

# Q2

## and half-year report 2018

AkzoNobel

2018

### Fastest coating in the world

Team AkzoNobel put in a powerful performance during the 2017-18 Volvo Ocean Race and made history by setting a new 24-hour distance record. All seven boats in the fleet were coated with AkzoNobel's Awlgrip and International products.

# Our results at a glance

- Implemented phase one of transformation to create a fit-for-purpose organisation delivering €25 million in Q2
- Decorative Paints ROS up at 12.2% (2017: 11.6%) driven by 5% higher selling prices
- Improving trend for Performance Coatings with ROS at 11.8% (2017: 13.4%); pricing initiatives gaining traction and closing the gap
- Investing in attractive markets: acquisition of Fabryo in Romania and new powder coatings plant in China

## Q2 2018:

- Revenue 3% lower, although up 2% in constant currencies, with positive price/mix partly offset by lower volumes
- Adjusted operating income at €225 million (2017: €294 million) mainly impacted by €21 million adverse foreign currencies and €20 million non-recurring items
- Operating income includes the adverse impact of identified items of €33 million, mainly related to the transformation
- ROS at 9.2% (2017: 11.6%), up for Paints and improving for Coatings; ROI at 12.2% (2017: 14.4%)
- Net income from total operations at €271 million (2017: €301 million), including discontinued operations at €164 million (2017: €134 million)

## Half-year 2018:

- Revenue 6% lower, although up 1% in constant currencies, with positive price/mix partly offset by lower volumes
- Adjusted operating income at €374 million (2017: €502 million) impacted by adverse currencies, higher raw material costs and lower volumes, not yet fully offset by increased selling prices and cost savings; operating income includes the adverse impact of identified items of €74 million, mainly related to the transformation
- ROS at 8.1% (2017: 10.2%)

## Outlook:

We are delivering towards our "Winning together: 15 by 20" strategy by creating a fit-for-purpose organization for a focused Paints and Coatings company, contributing to the achievement of our 2020 guidance. For the remainder of 2018, we expect positive developments for Decorative Paints and Performance Coatings, excluding Marine and Protective Coatings where market conditions are still challenging. Demand trends differ per region and segment. Raw material inflation is projected to continue for the remainder of 2018, although at a slower rate than during the start of the year. Robust pricing initiatives and cost saving programs are in place to mitigate the current challenges.



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

## Summary of financial outcomes

Second quarter				January-June		
2017 <sup>1</sup>	2018	Δ%	in € millions	2017 <sup>1</sup>	2018	Δ%
2,533	2,446	(3)	Revenue	4,910	4,622	(6)
366	285	(22)	Adjusted EBITDA	647	494	(24)
294	225	(23)	Adjusted operating income	502	374	(25)
263	192	(27)	Operating income	471	300	(36)
11.6	9.2		ROS%	10.2	8.1	
10.4	7.8		OPI margin	9.6	6.5	
			Average invested capital	6,538	6,351	
			ROI%	14.4	12.2	
61	44		Capital expenditures	106	70	
			Net debt	1,910	2,887	
			Number of employees	36,400	35,000	
198	15		Net cash from operating activities - continuing	(181)	(441)	
114	166		Net cash from operating activities - discontinued	205	248	
167	107	(36)	Net income from continuing operations	291	226	(22)
134	164	22	Net income from discontinued operations	250	298	19
301	271	(10)	Net income attributable to shareholders	541	524	(3)
1.20	1.06		Earnings per share from total operations (in €)	2.16	2.07	
0.78	0.52		Adjusted earnings per share from continuing operations (in €) <sup>2</sup>	1.28	0.87	
1.26	1.19		Adjusted earnings per share from total operations (in €) <sup>2</sup>	2.21	2.13	

<sup>1</sup> Represented to present the Specialty Chemicals business as discontinued operations

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

# Financial highlights

## Revenue

### Q2 2018:

Revenue was 3% lower, while up 2% in constant currencies. Selling prices were 4% higher overall and for most businesses. Volumes were 3% lower, mainly due to Marine and Protective Coatings.

- Decorative Paints revenue was up 2% in constant currencies. Higher selling prices were partly offset by lower volumes
- Performance Coatings revenue was 2% higher in constant currencies. Prices were 3% higher, although volumes were lower, mainly for Marine and Protective Coatings

### Half-year 2018:

Revenue was 6% lower, although up 1% in constant currencies. Volumes were lower, mainly due to Marine and Protective Coatings.

- Decorative Paints revenue was flat in constant currencies. Higher selling prices were offset by adverse mix effects and lower volumes
- Performance Coatings revenue was up 1% in constant currencies. Price/mix effect was 4% higher, although volumes were lower, mainly for Marine and Protective Coatings

## Raw material price development

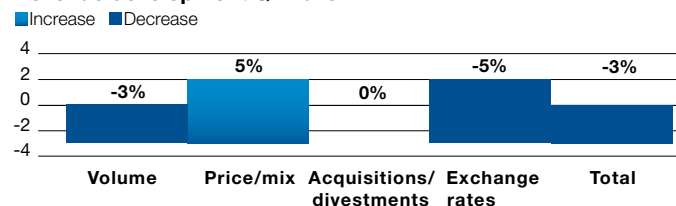
Raw material prices in 2018 continue to be higher compared with the previous year. Robust pricing initiatives are being implemented to deal with these higher raw material costs. The continued inflationary environment means these measures are still expected to take several quarters before the necessary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

## Acquisitions

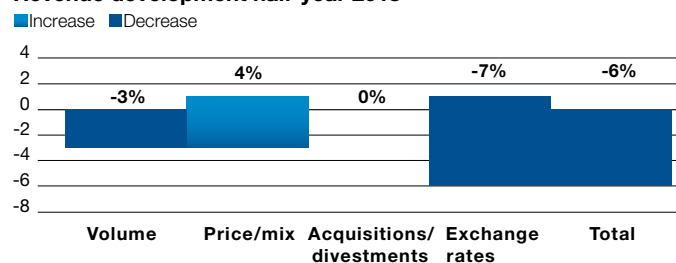
The acquisition of Fabryo Corporation S.R.L. to become leading in the Romanian decorative paints market was announced. The planned transaction is expected to be completed in the second half of 2018, subject to regulatory approval. The impact of acquisitions on revenue was 1% for Performance Coatings in the first half year, although nil for AkzoNobel overall. Acquisitions impacting 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 Q2 2018



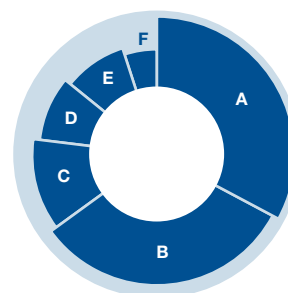
### Revenue development half-year 2018



### AkzoNobel around the world Revenue by destination

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

(Based on the full-year 2017)



## Revenue

Second quarter

January-June

2017 <sup>1</sup>	2018	Δ%	Δ% CC <sup>2</sup>	in € millions	2017 <sup>1</sup>	2018	Δ%	Δ% CC <sup>2</sup>
1,046	1,006	(4)	2	Decorative Paints	1,968	1,852	(6)	-
1,504	1,454	(3)	2	Performance Coatings	2,975	2,796	(6)	1
(17)	(14)			Other activities/eliminations	(33)	(26)		
<b>2,533</b>	<b>2,446</b>	<b>(3)</b>	<b>2</b>	<b>Total</b>	<b>4,910</b>	<b>4,622</b>	<b>(6)</b>	<b>1</b>

<sup>1</sup> Represented to present the Specialty Chemicals business as discontinued operations

<sup>2</sup> Change in constant currencies

in % versus Q2 2017	Volume	Price/mix	Acquisitions/divestments	Exchange rates	Total
Decorative Paints	(2)	4	-	(6)	(4)
Performance Coatings	(3)	5	-	(5)	(3)
<b>Total</b>	<b>(3)</b>	<b>5</b>	<b>-</b>	<b>(5)</b>	<b>(3)</b>

in % versus half-year 2017	Volume	Price/mix	Acquisitions/divestments	Exchange rates	Total
Decorative Paints	(2)	2	-	(6)	(6)
Performance Coatings	(4)	4	1	(7)	(6)
<b>Total</b>	<b>(3)</b>	<b>4</b>	<b>-</b>	<b>(7)</b>	<b>(6)</b>

Volume development per quarter (year-on-year)

	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Decorative Paints	3	5	12	(1)	(2)
Performance Coatings	(4)	1	(2)	(5)	(3)
<b>Total</b>	<b>(1)</b>	<b>3</b>	<b>3</b>	<b>(3)</b>	<b>(3)</b>

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

	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Decorative Paints	(3)	(3)	(5)	-	4
Performance Coatings	1	-	-	3	5
<b>Total</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>2</b>	<b>5</b>

Currency development per quarter (year-on-year)

	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18
Decorative Paints	(1)	(3)	(4)	(7)	(6)
Performance Coatings	-	(4)	(5)	(8)	(5)
<b>Total</b>	<b>-</b>	<b>(4)</b>	<b>(5)</b>	<b>(7)</b>	<b>(5)</b>

# Financial highlights

## Q2 2018

### Adjusted operating income

Adjusted operating income at €225 million (2017: €294 million), was mainly impacted by adverse currencies and non-recurring items

- Decorative Paints delivered a strong performance with higher prices and cost savings more than compensating for raw material costs, currency effects and lower volumes
- Performance Coatings was still impacted by foreign currencies, higher raw material costs and lower volumes, mainly due to Marine and Protective Coatings
- Other activities/eliminations was €41 million lower, including €20 million related to transformation costs and other non-recurring items

### Operating income

Operating income was negatively impacted by identified items totaling €33 million, mainly related to restructuring costs for the transformation of the Paints and Coatings organization.

## Half-year 2018

### Adjusted operating income

Adjusted operating income at €374 million (2017: €502 million), was impacted by adverse currencies, higher raw material costs and lower volumes, partly compensated by pricing initiatives. Savings from continuous improvement were €60 million and creating a fit-for-purpose organization delivered €35 million of the €110 million planned for 2018.

- Decorative Paints was impacted by higher raw material costs and adverse currency effects, partly compensated by 4% higher selling prices and cost savings
- Performance Coatings was also impacted by foreign currencies, higher raw material costs as well as lower volumes, mainly due to Marine and Protective Coatings
- Other activities/eliminations decreased by €26 million, including €20 million related to transformation costs and other non-recurring items

### Operating income

Operating income was negatively impacted by identified items totaling €74 million, mainly related to restructuring costs for the transformation of the Paints and Coatings organization.

### Net financing income/(expenses)

Net financing expenses decreased by €23 million, mainly due to a one-off interest benefit on a tax settlement.

### Tax

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

### Profit from discontinued operations

Profit from discontinued operations increased by €57 million, including the ceasing of depreciation and amortization (as required per IFRS 5).

In the Specialty Chemicals business, revenue was 1% lower, although up 5% in constant currencies, mainly due to positive price/mix. Adjusted operating income was lower, mainly due to restructuring costs related to manufacturing network optimization projects, other one-off costs and adverse currencies, partly offset by strong price/mix and productivity improvements.

Operating income was negatively impacted by identified items of €22 million related to the separation.

### Net income

Net income attributable to shareholders was €524 million, of which €226 million was attributable to continuing operations and €298 million to discontinued operations.



### Adjusted operating income

Second quarter			January-June			
2017 *	2018	Δ%	in € millions	2017 *	2018	Δ%
121	123	2	Decorative Paints	198	179	(10)
202	172	(15)	Performance Coatings	389	306	(21)
(29)	(70)		Other activities/eliminations	(85)	(111)	
<b>294</b>	<b>225</b>	<b>(23)</b>	<b>Total</b>	<b>502</b>	<b>374</b>	<b>(25)</b>

### Operating income

Second quarter			January-June			
2017 *	2018	Δ%	in € millions	2017 *	2018	Δ%
121	111	(8)	Decorative Paints	198	159	(20)
202	162	(20)	Performance Coatings	389	283	(27)
(60)	(81)		Other activities/eliminations	(116)	(142)	
<b>263</b>	<b>192</b>	<b>(27)</b>	<b>Total</b>	<b>471</b>	<b>300</b>	<b>(36)</b>

### Operating income to net income

Second quarter			January-June		
2017 *	2018	in € millions	2017 *	2018	
<b>263</b>	<b>192</b>	<b>Operating income</b>	<b>471</b>	<b>300</b>	
(15)	(28)	Net financing expenses	(32)	(9)	
6	6	Results from associates and joint ventures	12	10	
<b>254</b>	<b>170</b>	<b>Profit before tax</b>	<b>451</b>	<b>301</b>	
(63)	(47)	Income tax	(115)	(46)	
<b>191</b>	<b>123</b>	<b>Profit from continuing operations</b>	<b>336</b>	<b>255</b>	
134	165	Profit from discontinued operations	250	307	
<b>325</b>	<b>288</b>	<b>Profit for the period</b>	<b>586</b>	<b>562</b>	
(24)	(17)	Non-controlling interests	(45)	(38)	
<b>301</b>	<b>271</b>	<b>Net income</b>	<b>541</b>	<b>524</b>	

\* Represented to present the Specialty Chemicals business as discontinued operations

**AkzoNobel seals recommended supplier agreement with Mercedes-Benz China**  
AkzoNobel has become the recommended supplier of automotive refinishes for Mercedes-Benz China, the country's leading luxury auto brand. The agreement – which follows extensive analysis and tests on AkzoNobel's products and business processes – means the company has become a certified supplier of vehicle refinishes to more than 50 auto companies in China over the last 20 years.

# Decorative Paints

- **ROS up at 12.2% (2017: 11.6%); pricing initiatives and cost savings compensating for higher raw materials**
- **Acquisition of Fabryo in Romania and enhanced network of Dulux Decorator Centres in the UK**

## Q2 2018:

- Selling prices 5% higher overall and up in all regions
- Revenue 4% lower, although up 2% in constant currencies
- Adjusted operating income increased to €123 million (2017: €121 million) with higher selling prices and cost savings offsetting foreign currencies, higher raw material costs and lower volumes
- ROS higher at 12.2% (2017: 11.6%); ROI at 11.8% (2017: 13.5%)

## Half-year 2018:

- Revenue 6% lower, although flat in constant currencies
- Adjusted operating income of €179 million (2017: €198 million) was impacted by higher raw material costs and adverse currency effects, partly compensated by robust pricing initiatives and cost savings
- ROS at 9.7% (2017: 10.1%)

## Q2 2018:

Revenue was up 2% in constant currencies. Price realization is gaining momentum and selling prices were up 5% overall, offsetting raw material cost increases. Volumes were flat in EMEA, while volumes were lower in Latin America and Asia.

Adjusted operating income was higher due to improved pricing and cost control more than offsetting adverse currency effects and higher raw material costs, resulting in ROS up at 12.2% (2017: 11.6%).

Operating income was impacted by €12 million identified items relating to the transformation of the organization.

## Half-year 2018:

Revenue was 6% lower, although flat in constant currencies. Price realization is gaining momentum and selling prices were up 4% overall. Volumes were up in EMEA, while volumes were lower in Latin America and Asia.

Adjusted operating income was lower, mainly due to currency effects and higher raw material costs, partly offset by higher selling prices and cost savings.

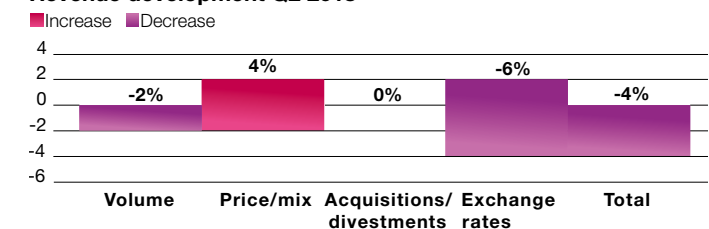
Operating income was impacted by €20 million identified items relating to the transformation of the organization.

## Revenue

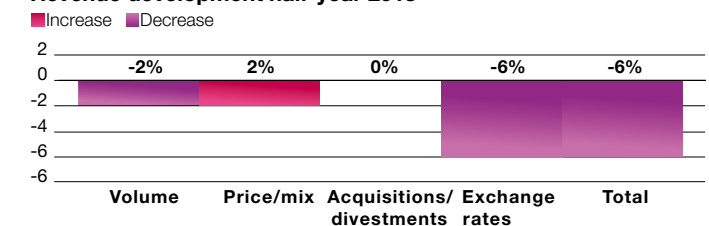
Second quarter				January - June				
2017	2018	Δ%	CC* Δ%	in € millions	2017	2018	Δ%	CC* Δ%
584	591	1	4	Decorative Paints Europe, Middle East and Africa	1,091	1,082	(1)	2
118	107	(9)	16	Decorative Paints Latin America	237	212	(11)	13
346	310	(10)	(5)	Decorative Paints Asia	643	561	(13)	(6)
(2)	(2)			Other/intragroup eliminations	(3)	(3)		
<b>1,046</b>	<b>1,006</b>	<b>(4)</b>	<b>2</b>	<b>Total</b>	<b>1,968</b>	<b>1,852</b>	<b>(6)</b>	<b>-</b>

\* Change in constant currencies

## Revenue development Q2 2018



## Revenue development half-year 2018



## Key financial figures

Second quarter				January - June		
2017	2018	Δ%	in € millions	2017	2018	Δ%
121	123	2	Adjusted operating income	198	179	(10)
121	111	(8)	Operating income	198	159	(20)
11.6	12.2		ROS%	10.1	9.7	
			Average invested capital	2,757	2,813	
			ROI%	13.5	11.8	



#### **AkzoNobel to achieve number one position in Romania with acquisition of Fabryo**

AkzoNobel has entered into an agreement to acquire 100% of the shares of Fabryo Corporation S.R.L. (Fabryo), becoming leading in the Romanian decorative paints market. The business generated revenue of around €45 million in 2017 and is the only player with both a leading product portfolio for consumers as well as professional segments in the Romanian market, including brands Savana, APLA and InnenWeiss.

#### **Europe, Middle East and Africa**

Revenue in Q2 increased 4% in constant currencies. Price increases are taking effect, while volumes were flat. Demand trends differed by country and uncertainty continued in some markets. Cost control measures and productivity programs remain a focus in the region.

Revenue in the first half year was 1% lower, although up 2% in constant currencies, driven by volume growth and positive price/mix effects. Adverse currency impacts were driven by the pound sterling.

The acquisition of Fabryo to become leading in the Romanian decorative paints market was announced. Two businesses were acquired in the UK to enhance the network of Dulux Decorator Centres and further improve the service and support offered to trade customers.

#### **Latin America**

Revenue in Q2 was up 16% in constant currencies, mainly driven by positive price/mix effects. Higher selling prices offset increased raw material costs. Cost control remains strong.

Revenue in the first half year was 11% lower, although up 13% in constant currencies. Currency impact was driven by the Brazilian real and the significant devaluation of the Argentinian peso.

#### **Asia**

Revenue in Q2 was 5% lower in constant currencies. Selling prices increased, as a result of continued focus on pricing initiatives. Volumes were lower in China and grew in India and Vietnam.

Revenue in the first half-year was 13% lower, although 6% lower in constant currencies. Adverse effects resulted from most Asian currencies. Volumes in China were lower, while growth continued in India, Malaysia and Vietnam.

# Performance Coatings

- Revenue in constant currencies was up 5% excluding Marine and Protective Coatings
- Marine and Protective Coatings headwinds reducing and restructuring positively contributing

## Q2 2018:

- Selling prices up 3%
- Revenue 3% lower, although up 2% in constant currencies driven by positive price/mix
- Adjusted operating income at €172 million (2017: €202 million) was still impacted by foreign currencies, higher raw material costs and lower volumes
- ROS at 11.8% (2017: 13.4%); ROI at 19.9% (2017: 27.2%)

## Half-year 2018:

- Revenue was 6% lower, while up 1% in constant currencies, mainly due to positive price/mix
- Adjusted operating income at €306 million (2017: €389 million) due to adverse currencies, higher raw material costs and lower volumes, partly compensated by price increases, continuous improvement and cost savings
- ROS at 10.9% (2017: 13.1%)

## Q2 2018:

Revenue was 3% lower, although up 2% in constant currencies driven by all businesses except for Marine and Protective Coatings. Pricing initiatives continued to gain traction, with 3% price increases in Q2 and further increases planned.

Adjusted operating income continued to be impacted by adverse currencies, higher raw material costs and lower volumes. Price increases and cost control measures remain a key focus.

Operating income was negatively impacted by €10 million identified items relating to the transformation of the organization.

## Half-year 2018:

Revenue was 6% lower, although up 1% in constant currencies. Volumes increased for Powder Coatings, as well as Automotive and Specialty Coatings, but were lower for Marine and Protective Coatings.

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.

Operating income was negatively impacted by €23 million identified items relating to the transformation of the organization.

## Revenue

Second quarter

January - June

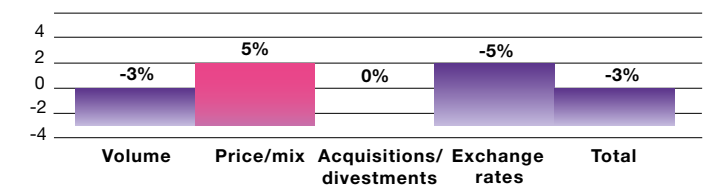
2017 <sup>1</sup>	2018	Δ%	Δ% CC <sup>2</sup>	in € millions	2017 <sup>1</sup>	2018	Δ%	Δ% CC <sup>2</sup>
303	317	5	10	Powder Coatings	591	609	3	9
377	340	(10)	(5)	Marine and Protective Coatings	757	640	(15)	(9)
362	359	(1)	4	Automotive and Specialty Coatings	722	705	(2)	4
475	456	(4)	3	Industrial Coatings	929	879	(5)	2
(13)	(18)			Other/intragroup eliminations	(24)	(37)		
<b>1,504</b>	<b>1,454</b>	<b>(3)</b>	<b>2</b>	<b>Total</b>	<b>2,975</b>	<b>2,796</b>	<b>(6)</b>	<b>1</b>

<sup>1</sup> 2017 figures have been represented for the new business unit structure

<sup>2</sup> Change in constant currencies

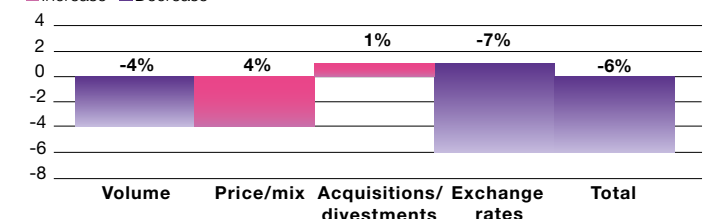
## Revenue development Q2 2018

■ Increase ■ Decrease



## Revenue development half-year 2018

■ Increase ■ Decrease



## Key financial figures

Second quarter

January - June

2017	2018	Δ%	in € millions	2017	2018	Δ%
202	172	(15)	Adjusted operating income	389	306	(21)
202	162	(20)	Operating income	389	283	(27)
13.4	11.8		ROS%	13.1	10.9	
			Average invested capital	2,725	2,949	
			ROI%	27.2	19.9	



#### **AkzoNobel's largest powder coatings plant opens in China**

Production has started at AkzoNobel's largest powder coatings plant in Changzhou, China. The facility will help to further strengthen the company's global leadership position in the powder coatings market.

The result of nearly €40 million of investment, the Changzhou plant will supply an extensive range of Interpon and Resicoat products to meet growing demand for more sustainable coatings solutions. Key markets include the automotive, architectural and general industrial sectors.

#### **Powder Coatings**

Revenue in Q2 was 10% higher in constant currencies and up in all regions. Growth was supported by new applications and selling price increases.

Revenue in the first half-year was up 3%, and up 9% in constant currencies, due to volume growth and positive price/mix effects.

The acquisition of the V. Powdertech business in Thailand helped to fuel growth and strengthen leading powder coatings business in South East Asia.

#### **Marine and Protective Coatings**

Revenue in Q2 was 5% lower in constant currencies, with a continued focus on selling price increases and cost savings.

Revenue in the first half-year was 15% lower, and 9% lower in constant currencies, due to lower volumes.

Volumes in Marine Coatings continued to be affected by the slow-down 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 in Q2 was up 4% in constant currencies due to higher volumes and positive price/mix.

Revenue in the first half-year was 2% lower, although up 4% in constant currencies, due to favorable price/mix, higher volumes and the acquisition of Disa Technology (Disatech).

#### **Industrial Coatings**

Revenue in Q2 was up 3% in constant currencies as a result of continued focus on pricing initiatives. Price increases were partly offset by lower volumes.

Revenue in the first half-year was 5% lower, although up 2% in constant currencies. Positive price/mix more than offset lower volumes. Demand differed per region and segment.



# Discontinued operations (including Specialty Chemicals)

## 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 June 30, 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 Q2 2018, adjusted operating income was up 50% at €252 million (2017: €168 million).

- In Specialty Chemicals, adjusted operating income was higher, mainly due to stronger price/mix effects and productivity

improvements, partly offset by the impact of adverse currencies, restructuring costs and other one-off costs

- 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. Total impact in Q2 2018 was €74 million.

## Operating income

In Q2 2018, operating income was negatively impacted by identified items totaling €8 million relating to separation costs.

## Summary of financial outcomes discontinued operations

Second quarter			January-June		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
1,252	1,264	1	2,536	2,510	(1)
168	252	50	336	460	37
178	244	37	346	438	27
13.4	19.9		13.2	18.3	
14.2	19.3		13.6	17.5	
89	98		164	161	
114	166		205	246	
134	165		250	307	
			10,000	9,800	

<sup>1</sup> Represented to present the Specialty Chemicals business as discontinued operations

<sup>2</sup> 2017 figures include allocations from Other activities

## Profit and loss discontinued operations

Second quarter			January-June		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
1,252	1,264		2,536	2,510	
(1,077)	(1,030)		(2,196)	(2,087)	
175	234		340	423	
(41)	(69)		(90)	(116)	
134	165		250	307	

## Adjusted operating income of discontinued operations

Second quarter			January-June		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
166	175	5	332	325	(2)
2	77		4	135	
168	252	50	336	460	37

## Operating income of discontinued operations

Second quarter			January-June		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
184	175	(5)	350	325	(7)
(6)	69		(4)	113	
178	244	37	346	438	27

## Assets and liabilities held for sale

in € millions	December 31, 2017	June 30, 2018
Intangible assets	787	793
Property, plant and equipment	2,266	2,391
Financial non-current assets	205	215
Inventories	503	519
Receivables	840	990
<b>Assets held for sale</b>	<b>4,601</b>	<b>4,908</b>
Non-current liabilities	765	775
Short-term borrowings	341	266
Current payables	1,090	1,091
<b>Liabilities held for sale</b>	<b>2,196</b>	<b>2,132</b>

## Cash flows from discontinued operations

Second quarter			January-June		
2017	2018	in € millions	2017	2018	
114	166		205	248	
(83)	(100)		(161)	(160)	
(3)	(66)		(6)	(88)	
28	-	<b>Cash flows from discontinued operations</b>	38	-	

# Specialty Chemicals (reported as discontinued operations)

## Q2 2018:

- Revenue up 1%, and up 7% in constant currencies, due to positive price/mix
- Adjusted operating income up 5% at €175 million (2017: €166 million); strong pricing and productivity improvements were partly offset by adverse currencies and one-off environmental and restructuring costs
- ROS at 13.8% (2017: 13.2%); ROI at 16.8% (2017: 15.3%)

## Half-year 2018:

- Revenue down 1%, although up 5% in constant currencies, mainly due to positive price/mix
- Adjusted operating income at €325 million (2017: €332 million) due to adverse currencies, restructuring costs related to manufacturing network optimization projects and other one-off costs, not fully offset by strong price/mix and productivity improvements
- ROS at 12.9% (2017: 13.0%)

## Q2 2018:

Revenue was up 1%, and 7% higher in constant currencies, driven by positive price/mix. All business units benefited from higher selling prices, as raw material price increases are being passed through. Industrial Chemicals benefited from strong caustic market prices. Volumes were flat overall with growth in some segments offset by lower volumes in Surface Chemistry.

Adjusted operating income was up 5%, mainly due to strong pricing and productivity improvements, partly offset by adverse currencies and one-off environmental and restructuring costs.

Operating income in Q2 2017 was positively impacted by identified items of €18 million.

## Half-year 2018:

Revenue was 1% lower, although up 5% in constant currencies, mainly due to positive price/mix. All business units benefitted from price increases, as raw material price increases are being passed through. Industrial Chemicals benefited from strong caustic market prices.

Adjusted operating income was lower, mainly due to the impact of restructuring costs related to manufacturing network optimization projects, one-off costs and adverse currencies, partly offset by strong price/mix and productivity improvements.

## Revenue

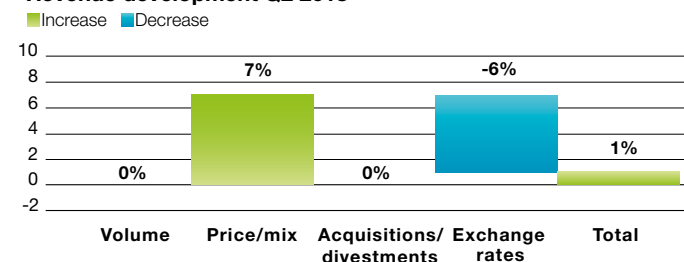
Second quarter

January - June

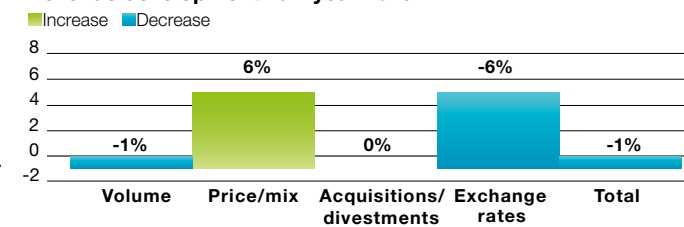
2017	2018	Δ%	Δ% CC *	in € millions	2017	2018	Δ%	Δ% CC *
469	498	6	12	Functional Chemicals	942	957	2	9
302	334	11	11	Industrial Chemicals	619	685	11	11
282	253	(10)	(3)	Surface Chemistry	566	503	(11)	(3)
230	213	(7)	1	Pulp and Performance Chemicals	470	430	(9)	-
(24)	(28)			Other/intragroup eliminations	(49)	(53)		
<b>1,259</b>	<b>1,270</b>	<b>1</b>	<b>7</b>	<b>Total</b>	<b>2,548</b>	<b>2,522</b>	<b>(1)</b>	<b>5</b>

\* Change in constant currencies

## Revenue development Q2 2018



## Revenue development half-year 2018



## Key financial figures

Second quarter

January - June

2017 <sup>1</sup>	2018	Δ%	in € millions	2017 <sup>1</sup>	2018	Δ%
166	175	5	Adjusted operating income <sup>2</sup>	332	325	(2)
184	175	(5)	Operating income <sup>2</sup>	350	325	(7)
13.2	13.8		ROS%	13.0	12.9	
			Average invested capital	3,674	3,579	
			ROI%	15.3	16.8	

<sup>1</sup> Represented to present Specialty Chemicals business as discontinued operations<sup>2</sup> 2017 figures include allocations from Other activities



#### Investing in sustainable innovation to better serve our customers

In June, AkzoNobel Specialty Chemicals broke ground in Stenungsund, Sweden for a demonstration plant to showcase a revolutionary and more sustainable technology platform for producing ethylene amines and derivatives from ethylene oxide. The flexibility of the technology will allow for a selective production of a wide range of end products, enabling the company to expand its amines product offering to customers. The company has already started to explore options for a world-scale manufacturing facility.

#### Functional Chemicals

Revenue in Q2 was up 12% in constant currencies driven by volume growth and positive price/mix effects. Volumes were up 4%.

Revenue in the first half-year was 2% higher and up 9% in constant currencies. Volumes were 2% higher.

#### Industrial Chemicals

Revenue in Q2 was up 11%, due to strong positive price/mix effects, driven by the tight caustic soda market.

Revenue in the first half-year was 11% higher, due to strong price/mix driven by the tight caustic soda market. Volumes were flat due to some smaller supply chain disruptions in the chlor-alkali value chain.

#### Surface Chemistry

Revenue in Q2 was 3% lower in constant currencies due to lower volumes, partly offset by positive price/mix effects. Lower volumes in some segments, including Agro and Cleaning, were only partly offset by higher volumes in the Oilfield segments.

Revenue in the first half-year was 11% lower and 3% lower in constant currencies, mainly due to lower volumes partly offset by strong price/mix.

#### Pulp and Performance Chemicals

Revenue in Q2 was up 1% in constant currencies. Volumes were 1% higher. The negative impact of the truck drivers strike in Brazil was offset by continued strong demand for Performance Products.

Revenue in the first half-year was 9% lower, while flat in constant currencies. Volumes were up 3% due to continued strong demand for Performance Products and bleaching chemicals in the Americas. Revenue was impacted by the phasing out of the manufacturing agreements of the divested Paper Chemicals business.

# Condensed financial statements

## Condensed 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

Second quarter			January-June	
2017 *	2018	in € millions	2017 *	2018
<b>Continuing operations</b>				
2,533	2,446	Revenue	4,910	4,622
(1,403)	(1,390)	Cost of sales	(2,706)	(2,646)
<b>1,130</b>	<b>1,056</b>	<b>Gross profit</b>	<b>2,204</b>	<b>1,976</b>
(841)	(864)	SG&A costs	(1,707)	(1,676)
(26)	-	Other results	(26)	-
<b>263</b>	<b>192</b>	<b>Operating income</b>	<b>471</b>	<b>300</b>
(15)	(28)	Net financing income/(expenses)	(32)	(9)
6	6	Results from associates and joint ventures	12	10
<b>254</b>	<b>170</b>	<b>Profit before tax</b>	<b>451</b>	<b>301</b>
(63)	(47)	Income tax	(115)	(46)
<b>191</b>	<b>123</b>	<b>Profit for the period from continuing operations</b>	<b>336</b>	<b>255</b>
<b>Discontinued operations</b>				
134	165	Profit for the period from discontinued operations	250	307
<b>325</b>	<b>288</b>	<b>Profit for the period</b>	<b>586</b>	<b>562</b>
<b>Attributable to</b>				
301	271	Shareholders of the company	541	524
24	17	Non-controlling interests	45	38
<b>325</b>	<b>288</b>	<b>Profit for the period</b>	<b>586</b>	<b>562</b>

\* Represented to present the Specialty Chemicals business as discontinued operations

## Condensed consolidated statement of comprehensive income

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

### Condensed consolidated statement of comprehensive income

Second quarter			January-June	
2017	2018	in € millions	2017	2018
<b>325</b>	<b>288</b>	<b>Profit for the period</b>	<b>586</b>	<b>562</b>
<b>Other comprehensive income</b>				
(355)	-	Exchange differences arising on translation of foreign operations	(344)	(86)
7	31	Cash flow hedges	(7)	30
(138)	115	Post-retirement benefits	(122)	70
(7)	(11)	Tax relating to components of other comprehensive income	(20)	(4)
<b>(493)</b>	<b>135</b>	<b>Other comprehensive income for the period (net of tax)</b>	<b>(493)</b>	<b>10</b>
<b>(168)</b>	<b>423</b>	<b>Comprehensive income for the period</b>	<b>93</b>	<b>572</b>
<b>Comprehensive income for the period attributable to</b>				
(166)	403	Shareholders of the company	74	537
(2)	20	Non-controlling interests	19	35
<b>(168)</b>	<b>423</b>	<b>Comprehensive income for the period</b>	<b>93</b>	<b>572</b>

## 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 June 30, 2018, as well as of December 31, 2017.

### Condensed consolidated balance sheet

in € millions	December 31, 2017	June 30, 2018
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	3,409	3,388
Property, plant and equipment	1,832	1,720
Other financial non-current assets	1,894	2,177
<b>Total non-current assets</b>	<b>7,135</b>	<b>7,285</b>
<b>Current assets</b>		
Inventories	1,094	1,172
Trade and other receivables	1,964	2,424
Cash and cash equivalents	1,322	958
Other current assets	62	57
Assets held for sale	4,601	4,908
<b>Total current assets</b>	<b>9,043</b>	<b>9,519</b>
<b>Total assets</b>	<b>16,178</b>	<b>16,804</b>
<b>Equity and liabilities</b>		
<b>Group equity</b>		
	6,307	6,535
<b>Non-current liabilities</b>		
Provisions and deferred tax liabilities	1,249	1,184
Long-term borrowings	2,300	2,299
<b>Total non-current liabilities</b>	<b>3,549</b>	<b>3,483</b>
<b>Current liabilities</b>		
Short-term borrowings	973	1,547
Trade and other payables	2,794	2,677
Liabilities held for sale	2,196	2,132
Other short-term liabilities	359	430
<b>Total current liabilities</b>	<b>6,322</b>	<b>6,786</b>
<b>Total equity and liabilities</b>	<b>16,178</b>	<b>16,804</b>

### Shareholders' equity

Shareholders' equity increased from €5.9 billion at year-end 2017 to €6.1 billion at the end of June 30, 2018, mainly due to the net effect of:

- Profit for the period of €524 million
- Dividend payments of €295 million
- Adverse currency effects of €71 million (including taxes)
- Actuarial gains of €61 million (including taxes)
- Opening balance adjustment for IFRS 9 and IFRS 15 of €46 million negative

### 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
<b>Balance at January 1, 2017</b>	504	745	3	(47)	5,348	6,553	481	7,034
Profit for the period	–	–	–	–	541	541	45	586
Other comprehensive income	–	–	(5)	(321)	(141)	(467)	(26)	(493)
<b>Comprehensive income for the period</b>	–	–	(5)	(321)	400	74	19	93
Dividend	3	125	–	–	(320)	(192)	(20)	(212)
Equity-settled transactions	–	–	–	–	16	16	–	16
Issue of common shares	(2)	2	–	–	–	–	–	–
Share repurchase	–	–	–	–	(160)	(160)	–	(160)
<b>Balance at June 30, 2017</b>	505	872	(2)	(368)	5,284	6,291	480	6,771
<b>Balance at December 31, 2017</b>	505	769	15	(549)	5,125	5,865	442	6,307
Impact adoption IFRS 9 and IFRS 15	–	–	–	–	(46)	(46)	(5)	(51)
<b>Balance at January 1, 2018 *</b>	505	769	15	(549)	5,079	5,819	437	6,256
Profit for the period	–	–	–	–	524	524	38	562
Other comprehensive income	–	–	23	(71)	61	13	(3)	10
<b>Comprehensive income for the period</b>	–	–	23	(71)	585	537	35	572
Dividend	5	191	–	–	(491)	(295)	(15)	(310)
Equity-settled transactions	–	–	–	–	17	17	–	17
Issue of common shares	2	(2)	–	–	–	–	–	–
<b>Balance at June 30, 2018</b>	512	958	38	(620)	5,190	6,078	457	6,535

\* 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 June 30, 2018, totaled €6.6 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 14.1% in Q2 2018 compared with 11.5% in Q2 2017, mainly due to higher trade receivables and increased inventories driven by higher raw material costs.

### Pension

The net balance sheet position (IAS19) of the pension plans at the end of Q2 2018 was a surplus of €0.6 billion (year-end 2017: a surplus of €0.4 billion). The development in the first half of 2018 was the result of the net effect of:

- Top-up payments of €185 million
- Higher discount rates and lower inflation in key countries

Offset by:

- Lower asset returns in key countries

### Workforce

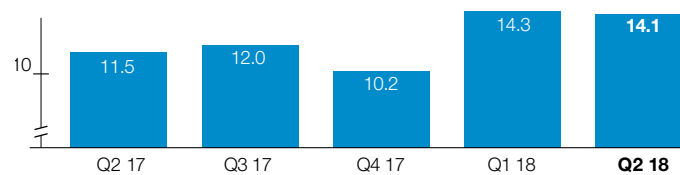
At June 30, 2018, the number of people employed in the continuing operations was 35,000 (year-end 2017: 35,700).

### Invested capital (continuing operations)

in € millions	December 31, 2017	June 30, 2018
Trade receivables	1,699	2,113
Inventories	1,094	1,172
Trade payables	(1,866)	(1,904)
<b>Operating working capital</b>	<b>927</b>	<b>1,381</b>
Other working capital items	(719)	(598)
Non-current assets	7,135	7,285
Less investments in associates and joint ventures	(118)	(133)
Less pension assets	(895)	(1,103)
Deferred tax liabilities	(285)	(269)
<b>Invested capital</b>	<b>6,045</b>	<b>6,563</b>

### Operating working capital (continuing operations)

In % of revenue



### Cash flows and net debt

Operating activities in Q2 2018 resulted in an inflow of €15 million (2017: €198 million). This was mainly driven by higher working capital outflow compared to 2017.

Dividend paid of €305 million mainly relates to the final dividend 2017.

At June 30, 2018, net debt was €2,887 million versus €1,951 million at year-end 2017. The increase is mainly due to seasonality of the operating working capital.

### Outlook

We are delivering towards our "Winning together: 15 by 20" strategy by creating a fit-for-purpose organization for a focused Paints and Coatings company, contributing to the achievement of our 2020 guidance.

For the remainder of 2018, we expect positive developments for Decorative Paints and Performance Coatings, excluding Marine and Protective Coatings where market conditions are still challenging. Demand trends differ per region and segment.

Raw material inflation is projected to continue for the remainder of 2018, although at a slower rate than during the start of the year. Robust pricing initiatives and cost saving programs are in place to mitigate the current challenges.

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

### Condensed consolidated statements of cash flows

Second quarter			January-June	
2017	2018	in € millions	2017	2018
1,050	1,027	<b>Net cash and cash equivalents at beginning of period</b>	1,441	1,278
191	123	Profit for the period	336	255
72	60	Amortization and depreciation	145	120
(54)	(222)	Changes in working capital	(387)	(582)
(16)	(18)	Changes in provisions	(263)	(203)
5	72	Other changes	(12)	(31)
<b>198</b>	<b>15</b>	<b>Net cash from operating activities</b>	<b>(181)</b>	<b>(441)</b>
(61)	(36)	Capital expenditures	(106)	(70)
(1)	(4)	Acquisitions and divestments net of cash acquired	5	19
(2)	35	Other changes	(1)	35
<b>(64)</b>	<b>(5)</b>	<b>Net cash from investing activities</b>	<b>(102)</b>	<b>(16)</b>
(62)	99	Changes from borrowings	91	492
(210)	(305)	Dividend paid	(211)	(478)
(18)	-	Share repurchase	(160)	-
1	1	Other changes	1	1
<b>(289)</b>	<b>(205)</b>	<b>Net cash from financing activities</b>	<b>(279)</b>	<b>15</b>
<b>(155)</b>	<b>(195)</b>	<b>Net cash used for continuing operations</b>	<b>(562)</b>	<b>(442)</b>
28	-	Cash flows from discontinued operations	38	-
<b>(127)</b>	<b>(195)</b>	<b>Net change in cash and cash equivalents of continued and discontinued operations</b>	<b>(524)</b>	<b>(442)</b>
(46)	5	Effect of exchange rate changes on cash and cash equivalents	(40)	1
<b>877</b>	<b>837</b>	<b>Net Cash and cash equivalents at June 30</b>	<b>877</b>	<b>837</b>

# Paints and Coatings (continuing operations)

## Quarterly statistics

					2017 *			
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
<b>Revenue</b>								
922	1,046	1,007	923	3,898	Decorative Paints	846	1,006	1,852
1,471	1,504	1,428	1,372	5,775	Performance Coatings	1,342	1,454	2,796
(16)	(17)	(16)	(12)	(61)	Other activities/eliminations	(12)	(14)	(26)
<b>2,377</b>	<b>2,533</b>	<b>2,419</b>	<b>2,283</b>	<b>9,612</b>	<b>Total</b>	<b>2,176</b>	<b>2,446</b>	<b>4,622</b>
<b>Adjusted EBITDA (excluding identified items)</b>								
109	152	124	87	472	Decorative Paints	79	145	224
225	242	185	165	817	Performance Coatings	169	207	376
(53)	(28)	(15)	(12)	(108)	Other activities/eliminations	(39)	(67)	(106)
<b>281</b>	<b>366</b>	<b>294</b>	<b>240</b>	<b>1,181</b>	<b>Total</b>	<b>209</b>	<b>285</b>	<b>494</b>
<b>11.8</b>	<b>14.4</b>	<b>12.2</b>	<b>10.5</b>	<b>12.3</b>	<b>Adjusted EBITDA margin (in %)</b>	<b>9.6</b>	<b>11.7</b>	<b>10.7</b>
<b>Depreciation</b>								
(23)	(23)	(23)	(22)	(91)	Decorative Paints	(18)	(18)	(36)
(25)	(27)	(26)	(27)	(105)	Performance Coatings	(26)	(26)	(52)
(3)	(1)	(1)	(1)	(6)	Other activities/eliminations	(2)	(2)	(4)
<b>(51)</b>	<b>(51)</b>	<b>(50)</b>	<b>(50)</b>	<b>(202)</b>	<b>Total</b>	<b>(46)</b>	<b>(46)</b>	<b>(92)</b>
<b>Amortization</b>								
(9)	(8)	(6)	(7)	(30)	Decorative Paints	(5)	(4)	(9)
(13)	(13)	(12)	(5)	(43)	Performance Coatings	(9)	(9)	(18)
-	-	(1)	-	(1)	Other activities/eliminations	-	(1)	(1)
<b>(22)</b>	<b>(21)</b>	<b>(19)</b>	<b>(12)</b>	<b>(74)</b>	<b>Total</b>	<b>(14)</b>	<b>(14)</b>	<b>(28)</b>
<b>Adjusted operating income (excluding identified items)</b>								
77	121	95	58	351	Decorative Paints	56	123	179
187	202	147	133	669	Performance Coatings	134	172	306
(56)	(29)	(17)	(13)	(115)	Other activities/eliminations	(41)	(70)	(111)
<b>208</b>	<b>294</b>	<b>225</b>	<b>178</b>	<b>905</b>	<b>Total</b>	<b>149</b>	<b>225</b>	<b>374</b>
<b>8.8</b>	<b>11.6</b>	<b>9.3</b>	<b>7.8</b>	<b>9.4</b>	<b>ROS%</b>	<b>6.8</b>	<b>9.2</b>	<b>8.1</b>

\* Represented to present the Specialty Chemicals business as discontinued operations



# Paints and Coatings (continuing operations)

## Quarterly statistics

					2017 *			
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	2018 year-to-date
<b>Operating income</b>								
77	121	95	41	334	Decorative Paints	48	111	159
187	202	147	132	668	Performance Coatings	121	162	283
(56)	(60)	(27)	(34)	(177)	Other activities/eliminations	(61)	(81)	(142)
<b>208</b>	<b>263</b>	<b>215</b>	<b>139</b>	<b>825</b>	<b>Total</b>	<b>108</b>	<b>192</b>	<b>300</b>
<b>Identified items per Business Area</b>								
-	-	-	(17)	(17)	Decorative Paints	(8)	(12)	(20)
-	-	-	(1)	(1)	Performance Coatings	(13)	(10)	(23)
-	(31)	(10)	(21)	(62)	Other activities/eliminations	(20)	(11)	(31)
<b>-</b>	<b>(31)</b>	<b>(10)</b>	<b>(39)</b>	<b>(80)</b>	<b>Total</b>	<b>(41)</b>	<b>(33)</b>	<b>(74)</b>
<b>Reconciliation net financing income/(expenses)</b>								
6	6	3	8	23	Financing income	6	5	11
(22)	(22)	(23)	(23)	(90)	Financing expenses	(22)	(22)	(44)
<b>(16)</b>	<b>(16)</b>	<b>(20)</b>	<b>(15)</b>	<b>(67)</b>	<b>Net interest on net debt</b>	<b>(16)</b>	<b>(17)</b>	<b>(33)</b>
<b>Other interest movements</b>								
(1)	(2)	(1)	(3)	(7)	Financing expenses related to post-retirement benefits	2	3	5
(2)	(2)	(14)	2	(16)	Interest on provisions	-	(1)	(1)
2	5	4	1	12	Other items	33	(13)	20
<b>(1)</b>	<b>1</b>	<b>(11)</b>	<b>-</b>	<b>(11)</b>	<b>Net other financing charges</b>	<b>35</b>	<b>(11)</b>	<b>24</b>
<b>(17)</b>	<b>(15)</b>	<b>(31)</b>	<b>(15)</b>	<b>(78)</b>	<b>Net financing expenses</b>	<b>19</b>	<b>(28)</b>	<b>(9)</b>
<b>Quarterly net income analysis</b>								
6	6	3	2	17	Results from associates and joint ventures	4	6	10
197	254	187	126	764	Profit before tax	131	170	301
(52)	(63)	(57)	(81)	(253)	Income tax	1	(47)	(46)
145	191	130	45	511	Profit for the period from continuing operations	132	123	255
26	25	30	64	33	Effective tax rate (in %)	(1)	28	15

\* Represented to present the Specialty Chemicals business as discontinued operations

# AkzoNobel (continuing and discontinued operations)

## Quarterly statistics

				2017 <sup>1</sup>				2018
Q1	Q2	Q3	Q4	year		Q1	Q2	year-to-date
<b>Earnings per share from continuing operations (in €)</b>								
0.50	0.67	0.48	0.11	1.76	Basic	0.47	0.42	0.89
0.50	0.67	0.48	0.11	1.75	Diluted	0.47	0.42	0.89
<b>Earnings per share from discontinued operations (in €)</b>								
0.46	0.53	0.38	0.18	1.55	Basic	0.53	0.64	1.18
0.45	0.53	0.37	0.18	1.54	Diluted	0.53	0.64	1.17
<b>Earnings per share from total operations (in €)</b>								
0.96	1.20	0.86	0.29	3.31	Basic	1.00	1.06	2.07
0.95	1.20	0.85	0.29	3.29	Diluted	1.00	1.06	2.06
<b>Number of shares (in millions)</b>								
251.3	251.1	251.9	252.3	251.6	Weighted average number of shares	252.9	254.5	253.7
252.6	254.3	251.9	252.6	252.6	Number of shares at end of quarter	253.2	255.8	255.8
<b>Adjusted earnings from continuing operations (in € millions) <sup>2</sup></b>								
197	254	187	126	764	Profit before tax from continuing operations	131	170	301
-	31	10	39	80	Identified items reported in operating income	41	33	74
-	-	-	-	-	Interest on tax settlement	(31)	1	(30)
(52)	(68)	(53)	(12)	(185)	Adjusted income tax	(39)	(55)	(94)
(19)	(23)	(9)	(17)	(68)	Non-controlling interests	(13)	(16)	(29)
126	194	135	136	591	Adjusted net income from continuing operations	89	133	222
<b>0.50</b>	<b>0.78</b>	<b>0.53</b>	<b>0.54</b>	<b>2.35</b>	<b>Adjusted earnings per share from continuing operations (in €)</b>	<b>0.35</b>	<b>0.52</b>	<b>0.87</b>
<b>Adjusted earnings from total operations (in € millions) <sup>2</sup></b>								
362	430	307	225	1,324	Profit before tax from total operations	320	405	725
-	20	45	64	129	Identified items reported in operating income	55	41	96
-	-	-	-	-	Interest on tax settlement	(31)	1	(30)
(101)	(110)	(93)	(55)	(359)	Adjusted income tax	(87)	(126)	(213)
(21)	(24)	(10)	(17)	(72)	Non-controlling interests	(21)	(17)	(38)
240	316	249	217	1,022	Adjusted net income from total operations	236	304	540
<b>0.96</b>	<b>1.26</b>	<b>0.99</b>	<b>0.86</b>	<b>4.06</b>	<b>Adjusted earnings per share from total operations (in €)</b>	<b>0.93</b>	<b>1.19</b>	<b>2.13</b>

<sup>1</sup> Represented to present the Specialty Chemicals business as discontinued operations

<sup>2</sup> 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

				2017 <sup>1</sup>			2018	
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
<b>Revenue</b>								
1,289	1,259	1,209	1,228	4,985	Specialty Chemicals	1,252	1,270	2,522
(5)	(7)	(4)	(6)	(22)	Held for sale effects/other	(6)	(6)	(12)
<b>1,284</b>	<b>1,252</b>	<b>1,205</b>	<b>1,222</b>	<b>4,963</b>	<b>Total</b>	<b>1,246</b>	<b>1,264</b>	<b>2,510</b>
<b>Adjusted EBITDA (excluding identified items)</b>								
251	252	239	205	947	Specialty Chemicals <sup>2</sup>	233	258	491
2	2	2	(2)	4	Held for sale effects/other	(25)	(6)	(31)
<b>253</b>	<b>254</b>	<b>241</b>	<b>203</b>	<b>951</b>	<b>Total</b>	<b>208</b>	<b>252</b>	<b>460</b>
<b>19.7</b>	<b>20.3</b>	<b>20.0</b>	<b>16.6</b>	<b>19.2</b>	<b>EBITDA margin (in %)</b>	<b>16.7</b>	<b>19.9</b>	<b>18.3</b>
<b>Depreciation</b>								
(73)	(74)	(72)	(74)	(293)	Specialty Chemicals <sup>2</sup>	(72)	(71)	(143)
-	-	-	8	8	Held for sale effects/other	72	71	143
<b>(73)</b>	<b>(74)</b>	<b>(72)</b>	<b>(66)</b>	<b>(285)</b>	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Amortization</b>								
(12)	(12)	(11)	(12)	(47)	Specialty Chemicals <sup>2</sup>	(11)	(12)	(23)
-	-	-	1	1	Held for sale effects/other	11	12	23
<b>(12)</b>	<b>(12)</b>	<b>(11)</b>	<b>(11)</b>	<b>(46)</b>	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Adjusted operating income (excluding identified items)</b>								
166	166	156	119	607	Specialty Chemicals <sup>2</sup>	150	175	325
2	2	2	7	13	Held for sale effects/other	58	77	135
<b>168</b>	<b>168</b>	<b>158</b>	<b>126</b>	<b>620</b>	<b>Total</b>	<b>208</b>	<b>252</b>	<b>460</b>
<b>13.1</b>	<b>13.4</b>	<b>13.1</b>	<b>10.3</b>	<b>12.5</b>	<b>ROS (in %)</b>	<b>16.7</b>	<b>19.9</b>	<b>18.3</b>
<b>Operating income</b>								
166	184	156	119	625	Specialty Chemicals <sup>2</sup>	150	175	325
2	(6)	(33)	(17)	(54)	Held for sale effects/other	44	69	113
<b>168</b>	<b>178</b>	<b>123</b>	<b>102</b>	<b>571</b>	<b>Total</b>	<b>194</b>	<b>244</b>	<b>438</b>
<b>Identified items</b>								
-	18	-	-	18	Specialty Chemicals <sup>2</sup>	-	-	-
-	(8)	(35)	(24)	(67)	Held for sale effects/other	(14)	(8)	(22)
<b>-</b>	<b>10</b>	<b>(35)</b>	<b>(24)</b>	<b>(49)</b>	<b>Total</b>	<b>(14)</b>	<b>(8)</b>	<b>(22)</b>

<sup>1</sup> Represented to present the Specialty Chemicals business as discontinued operations

<sup>2</sup> 2017 figures include allocations from Other activities

## Principal risks and uncertainties

In our 2017 Annual Report we have extensively described our risk management framework and the major risk factors which may prevent full achievement of our objectives within the forthcoming three to five years, as well as beyond the five-year time horizon. This included risks related to the separation of Specialty Chemicals. In the meantime we successfully concluded the separation process with the announced sale of the Specialty Chemicals business to The Carlyle Group and GIC. The transaction is expected to be completed before the end of 2018, subject to customary closing conditions, including the relevant regulatory approvals and consultation with the relevant employee representative bodies.

Overall, we consider the medium-term and long-term risks as communicated in the Annual Report of 2017, including the five medium-term risks assessed to increase, still to be valid. Please refer to our website for our Annual Report of 2017.

## Risks assessed to increase in the 2017 Annual Report

Risk	Risk description	Mitigating actions
Sourcing of raw materials and energy	Prices for key raw materials and energy can be volatile, are affected by economic conditions and regulations and have a direct impact on margins. In addition, there is a non-level playing field on a global level (e.g. shale gas, national policies, subsidies), which affects our competitive position.	<ul style="list-style-type: none"> <li>• Our procurement sourcing processes (ALPS Source) and organization are designed to actively leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers. This includes managing the risks related to single sourced materials, demand forecasting and margin-impact assessment</li> <li>• Our Supplier Sustainability Program is embedded in our sourcing strategy, selection and management process to ensure compliance of critical suppliers, while also driving continuous improvements. We are also active in several industry groups</li> </ul>
Information Technology	The company's longer term IT strategy means we increasingly rely on fewer consolidated critical applications, including industrial process control systems. As the number of digital exchanges of business transactions is increasing, the non-availability of IT systems, or unauthorized access can have a direct impact on our business processes, competitive position and reputation.	<ul style="list-style-type: none"> <li>• Focus on measures such as redundant design, back-up processes, virus protection, anti-spoofing, advanced forensic scanning and mission critical infrastructure support</li> <li>• Centrally monitor access control processes and identity and access enhancements</li> <li>• Improve and test end-user awareness and behavior via cyber-security campaigns and e-learning</li> <li>• Roll-out of the new IM security standard for industrial control systems to all manufacturing locations</li> <li>• Further test and improve IT security response and incident management process</li> </ul>
Complying with law and regulations	Our international footprint exposes us to (continuously expanding) laws and regulations. We may be held responsible for any liabilities arising out of non-compliance with these laws and regulations.	<ul style="list-style-type: none"> <li>• Implementation of Business Partner Compliance Framework</li> <li>• Monitor and adapt to significant changes in the legal systems, regulatory controls, customs and practices in the countries in which we operate</li> <li>• Remain dedicated to minimizing AkzoNobel's compliance risk by fostering an open and transparent culture, continuously educating and training our employees worldwide and increasing awareness</li> <li>• Monitor overall compliance through our comprehensive annual Non-Financial Letter of Representation process, as well as our annual Competition Law Compliance Declaration</li> <li>• Continue to embed company-wide standard setting and compliance awareness through activities and training programs, including training on Code of Conduct</li> </ul>
Attraction and retention of talent	Ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce across the globe is an increasingly complex process. At the same time, it determines to a large extent the success of our organization.	<ul style="list-style-type: none"> <li>• Strengthen AkzoNobel's employee value proposition, based on the company purpose and brand</li> <li>• Further improve talent and succession action planning</li> <li>• Fully embed leadership behaviors in our Performance and Development Dialog annual appraisal</li> <li>• Deploy the AkzoNobel Academy to the full extent</li> </ul>
Management of change	To support the implementation of our strategy, we continue to implement important changes in our operating model across the entire company.	<ul style="list-style-type: none"> <li>• Focus on core principles and values to set desired behavioral changes in motion</li> <li>• Embed project and change management in the curriculum of the AkzoNobel Academy</li> <li>• Roll out principles of commercial excellence in all levels of the organization</li> <li>• Combine sales and marketing under the responsibility of the Chief Operating Officer</li> <li>• Accelerate the adoption of a new organizational model through the creation of a Planning and Transformation Office</li> <li>• Continue the journey of creating fit-for-purpose support functions to drive synergies and standardization and leverage expertise at a company-wide level</li> </ul>

**Board of Management's statement on the condensed half-year 2018 financial statements and the interim management report.**

We have prepared the half-year financial report 2018 of AkzoNobel, and the undertakings included in the consolidation taken as a whole, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for half-yearly financial reports.

To the best of our knowledge:

1. The condensed financial statements in this half-year financial report 2018 give a true and fair view of our assets and liabilities, financial position at June 30, 2018, and of the result of our consolidated operations for the first-half year of 2018.
2. The interim management report in this half-year financial report 2018 includes a fair view of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision.

**Amsterdam, July 18, 2018**  
**The Board of Management**

Thierry Vanlancker  
Maarten de Vries

# 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 were 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 pre-existing revenue recognition guidance in IFRS. Further information on the implementation of IFRS 15, is included on page 23 of this report.

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
<b>Total impact on group equity</b>	<b>6,307</b>	<b>(3)</b>	<b>(48)</b>	<b>6,256</b>

# Notes to the condensed financial statements

## Adoption of IFRS 15, "Revenue from contracts with customers"

IFRS 15 replaces pre-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. For further information, reference is made to Note 1 of the 2017 Financial Statements. The impact on the interim condensed consolidated financial statements is not significant. The table below reflects the disaggregation of revenue. Additional disaggregation of revenue is included on page 5 for Decorative Paints and page 7 for Performance Coatings.

## Disaggregation of Revenue

January-June

in € millions	Decorative Paints	Performance Coatings	Other	Total
<b>Primary geographical markets</b>				
The Netherlands	106	48	1	155
Other European Countries	874	1,063	–	1,937
US and Canada	–	549	–	549
Latin America	209	175	–	384
Asia	557	775	–	1,332
Other regions	106	186	(27)	265
<b>Total</b>	<b>1,852</b>	<b>2,796</b>	<b>(26)</b>	<b>4,622</b>
<b>Timing of revenue recognition</b>				
Goods transferred at a point in time	1,838	2,709	(26)	4,521
Services transferred over time	14	87	–	101
<b>Total</b>	<b>1,852</b>	<b>2,796</b>	<b>(26)</b>	<b>4,622</b>

# 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.

**Constant currencies** calculations exclude the impact of changes in foreign exchange rates.

**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](http://www.akzonobel.com/quarterlyresults)

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**Financial calendar**

Report for the third quarter 2018	October 17, 2018
Report for the full-year and the fourth quarter 2018	February 13, 2019
Report for the first quarter 2019	April 24, 2019
Annual General Meeting of shareholders	April 25, 2019

# AkzoNobel

[www.akzonobel.com](http://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.