

Q4 Report

Report for the full-year and fourth quarter 2016

AkzoNobel 

2016



Our results at a glance

Full-year:

- Record ROS, ROI, EBIT, adjusted EPS and net cash inflow from operating activities for AkzoNobel
- Volumes 1% higher; up 3% for Decorative Paints, up 1% for Specialty Chemicals and flat for Performance Coatings
- Revenue down 4%, due to unfavorable currency and price/mix effects
- EBIT up 3% at €1,502 million (2015: €1,462 million), positively impacted by volume growth, continuous improvement and lower costs
- Profitability improved with ROS at 10.6% (2015: 9.8%). ROI increased to 15.0% (2015: 14.0%)
- Adjusted EPS up 3% at €4.15 (2015: €4.02)
- Total dividend proposed for 2016 up 6% to €1.65 (2015: €1.55)
- Net cash inflow from operating activities up 14% at €1,297 million (2015: €1,136 million)

For Q4:

- Volumes up 2%, driven by Decorative Paints and Specialty Chemicals
- Revenue down 3%, mainly due to unfavorable currency and price/mix effects
- EBIT at €235 million (2015: €268 million) due to adverse price/mix effects and higher restructuring expenses partly offset by volume growth and continuous improvement
- Adjusted EPS lower at €0.66 (2015: €0.72), mainly due to higher restructuring expenses
- Completed acquisition of BASF's Industrial Coatings business
- Share repurchase program announced; anticipated to be concluded by the end of April 2017

Outlook:

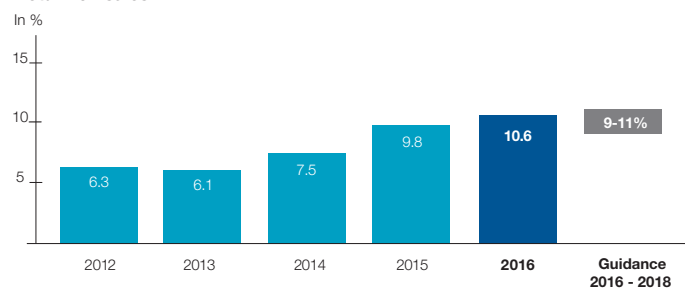
We anticipate positive developments for EMEA, North America and Asia, improving during the year, while Latin America is expected to stabilize. Some economic and political uncertainty is expected to remain. Market trends experienced in the second part of 2016, including for marine and oil and gas industries, are expected to continue during the first half of 2017.

We have structurally improved our ability to respond to developments in our markets. We are taking appropriate measures to deal with higher raw material prices in an inflationary environment. Our stronger operational and financial foundation means we are more agile and better able to seize growth opportunities, including acquisitions. We maintain our financial guidance for 2016-2018.

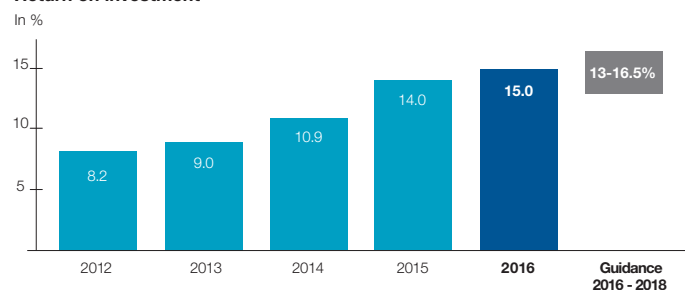
Financial highlights

- Further improved operational profitability and cash generation
- Focus on growth is delivering, with volumes up and acquisition of BASF's Industrial Coatings business

Return on sales



Return on investment



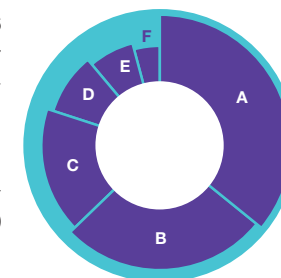
Summary of financial outcomes

Fourth quarter			January-December			
2015	2016	Δ%	in € millions	2015	2016	Δ%
3,559	3,456	(3)	Revenue	14,859	14,197	(4)
268	235	(12)	EBIT	1,462	1,502	3
345	217	(37)	Operating income	1,573	1,519	(3)
7.5	6.8		ROS% *	9.8	10.6	
9.7	6.3		OPI margin%	10.6	10.7	
			Average invested capital	10,475	10,045	
			Moving average ROI (in %) *	14.0	15.0	
228	231		Capital expenditures	651	634	
768	580		Net cash from operating activities	1,136	1,297	
			Net debt	1,226	1,252	
194	134	(31)	Net income from continuing operations	973	972	-
9	(1)		Net income from discontinued operations	6	(2)	
203	133	(34)	Net income attributable to shareholders	979	970	(1)
0.82	0.53		Earnings per share from total operations (in €)	3.95	3.87	
0.72	0.66	(8)	Adjusted earnings per share (in €)	4.02	4.15	3
			Number of employees	45,600	46,000	

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

AkzoNobel around the world Revenue by destination

	%
A Mature Europe	36
B Asia Pacific	27
C North America	17
D Latin America	9
E Emerging Europe	7
F Other regions	4
	100



(Based on the full-year 2016)



Completed acquisition of BASF's Industrial Coatings business

In December 2016, AkzoNobel finalized its acquisition of BASF's Industrial Coatings business. The acquisition enables us to expand our portfolio and strengthen our market positions, particularly in our coil, protective and wood coatings sectors.

Financial highlights

Full-year volumes were 1% higher; up 3% for Decorative Paints, up 1% for Specialty Chemicals and flat for Performance Coatings. Revenue was down 4%, due to unfavorable currency and price/mix effects. EBIT was up 3% at €1,502 million, reflecting the positive effects of volume growth, continuous improvement and lower costs. Profitability increased, with record levels of ROS at 10.6% (2015: 9.8%) and ROI at 15.0% (2015: 14.0%)

Revenue

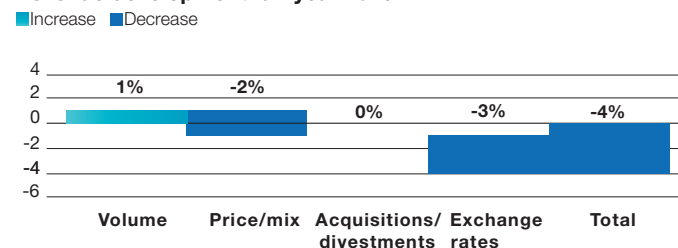
Full-year:

- In Decorative Paints, volumes were up 3% overall with positive developments in Asia and EMEA, while volumes in Latin America were down. Positive volumes were more than offset by unfavorable currency effects and adverse price/mix. Revenue was down 4%
- In Performance Coatings, volume growth in some segments was offset by adverse conditions in the marine and oil and gas industries. Demand trends differed per segment and region. Revenue was down 5%, driven by adverse currencies and price/mix
- In Specialty Chemicals, volumes were up 1% with positive developments, mainly driven by Asia and Europe. Revenue was down 4% with positive volume developments more than offset by price deflation in several markets

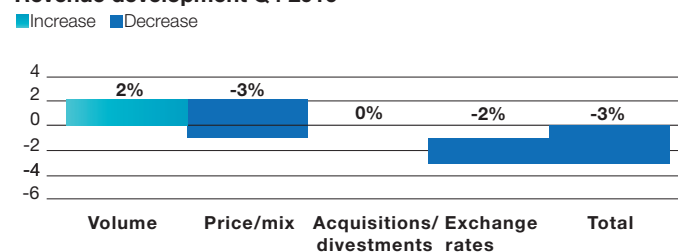
Q4:

- In Decorative Paints, positive volume developments in Asia were more than offset by unfavorable currency effects and adverse price/mix. Revenue was down 4%
- In Performance Coatings, volumes increased for Automotive and Specialty Coatings, as well as Industrial and Powder Coatings. Revenue decreased 6% due to adverse currencies, price/mix and reduced demand in the marine and oil and gas industries
- In Specialty Chemicals, volumes were up 4% mainly driven by Asia and Europe and improved manufacturing availability. Revenue was flat with increased volume offset by price/mix effects

Revenue development full-year 2016



Revenue development Q4 2016



Revenue

Fourth quarter

January-December

2015	2016	Δ%	in € millions	2015	2016	Δ%
931	898	(4)	Decorative Paints	4,007	3,835	(4)
1,482	1,398	(6)	Performance Coatings	5,955	5,665	(5)
1,167	1,169	–	Specialty Chemicals	4,988	4,783	(4)
(21)	(9)		Other activities/eliminations	(91)	(86)	
3,559	3,456	(3)	Total	14,859	14,197	(4)

in % versus 2015	Volume	Price/mix	Acquisitions/divestments	Exchange rates	Total
Decorative Paints	3	(1)	–	(6)	(4)
Performance Coatings	–	(2)	–	(3)	(5)
Specialty Chemicals	1	(3)	(1)	(1)	(4)
Total	1	(2)	–	(3)	(4)

in % versus Q4 2015	Volume	Price/mix	Acquisitions/divestments	Exchange rates	Total
Decorative Paints	2	(2)	–	(4)	(4)
Performance Coatings	(1)	(3)	–	(2)	(6)
Specialty Chemicals	4	(4)	–	–	–
Total	2	(3)	–	(2)	(3)

Volume development per quarter

(year-on-year)	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Decorative Paints	1	6	1	3	2
Performance Coatings	–	2	2	(2)	(1)
Specialty Chemicals	–	1	–	1	4
Total	–	2	1	–	2

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

	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16
Decorative Paints	–	(2)	(1)	(1)	(2)
Performance Coatings	1	(1)	(2)	(2)	(3)
Specialty Chemicals	(2)	(4)	(3)	(3)	(4)
Total	(1)	(2)	(2)	(2)	(3)

Financial highlights

EBIT

Full-year EBIT increased 3% to €1,502 million, reflecting the positive effects of volume growth, continuous improvement and lower costs.

- In Decorative Paints, EBIT increased 3% as a result of volume growth, continuous improvement and cost discipline, partly offset by currency impacts
- In Performance Coatings, EBIT decreased 4% driven by adverse currencies and price/mix effects and weakness in the marine and oil and gas industries, partly offset by continuous improvement
- In Specialty Chemicals, EBIT increased by 9% due to improved volumes and operational efficiencies
- EBIT in Other activities improved due to lower costs, driven by improvement programs and the implementation of the Global Business Services model, and favorable one-time adjustments on legacy provisions, partly offset by higher restructuring expenses

In Q4, EBIT was at €235 million (2015: €268 million) due to adverse price/mix effects and higher restructuring expenses partly offset by volume growth and continuous improvement. EBIT in other activities was impacted by restructuring expenses related to several functions.

Total restructuring expenses in 2016 amounted to €62 million (2015: €74 million), with more than half recognized in Q4.

Raw material prices were lower at the beginning of the year compared to the same period in 2015. In Q4, raw material costs were roughly flat versus the previous year, due to increases throughout the year. In most regions foreign currency effects adversely impacted raw material costs in local currencies.

Operating income

Full-year operating income was positively impacted by €17 million of incidental items, including adjustments to post-retirement provisions, asset impairments and acquisition-related costs. The incidental items impacted operating income of Decorative Paints, Performance Coatings and the operating income in Other activities.

In Q4, operating income was negatively impacted by incidental items, including acquisition and integration related costs of the acquisition of BASF's Industrial Coatings business, and asset impairments. In 2015, operating income was positively impacted by €77 million of incidental items.

Net financing expenses

For the full-year, the net financing expenses were in line with the previous year, as reduced external interest expenses were offset by lower discount rates on provisions.

In Q4, net financing expenses increased as reduced external interest expenses were more than offset by lower discount rates on provisions.

Tax

The full-year effective tax rate was 27% (2015: 28%), impacted by non-taxable gains, adjustments to previous years, mainly in Q4, and geographical mix.

Net income

Full-year net income attributable to shareholders was €970 million (2015: €979 million), mainly due to lower incidental items compared to 2015. The majority of the incidental items were recognized in Q4 of the previous year.

EBIT (operating income excluding incidental items)

Fourth quarter			January-December			
2015	2016	Δ%	in € millions	2015	2016	Δ%
46	51	11	Decorative Paints	345	357	3
192	152	(21)	Performance Coatings	792	759	(4)
90	118	31	Specialty Chemicals	578	629	9
(60)	(86)		Other activities/eliminations	(253)	(243)	
268	235	(12)	Total	1,462	1,502	3

Operating income

Fourth quarter			January-December			
2015	2016	Δ%	in € millions	2015	2016	Δ%
46	51	11	Decorative Paints	345	366	6
192	135	(30)	Performance Coatings	792	735	(7)
91	118	30	Specialty Chemicals	609	629	3
16	(87)		Other activities/eliminations	(173)	(211)	
345	217	(37)	Total	1,573	1,519	(3)

Operating income to net income

Fourth quarter			January-December	
2015	2016	in € millions	2015	2016
345	217	Operating income	1,573	1,519
(18)	(32)	Net financing expenses	(114)	(114)
5	5	Results from associates and joint ventures	17	43
332	190	Profit before tax	1,476	1,448
(112)	(39)	Income tax	(416)	(394)
220	151	Profit from continuing operations	1,060	1,054
9	(1)	Profit from discontinued operations	6	(2)
229	150	Profit for the period	1,066	1,052
(26)	(17)	Non-controlling interests	(87)	(82)
203	133	Net income	979	970

Decorative Paints

Full-year:

- Volumes were up driven by Asia and EMEA
- Revenue down 4% mainly due to unfavorable currency effects
- EBIT up 3% at €357 million, driven by volume growth, continuous improvement and cost discipline, partly offset by adverse currencies
- ROS increased to 9.3% (2015: 8.6%); ROI increased to 12.8% (2015: 11.7%)

Full-year:

Volumes were up 3% overall with positive developments in Asia and EMEA, while volumes in Latin America were down. Revenue was down 4%, mainly due to unfavorable currency effects, in particular the pound sterling and currencies in Latin America.

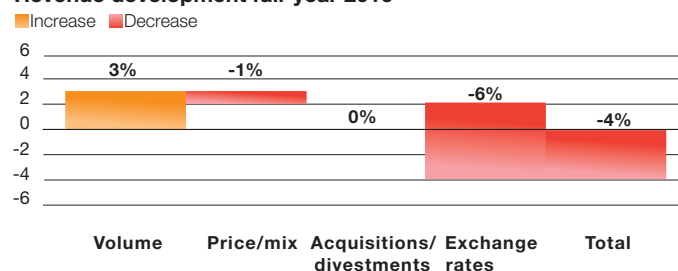
EBIT increased by 3% due to volume growth, continuous improvement and cost discipline, partly offset by adverse currencies.

Q4:

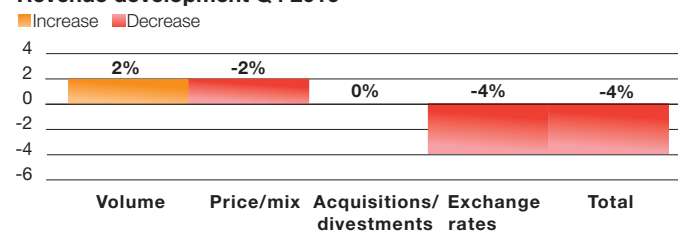
Volumes were higher for another consecutive quarter, although continued to decline in Latin America. Positive developments in Asia were more than offset by unfavorable currency effects and adverse price/mix. Revenue was down 4%.

EBIT increased by 11%, mainly as a result of volume growth, continuous improvement and cost discipline.

Revenue development full-year 2016



Revenue development Q4 2016



Revenue

Fourth quarter			January-December			
2015	2016	Δ%	in € millions			
476	438	(8)	Decorative Paints Europe, Middle East and Africa	2,263	2,160	(5)
147	145	(1)	Decorative Paints Latin America	561	484	(14)
309	316	2	Decorative Paints Asia	1,185	1,196	1
(1)	(1)		Other/intragroup eliminations	(2)	(5)	
931	898	(4)	Total	4,007	3,835	(4)
46	51	11	EBIT	345	357	3
46	51	11	Operating income	345	366	6
4.9	5.7		ROS% *	8.6	9.3	
			Average invested capital	2,959	2,783	
			Moving average ROI (in %)*	11.7	12.8	
45	46		Capital expenditures	158	107	
			Number of employees	14,900	14,700	

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

Decorative Paints

Europe, Middle East and Africa

Full-year volumes were up, while revenue reduced 5% due to unfavorable currencies and price/mix effects. Volumes were higher overall and trends varied across the region, with positive developments, in particular in the UK, the Netherlands, Russia and Africa.

In Q4, revenue was down 8% mainly due to adverse currency effects. Demand trends differed per country in the region.

Currency volatility remained, including for the pound sterling, which was significantly down compared with 2015, particularly during the second half of the year.

Latin America

Challenging market conditions, due to economic instability and currency devaluation, continued throughout the year. Revenue reduced by 14% due to adverse currency effects and lower volumes, partly offset by positive price/mix.

In Q4, revenue was down 1%. Positive price/mix offset lower volumes, while adverse currency effects reduced compared with previous quarters. Improvement actions and cost control remained the focus in the region.

Asia

Asian markets showed positive demand trends throughout the year, while challenging conditions in the Chinese construction market continued. Revenue increased by 1%. Volumes were up for the region, with good momentum in India, Vietnam and Indonesia, and strong growth in China, which more than offset adverse currency and price/mix effects.

In Q4, revenue increased by 2%. Despite some impact on the Indian market due to demonetization, volume growth continued, which more than offset unfavorable currency and price/mix effects.



Innovation in color: wet tester becoming available in more and more markets
AkzoNobel won the Dutch Best Product of the Year 2016-2017 award in the Paints category for its Flexa Color Tester. The mini roller help consumers test color choices before they buy.

Performance Coatings

Full-year:

- Volumes flat with improvements in some segments offset by adverse conditions in the marine and oil and gas industries
- Revenue down 5% due to adverse currency and price/mix effects
- EBIT down 4% to €759 million, driven by adverse currency and price/mix effects and weakness in marine and oil and gas industries
- ROS increased to 13.4% (2015: 13.3%); ROI remained unchanged at 29.4% (2015: 29.4%)
- The acquisition of BASF's Industrial Coatings business was completed on December 14, 2016

Full-year:

Volume growth in some segments was offset by adverse conditions in the marine and oil and gas industries. Demand trends differed per segment and region. Revenue was down 5%, driven by adverse currencies and price/mix.

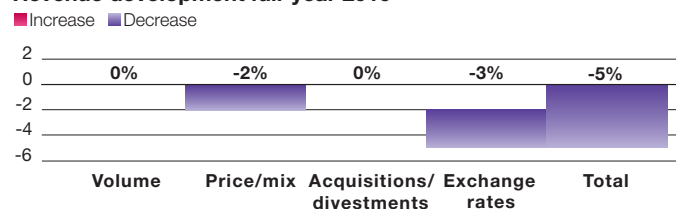
EBIT decreased 4% driven by adverse currencies and price/mix effects and weakness in the marine and oil and gas industries, partly offset by continuous improvement. Operating income was negatively impacted by incidental items.

Q4:

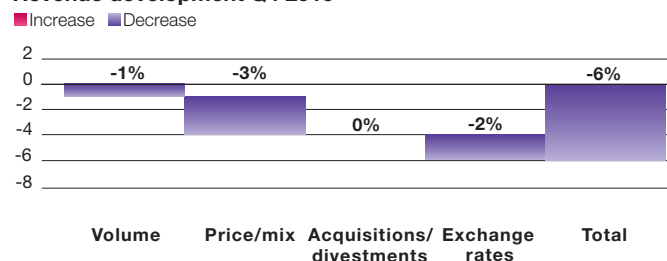
Volumes increased for Automotive and Specialty Coatings, as well as Industrial and Powder Coatings. Revenue decreased 6% due to adverse currencies, price/mix and reduced demand in the marine and oil and gas industries.

EBIT decreased 21%, mainly driven by adverse price/mix and lower volumes, due to weakness in the marine and oil and gas industries, partly offset by continuous improvement. Operating income was negatively impacted by incidental items.

Revenue development full-year 2016



Revenue development Q4 2016



Revenue

Fourth quarter

January-December

2015	2016	Δ%	in € millions	2015	2016	Δ%
402	342	(15)	Marine and Protective Coatings	1,572	1,458	(7)
390	385	(1)	Automotive and Specialty Coatings	1,545	1,512	(2)
698	679	(3)	Industrial and Powder Coatings	2,867	2,732	(5)
(8)	(8)		Other/intragroup eliminations	(29)	(37)	
1,482	1,398	(6)	Total	5,955	5,665	(5)
192	152	(21)	EBIT	792	759	(4)
192	135	(30)	Operating income	792	735	(7)
13.0	10.9		ROS% *	13.3	13.4	
			Average invested capital	2,692	2,586	
			Moving average ROI (in %) *	29.4	29.4	
47	53		Capital expenditures	147	159	
			Number of employees	19,300	19,700	

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

Performance Coatings

Marine and Protective Coatings

Volumes in Protective Coatings increased for the full-year, despite adverse conditions in the oil and gas industries. Volumes in Marine Coatings were increasingly impacted by the slowdown of new build activity, as well as dry docking and maintenance. Full-year revenue was down 7%, with increased volumes more than offset by adverse currency and price/mix effects.

In Q4, revenue reduced 15%, due to lower volumes, adverse currencies and price/mix. Volumes in Marine Coatings continued to be impacted by the slowdown of new build activity, as well as maintenance and dry docking. Protective Coatings volumes decreased, mainly due to the conclusion of existing oil and gas projects.

Marine Coatings has initiated restructuring activities in Korea, China and Malaysia, to adapt to lower shipbuilding activity in these countries, while Protective Coatings announced the closure of a site in Brazil in December.

Automotive and Specialty Coatings

Volumes increased for both Automotive Coatings and Specialty Coatings in most regions. Demand trends differed slightly per segment and region. Full-year revenue decreased 2% due to adverse currencies.

In Q4, revenue was down 1% with volume growth more than offset by adverse currencies and price/mix. Demand for Specialty Coatings increased. Automotive Coatings grew as well, particularly in Europe and the Americas.

Industrial and Powder Coatings

Volumes for Powder Coatings were up in all regions. Demand for Industrial Coatings was strong in Asia. Full-year revenue decreased 5% with volume growth more than offset by adverse currencies and price/mix.

In Q4, volumes grew, especially in Asia. Demand for Powder Coatings was strong in all regions. Revenue was down 3% due to unfavourable currencies and price/mix.

Acquisition of BASF's Industrial Coatings business

In Q1 2016, the intended acquisition of BASF's Industrial Coatings business was announced for a value of €475 million and sales of around €300 million. On December 14, 2016, the acquisition was completed for €425 million after closing adjustments and working capital requirements, with expected sales of €280 million in 2017. The transaction included two manufacturing plants, technologies, patents and trademarks. The business supplies products, including coil, furniture foil and panel coatings, wind energy and general industry and commercial transport. The acquisition strengthens our position in the important coil coatings market and fits well with our existing business, allowing us to offer essential solutions to our customers.

During the next two years, a portion of the BASF production volume will be transferred to existing nearby AkzoNobel manufacturing facilities. This will bring synergies and additional production efficiencies. The full profitability of the acquisition will be realized by the end of 2018, in line with the stated financial guidance for the Performance Coatings business.



Building on color expertise with digital innovation

Towards the end of 2016, our Vehicle Refinishes business launched its Colorvation digital technology, a unique system designed to increase speed and accuracy in color matching.

Specialty Chemicals

Full-year:

- Volumes up 1%, mainly driven by Asia and Europe, partly offset by lower demand in the oil related segments
- Revenue down 4% with positive volume developments more than offset by price deflation in several markets
- EBIT up 9% at €629 million due to improved volumes and operational efficiencies
- ROS increased to 13.2% (2015: 11.6%); ROI increased to 17.9% (2015: 16.3%)

Full-year:

Volumes were up 1%, mainly driven by Asia and Europe, partly offset by lower demand in the oil related segments. Revenue was down 4% with positive volume developments more than offset by price deflation in several markets.

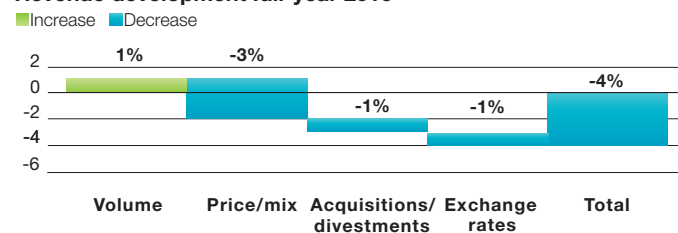
EBIT increased 9% due to improved volumes and operational efficiencies.

Q4:

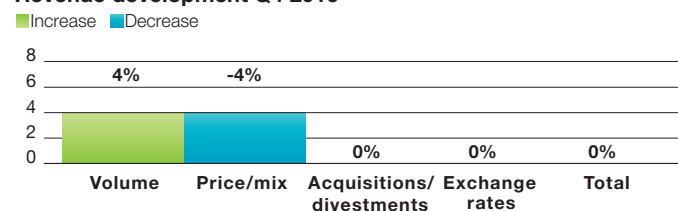
Volumes were up 4%, mainly driven by Asia and Europe and improved manufacturing availability. Demand in oil related segments bottomed out. Revenue was flat with increased volume offset by adverse price/mix effects.

EBIT increased by 31% as a result of improved volumes and operational efficiencies.

Revenue development full-year 2016



Revenue development Q4 2016



Revenue

Fourth quarter

January-December

	2015	2016	Δ%	in € millions	2015	2016	Δ%
	408	413	1	Functional Chemicals	1,822	1,718	(6)
	308	296	(4)	Industrial Chemicals	1,204	1,202	-
	236	244	3	Surface Chemistry	1,060	1,030	(3)
	231	238	3	Pulp and Performance Chemicals	989	921	(7)
	(16)	(22)		Other/intragroup eliminations	(87)	(88)	
	1,167	1,169	-	Total	4,988	4,783	(4)
	90	118	31	EBIT	578	629	9
	91	118	30	Operating income	609	629	3
	7.7	10.1		ROS% *	11.6	13.2	
				Average invested capital	3,540	3,507	
				Moving average ROI (in %) *	16.3	17.9	
	130	128		Capital expenditures	331	356	
				Number of employees	9,100	9,000	

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

Specialty Chemicals

Functional Chemicals

Positive volume development for the full-year, especially in Asia, was offset by adverse currency effects and price deflation. Revenue was down 6%.

In Q4, revenue was up 1%, due to improved volumes in Asia, partly offset by price deflation and adverse currency effects. The previous year was impacted by severe logistical constraints caused by the incident at the port of Tianjin.

Industrial Chemicals

Volumes improved for the full-year due to increased demand and higher supply chain availability in Frankfurt and Rotterdam. Revenue was flat with volume growth offset by adverse price/mix effects.

In Q4, improved volumes were more than offset by unfavorable price/mix effects. Revenue was down 4%.

Surface Chemistry

Volumes were up for the full-year, with lower demand in the oil related segments more than offset by volume growth in other segments. Revenue was down 3% due to positive volume effects being more than offset by price deflation in oil related segments and adverse currencies.

In Q4, revenue was up 3% due to strong volumes. Demand in oil related segments bottomed out, while price deflation remained.

Pulp and Performance Chemicals

Demand trends differed per segment and region. Full-year revenue was flat, excluding the impact of the divested Paper Chemicals business in 2015.

In Q4, revenue was up 3%, mainly due to improved price/mix.



Investing in key growth markets

AkzoNobel has inaugurated two new Specialty Chemicals plants at its multi-site in Ningbo, China, which together represent a combined investment of €80 million.

Condensed financial statements

Consolidated statement of income

Fourth quarter		January-December		
2015	2016	in € millions	2015	2016
Continuing operations				
3,559	3,456	Revenue	14,859	14,197
(2,131)	(2,052)	Cost of sales	(8,784)	(8,189)
1,428	1,404	Gross profit	6,075	6,008
(1,160)	(1,169)	SG&A costs	(4,613)	(4,506)
77	(18)	Other results	111	17
345	217	Operating income	1,573	1,519
(18)	(32)	Net financing expenses	(114)	(114)
5	5	Results from associates and joint ventures	17	43
332	190	Profit before tax	1,476	1,448
(112)	(39)	Income tax	(416)	(394)
220	151	Profit for the period from continuing operations	1,060	1,054
Discontinued operations				
9	(1)	Profit for the period from discontinued operations	6	(2)
229	150	Profit for the period	1,066	1,052
Attributable to				
203	133	Shareholders of the company	979	970
26	17	Non-controlling interests	87	82
229	150	Profit for the period	1,066	1,052

Consolidated statement of comprehensive income

Fourth quarter		January-December		
2015	2016	in € millions	2015	2016
229	150	Profit for the period	1,066	1,052
Other comprehensive income				
105	184	Exchange differences arising on translation of foreign operations	137	(104)
(13)	25	Cash flow hedges	(30)	59
242	(32)	Post-retirement benefits	(191)	(748)
–	(33)	Tax relating to components of other comprehensive income	7	108
334	144	Other comprehensive income for the period (net of tax)	(77)	(685)
563	294	Comprehensive income for the period	989	367
Comprehensive income for the period attributable to				
530	271	Shareholders of the company	887	290
33	23	Non-controlling interests	102	77
563	294	Comprehensive income for the period	989	367

Condensed consolidated balance sheet

in € millions	December 31, 2015	December 31, 2016
Assets		
Non-current assets		
Intangible assets	4,156	4,413
Property, plant and equipment	4,003	4,190
Other financial non-current assets	2,125	1,736
Total non-current assets	10,284	10,339
Current assets		
Inventories	1,504	1,532
Trade and other receivables	2,741	2,787
Cash and cash equivalents	1,365	1,479
Other current assets	69	59
Total current assets	5,679	5,857
Total assets	15,963	16,196
Equity and liabilities		
Group equity		
	6,980	7,034
Non-current liabilities		
Provisions and deferred tax liabilities	2,225	2,305
Long-term borrowings	2,161	2,644
Total non-current liabilities	4,386	4,949
Current liabilities		
Short-term borrowings	430	87
Trade and other payables	3,473	3,475
Other short-term liabilities	694	651
Total current liabilities	4,597	4,213
Total equity and liabilities	15,963	16,196

Shareholders' equity

Shareholders' equity increased from €6.5 billion at year-end 2015 to €6.6 billion at year-end 2016, mainly due to the net effect of:

- Profit for the period of €970 million
- A net negative effect of €597 million for actuarial gains and losses which includes the adverse impact of the de-risking of pension liabilities and the positive impact of re-recognition of (pension related) deferred tax assets
- Dividend payments of €239 million
- Negative currency effect of €128 million (and related taxes)

Dividend

Our dividend policy is to pay a stable to rising dividend. We will propose a 2016 final dividend of €1.28 per share, which would make a total 2016 dividend of €1.65 (2015: €1.55) per share, up 6%. There will be a stock dividend option with cash dividend as default. Please refer to the last page of this report for dividend payment dates.

Share repurchase program

We announced the repurchase of up to 2.5 million ordinary shares to neutralize the dilutive effect of stock dividends paid in 2016. Subject to shareholder approval, it is intended the shares will be cancelled during the course of 2017. This share repurchase program started on January 2, 2017, and is anticipated to be concluded by the end of April 2017.

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Cumulative translation reserve	Other reserves	Shareholders' equity	Non-controlling interests	Group equity
Balance at January 1, 2015	492	463	(19)	(43)	4,897	5,790	477	6,267
Profit for the period	–	–	–	–	979	979	87	1,066
Other comprehensive income	–	–	(23)	124	(193)	(92)	15	(77)
Comprehensive income for the period	–	–	(23)	124	786	887	102	989
Dividend	4	137	–	–	(363)	(222)	(86)	(308)
Equity-settled transactions	–	–	–	–	32	32	–	32
Issue of common shares	2	(2)	–	–	–	–	2	2
Acquisitions and divestments	–	–	–	–	(3)	(3)	1	(2)
Balance at December 31, 2015	498	598	(42)	81	5,349	6,484	496	6,980
Balance at January 1, 2016	498	598	(42)	81	5,349	6,484	496	6,980
Profit for the period	–	–	–	–	970	970	82	1,052
Other comprehensive income	–	–	45	(128)	(597)	(680)	(5)	(685)
Comprehensive income for the period	–	–	45	(128)	373	290	77	367
Dividend	5	148	–	–	(392)	(239)	(93)	(332)
Equity-settled transactions	–	–	–	–	20	20	–	20
Issue of common shares	1	(1)	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	(2)	(2)	1	(1)
Balance at December 31, 2016	504	745	3	(47)	5,348	6,553	481	7,034

Invested capital

Invested capital at year-end 2016 totaled €10.3 billion, up on year-end 2015. The acquisition of BASF's Industrial Coatings business impacted invested capital by €0.4 billion.

In 2016, we invested €634 million (2015: €651 million) in property, plant and equipment.

Pensions

The net balance sheet position (IAS19) of the pension plans at year-end 2016 was a deficit of €1.0 billion (year-end 2015: €0.6 billion). This was the result of the net effect of:

- Lower discount rate in key countries
- De-risking of pension liabilities through non-cash buy-in transactions totaling €3.3 billion (a €0.2 billion buy-in in the ICI Specialty Chemicals Pension Fund in Q4 and €3.1 billion buy-ins in the ICI Pension Fund in the first three quarters), which together led to an adverse €0.6 billion impact in Other comprehensive income

Offset by:

- Top-up payments of €297 million, including €33 million out of escrow account, predominantly into certain UK pension plans
- Higher asset returns

People

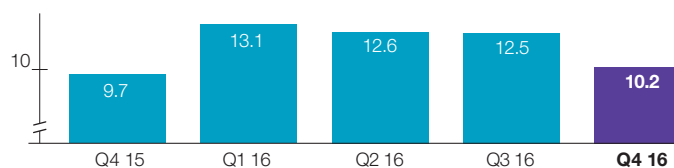
At year-end 2016, the number of people employed was 1% higher at 46,000 (year-end 2015: 45,600), mainly due to the acquisition of BASF's Industrial Coatings business. With the introduction of our Global Business Services (GBS) organization as of January 1, 2016, some people are now reported at corporate level instead of within the Business Areas.

Invested capital

in € millions	December 31, 2015	December 31, 2016
Trade receivables	2,267	2,272
Inventories	1,504	1,532
Trade payables	(2,386)	(2,399)
Operating working capital	1,385	1,405
Other working capital items	(787)	(730)
Non-current assets	10,284	10,339
Less investments in associates and joint ventures	(165)	(161)
Less pension assets	(528)	(220)
Deferred tax liabilities	(360)	(367)
Invested capital	9,829	10,266

Operating working capital

In % of revenue



Human Cities project transforms neighborhood in Uruguay

Eighty artists helped to transform a neighborhood in Montevideo, Uruguay, as part of a Human Cities initiative developed by AkzoNobel's Inca paint brand. The eye-catching event saw muralists, graffiti artists and painters take to the streets of La Teja to create murals on more than 40 walls to help brighten up the lives of local people and make their surroundings more liveable and inspiring. The walls were chosen jointly by neighbors and the artists.

Cash flows and net debt

Operating activities in 2016 resulted in cash inflows of €1,297 million, up 14% (2015: €1,136 million), mainly due to lower pension top up payments and lower cash out flow with respect to restructuring projects and interest payments.

In Q2, a €500 million bond was launched at attractive terms, with a ten-year maturity, at a coupon of 1.125%, and a £250 million bond with 8% coupon was repaid from existing resources.

Net debt at year-end 2016 was slightly higher at €1,252 million compared with year-end 2015 (€1,226 million) and up compared with Q3 2016 (€1,119 million), as a result of the consideration paid for BASF's Industrial Coatings business.

Outlook

We anticipate positive developments for EMEA, North America and Asia, improving during the year, while Latin America is expected to stabilize. Some economic and political uncertainty is expected to remain. Market trends experienced in the second part of 2016, including for marine and oil and gas industries, are expected to continue during the first half of 2017.

We have structurally improved our ability to respond to developments in our markets. We are taking appropriate measures to deal with higher raw material prices in an inflationary environment. Our stronger operational and financial foundation means we are more agile and better able to seize growth opportunities, including acquisitions. We maintain our financial guidance for 2016-2018.

Please refer to our website for more information on our ambitions and the strategic focus areas.

Amsterdam, February 15, 2017
The Board of Management

Condensed consolidated statement of cash flows

Fourth quarter			January-December	
2015	2016	in € millions	2015	2016
1,041	1,632	Cash and cash equivalents at beginning of period	1,649	1,317
		Adjustments to reconcile earnings to cash generated from operating activities		
220	151	Profit for the period from continuing operations	1,060	1,054
158	150	Amortization and depreciation	626	606
496	365	Changes in working capital	46	1
(88)	(29)	Changes in provisions	(658)	(504)
(18)	(57)	Other changes	62	140
768	580	Net cash from operating activities	1,136	1,297
(228)	(231)	Capital expenditures	(651)	(634)
29	(394)	Acquisitions and divestments net of cash acquired	151	(363)
2	(10)	Other changes	(8)	18
(197)	(635)	Net cash from investing activities	(508)	(979)
(233)	(80)	Changes from borrowings	(689)	140
(66)	(81)	Dividend paid	(281)	(336)
-	-	Other changes	(2)	(7)
(299)	(161)	Net cash from financing activities	(972)	(203)
272	(216)	Net cash from continuing operations	(344)	115
(4)	(2)	Cash flows from discontinued operations	(6)	(6)
268	(218)	Net change in cash and cash equivalents of total operations	(350)	109
8	27	Effect of exchange rate changes on cash and cash equivalents	18	15
1,317	1,441	Net Cash and cash equivalents at December 31	1,317	1,441

Quarterly statistics

					2015						2016
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Q3	Q4	year	
Revenue											
890	1,134	1,052	931	4,007	Decorative Paints	861	1,055	1,021	898	3,835	
1,430	1,550	1,493	1,482	5,955	Performance Coatings	1,388	1,473	1,406	1,398	5,665	
1,296	1,290	1,235	1,167	4,988	Specialty Chemicals	1,206	1,206	1,202	1,169	4,783	
(25)	(25)	(20)	(21)	(91)	Other activities/eliminations	(25)	(23)	(29)	(9)	(86)	
3,591	3,949	3,760	3,559	14,859	Total	3,430	3,711	3,600	3,456	14,197	
EBITDA											
88	165	159	83	495	Decorative Paints	86	165	156	84	491	
206	257	246	229	938	Performance Coatings	222	257	233	187	899	
242	243	242	171	898	Specialty Chemicals	245	259	250	199	953	
(74)	(55)	(57)	(57)	(243)	Other activities/eliminations	(66)	(39)	(45)	(85)	(235)	
462	610	590	426	2,088	Total	487	642	594	385	2,108	
12.9	15.4	15.7	12.0	14.1	EBITDA margin (in %)	14.2	17.3	16.5	11.1	14.8	
Depreciation											
(26)	(26)	(27)	(26)	(105)	Decorative Paints	(23)	(25)	(23)	(24)	(95)	
(25)	(26)	(26)	(27)	(104)	Performance Coatings	(26)	(25)	(25)	(27)	(103)	
(66)	(68)	(66)	(69)	(269)	Specialty Chemicals	(69)	(68)	(70)	(69)	(276)	
(3)	(3)	(1)	(2)	(9)	Other activities/eliminations	(2)	(2)	(3)	(1)	(8)	
(120)	(123)	(120)	(124)	(487)	Total	(120)	(120)	(121)	(121)	(482)	
Amortization											
(12)	(11)	(11)	(11)	(45)	Decorative Paints	(11)	(9)	(10)	(9)	(39)	
(11)	(11)	(10)	(10)	(42)	Performance Coatings	(10)	(10)	(9)	(8)	(37)	
(13)	(13)	(13)	(12)	(51)	Specialty Chemicals	(12)	(12)	(12)	(12)	(48)	
-	-	-	(1)	(1)	Other activities/eliminations	-	-	-	-	-	
(36)	(35)	(34)	(34)	(139)	Total	(33)	(31)	(31)	(29)	(124)	
EBIT (operating income excluding incidental items)											
50	128	121	46	345	Decorative Paints	52	131	123	51	357	
170	220	210	192	792	Performance Coatings	186	222	199	152	759	
163	162	163	90	578	Specialty Chemicals	164	179	168	118	629	
(77)	(58)	(58)	(60)	(253)	Other activities/eliminations	(68)	(41)	(48)	(86)	(243)	
306	452	436	268	1,462	Total	334	491	442	235	1,502	
8.5	11.4	11.6	7.5	9.8	ROS (in %)	9.7	13.2	12.3	6.8	10.6	

Quarterly statistics

					2015						2016
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Q3	Q4	year	
Operating income											
50	128	121	46	345	Decorative Paints	52	131	132	51	366	
170	220	210	192	792	Performance Coatings	186	222	192	135	735	
163	192	163	91	609	Specialty Chemicals	164	179	168	118	629	
(77)	(54)	(58)	16	(173)	Other activities/eliminations	(45)	(41)	(38)	(87)	(211)	
306	486	436	345	1,573	Total	357	491	454	217	1,519	
Incidentals per Business Area											
-	-	-	-	-	Decorative Paints	-	-	9	-	9	
-	-	-	-	-	Performance Coatings	-	-	(7)	(17)	(24)	
-	30	-	1	31	Specialty Chemicals	-	-	-	-	-	
-	4	-	76	80	Other activities/eliminations	23	-	10	(1)	32	
-	34	-	77	111	Total	23	-	12	(18)	17	
Reconciliation net financing expense											
10	4	7	7	28	Financing income	5	11	8	4	28	
(38)	(31)	(29)	(27)	(125)	Financing expenses	(27)	(23)	(25)	(23)	(98)	
(28)	(27)	(22)	(20)	(97)	Net interest on net debt	(22)	(12)	(17)	(19)	(70)	
Other interest movements											
(4)	(3)	(4)	(2)	(13)	Financing expenses related to pensions	(2)	(2)	(2)	(4)	(10)	
(9)	(1)	(7)	-	(17)	Interest on provisions	(11)	(8)	(14)	(7)	(40)	
-	4	5	4	13	Other items	8	-	-	(2)	6	
(13)	-	(6)	2	(17)	Net other financing charges	(5)	(10)	(16)	(13)	(44)	
(41)	(27)	(28)	(18)	(114)	Net financing expenses	(27)	(22)	(33)	(32)	(114)	
Quarterly net income analysis											
(2)	8	6	5	17	Results from associates and joint ventures	20	8	10	5	43	
(18)	(27)	(16)	(26)	(87)	Profit attributable to non-controlling interests	(23)	(27)	(15)	(17)	(82)	
263	467	414	332	1,476	Profit before tax	350	477	431	190	1,448	
(82)	(108)	(114)	(112)	(416)	Income tax	(86)	(138)	(131)	(39)	(394)	
181	359	300	220	1,060	Profit for the period from continuing operations	264	339	300	151	1,054	
31	23	28	34	28	Effective tax rate (in %)	25	29	30	21	27	

Quarterly statistics

					2015						2016
Q1	Q2	Q3	Q4	year		Q1	Q2	Q3	Q4	year	
Earnings per share from continuing operations (in €)											
0,66	1,35	1,15	0,78	3,93	Basic	0,96	1,24	1,13	0,53	3,88	
0,66	1,34	1,14	0,77	3,90	Diluted	0,96	1,24	1,13	0,53	3,86	
Earnings per share from discontinued operations (in €)											
(0,01)	(0,01)	–	0,04	0,02	Basic	–	–	–	–	(0,01)	
(0,01)	(0,01)	–	0,04	0,02	Diluted	–	–	–	–	(0,01)	
Earnings per share from total operations (in €)											
0,65	1,34	1,15	0,82	3,95	Basic	0,96	1,24	1,13	0,53	3,87	
0,65	1,33	1,14	0,81	3,92	Diluted	0,96	1,24	1,13	0,53	3,85	
Number of shares (in millions)											
246,4	247,7	248,4	248,7	247,8	Weighted average number of shares	249,5	250,6	251,6	251,9	250,9	
246,9	248,4	248,4	249,0	249,0	Number of shares at end of quarter	249,6	251,6	251,6	252,2	252,2	
Adjusted earnings (in € millions)											
263	467	414	332	1.476	Profit before tax from continuing operations	350	477	431	190	1.448	
–	(34)	–	(77)	(111)	Incidentals reported in operating income	(23)	–	(12)	18	(17)	
36	35	34	34	139	Amortization of intangible assets	33	31	31	29	124	
(93)	(118)	(125)	(85)	(421)	Adjusted income tax	(95)	(149)	(132)	(55)	(431)	
(18)	(27)	(16)	(26)	(87)	Non-controlling interests	(23)	(27)	(15)	(17)	(82)	
188	323	307	178	996	Adjusted profit from continuing operations	242	332	303	165	1.042	
0,76	1,30	1,24	0,72	4,02	Adjusted earnings per share (in €)	0,97	1,32	1,20	0,66	4,15	

Notes to the condensed financial statements

Accounting policies and restatements

The full-year 2016 numbers included in the primary statements are derived from the financial statements 2016. These financial statements have been authorized for issue. The financial statements have not yet been published by law and still have to be adopted by the general meeting of shareholders. In accordance with section 393 of Book 2 of the Netherlands Civil Code, PriceWaterhouseCoopers Accountants N.V. has issued an unqualified auditor's opinion on these financial statements, which will be published on March 1, 2017. All quarterly figures are unaudited. In 2016 some new IFRS accounting standards and interpretations thereof have been implemented, however, these had no material impact on our financial statements. Otherwise the accounting principles are the same as applied in the 2015 financial statements.

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. In Specialty Chemicals, the Functional Chemicals and the Surface Chemistry businesses experience seasonal influences. Revenue and profitability are affected by developments in the agricultural season and tend to be higher in the first half of the year.

Other activities

In other activities, we report activities which are not allocated to a particular Business Area. Corporate costs are the unallocated costs of our head office and shared services center in the Netherlands and also include country holdings. Pensions reflects pension costs after the elimination of interest cost (reported as financing expenses). Insurances are the results from our captive insurance companies. Other costs include the cost of share-based compensation, the results of treasury and legacy operations.

Glossary

Adjusted earnings per share are the basic earnings per share from continuing operations excluding incidentals in operating income, amortization of intangible assets and tax on these adjustments.

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.

EBIT is operating income excluding incidental items.

EBITDA is operating income excluding depreciation, amortization and incidental items.

EBITDA margin is EBITDA as percentage of revenue.

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

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

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

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

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

Operating income is defined in accordance with IFRS and includes the incidental items.

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

OPI margin% is operating income as percentage of revenue.

ROI is calculated as EBIT of the last twelve months as percentage of average invested capital.

ROS is EBIT as percentage of revenue.

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

Safe Harbor Statement

This report contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecast and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures. 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

In this report, reference is made to brands and trademarks owned by, or licensed to, AkzoNobel. Unauthorized use of these is strictly prohibited.

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

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Financial calendar

Annual report 2016	March 1, 2017
Report for the first quarter 2017	April 24, 2017
Annual General Meeting of shareholders	April 25, 2017
Ex-dividend date of 2016 final dividend	April 27, 2017
Record date of 2016 final dividend	April 28, 2017
Election period cash or stock dividend	May 2, 2017 – May 17, 2017
Determination of exchange ratio	May 19, 2017
Payment date of cash dividend and delivery of new shares	May 24, 2017
Report for the second quarter 2017	July 25, 2017
Report for third quarter 2017	October 18, 2017
Report for the full-year and the fourth quarter 2017	February 8, 2018



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AkzoNobel creates everyday essentials to make people's lives more liveable and inspiring. As a leading global paints and coatings company and a major producer of specialty chemicals, we supply essential ingredients, essential protection and essential color to industries and consumers worldwide. Backed by a pioneering heritage, our innovative products and sustainable technologies are designed to meet the growing demands of our fast-changing planet, while making life easier. Headquartered in Amsterdam, the Netherlands, we have approximately 46,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as a leader in sustainability, we are dedicated to energizing cities and communities while creating a protected, colorful world where life is improved by what we do.

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