100**

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 (€355 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.

Condensed consolidated statements of cash flows

Second quarter			January-June	
2018	2019	in € millions	2018	2019
1,027	**1,239**	**Net cash and cash equivalents at beginning of period**	1,278	**2,732**
		Adjustments to reconcile earnings to cash generated from operating activities		
123	226	Profit for the period	255	300
60	89	Amortization and depreciation	120	174
–	–	Impairment losses	–	33
28	18	Financing income and expenses	9	31
(6)	(5)	Results from associates and joint ventures	(10)	(10)
(2)	(66)	Pre-tax result on acquisitions and divestments	(22)	(66)
47	69	Income tax	46	100
(222)	(116)	Changes in working capital	(582)	(537)
(18)	6	Changes in provisions	(203)	(492)
(10)	(15)	Interest paid	(14)	(21)
14	(57)	Income tax paid	(37)	(87)
1	3	Other changes	(3)	3
15	**152**	**Net cash from operating activities**	**(441)**	**(572)**
(42)	(46)	Capital expenditures	(79)	(83)
(4)	83	Acquisitions and divestments net of cash acquired	19	86
–	(1,050)	Investment in short-term investments	–	(1,345)
–	2,225	Repayments of short-term investments	–	5,279
41	4	Other changes	44	(158)
(5)	**1,216**	**Net cash from investing activities**	**(16)**	**3,779**
99	(30)	Changes from borrowings	492	(55)
(305)	(319)	Dividend paid	(478)	(1,345)
–	–	Capital repayment	–	(2,000)
–	(1,186)	Buyback of shares	–	(1,489)
1	1	Other changes	1	(1)
(205)	**(1,534)**	**Net cash from financing activities**	**15**	**(4,889)**
(195)	**(166)**	**Net cash used for continuing operations**	**(442)**	**(1,682)**
–	(1)	Cash flows from discontinued operations	–	(1)
(195)	**(167)**	**Net change in cash and cash equivalents of continued and discontinued operations**	**(442)**	**(1,683)**
5	(13)	Effect of exchange rate changes on cash and cash equivalents	1	10
837	**1,059**	**Net Cash and cash equivalents at June 30**	**837**	**1,059**

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. For the first half-year 2019, the adoption of IFRS 16 has resulted in €54 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 Q2 2019 resulted in an inflow of €152 million (2018: €15 million). This increase was driven by increased profit for the period and lower outflow of working capital.

Net cash from investing activities in Q2 2019 resulted in an inflow of €1,216 million (2018: outflow of €5 million). This was mainly impacted by a net cash inflow from the short-term investments of €1,175 million.

Net cash from financing activities in Q2 2019 resulted in an outflow of €1,534 million (2018: outflow of €205 million). This was mainly impacted by the share buyback (€1.2 billion) and the final dividend 2018 (€315 million).

At June 30, 2019, net debt was positive €62 million versus negative €5,861 million at year-end 2018. This was mainly due to a capital repayment (€2.0 billion), the final dividend 2018 (€315 million), a special cash dividend payment (€1.0 billion), share buyback (€1.5 billion), pension related payments (€639 million) and seasonality of the operating working capital.

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 stabilize during the second half of 2019. Continued 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.

Notes to the condensed consolidated 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. The interim Condensed consolidated financial statements should be read in conjunction with AkzoNobel's Consolidated financial statements in the 2018 annual report as published on March 7, 2019. The financial statements were adopted by the Annual General Meeting of shareholders on April 25, 2019. 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.

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 cash flow from operating activities and cash flow 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	(14)
Low-value and short-term leases recognized on a straight-line basis as expense	(11)
Total undiscounted lease commitments	**395**
Discounting of lease commitments	(40)
Lease liabilities recognized as at January 1, 2019	**355**

The adoption of the standard as per January 1, 2019, has resulted in the recognition of Right-of-use assets of approximately €355 million, and additional Lease liabilities of approximately €355 million. In addition, assets with a book value of some €65 million have been reclassified to Right-of-use assets, including among others finance leases. In the Consolidated statement of income of the first half-year of 2019, the Operating lease expenses (€54 million), previously recorded in Operating income, are replaced by the depreciation charge of the Right-of-use assets (€51 million; remains recorded in Operating income) and by Interest expenses on the lease liability (€3 million; recorded in Net financing expenses). The effect of these changes on Operating income is €3 million positive. The payments for the Operating leases (€54 million), previously included in the cash flow from operating activities, are now included in the cash flow from financing activities.

Impact of adoption IFRS 16 on the 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	(35)	3,423
Property, plant and equipment	1,748	(30)	1,718
Right-of-use of asset	–	420	420
Other financial non-current assets	1,965	–	1,965
Current assets	11,613	–	11,613
Total assets	**18,784**	**355**	**19,139**
Group equity	12,038	–	12,038
Non-current liabilities	3,066	264	3,330
Currrent liabilities	3,680	91	3,771
Total liabilites	**18,784**	**355**	**19,139**

Impact of adoption IFRS 16 on the consolidated statement of income

Second quarter				January-June		
Before IFRS 16	**Impact**	**Including IFRS 16**	in € millions	**Before IFRS 16**	**Impact**	**Including IFRS 16**
367	27	394	Adjusted EBITDA	588	54	642
370	27	397	EBITDA	541	54	595
(63)	(26)	(89)	Depreciation and amortization	(123)	(51)	(174)
304	1	305	Adjusted operating income	465	3	468
307	1	308	Operating income	418	3	421
(17)	(1)	(18)	Net financing expenses	(28)	(3)	(31)
215	–	215	Net income from continuing operations	280	–	280
125	27	152	Net cash from operating activities	(626)	54	(572)
(1,507)	(27)	(1,534)	Net cash from financing activities	(4,835)	(54)	(4,889)
12.4		12.4	ROS%	10.0	0.1	10.1
12.5	0.1	12.6	OPI margin	9.0	0.1	9.1
			ROI%	13.7	(0.3)	13.4

The company is 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. 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.

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.

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.

Revenue disaggregation

January-June

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets - revenue from third parties				
The Netherlands	104	52	33	189
Other European countries	919	1,030	–	1,949
North America	–	562	–	562
South America	198	175	–	373
Asia	519	765	–	1,284
Other regions	92	186	1	279
Total	**1,832**	**2,770**	**34**	**4,636**
Timing of revenue recognition				
Goods transferred at a point in time	1,820	2,674	1	4,495
Services transferred over time	12	96	33	141
Total	**1,832**	**2,770**	**34**	**4,636**

Board of Management's statement on the condensed consolidated half-year 2019 financial statements and the interim management report.

We have prepared the half-year financial report 2019 of AkzoNobel, and the undertakings included in the consolidation taken as a whole, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for half-yearly financial reports.

To the best of our knowledge:

1. The condensed consolidated financial statements in this half-year financial report 2019 give a true and fair view of our assets and liabilities, financial position at June 30, 2019, and of the result of our consolidated operations for the first-half year of 2019.
2. The interim management report in this half-year financial report 2019 includes a fair view of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision.

Amsterdam, July 24, 2019
The Board of Management

Thierry Vanlancker
Maarten de Vries

Paint the Future goes beyond expectations
Our pioneering Paint the Future startup challenge proved to be a huge success, with five business agreements being awarded by AkzoNobel at the accelerator event held in May. Organized in conjunction with partner KPMG, the challenge attracted 160 submissions, with the 21 shortlisted startups being given the chance to collaborate with industry experts and further their solutions. The agreements are the first to emerge from a new innovation ecosystem which will help us to further push the boundaries of the paints and coatings industry and better meet customer needs.

Paints and Coatings (continuing operations)

Quarterly statistics

Q1	Q2	Q3	Q4	2018 year	in € millions	Q1	Q2	2019 year-to-date
Revenue								
846	1,006	951	896	3,699	Decorative Paints	844	1,005	1,849
1,342	1,454	1,388	1,403	5,587	Performance Coatings	1,339	1,445	2,784
(12)	(14)	(13)	9	(30)	Other activities/eliminations	2	1	3
2,176	**2,446**	**2,326**	**2,308**	**9,256**	**Total**	**2,185**	**2,451**	**4,636**
Adjusted EBITDA (excluding identified items)								
79	145	138	76	438	Decorative Paints	95	177	272
169	207	204	187	767	Performance Coatings	182	241	423
(39)	(67)	(39)	(23)	(168)	Other activities/eliminations	(29)	(24)	(53)
209	**285**	**303**	**240**	**1,037**	**Total**	**248**	**394**	**642**
9.6	**11.7**	**13.0**	**10.4**	**11.2**	**Adjusted EBITDA margin (in %)**	**11.4**	**16.1**	**13.8**
Depreciation *								
(18)	(18)	(17)	(19)	(72)	Decorative Paints	(30)	(35)	(65)
(26)	(26)	(24)	(25)	(101)	Performance Coatings	(34)	(35)	(69)
(2)	(2)	(4)	–	(8)	Other activities/eliminations	(5)	(4)	(9)
(46)	**(46)**	**(45)**	**(44)**	**(181)**	**Total**	**(69)**	**(74)**	**(143)**
Amortization								
(5)	(4)	(6)	(5)	(20)	Decorative Paints	(5)	(6)	(11)
(9)	(9)	(10)	(9)	(37)	Performance Coatings	(10)	(9)	(19)
–	(1)	1	(1)	(1)	Other activities/eliminations	(1)	–	(1)
(14)	**(14)**	**(15)**	**(15)**	**(58)**	**Total**	**(16)**	**(15)**	**(31)**
Adjusted operating income (excluding identified items)								
56	123	115	52	346	Decorative Paints	60	136	196
134	172	170	153	629	Performance Coatings	138	197	335
(41)	(70)	(42)	(24)	(177)	Other activities/eliminations	(35)	(28)	(63)
149	**225**	**243**	**181**	**798**	**Total**	**163**	**305**	**468**
6.8	**9.2**	**10.4**	**7.8**	**8.6**	**ROS%**	**7.5**	**12.4**	**10.1**
8.7	**12.1**	**12.3**	**9.0**	**10.6**	**ROS% excluding unallocated costs**	**9.1**	**13.7**	**11.5**

* 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 €51 million in the first-half year of 2019. The 2018 comparative figures have not been restated.

Paints and Coatings (continuing operations)

Quarterly statistics

				2018				2019
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
Operating income								
48	111	112	37	308	Decorative Paints	54	166	220
121	162	164	130	577	Performance Coatings	97	174	271
(61)	(81)	(39)	(99)	(280)	Other activities/eliminations	(38)	(32)	(70)
108	**192**	**237**	**68**	**605**	**Total**	**113**	**308**	**421**
Identified items per Business Area								
(8)	(12)	(3)	(15)	(38)	Decorative Paints	(6)	30	24
(13)	(10)	(6)	(23)	(52)	Performance Coatings	(41)	(23)	(64)
(20)	(11)	3	(75)	(103)	Other activities/eliminations	(3)	(4)	(7)
(41)	**(33)**	**(6)**	**(113)**	**(193)**	**Total**	**(50)**	**3**	**(47)**
Reconciliation net financing income/(expenses) *								
6	5	3	2	16	Financing income	5	4	9
(22)	(22)	(24)	(24)	(92)	Financing expenses	(17)	(20)	(37)
(16)	**(17)**	**(21)**	**(22)**	**(76)**	**Net interest on net debt**	**(12)**	**(16)**	**(28)**
Other interest movements								
2	3	2	3	10	Financing expenses related to post-retirement benefits	5	6	11
–	(1)	–	(2)	(3)	Interest on provisions	(3)	(2)	(5)
33	(13)	(1)	(2)	17	Other items	(3)	(6)	(9)
35	**(11)**	**1**	**(1)**	**24**	**Net other financing charges**	**(1)**	**(2)**	**(3)**
19	**(28)**	**(20)**	**(23)**	**(52)**	**Net financing expenses**	**(13)**	**(18)**	**(31)**
Quarterly net income analysis								
4	6	4	6	20	Results from associates and joint ventures	5	5	10
131	170	221	51	573	Profit before tax	105	295	400
1	(47)	(66)	(6)	(118)	Income tax	(31)	(69)	(100)
132	123	155	45	455	Profit for the period from continuing operations	74	226	300
(1)	28	30	12	21	Effective tax rate (in %)	30	23	25

* Net financing expenses in 2019 include the impact of the adoption of IFRS 16 "Leases" resulting in Interest expenses from the lease liabilities (€3 million) in the first half-year of 2019, previously recorded as lease expenses in operating income. The 2018 comparative figures have not been restated.

AkzoNobel (continuing and discontinued operations)

Quarterly statistics

Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018 year		Q1 2019	Q2 2019	2019 year-to-date
Earnings per share from continuing operations (in €)								
0.47	0.42	0.58	0.14	1.61	Basic	0.28	1.00	1.24
0.47	0.42	0.58	0.14	1.60	Diluted	0.28	0.99	1.24
Earnings per share from discontinued operations (in €)								
0.53	0.64	0.60	22.69	24.58	Basic	–	0.07	0.07
0.53	0.64	0.59	22.61	24.47	Diluted	–	0.07	0.07
Earnings per share from total operations (in €)								
1.00	1.06	1.18	22.83	26.19	Basic	0.28	1.07	1.32
1.00	1.06	1.17	22.75	26.07	Diluted	0.28	1.07	1.31
Number of shares (in millions)								
252.9	254.5	255.8	256.2	254.9	Weighted average number of shares	234.3	215.7	225.0
253.2	255.8	255.8	256.2	256.2	Number of shares at end of quarter	223.9	208.7	208.7
Adjusted earnings from continuing operations (in € millions)								
131	170	221	51	573	Profit before tax from continuing operations	105	295	400
41	33	6	113	193	Identified items reported in operating income	50	(3)	47
(31)	1	–	–	(30)	Interest on tax settlement	–	–	–
(39)	(55)	(67)	(43)	(204)	Adjusted income tax	(39)	(73)	(112)
(13)	(16)	(6)	(10)	(45)	Non-controlling interests	(9)	(11)	(20)
89	133	154	111	487	Adjusted net income from continuing operations	107	208	315
0.35	**0.52**	**0.60**	**0.43**	**1.91**	**Adjusted earnings per share from continuing operations (in €)**	**0.46**	**0.96**	**1.40**

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 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, Baltic States and Turkey.

Mature Europe: Western Europe.

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 Western 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 in accordance with IFRS and includes the 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 guidance.

ROS is adjusted operating income as percentage of revenue.

ROS excluding unallocated cost is adjusted operating income of Decorative Paints and Performance Coatings as percentage of revenue. It excludes 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.

South America includes Central America.

Safe harbor statement

Brand and trademarks

Akzo Nobel N.V.
Christiaan Neefestraat 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

Report for the third quarter 2019	October 23, 2019
Report for the full-year and the fourth quarter 2019	February 12, 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 34,500 talented people who are passionate about delivering the high-performance products and services our customers expect.

AN_204425_220719