

Q1 Report

AkzoNobel

2018



Our Dulux Weathershield exterior paint features Smart Release Technology which protects homes and buildings against algae and fungus.

Our results at a glance:

Progress on transformation into a focused Paints and Coatings company:

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

Q1 2018 Paints and Coatings:

- Selling prices up 3% overall and for all businesses
- Revenue down 8% mainly due to adverse foreign currencies (1% lower excluding currency impact) with positive price/mix offset by lower volumes
- Volumes 3% lower, mainly due to continued adverse market conditions in the marine, and oil and gas industries
- Savings from continuous improvement were €30 million and creating a fit-for-purpose organization delivered €10 million
- Adjusted operating income at €149 million (2017: €208 million) due to adverse foreign currencies, higher raw material costs and lower volumes not yet fully offset by increased selling prices and cost discipline
- Operating income at €108 million (2017: €208 million), includes the adverse impact of identified items of €41 million, mainly related to the transformation of the organization
- ROS at 6.8% (2017: 8.8%); ROI at 13.2% (2017: 14.8%)
- Adjusted EPS from continuing operations at €0.35 (2017: €0.50)
- Net cash outflow from operating activities at €456 million (2017: €379 million)
- Net income from total operations up 5% to €253 million (2017: €240 million), including discontinued operations at €134 million (2017: €114 million)

Outlook:

Higher raw material costs and adverse effects from foreign currencies are projected to continue in 2018, especially during the start of the year. We anticipate ongoing positive developments for Decorative Paints in all regions, particularly Asia. Trends for Performance Coatings are expected to be positive for most segments and regions, while still challenging for Marine and Protective Coatings. We continue to implement various measures to mitigate current market challenges, including increased selling prices and cost discipline. Our "Winning together: 15 by 20" strategy will create a focused Paints and Coatings company and deliver our 2020 guidance.

Terminology change

Adjusted operating income equals operating income excluding identified items, which was previously called "EBIT". Calculations of ROS and ROI remain unchanged. Adjusted earnings per share now only excludes identified items, while adjustments for post-tax amortization are not made anymore.



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

Summary of financial outcomes

First quarter			
in € millions	2017 ¹	2018	Δ%
Revenue	2,377	2,176	(8)
Adjusted EBITDA	281	209	(26)
Adjusted operating income	208	149	(28)
Operating income	208	108	(48)
ROS%	8.8	6.8	
OPI margin%	8.8	5.0	
Average invested capital	6,500	6,401	
ROI%	14.8	13.2	
Capital expenditures	45	34	
Net debt	1,801	2,596	
Number of employees	36,200	35,400	
Net cash from operating activities - continuing	(379)	(456)	
Net cash from operating activities - discontinued	92	82	
Net income from continuing operations	126	119	(6)
Net income from discontinued operations	114	134	
Net income attributable to shareholders	240	253	5
Earnings per share from total operations (in €)	0.96	1.00	
Adjusted earnings per share from continuing operations (in €) ²	0.50	0.35	
Adjusted earnings per share from total operations (in €) ²	0.96	0.93	

¹ Represented to present the Specialty Chemicals business as discontinued operations

² Represented for the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges

Financial highlights

Revenue

Selling prices were up 3% overall and for all businesses. Volumes were 3% lower, mainly due to Marine and Protective Coatings. Revenue was impacted by adverse foreign currencies.

- Decorative Paints revenue decreased 8%, mainly due to foreign currencies (down 1% excluding currency impact). Higher selling prices were offset by adverse mix effects
- Performance Coatings revenue was 9% lower, mainly due to adverse currencies (down 1% excluding currencies). Volumes were 5% lower, mainly due to adverse conditions in the marine, and oil and gas industries

Raw material price development

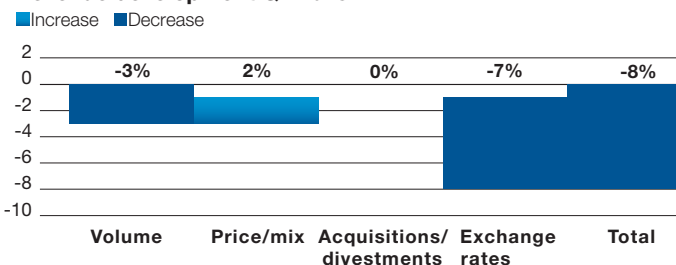
Raw material prices in 2018 continue to be higher compared with the previous year. We are increasing selling prices to deal with these higher raw material costs. The continued inflationary environment means these measures are still expected to take several quarters before the necessary mitigating impact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

Acquisitions

The impact of acquisitions on revenue was 1% for Performance Coatings, although limited for AkzoNobel overall. Acquisitions impacting Q1 revenues were:

- The business of V.Powdertech Co., Ltd., acquired in Q4 2017
- Flexcrete Technologies Ltd and Disa Technology (Disatech) acquired in Q3 2017

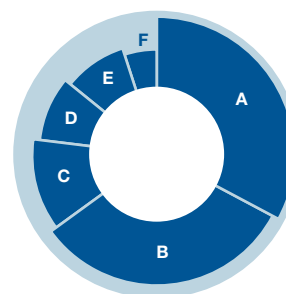
Revenue development Q1 2018



AkzoNobel around the world Revenue by destination

Region	%
A Mature Europe	33
B Asia Pacific	32
C North America	12
D Latin America	9
E Emerging Europe	9
F Other regions	5
Total	100

(Based on the full-year 2017)



Revenue

First quarter

in € millions	2017 ¹	2018	Δ%	Δ% CC ²
Decorative Paints	922	846	(8)	(1)
Performance Coatings	1,471	1,342	(9)	(1)
Other activities/eliminations	(16)	(12)		
Total	2,377	2,176	(8)	(1)

¹ Represented to present the Specialty Chemicals business as discontinued operations

² Change excluding currency impact

in % versus Q1 2017	Volume	Price/mix	Acquisitions/divestments	Exchange rates	Total
Decorative Paints	(1)	–	–	(7)	(8)
Performance Coatings	(5)	3	1	(8)	(9)
Total	(3)	2	–	(7)	(8)

Volume development per quarter

in % (year-on-year)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18
Decorative Paints	9	3	5	12	(1)
Performance Coatings	–	(4)	1	(2)	(5)
Total	4	(1)	3	3	(3)

Price/mix development per quarter

in % (year-on-year)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18
Decorative Paints	(3)	(3)	(3)	(5)	–
Performance Coatings	(1)	1	–	–	3
Total	(1)	(1)	(1)	(1)	2

Exchange rates development per quarter

in % (year-on-year)	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18
Decorative Paints	1	(1)	(3)	(4)	(7)
Performance Coatings	2	–	(4)	(5)	(8)
Total	2	–	(4)	(5)	(7)

Financial highlights

Adjusted operating income

Adjusted operating income at €149 million (2017: €208 million), was impacted by adverse currencies, higher raw material costs and lower volumes, partly compensated by increased selling prices. Savings from continuous improvement were €30 million and creating a fit-for-purpose organization delivered an initial €10 million of €110 million planned for 2018.

- Decorative Paints was lower, mainly due to higher raw material costs and negative currency effects
- Performance Coatings was lower, impacted by foreign currencies, higher raw material costs and lower volumes, mainly due to continued adverse conditions in the marine, and oil and gas industries
- Other activities/eliminations increased by €15 million, mainly due to gains on disposals

Operating income

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

Net financing income/(expenses)

Net financing expenses decreased by €36 million, mainly due to a one-off interest benefit on a tax settlement.

Tax

Regular income tax expenses were fully offset by re-recognition of certain deferred tax assets and a tax settlement.

Profit from discontinued operations

Profit from discontinued operations increased by €26 million. This was due to improved operational results and the ceasing of depreciation and amortization (as required per IFRS 5), partly offset by restructuring costs related to manufacturing network optimization.

In the Specialty Chemicals business, revenue was down 3% (up 4% excluding currency impact) with higher selling prices more than offset by adverse currencies. Adjusted operating income was lower, mainly due to restructuring costs of €32 million related to manufacturing network optimization.

Operating income was negatively impacted by identified items of €14 million related to the separation.

Net income

Net income attributable to shareholders in Q1 2018 was €253 million, of which €119 million was attributable to continuing operations and €134 million to discontinued operations.



Stunning colors help revive McLaren F1 team's racing heritage

The most eye-catching car of the new Formula 1 season – McLaren's MCL33 – features striking racing livery created with superior coatings technology supplied by our Sikkens brand. As official supplier to the McLaren F1 team, we provide color, protection and performance, with the new Papaya Spark livery being specifically designed to celebrate McLaren's racing heritage. The innovative coating systems supplied by the company have enabled McLaren to significantly reduce the total weight of paint and decrease paint processing time by more than 50%.

Adjusted operating income

First quarter in € millions	2017 *	2018	Δ%
Decorative Paints	77	56	(27)
Performance Coatings	187	134	(28)
Other activities/eliminations	(56)	(41)	
Total	208	149	(28)

Operating income

First quarter in € millions	2017 *	2018	Δ%
Decorative Paints	77	48	(38)
Performance Coatings	187	121	(35)
Other activities/eliminations	(56)	(61)	
Total	208	108	(48)

Operating income to net income

First quarter in € millions	2017 *	2018
Operating income	208	108
Net financing income/(expenses)	(17)	19
Results from associates and joint ventures	6	4
Profit before tax	197	131
Income tax	(52)	1
Profit from continuing operations	145	132
Profit from discontinued operations	116	142
Profit for the period	261	274
Non-controlling interests	(21)	(21)
Net income	240	253

* Represented to present the Specialty Chemicals business as discontinued operations

Decorative Paints

- Selling prices up 4% overall and in all regions
- Revenue decreased 8% mainly due to adverse currencies (1% lower, excluding currency impact)
- Volumes were 1% lower despite growth in Europe; higher selling prices were offset by mix
- Adjusted operating income at €56 million (2017: €77 million) was impacted by foreign currencies and higher raw material costs
- ROS at 6.6% (2017: 8.4%); ROI at 11.7% (2017: 13.8%)

Revenue was 8% lower, mainly due to adverse currencies. Price realization is gaining momentum and selling prices were up 4% overall. Additional measures are being implemented.

Volumes were up in EMEA, while volumes were lower in Latin America and Asia, compared to an exceptionally strong first quarter last year.

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

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

Europe, Middle East and Africa

Volumes grew. Price increases are taking effect, but overall revenue excluding currency impact was 1% lower due to negative mix effects. Overall growth was stronger in Eastern Europe and Africa. Adverse currency impacts were driven by the pound sterling. Demand trends differed by country and uncertainty continued in some markets. Cost control measures and productivity programs remain a focus in the region.

Latin America

Volumes were slightly lower. Revenue was down 12% (excluding currency impact up 11%). Currency impact was driven by the Brazilian real and the significant devaluation of the Argentinian peso. Higher selling prices offset increased raw material costs. Cost control remains strong.

Asia

Volumes in China were lower versus an exceptionally strong quarter last year, while growth continued in India, Malaysia and Vietnam. Revenue was impacted by adverse currency effects from the majority of the Asian currencies. Revenue was 7% lower excluding the impact of currencies. Price increases have been introduced in all major markets in the region.



Dulux Promise

Consumers in Pakistan now have access to Dulux Promise, the first time AkzoNobel has launched a decorative paints product onto the country's mass market segment. It's the latest launch in the Asia region, following the introduction of a series of innovative paint products with smart functionality.

Revenue

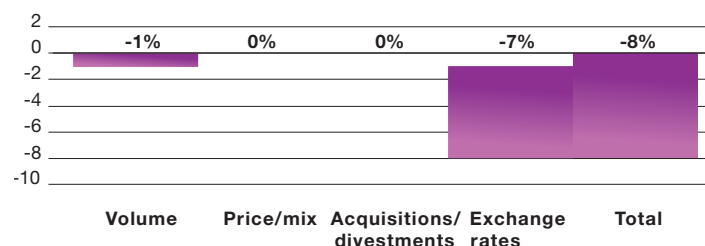
First quarter

in € millions	2017	2018	Δ%	Δ% CC *
Decorative Paints Europe, Middle East and Africa	507	491	(3)	(1)
Decorative Paints Latin America	119	105	(12)	11
Decorative Paints Asia	297	251	(15)	(7)
Other/intragroup eliminations	(1)	(1)		
Total	922	846	(8)	(1)

* Change excluding currency impact

Revenue development Q1 2018

■ Increase ■ Decrease



Key financial figures

First quarter

in € millions	2017	2018	Δ%
Adjusted operating income	77	56	(27)
Operating income	77	48	(38)
ROS%	8.4	6.6	
Average invested capital	2,775	2,816	
ROI%	13.8	11.7	

Performance Coatings

- Revenue growth, excluding currency impact, for all businesses except for Marine and Protective Coatings
- Revenue decreased 9% mainly due to adverse currencies (1% lower excluding currency impact); selling prices up 2% overall and for all businesses
- Volumes 5% lower, mainly due to adverse conditions in the marine, and oil and gas industries, despite growth in other areas
- Adjusted operating income at €134 million (2017: €187 million) decreased due to adverse currencies, higher raw material costs and lower volumes, partly compensated by improved pricing, continuous improvement and cost control
- ROS at 10.0% (2017: 12.7%) ROI at 21.3% (2017: 28.6%)

Revenue was 9% lower mainly due to adverse currencies (1% lower excluding currencies). Pricing initiatives have continued to gain traction, with 2% price increases in the first quarter and further increases expected in the following quarters.

Volumes increased for Powder Coatings, as well as Automotive and Specialty Coatings. Adverse conditions persisted in the marine, and oil and gas industries.

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

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

Powder Coatings

Revenue was up 1% (up 8% excluding currency impact) due to volume growth and positive price/mix effects, offset by adverse currencies. The acquisition of the V.Powdertech business helped to fuel growth.

Marine and Protective Coatings

Revenue was 21% lower (14% lower excluding currency impact) due to lower volumes and adverse currencies. Volumes in Marine Coatings continued to be affected by the slowdown of new build activity, despite some recovery in other segments. Protective Coatings volumes decreased due to fewer oil and gas projects. We continue to implement measures focused on restructuring and right sizing.

Automotive and Specialty Coatings

Revenue was 4% lower (up 4% excluding currency impact) despite favorable price/mix, higher volumes and the acquisition of Disa Technology (Disatech).

Industrial Coatings

Revenue was 7% lower (1% higher excluding currency impact). Positive price/mix more than offset volume decline. Demand differed per region and segment.



New powder coatings plant opened in India

Our commitment to customers in India has been strengthened following the inauguration of a new €9 million facility for the production of powder coatings. Located in Thane, Mumbai, the plant is the company's sixth production site in India. The new facility will complement AkzoNobel's existing plant in Bangalore, adding new product lines in bonded metallic and functional powder coatings.

Revenue

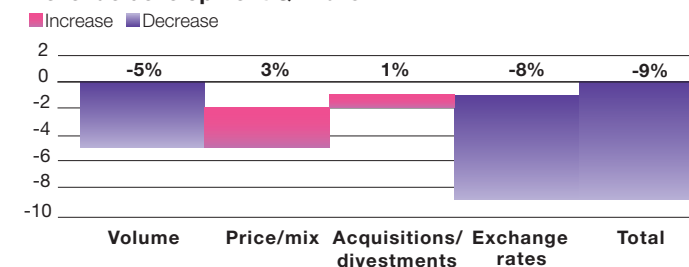
First quarter

in € millions	2017 ¹	2018	Δ%	Δ% CC ²
Powder Coatings	288	292	1	8
Marine and Protective Coatings	380	300	(21)	(14)
Automotive and Specialty Coatings	360	346	(4)	4
Industrial Coatings	454	423	(7)	1
Other/intragroup eliminations	(11)	(19)		
Total	1,471	1,342	(9)	(1)

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

² Change excluding currency impact

Revenue development Q1 2018



Key financial figures

First quarter

in € millions	2017	2018	Δ%
Adjusted operating income	187	134	(28)
Operating income	187	121	(35)
ROS%	12.7	10.0	
Average invested capital	2,659	2,890	
ROI%	28.6	21.3	

Discontinued operations (including Specialty Chemicals)

Successfully completed the dual-track process for the separation of Specialty Chemicals; AkzoNobel to sell Specialty Chemicals to the Carlyle Group and GIC for €10.1 billion

Discontinued operations and held for sale

The results and cash flows from discontinued operations in 2018, as well as 2017, and the assets and liabilities held for sale at March 31, 2018, and December 31, 2017, almost completely relate to the Specialty Chemicals business.

The Specialty Chemicals business consists of the Specialty Chemicals Business Area and certain other assets and liabilities and income and expenses which are directly attributed to the Specialty Chemicals business from the Other activities. As from December 22, 2017, the Specialty Chemicals business is classified as held for sale and discontinued operations, therefore the consolidated statement of

income for 2017 has been represented to show the results of the Specialty Chemicals business as discontinued operations.

Revenue

Revenue of discontinued operations consists of revenue of Specialty Chemicals and eliminations of intercompany revenue.

Adjusted operating income

In Q1 2018, adjusted operating income was up 24% at €208 million (2017: €168 million).

- In Specialty Chemicals, adjusted operating income was lower, mainly due to the impact of adverse currencies, restructuring

costs of €32 million related to manufacturing network optimization projects, partly offset by stronger price/mix effects and productivity improvement

- Held for sale effects/other mainly relates to the impact of ceasing depreciation and amortization, partly offset by the related impact on inventory valuation following IFRS 5 assets held for sale accounting

Operating income

In Q1 2018, operating income was negatively impacted by identified items totaling €14 million relating to separation costs.

Summary of financial outcomes discontinued operations

First quarter in € millions	2017 ¹	2018	Δ%
Revenue	1,284	1,246	(3)
Adjusted operating income	168	208	24
Operating income	168	194	15
ROS%	13.1	16.7	
OPI margin%	13.1	15.6	
Average invested capital	3,663	3,587	
ROI%	15.8	18.4	
Capital expenditures	75	63	
Net cash from operating activities	92	82	
Profit for the period	116	142	
Number of employees	9,900	9,500	

Profit and loss discontinued operations

First quarter in € millions	2017 ¹	2018	Δ%
Revenues	1,284	1,246	
Expenses	(1,119)	(1,057)	
Profit before tax	165	189	
Income tax	(49)	(47)	
Profit for the period	116	142	

Adjusted operating income of discontinued operations

First quarter in € millions	2017 ¹	2018	Δ%
Specialty Chemicals ²	166	150	(10)
Held for sale effects/other	2	58	
Total	168	208	24

Operating income of discontinued operations

First quarter in € millions	2017 ¹	2018	Δ%
Specialty Chemicals ²	166	150	(10)
Held for sale effects/other	2	44	
Total	168	194	15

Assets and liabilities held for sale

in € millions	December 31, 2017	March 31, 2018
Intangible assets	787	771
Property, plant and equipment	2,266	2,285
Financial non-current assets	205	214
Inventories	503	501
Receivables	840	952
Assets held for sale	4,601	4,723
Non-current liabilities	765	779
Short-term borrowings	341	325
Current payables	1,090	1,093
Liabilities held for sale	2,196	2,197

Cash flows from discontinued operations

First quarter in € millions	2017	2018
Net cash from operating activities	92	82
Net cash from investing activities	(79)	(60)
Net cash from financing activities	(3)	(22)
Cash flows from discontinued operations	10	-

¹ Represented to present the Specialty Chemicals business as discontinued operations

² 2017 figures include allocations from Other activities

Specialty Chemicals (reported as discontinued operations)

- Revenue down 3% (up 4% excluding currency impact) due to positive price/mix effects more than offset by adverse currencies and lower volumes
- Volumes down 1%, with lower volumes in some segments being partly offset by volume growth in Pulp and Performance Chemicals
- Adjusted operating income at €150 million (2017: €166 million); restructuring costs related to manufacturing network optimization projects and adverse currencies, partly offset by stronger price/mix effects and productivity improvements
- ROS at 12.0% (2017: 12.9%); ROI at 16.5% (2017: 15.6%)

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

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

Functional Chemicals

Revenue was 5% higher excluding adverse currency effects. Lower volumes were more than offset by strong price/mix. Volumes were down 1% with strong volumes in Polymer Chemistry not fully compensating the lower volumes in Ethylene and Sulfur Derivatives.

Industrial Chemicals

Revenue was 12% higher excluding adverse currency effects due to strong price/mix effects, driven by the tight global demand and supply balance in the caustic soda market. Volumes were down 1% due to some smaller supply chain disruptions in the chlor-alkali plants.

Surface Chemistry

Revenue was lower mainly due to adverse currencies and lower volumes, partly offset by stronger price/mix.

Pulp and Performance Chemicals

Revenue was lower mainly due to adverse currencies. Volumes were up 5% due to continued strong demand for bleaching chemicals in Brazil and performance products.



Partnering for a sustainable future

AkzoNobel Specialty Chemicals has received its first electricity from the Bouwdokken wind park in the Netherlands. The milestone achievement is the result of a unique green energy purchasing consortium which also includes DSM, Google and Philips. By working together, the four companies are making a significant contribution to delivering on the Netherlands' renewable energy target of 14% by 2020.

Revenue

First quarter

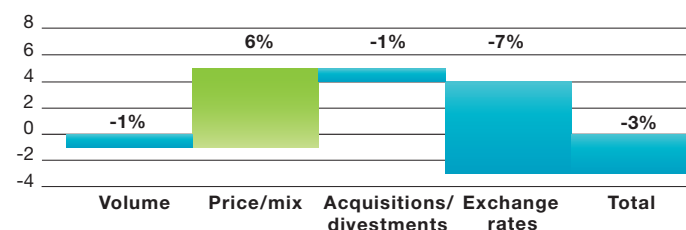
in € millions	2017 ¹	2018	Δ%	Δ% CC ²
Functional Chemicals	473	459	(3)	5
Industrial Chemicals	317	351	11	12
Surface Chemistry	284	250	(12)	(2)
Pulp and Performance Chemicals	240	217	(10)	(1)
Other/intragroup eliminations	(25)	(25)		
Total	1,289	1,252	(3)	4

¹ Represented to present Specialty Chemicals business as discontinued operations

² Change excluding currency impact

Revenue development Q1 2018

■ Increase ■ Decrease



Key financial figures

First quarter

in € millions	2017 ¹	2018	Δ%
Adjusted operating income ²	166	150	(10)
Operating income ²	166	150	(10)
ROS%	12.9	12.0	
Average invested capital	3,663	3,583	
ROI%	15.6	16.5	

¹ Represented to present Specialty Chemicals business as discontinued operations

² 2017 figures include allocations from Other activities

Condensed financial statements

Consolidated statement of income

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 consolidated statement of income for 2018, as well as 2017.

Condensed consolidated statement of income

First quarter in € millions	2017 *	2018
Revenue	2,377	2,176
Cost of sales	(1,303)	(1,256)
Gross profit	1,074	920
SG&A costs	(866)	(812)
Other results	-	-
Operating income	208	108
Net financing income/(expenses)	(17)	19
Results from associates and joint ventures	6	4
Profit before tax	197	131
Income tax	(52)	1
Profit for the period from continuing operations	145	132
Profit for the period from discontinued operations	116	142
Profit for the period	261	274
Shareholders of the company	240	253
Non-controlling interests	21	21
Profit for the period	261	274

* Represented to present the Specialty Chemicals business as discontinued operations

Consolidated statement of comprehensive income

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

Consolidated statement of comprehensive income

First quarter in € millions	2017	2018
Profit for the period	261	274
Other comprehensive income		
Exchange differences arising on translation of foreign operations	11	(86)
Cash flow hedges	(14)	(1)
Post-retirement benefits	16	(45)
Tax relating to components of other comprehensive income	(13)	7
Other comprehensive income for the period (net of tax)	-	(125)
Comprehensive income for the period	261	149
Comprehensive income for the period attributable to		
Shareholders of the company	240	134
Non-controlling interests	21	15
Comprehensive income for the period	261	149

Condensed consolidated balance sheet

The assets and liabilities of the Specialty Chemicals business are classified as held for sale. As a result, the assets and liabilities of the Specialty Chemicals business are reported on the line "Assets held for sale" and "Liabilities held for sale" in the balance sheet of March 31, 2018, as well as of December 31, 2017.

Condensed consolidated balance sheet

in € millions	December 31, 2017	March 31, 2018
Assets		
Non-current assets		
Intangible assets	3,409	3,380
Property, plant and equipment	1,832	1,734
Other financial non-current assets	1,894	2,104
Total non-current assets	7,135	7,218
Current assets		
Inventories	1,094	1,165
Trade and other receivables	1,964	2,228
Cash and cash equivalents	1,322	1,146
Other current assets	62	103
Assets held for sale	4,601	4,723
Total current assets	9,043	9,365
Total assets	16,178	16,583
Equity and liabilities		
Group equity	6,307	6,411
Non-current liabilities		
Provisions and deferred tax liabilities	1,249	1,229
Long-term borrowings	2,300	2,298
Total non-current liabilities	3,549	3,527
Current liabilities		
Short-term borrowings	973	1,444
Trade and other payables	2,794	2,632
Liabilities held for sale	2,196	2,197
Other short-term liabilities	359	372
Total current liabilities	6,322	6,645
Total equity and liabilities	16,178	16,583

Shareholders' equity

Shareholders' equity increased from €5.9 billion at year-end 2017 to €6.0 billion at the end of March 31, 2018, mainly due to the net effect of:

- Profit for the period of €253 million
- Adverse currency effects of €72 million (including taxes)
- Actuarial losses of €46 million (including taxes)
- Opening balance adjustment for IFRS 9 and IFRS 15 of €46 million negative

Dividend

Our dividend policy is to pay a stable to rising dividend. A final 2017 dividend of €1.94 per share is proposed for approval at the AGM, which would make a total 2017 dividend of €2.50 (2016: €1.65) per share, up 52%.

There will be a stock dividend option, up to a maximum of 40% of the total dividend amount, with cash dividend as default. Please refer to the final page of this report for dividend payment dates.

In addition, a €1 billion special cash dividend, as advance proceeds for the separation of the Specialty Chemicals business, was paid on December 7, 2017.

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Cumulative translation reserves	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
Balance at January 1, 2017	504	745	3	(47)	5,348	6,553	481	7,034
Profit for the period	–	–	–	–	240	240	21	261
Other comprehensive income	–	–	(11)	9	2	–	–	–
Comprehensive income for the period	–	–	(11)	9	242	240	21	261
Dividend	–	–	–	–	–	–	(8)	(8)
Equity-settled transactions	–	–	–	–	7	7	–	7
Issue of common shares	1	(1)	–	–	–	–	–	–
Share repurchase	–	–	–	–	(144)	(144)	–	(144)
Balance at March 31, 2017	505	744	(8)	(38)	5,453	6,656	494	7,150
Balance at December 31, 2017	505	769	15	(549)	5,125	5,865	442	6,307
Impact adoption IFRS 9 and IFRS 15	–	–	–	–	(46)	(46)	(5)	(51)
Balance at January 1, 2018 *	505	769	15	(549)	5,079	5,819	437	6,256
Profit for the period	–	–	–	–	253	253	21	274
Other comprehensive income	–	–	(1)	(72)	(46)	(119)	(6)	(125)
Comprehensive income for the period	–	–	(1)	(72)	207	134	15	149
Dividend	–	–	–	–	–	–	(2)	(2)
Equity-settled transactions	–	–	–	–	8	8	–	8
Issue of common shares	1	(1)	–	–	–	–	–	–
Balance at March 31, 2018	506	768	14	(621)	5,294	5,961	450	6,411

* Opening balance is adjusted for the effects of the implementation of IFRS 9 (€3 million negative on other reserves), and IFRS 15 (€43 million negative on other reserves and €5 million negative on non-controlling interests)

Invested capital

Invested capital of continuing operations at the end of March 31, 2018, totaled €6.5 billion, up €0.5 billion from year-end 2017, mainly due to seasonality of operating working capital. Operating working capital as % of revenue increased to 14.3% in Q1 2018 compared to 12.2% in Q1 2017, mainly due to higher trade receivables.

Pension

The net balance sheet position (IAS19) of the pension plans at the end of Q1 2018 was a surplus of €0.5 billion (year-end 2017: a surplus of €0.4 billion). The development in the first quarter of 2018 was the result of the net effect of:

- Top-up payments of €174 million, predominantly into certain UK pension plans
- Higher discount rates and lower inflation in key countries

Offset by:

- Lower asset returns in key countries

Workforce

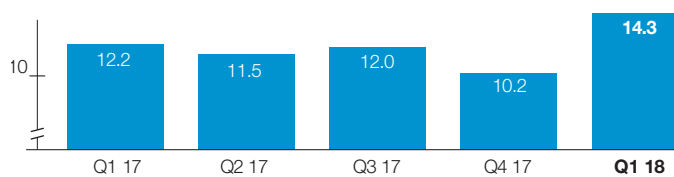
At March 31, 2018, the number of people employed in the continuing operations was 35,400 (year-end 2017: 35,700).

Invested capital (continuing operations)

in € millions	December 31, 2017	March 31, 2018
Trade receivables	1,699	1,913
Inventories	1,094	1,165
Trade payables	(1,866)	(1,836)
Operating working capital	927	1,242
Other working capital items	(719)	(498)
Non-current assets	7,135	7,218
Less investments in associates and joint ventures	(118)	(123)
Less pension assets	(895)	(1,056)
Deferred tax liabilities	(285)	(279)
Invested capital	6,045	6,504

Operating working capital (continuing operations)

In % of revenue



Cash flows and net debt

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

In Q1 2018, changes from borrowings of €393 million are mainly related to drawings from our commercial paper program.

Dividend paid of €173 million mainly relates to withholding taxes paid in Q1 2018, that are related to the December 2017 €1 billion special cash dividend.

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

Outlook

Headwinds experienced during 2017, including higher raw material costs and adverse effects from foreign currencies, are projected to continue in 2018, especially during the start of the year.

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

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

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

Amsterdam, April 24, 2018
The Board of Management

Condensed consolidated statements of cash flows

First quarter in € millions	2017	2018
Net cash and cash equivalents at beginning of period	1,441	1,278
Profit for the period	145	132
Amortization and depreciation	73	60
Changes in working capital	(333)	(360)
Changes in provisions	(247)	(185)
Other changes	(17)	(103)
Net cash from operating activities	(379)	(456)
Capital expenditures	(45)	(34)
Acquisitions and divestments net of cash acquired	6	23
Other changes	1	–
Net cash from investing activities	(38)	(11)
Changes from borrowings	153	393
Dividend paid	(1)	(173)
Share repurchase	(142)	–
Other changes	–	–
Net cash from financing activities	10	220
Net cash used for continuing operations	(407)	(247)
Cash flows from discontinued operations	10	–
Net change in cash and cash equivalents of continued and discontinued operations	(397)	(247)
Effect of exchange rate changes on cash and cash equivalents	6	(4)
Net cash and cash equivalents at March 31	1,050	1,027

Paints and Coatings (continuing operations)

Quarterly statistics

	Q1	Q2	Q3	Q4	2017 * year	in € millions	2018 Q1
Revenue							
	922	1,046	1,007	923	3,898	Decorative Paints	846
	1,471	1,504	1,428	1,372	5,775	Performance Coatings	1,342
	(16)	(17)	(16)	(12)	(61)	Other activities/eliminations	(12)
	2,377	2,533	2,419	2,283	9,612	Total	2,176
Adjusted EBITDA (excluding identified items)							
	109	152	124	87	472	Decorative Paints	79
	225	242	185	165	817	Performance Coatings	169
	(53)	(28)	(15)	(12)	(108)	Other activities/eliminations	(39)
	281	366	294	240	1,181	Total	209
	11.8	14.4	12.2	10.5	12.3	Adjusted EBITDA margin (in %)	9.6
Depreciation							
	(23)	(23)	(23)	(22)	(91)	Decorative Paints	(18)
	(25)	(27)	(26)	(27)	(105)	Performance Coatings	(26)
	(3)	(1)	(1)	(1)	(6)	Other activities/eliminations	(2)
	(51)	(51)	(50)	(50)	(202)	Total	(46)
Amortization							
	(9)	(8)	(6)	(7)	(30)	Decorative Paints	(5)
	(13)	(13)	(12)	(5)	(43)	Performance Coatings	(9)
	-	-	(1)	-	(1)	Other activities/eliminations	-
	(22)	(21)	(19)	(12)	(74)	Total	(14)
Adjusted operating income (excluding identified items)							
	77	121	95	58	351	Decorative Paints	56
	187	202	147	133	669	Performance Coatings	134
	(56)	(29)	(17)	(13)	(115)	Other activities/eliminations	(41)
	208	294	225	178	905	Total	149
	8.8	11.6	9.3	7.8	9.4	ROS%	6.8

* Represented to present the Specialty Chemicals business as discontinued operations

Paints and Coatings (continuing operations)

Quarterly statistics

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

* Represented to present the Specialty Chemicals business as discontinued operations

AkzoNobel (continuing and discontinued operations)

Quarterly statistics

	Q1	Q2	Q3	Q4	2017 ¹ year		2018 Q1
Earnings per share from continuing operations (in €)							
	0.50	0.67	0.48	0.11	1.76	Basic	0.47
	0.50	0.67	0.48	0.11	1.75	Diluted	0.47
Earnings per share from discontinued operations (in €)							
	0.46	0.53	0.38	0.18	1.55	Basic	0.53
	0.45	0.53	0.37	0.18	1.54	Diluted	0.53
Earnings per share from total operations (in €)							
	0.96	1.20	0.86	0.29	3.31	Basic	1.00
	0.95	1.20	0.85	0.29	3.29	Diluted	1.00
Number of shares (in millions)							
	251.3	251.1	251.9	252.3	251.6	Weighted average number of shares	252.9
	252.6	254.3	251.9	252.6	252.6	Number of shares at end of quarter	253.2
Adjusted earnings from continuing operations (in € millions) ²							
	197	254	187	126	764	Profit before tax from continuing operations	131
	–	31	10	39	80	Identified items reported in operating income	41
	–	–	–	–	–	Interest on tax settlement	(31)
	(52)	(68)	(53)	(12)	(185)	Adjusted income tax	(39)
	(19)	(23)	(9)	(17)	(68)	Non-controlling interests	(13)
	126	194	135	136	591	Adjusted net income from continuing operations	89
	0.50	0.78	0.53	0.54	2.35	Adjusted earnings per share from continuing operations (in €)	0.35
Adjusted earnings from total operations (in € millions) ²							
	362	430	307	225	1,324	Profit before tax from total operations	320
	–	20	45	64	129	Identified items reported in operating income	55
	–	–	–	–	–	Interest on tax settlement	(31)
	(101)	(110)	(93)	(55)	(359)	Adjusted income tax	(87)
	(21)	(24)	(10)	(17)	(72)	Non-controlling interests	(21)
	240	316	249	217	1,022	Adjusted net income from total operations	236
	0.96	1.26	0.99	0.86	4.06	Adjusted earnings per share from total operations (in €)	0.93

¹ Represented to present the Specialty Chemicals business as discontinued operations

² Represented for the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges

Discontinued operations (including Specialty Chemicals)

Quarterly statistics discontinued operations

	Q1	Q2	Q3	Q4	2017 ¹		2018
					year		year-to-date
in € millions							
Revenue							
	1,289	1,259	1,209	1,228	4,985	Specialty Chemicals	1,252
	(5)	(7)	(4)	(6)	(22)	Held for sale effects/other	(6)
	1,284	1,252	1,205	1,222	4,963	Total	1,246
Adjusted EBITDA (excluding identified items)							
	251	252	239	205	947	Specialty Chemicals ²	233
	2	2	2	(2)	4	Held for sale effects/other	(25)
	253	254	241	203	951	Total	208
	19.7	20.3	20.0	16.6	19.2	Adjusted EBITDA margin (in %)	16.7
Depreciation							
	(73)	(74)	(72)	(74)	(293)	Specialty Chemicals ²	(72)
	-	-	-	8	8	Held for sale effects/other	72
	(73)	(74)	(72)	(66)	(285)	Total	-
Amortization							
	(12)	(12)	(11)	(12)	(47)	Specialty Chemicals ²	(11)
	-	-	-	1	1	Held for sale effects/other	11
	(12)	(12)	(11)	(11)	(46)	Total	-
Adjusted operating income (excluding identified items)							
	166	166	156	119	607	Specialty Chemicals ²	150
	2	2	2	7	13	Held for sale effects/other	58
	168	168	158	126	620	Total	208
	13.1	13.4	13.1	10.3	12.5	ROS%	16.7
Operating income							
	166	184	156	119	625	Specialty Chemicals ²	150
	2	(6)	(33)	(27)	(54)	Held for sale effects/other	44
	168	178	123	102	571	Total	194
Identified items							
	-	18	-	-	18	Specialty Chemicals ²	-
	-	(8)	(35)	(24)	(67)	Held for sale effects/other	(14)
	-	10	(35)	(24)	(49)	Total	(14)

¹ Represented to present the Specialty Chemicals business as discontinued operations

² 2017 figures include allocations from Other activities

Notes to the condensed financial statements

General information

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

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

Basis of preparation

All quarterly figures are unaudited. The interim condensed 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 2017 annual report as published on March 15, 2018. The financial statements still have to be adopted by the Annual General Meeting of shareholders on April 26, 2018. 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, 2017, except for the following changes in accounting policies and disclosures:

IFRS 15, "Revenue from contracts with customers", replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. AkzoNobel has adopted IFRS 15 as per January 1, 2018, and has not restated its 2017 comparative figures. The transition effect on group equity as per January 1, 2018, is €48 million after tax. The impact on the interim condensed consolidated financial statements is not significant.

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

The impact of the adoption of IFRS 9 and IFRS 15, has been reflected before and after in the schedule "Changes in equity" as included in this report.

Furthermore, IFRS 16 "Leases" is an important upcoming change, and will be implemented as of January 1, 2019. Based on the results of our assessment so far with respect to IFRS 16, we expect total assets to increase less than 10%. It should be noted that the actual impact will depend on the number, size and remaining duration of lease contracts and any expected renewals at the moment of implementation. We do not expect the impact on operating income to be 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. 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 segment.

Impact of adoption of IFRS 9 and IFRS 15

in € millions	As reported at December 31, 2017	Adjustments due to the adoption of IFRS 9	Adjustments due to the adoption of IFRS 15	Adjusted opening balance at January 1, 2018
Other reserves	5,865	(3)	(43)	5,819
Non-controlling interests	442	-	(5)	437
Total impact on group equity	6,307	(3)	(48)	6,256

Glossary

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

Adjusted EBIT is equal to adjusted operating income.

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

Adjusted operating income is operating income excluding identified items.

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

EBIT is equal to operating income.

EBITDA is operating income excluding depreciation and amortization.

EBITDA margin is EBITDA as percentage of revenue.

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

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

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

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

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

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

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

OPI margin% is operating income as percentage of revenue.

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

ROS% is adjusted operating income as percentage of revenue.

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

Safe Harbor Statement

This report contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecast and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures as well as the separation of Specialty Chemicals. 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 General Meeting of shareholders	April 26, 2018
Ex-dividend date of 2017 final dividend	April 30, 2018
Record date of 2017 final dividend	May 2, 2018
Election period cash or stock dividend	May 3, 2018 - May 17, 2018
Determination of exchange ratio	May 18, 2018
Payment date of cash dividend and delivery of new shares	May 25, 2018
Report for the second quarter 2018	July 18, 2018
Report for the third quarter 2018	October 17, 2018
Report for the full-year and the fourth quarter 2018	February 13, 2019

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 operate in over 80 countries and employ around 35,000 talented people who are passionate about delivering the high performance products and services our customers expect. The sale of our Specialty Chemicals business is expected to be completed by the end of 2018.

About AkzoNobel Specialty Chemicals

Industries worldwide rely on our essential chemistry in the manufacture of everyday products such as paper, plastics, building materials, and personal care items. Building on the dedication of our 9,500 employees and our shared commitment to safety, sustainability, and open innovation, we have established a world-class business and built strong partnerships with our customers. We operate in over 80 countries around the world and our portfolio of industry leading brands includes Eka, Dissolvine, Trigonox, and Berol.