

REPORT 2021

AkzoNobel



Polar Pod partnership to push boundaries of scientific exploration

A pioneering expedition, which will send a manned oceanographic platform drifting around Antarctica, has brought AkzoNobel on board as exclusive paints and coatings partner. The Polar Pod will enable scientists and researchers to study the Antarctic Circumpolar Current, which has a major influence on the Earth's climate. AkzoNobel will support the 1,000-ton platform for the next five years, from project construction through to the completion of its three-year mission, which is expected to start in December 2023.

Our results at a glance

Highlights Q1 2021

- Revenue up 10% and 16% higher in constant currencies with strong growth in Asia
- ROS¹ increased to 13.6% (Q1 2020: 10.4%)
- €300 million share buyback completed on April 16, 2021; €1 billion share buyback starts April 27, 2021
- Acquisition of Titan Paints in Spain completed in March 2021

Q1 2021 (compared with Q1 2020)

- Revenue up 10% and 16% higher in constant currencies, with volumes up 16% and price up 2%, mainly due to strong end market demand. Compared with Q1 2019², revenue was up 10% in constant currencies
- Operating income up 62% at €303 million (2020: €187 million); OPI margin improved to 13.4% (2020: 9.1%)
- Adjusted operating income up 43% at €307 million (2020: €214 million) and excludes €4 million negative impact from identified items, mainly related to transformation initiatives (2020: €27 million negative identified items related to transformation initiatives)
- Net cash from operating activities improved by €129 million to an outflow of €31 million (2020: outflow of €160 million)
- Net income from total operations up 90% at €217 million (2020: €114 million)
- EPS from total operations up 95% at €1.15 (2020: €0.59); adjusted EPS from continuing operations up 66% at €1.18 (2020: €0.71)

¹ ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.

² Q1 2019 comparatives are included in this report to allow for proper comparison in light of the COVID-19 impact in 2020.

Outlook 2021

AkzoNobel targets to grow at least in line with its relevant markets. Trends differ per region and segment with raw material disruption and inflation expected, especially in Q2 and Q3. Margin management and cost discipline are in place to deliver 50 basis points increase in return on sales. The company targets a leverage ratio of 1-2 times net debt/EBITDA and commits to retain a strong investment grade credit rating.

Alternative performance measures (APM)

AkzoNobel uses APM adjustments to the IFRS measures to provide supplementary information on the reporting of the underlying developments of the business. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the tables on pages 12 and 13.

Summary of financial outcomes

First quarter			
in € millions / %	2020	2021	Δ%
Revenue	2,058	2,263	10%
EBITDA ¹	277	388	40%
Adjusted EBITDA ¹	302	391	29%
Operating income	187	303	62%
Identified items ¹	(27)	(4)	
Adjusted operating income ¹	214	307	43%
OPI margin (%) ¹	9.1	13.4	
ROS (%) ^{1,2}	10.4	13.6	
<hr/>			
Average invested capital ¹	7,071	6,726	
ROI (%) ¹	14.7	17.7	
<hr/>			
Capital expenditures	46	57	24%
Net debt	1,496	1,408	
Leverage ratio (net debt/EBITDA) ¹	1.2	1.0	
Number of employees	33,500	32,700	
<hr/>			
Net cash from operating activities	(160)	(31)	
<hr/>			
Net income attributable to shareholders	114	217	90%
Weighted average number of shares	194.0	188.8	
Earnings per share from total operations (in €)	0.59	1.15	95%
Adjusted earnings per share from continuing operations (in €) ¹	0.71	1.18	66%

¹ Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 12 and 13.

² ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.

Financial highlights

Revenue

Q1 2021

Revenue was up 10% and 16% higher in constant currencies (compared with Q1 2019: up 10% in constant currencies) due to strong end market demand. Volumes were up 16%. Price was up 2% while price/mix was 1% lower overall due to geographic and segment mix.

- Decorative Paints revenue increased 23% and was up 31% in constant currencies, driven by 28% higher volumes, mainly due to continued strong demand. Price was up 4% while mix was 3% lower due to geographic mix. Acquisitions added 2%
- Performance Coatings revenue was up 3% and increased 8% in constant currencies. Revenue was positively impacted by 10% higher volumes. Price was up 1% while mix was 3% lower due to geographic and segment mix
- Other activities revenue mainly includes service revenue

Cost of sales

Raw material and other variable costs in the first quarter of 2021 increased €38 million, in addition to the impact of higher volumes, compared with the first quarter of 2020. The increase was mainly driven by raw material inflation and mix.

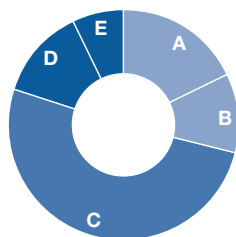
Acquisitions

In March 2021, the acquisition of Titan Paints in Spain was completed.

AkzoNobel around the world

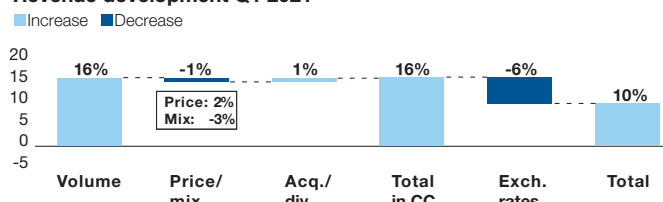
Revenue by destination

	%
A North Asia	18
B South Asia Pacific	11
C EMEA	51
D North America	13
E South America	7
	100



(Based on the full-year 2020)

Revenue development Q1 2021



Paint the Future leads to investment in application technology from Qlayers

We've invested in pioneering coatings application technology from Qlayers – one of the winners in our 2019 Paint the Future startup challenge. Their innovative industrial system offers a fully automated solution that is safer, more consistent and faster than the manual coating processes currently being used. By eliminating overspray, it's a sustainable solution that also saves costs.

Revenue

First quarter

in € millions	2020	2021	Δ%	Δ% CC*
Decorative Paints	754	930	23%	31%
Performance Coatings	1,295	1,332	3%	8%
Other activities	9	1		
Total	2,058	2,263	10%	16%

* Change excluding currency impact.

in % versus Q1 2020	Volume	Price/mix	Acq./div.	Exchange rates	Total
Decorative Paints	28	1	2	(8)	23
Performance Coatings	10	(2)	–	(5)	3
Total	16	(1)	1	(6)	10

Volume development per quarter

(year-on-year) in %	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Decorative Paints	(9)	(10)	14	12	28
Performance Coatings	(7)	(23)	(5)	1	10
Total	(7)	(18)	3	6	16

Price/mix development per quarter

(year-on-year) in %	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Decorative Paints	1	4	(4)	2	1
Performance Coatings	3	–	1	–	(2)
Total	2	2	(1)	1	(1)

Currency development per quarter

(year-on-year) in %	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Decorative Paints	(2)	(4)	(7)	(10)	(8)
Performance Coatings	–	(1)	(5)	(5)	(5)
Total	(1)	(2)	(6)	(7)	(6)

Financial highlights

Q1 2021

Operating income

Operating income increased 62% to €303 million (2020: €187 million), driven by significant volume increases and cost discipline. OPI margin improved to 13.4% (2020: 9.1%).

- Decorative Paints performance improved due to strong demand across all regions, with volumes up 28% compared with Q1 2020. ROS was up at 15.9% (2020: 8.5%)
- Performance Coatings operating income increased, mainly due to volume increases of 10%. ROS remained 14.7% (2020: 14.7%)
- Other activities improved €15 million to €38 million negative (2020: €53 million negative), mainly resulting from lower negative identified items

Adjusted operating income

Adjusted operating income was 43% higher at €307 million (2020: €214 million) and excludes identified items of €4 million negative, mainly related to transformation initiatives (2020: €27 million negative identified items relating to transformation initiatives). ROS¹ was up at 13.6% (2020: 10.4%).

Net financing income/(expenses)

Net financing expenses decreased to €8 million (2020: €13 million), mainly due to lower interest on provisions.

Income tax

The effective tax rate was 24.2% (2020: 29.8%, which included several non-recurring items). Excluding identified items, the effective tax rate in Q1 2021 was 24.2% (2020: 28.4%).

Net income

Net income attributable to shareholders was €217 million (2020: €114 million). Earnings per share from total operations increased to €1.15 (2020: €0.59). Adjusted earnings per share from continuing operations increased to €1.18 (2020: €0.71), including the impact of the share buyback programs.

¹ ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.



DIY made simple thanks to new Dulux range

With the UK firmly bitten by the DIY bug, we recently launched our new Dulux Simply Refresh range, which refreshes walls in a single coat. It's available in two carefully curated color collections – One Coat and Feature Wall – for both neutral and bold palettes. As well as removing the hassle from decorating, the new products will also help to save valuable time.

Operating income

First quarter			
in € millions	2020	2021	Δ%
Decorative Paints	58	147	153%
Performance Coatings	182	194	7%
Other activities	(53)	(38)	
Total	187	303	62%

Adjusted operating income

First quarter			
in € millions	2020	2021	Δ%
Decorative Paints	64	148	131%
Performance Coatings	190	196	3%
Other activities	(40)	(37)	
Total	214	307	43%

ROS¹

First quarter			
in %	2020	2021	
Decorative Paints	8.5	15.9	
Performance Coatings	14.7	14.7	
Other activities ²			
Total	10.4	13.6	

¹ ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.

² ROS for Other activities is not shown, as this is not meaningful.

Operating income to net income

First quarter		
in € millions	2020	2021
Operating income	187	303
Net financing income/(expenses)	(13)	(8)
Results from associates and joint ventures	7	7
Profit before tax	181	302
Income tax	(54)	(73)
Profit from continuing operations	127	229
Profit/(loss) from discontinued operations	(1)	(2)
Profit for the period	126	227
Non-controlling interests	(12)	(10)
Net income	114	217

Decorative Paints

Highlights Q1 2021

- Revenue up 23% and increased 31% in constant currencies, driven by strong demand across all regions
- ROS up at 15.9% (2020: 8.5%)

Q1 2021

- Revenue up 23% and increased 31% in constant currencies (compared with Q1 2019: up 20% in constant currencies); volumes up 28%. Price up 4% and price/mix 1% higher overall. Acquisitions added 2%
- Operating income improved to €147 million (2020: €58 million) driven by volume growth and continued focus on cost control
- Adjusted operating income increased to €148 million (2020: €64 million)

Q1 2021

Revenue was up across all regions. Volumes were up 28%, while acquisitions added 2%. Price was up 4% while mix was 3% lower due to geographic mix.

Operating income increased to €147 million (2020: €58 million), driven by volume growth and continued focus on cost control.

Adjusted operating income increased to €148 million (2020: €64 million), and excludes identified items of €1 million negative. In 2020, adjusted operating income of €64 million excluded identified items of €6 million negative related to transformation initiatives. ROS was up at 15.9% (2020: 8.5%).

Europe, Middle East and Africa

Revenue in Q1 was up 21% and 24% higher in constant currencies (compared with Q1 2019: up 22% in constant currencies), due to continued strong demand, especially in the DIY segment.

South America

Revenue in Q1 was up 14% and 56% higher in constant currencies (compared with Q1 2019: up 62% in constant currencies), mainly driven by significant volume increases due to strong demand. Strong performance was driven by pricing initiatives and volume growth, offset by currency impact driven by the Brazilian real and Argentinian peso.

Asia

Revenue in Q1 was up 33% and increased 41% in constant currencies (compared with Q1 2019: up 4% in constant currencies). In 2020, revenues were impacted by lower demand due to COVID-19, particularly in China. Compared with the previous quarter, volumes continued to recover in South East Asia, driven by India, Malaysia and Pakistan.

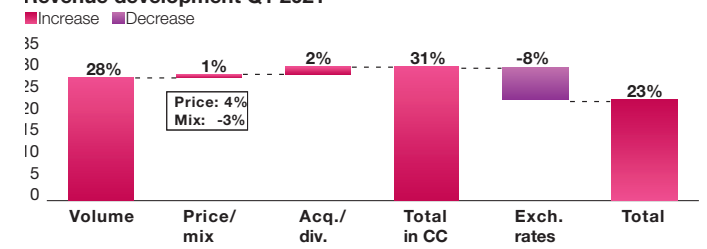
Revenue

First quarter

in € millions	2020	2021	Δ%	CC*
Decorative Paints Europe, Middle East and Africa	491	596	21%	24%
Decorative Paints South America	85	97	14%	56%
Decorative Paints Asia	178	237	33%	41%
Total	754	930	23%	31%

* Change excluding currency impact.

Revenue development Q1 2021



Key financial figures

First quarter

in € millions / %	2020	2021	Δ%
Operating income	58	147	153%
Identified items*	(6)	(1)	
Adjusted operating income*	64	148	131%
OPI margin (%)*	7.7	15.8	
ROS (%)*	8.5	15.9	
Average invested capital*	2,993	2,776	
ROI (%)*	14.1	23.7	

* Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 12 and 13.

Performance Coatings

Highlights Q1 2021

- Revenue up 3% and 8% higher in constant currencies, with strong growth in Powder Coatings and Industrial Coatings
- ROS remained 14.7% (2020: 14.7%)

Q1 2021

- Revenue was up 3% and 8% higher in constant currencies (compared with Q1 2019: up 5% in constant currencies), with 10% higher volumes. Price was up 1% while price/mix was 2% lower
- Operating income improved to €194 million (2020: €182 million) driven by volume growth; OPI margin up at 14.6% (2020: 14.1%)
- Adjusted operating income was up at €196 million (2020: €190 million)

Q1 2021

Revenue was up 3% and 8% higher in constant currencies. Volumes increased by 10%, especially in Powder Coatings and Industrial Coatings. Price was up 1% while price/mix was 2% lower overall as a result of geographic and segment mix, due to strong growth in Asia.

Operating income improved to €194 million (2020: €182 million), driven by volume growth.

Adjusted operating income increased to €196 million (2020: €190 million) and excludes identified items of €2 million negative, mainly related to transformation initiatives. In 2020, adjusted operating income of €190 million excluded identified items of €8 million negative, mainly related to transformation initiatives.

Powder Coatings

Revenue in Q1 was up 13% and 19% higher in constant currencies (compared with Q1 2019: up 12% in constant currencies) with significantly higher volumes compared with the first quarter of 2020, especially in Asia. This was driven by both demand and market share growth, as well as rebound from the impact of COVID-19.

Marine and Protective Coatings

Revenue in Q1 was 7% lower and 2% lower in constant currencies (compared with Q1 2019: 4% lower in constant currencies). Marine and Protective Coatings continues to be impacted by lower demand and postponed projects, partly offset by strong growth in Yacht Coatings.

Automotive and Specialty Coatings

Revenue in Q1 was 4% lower while up 2% in constant currencies (compared with Q1 2019: equal in constant currencies), with volume growth offset by adverse currency and price/mix impacts. Demand was strong for consumer electronics. Aerospace is showing early signs of recovery with sequential improving demand.

Industrial Coatings

Revenue in Q1 was up 8% and 14% higher in constant currencies (compared with Q1 2019: up 11% in constant currencies), as significant volume growth was partly offset by adverse currency impacts. Demand for coil and packaging coatings continued its strong momentum in all regions.



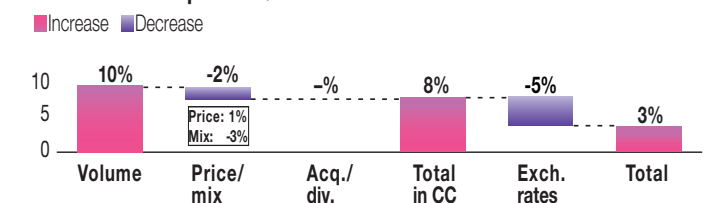
Revenue

First quarter

in € millions	2020	2021	Δ%	CC*
Powder Coatings	281	318	13%	19%
Marine and Protective Coatings	290	270	(7%)	(2%)
Automotive and Specialty Coatings	314	303	(4%)	2%
Industrial Coatings	410	441	8%	14%
Total	1,295	1,332	3%	8%

* Change excluding currency impact.

Revenue development Q1 2021



Key financial figures

First quarter

in € millions / %	2020	2021	Δ%
Operating income	182	194	7%
Identified items*	(8)	(2)	
Adjusted operating income*	190	196	3%
OPI margin (%)*	14.1	14.6	
ROS (%)*	14.7	14.7	
Average invested capital*	3,368	3,394	
ROI (%)*	22.0	20.8	

* Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 12 and 13.

Leading the charge for e-mobility powder coatings

As global demand for electric vehicles – and e-mobility in general – continues to accelerate, our Powder Coatings business has switched on to the growing needs of its customers by developing advanced technologies to help power the industry into the future. We now offer a dedicated powder coatings portfolio for manufacturers of electric vehicles and components, who are increasingly looking for world class solutions to help protect motors, battery systems and electrical storage units.

Condensed consolidated financial statements

Condensed consolidated statement of income

First quarter in € millions	2020	2021
Continuing operations		
Revenue	2,058	2,263
Cost of sales	(1,142)	(1,278)
Gross profit	916	985
SG&A costs	(729)	(683)
Other results	-	1
Operating income	187	303
Net financing expenses	(13)	(8)
Results from associates and joint ventures	7	7
Profit before tax	181	302
Income tax	(54)	(73)
Profit for the period from continuing operations	127	229
Discontinued operations		
Profit / (loss) for the period from discontinued operations	(1)	(2)
Profit for the period	126	227
Attributable to		
Shareholders of the company	114	217
Non-controlling interests	12	10
Profit for the period	126	227

Condensed consolidated statement of comprehensive income

First quarter in € millions	2020	2021
Profit for the period	126	227
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(241)	212
Post-retirement benefits	752	(47)
Tax relating to components of other comprehensive income	(60)	(2)
Other comprehensive income for the period (net of tax)	451	163
Comprehensive income for the period	577	390
Comprehensive income for the period attributable to		
Shareholders of the company	573	376
Non-controlling interests	4	14
Comprehensive income for the period	577	390

Condensed consolidated balance sheet

in € millions	December 31, 2020	March 31, 2021
Assets		
Non-current assets		
Intangible assets	3,554	3,628
Property, plant and equipment	1,621	1,707
Right-of-use assets	324	317
Other non-current assets	2,614	2,573
Total non-current assets	8,113	8,225
Current assets		
Inventories	1,159	1,303
Trade and other receivables	1,994	2,304
Other current assets	55	64
Short-term investments	250	301
Cash and cash equivalents	1,606	1,197
Total current assets	5,064	5,169
Total assets	13,177	13,394
Equity and liabilities		
Group equity	5,950	6,104
Non-current liabilities		
Provisions and deferred tax liabilities	1,363	1,294
Long-term borrowings	2,771	2,765
Total non-current liabilities	4,134	4,059
Current liabilities		
Short-term borrowings	119	141
Trade and other payables	2,580	2,735
Other short-term liabilities	394	355
Total current liabilities	3,093	3,231
Total equity and liabilities	13,177	13,394

Shareholders' equity

Shareholders' equity increased from €5.7 billion at year-end 2020 to €5.9 billion at March 31, 2021, mainly due to the net effect of:

- Profit for the period of €217 million
- Currency effects of €210 million positive (including taxes)
- Share repurchase of €236 million (including taxes)
- Post-retirement benefits of €51 million negative (including taxes)

Dividend

The company's dividend policy is to pay a stable to rising dividend. A final 2020 dividend of €1.52 per common share is proposed for approval at the AGM, which means a total 2020 dividend of €1.95 per common share (2019: €1.90).

Please refer to the final page of this report for the dividend payment dates.

Outstanding share capital

The outstanding share capital was 190.8 million common shares at the end of March 2021. This included 3.1 million shares acquired in the share buyback program, which had not yet been cancelled. The weighted average number of shares in Q1 2021 was 188.8 million. This weighted average number of shares excludes shares bought back not yet cancelled and were the basis for the calculation of earnings per share in Q1 2021.

On October 21, 2020, a €300 million share buyback program was announced. This program was completed on April 16, 2021. A total of 3.4 million shares have been acquired and will be cancelled.

On February 16, 2021, a further €1 billion share buyback program was announced, to be completed in Q1 2022. This program will be started on April 27, 2021.

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cumulative translation reserves	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
Balance at December 31, 2019	100	–	(469)	6,719	6,350	218	6,568
Profit for the period	–	–	–	114	114	12	126
Other comprehensive income	–	–	(229)	688	459	(8)	451
Comprehensive income for the period	–	–	(229)	802	573	4	577
Dividend	–	–	–	–	–	(1)	(1)
Share buyback	–	–	–	(428)	(428)	–	(428)
Equity-settled transactions	–	–	–	4	4	–	4
Acquisitions and divestments	–	–	–	(22)	(22)	(7)	(29)
Balance at March 31, 2020	100	–	(698)	7,075	6,477	214	6,691
Balance at December 31, 2020	95	–	(873)	6,524	5,746	204	5,950
Profit for the period	–	–	–	217	217	10	227
Other comprehensive income	–	–	210	(51)	159	4	163
Comprehensive income for the period	–	–	210	166	376	14	390
Dividend	–	–	–	–	–	(3)	(3)
Share buyback	–	–	–	(236)	(236)	–	(236)
Equity-settled transactions	–	–	–	3	3	–	3
Acquisitions and divestments	–	–	–	–	–	–	–
Balance at March 31, 2021	95	–	(663)	6,457	5,889	215	6,104

Cash flows and net debt

Net cash from operating activities in Q1 2021 resulted in an outflow of €31 million (2020: outflow of €160 million). This decrease in outflow was mainly driven by increased profit for the period and a lower outflow from changes in working capital, which was partly offset by higher outflow from changes in other provisions.

Net cash from investing activities in Q1 2021 resulted in an outflow of €170 million (2020: inflow of €102 million). Net cash from investing activities in Q1 2021 was mainly related to an outflow for capital expenditures (€57 million, including investments in growth) and an outflow for acquisitions and divestments (net outflow of €65 million).

Net cash from financing activities in Q1 2021 resulted in an outflow of €240 million (2020: outflow of €395 million). Net cash from financing activities mainly related to an outflow for the share buyback (€209 million) and changes from borrowings (outflow of €28 million).

At March 31, 2021, net debt was €1,408 million versus €1,034 million at year-end 2020. The increase in net debt was mainly due to the share buyback (€209 million), an outflow of the net cash from operating activities (€31 million), capital expenditures (€57 million) and movements from acquisitions and divestments (€65 million). The net debt/EBITDA leverage ratio at March 31, 2021, was 1.0 (March 31, 2020: 1.2).

Free cash flows

The cash generation in Q1 2021 improved compared with Q1 2020, mainly due to higher EBITDA and lower outflow from changes in working capital.

Condensed consolidated statements of cash flows

First quarter in € millions	2020	2021
Net cash and cash equivalents at beginning of period	1,210	1,581
Adjustments to reconcile earnings to cash generated from operating activities		
Profit for the period from continuing operations	127	229
Amortization and depreciation	90	85
Financing income and expenses	13	8
Results from associates and joint ventures	(7)	(7)
Pre-tax results on acquisitions and divestments	–	(11)
Income tax	54	73
Changes in working capital	(353)	(291)
Changes in post-retirement benefit provisions	(9)	(11)
Changes in other provisions	(29)	(55)
Interest paid	(5)	(4)
Income tax paid	(34)	(44)
Other changes	(7)	(3)
Net cash generated from/(used for) operating activities	(160)	(31)
Capital expenditures	(46)	(57)
Acquisitions and divestments net of cash acquired/divested	1	(65)
Investment in short-term investments	–	(51)
Repayments of short-term investments	135	–
Other changes	12	3
Net cash generated from/(used for) investing activities	102	(170)
Changes from borrowings	49	(28)
Dividend paid	(1)	(3)
Share buyback	(413)	(209)
Buy-out of non-controlling interests	(30)	–
Net cash generated from/(used for) financing activities	(395)	(240)
Net cash generated from/used for continuing operations	(453)	(441)
Cash flows from discontinued operations	(1)	–
Net change in cash and cash equivalents of continued and discontinued operations	(454)	(441)
Effect of exchange rate changes on cash and cash equivalents	(37)	16
Net cash and cash equivalents at March 31	719	1,156

Consolidated statement of free cash flows

First quarter in € millions	2020	2021
EBITDA	277	388
Pre-tax results on acquisitions and divestments	–	(11)
Changes in working capital	(353)	(291)
Pension top-up payments	(5)	(8)
Other changes in provisions	(33)	(58)
Interest paid	(5)	(4)
Income tax paid	(34)	(44)
Other	(7)	(3)
Net cash generated from/(used for) operating activities	(160)	(31)
Capital expenditures	(46)	(57)
Free cash flow	(206)	(88)

Invested capital

Invested capital at March 31, 2021, totaled €6.8 billion, up €0.4 billion from year-end 2020, mainly due to higher operating working capital (trade) as a result of seasonality.

Operating working capital (trade)

Operating working capital (trade) as percentage of revenue decreased to 13.4% in Q1 2021, compared with 16.5% in Q1 2020, mainly due to higher trade payables which reflect increased demand and production levels.

Pension

The net balance sheet position (according to IAS19) of the pension plans at the end of Q1 2021 was a surplus of €1.0 billion (year-end 2020: surplus of €1.0 billion). The development during the quarter was the result of the net effect of:

- Higher discount rates in key countries
- Top-up contributions into funds
- Foreign exchange translation gains

Offset by:

- Lower plan asset returns in key countries
- Higher inflation rates in key countries

Workforce

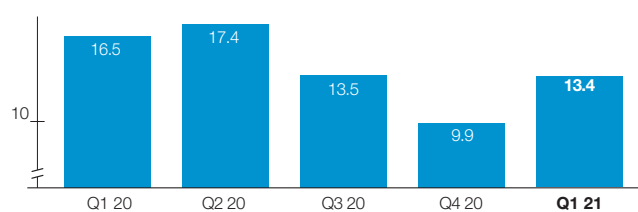
At March 31, 2021, the number of people employed was 32,700 (December 31, 2020: 32,200). Acquisitions in Q1 2021 added around 400 people.

Invested capital

in € millions	March 31, 2020	December 31, 2020	March 31, 2021
Trade receivables	1,934	1,751	2,027
Inventories	1,210	1,159	1,303
Trade payables	(1,789)	(2,032)	(2,119)
Operating working capital (trade)	1,355	878	1,211
Other working capital items	(340)	(412)	(437)
Non-current assets	8,812	8,113	8,225
Less investments in associates and joint ventures	(156)	(166)	(173)
Less pension assets	(2,155)	(1,543)	(1,548)
Deferred tax liabilities	(464)	(467)	(478)
Invested capital	7,052	6,403	6,800

Operating working capital (trade)

In % of revenue



Proudly certified as a Top Employer 2021



Engaging programs secure Top Employer status

Our continued focus on engagement and employee well-being has seen us receive Top Employer recertification in five key markets – the UK, China, Brazil, the US and the Netherlands. It marks the second year in a row for the Netherlands and the US, the fifth year running for Brazil, the eighth consecutive year for China and the ninth for the UK. Throughout our ongoing transformation journey, the company's success in retaining – and increasing – Top Employer status has been based on prioritizing organizational health.

Notes to the condensed consolidated financial statements

General information

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

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

Basis of preparation

All quarterly figures are unaudited. The interim condensed consolidated financial statements were discussed and approved by the Board of Management and the Supervisory Board. These condensed financial statements have been authorized for issue. The interim condensed consolidated financial statements should be read in conjunction with AkzoNobel's consolidated financial statements in the 2020 annual report as published on March 10, 2021. The financial statements are proposed for adoption by the Annual General Meeting of shareholders on April 22, 2021. 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 annual financial statements.

Accounting policies

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, 2020, except for IFRS standards and interpretations becoming effective on January 1, 2021. This includes among others amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2". These changes have been assessed for their potential impact and do not have a material effect on AkzoNobel's consolidated financial statements.

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim financial reporting".

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, among others, with building patterns from original equipment manufacturers.

Other activities

In Other activities, we report activities which are not allocated to a particular segment.

Related parties

AkzoNobel purchased and sold goods and services to various related parties in which we hold a 50% or less equity interest (associates and joint ventures). 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 with terms comparable with third party transactions.

Revenue disaggregation

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

Revenue disaggregation*

First quarter

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets				
The Netherlands	60	25	1	86
Other EMEA countries	536	549	–	1,085
North Asia	104	270	–	374
South Asia Pacific	133	153	–	286
North America	–	278	–	278
South America	97	57	–	154
Total	930	1,332	1	2,263
Timing of revenue recognition				
Goods transferred at a point in time	918	1,285	–	2,203
Services transferred over time	12	47	1	60
Total	930	1,332	1	2,263

* The regional split has been changed compared to previous quarters to align to our new internal regional structure.

Alternative performance measures

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

AkzoNobel uses APM adjustments to the IFRS measures to provide supplementary information on the reporting of the underlying developments of the business. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the tables on this page and the next page.

ROS and OPI margin are used as performance measures. ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported. OPI margin is operating income as percentage of revenue. The calculations are based on the revenue as disclosed in the revenue table on page 3.

Operating income

First quarter			
in € millions	2020	2021	Δ%
Decorative Paints	58	147	153%
Performance Coatings	182	194	7%
Other activities	(53)	(38)	
Total	187	303	62%

Identified items

First quarter			
in € millions	2020	2021	
Decorative Paints	(6)	(1)	
Performance Coatings	(8)	(2)	
Other activities	(13)	(1)	
Total	(27)	(4)	

Adjusted operating income

First quarter			
in € millions	2020	2021	Δ%
Decorative Paints	64	148	131%
Performance Coatings	190	196	3%
Other activities	(40)	(37)	
Total	214	307	43%

EBITDA

First quarter			
in € millions	2020	2021	Δ%
Operating income	187	303	62%
Depreciation and amortization	90	85	(6%)
EBITDA	277	388	40%

Adjusted EBITDA

First quarter			
in € millions	2020	2021	Δ%
Adjusted operating income	214	307	43%
Depreciation and amortization (excluding identified items)	88	84	(5%)
Adjusted EBITDA	302	391	29%

OPI margin

First quarter			
in %	2020	2021	
Decorative Paints	7.7	15.8	
Performance Coatings	14.1	14.6	
Other activities ¹			
Total	9.1	13.4	

ROS²

First quarter			
in %	2020	2021	
Decorative Paints	8.5	15.9	
Performance Coatings	14.7	14.7	
Other activities ¹			
Total	10.4	13.6	

¹ ROS and OPI margin for Other activities is not shown, as this is not meaningful.

² ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.

Adjusted earnings per share from continuing operations

First quarter			
in € millions	2020	2021	
Profit before tax from continuing operations	181	302	
Identified items reported in operating income	27	4	
Adjusted income tax	(59)	(74)	
Non-controlling interests	(12)	(10)	
Adjusted net income from continuing operations	137	222	
Weighted average number of shares (in millions)	194.0	188.8	
Adjusted earnings per share from continuing operations	0.71	1.18	

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

Average invested capital

April 2019 - March 2020 / April 2020 - March 2021

in € millions	2020	2021	Δ%
Decorative Paints	2,993	2,776	(7%)
Performance Coatings	3,368	3,394	1%
Other activities/eliminations	710	556	(22%)
Total	7,071	6,726	(5%)

ROI

April 2019 - March 2020 / April 2020 - March 2021

in %	2020	2021
Decorative Paints	14.1	23.7
Performance Coatings	22.0	20.8
Other activities*		
Total	14.7	17.7

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

The leverage ratio is calculated based on the net debt per balance sheet position divided by EBITDA of the last 12 months.

EBITDA

April 2019 - March 2020 / April 2020 - March 2021

in € millions	2020	2021
Operating income	915	1,079
Depreciation and amortization	365	356
EBITDA	1,280	1,435

Net debt

in € millions	March 31, 2020	March 31, 2021
Short-term investments	(2)	(301)
Cash and cash equivalents	(832)	(1,197)
Long-term borrowings	2,036	2,765
Short-term borrowings	294	141
Net debt	1,496	1,408

Leverage ratio

April 2019 - March 2020 / April 2020 - March 2021

in € millions	2020	2021
Net debt	1,496	1,408
EBITDA	1,280	1,435
Leverage ratio	1.2	1.0

Outlook 2021

AkzoNobel targets to grow at least in line with its relevant markets. Trends differ per region and segment with raw material disruption and inflation expected, especially in Q2 and Q3. Margin management and cost discipline are in place to deliver 50 basis points increase in return on sales. The company targets a leverage ratio of 1-2 times net debt/EBITDA and commits to retain a strong investment grade credit rating.

Amsterdam, April 20, 2021 The Board of Management

Thierry Vanlancker
Maarten de Vries

Paints and Coatings

Quarterly statistics

	Q1	Q2	Q3	Q4	2020 year	in € millions	2021 Q1
Revenue							
	754	899	1,004	901	3,558	Decorative Paints	930
	1,295	1,086	1,270	1,306	4,957	Performance Coatings	1,332
	9	2	2	2	15	Other activities	1
	2,058	1,987	2,276	2,209	8,530	Total	2,263
EBITDA*							
	95	210	240	159	704	Decorative Paints	183
	223	127	218	256	824	Performance Coatings	232
	(41)	(40)	(41)	(82)	(204)	Other activities	(27)
	277	297	417	333	1,324	Total	388
	13.5	14.9	18.3	15.1	15.5	EBITDA margin (in %)	17.1
Adjusted EBITDA (excluding identified items)*							
	100	211	243	160	714	Decorative Paints	183
	230	139	232	253	854	Performance Coatings	234
	(28)	(29)	(36)	(33)	(126)	Other activities	(26)
	302	321	439	380	1,442	Total	391
	14.7	16.2	19.3	17.2	16.9	Adjusted EBITDA margin (in %)	17.3
Depreciation / Depreciation excluding identified items							
	(32) / (31)	(36) / (31)	(33) / (30)	(33) / (30)	(134) / (122)	Decorative Paints	(31) / (30)
	(32) / (31)	(29) / (27)	(31) / (29)	(32) / (32)	(124) / (119)	Performance Coatings	(29) / (29)
	(10) / (10)	(9) / (9)	(11) / (11)	(9) / (8)	(39) / (38)	Other activities	(8) / (8)
	(74) / (72)	(74) / (67)	(75) / (70)	(74) / (70)	(297) / (279)	Total	(68) / (67)
Amortization / Amortization excluding identified items							
	(5) / (5)	(5) / (5)	(5) / (5)	(4) / (4)	(19) / (19)	Decorative Paints	(5) / (5)
	(9) / (9)	(9) / (9)	(8) / (8)	(9) / (9)	(35) / (35)	Performance Coatings	(9) / (9)
	(2) / (2)	(2) / (2)	(3) / (3)	(3) / (3)	(10) / (10)	Other activities	(3) / (3)
	(16) / (16)	(16) / (16)	(16) / (16)	(16) / (16)	(64) / (64)	Total	(17) / (17)

* Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 12 and 13. Depreciation excluding identified items and amortization excluding identified items are presented to allow calculation of adjusted EBITDA.

Paints and Coatings

Quarterly statistics

	Q1	Q2	Q3	Q4	2020 year	in € millions	2021 Q1
Operating income							
	58	169	202	122	551	Decorative Paints	147
	182	89	179	215	665	Performance Coatings	194
	(53)	(51)	(55)	(94)	(253)	Other activities	(38)
	187	207	326	243	963	Total	303
	9.1	10.4	14.3	11.0	11.3	OPI margin (in %)	13.4
Identified items							
	(6)	(6)	(6)	(4)	(22)	Decorative Paints	(1)
	(8)	(14)	(16)	3	(35)	Performance Coatings	(2)
	(13)	(11)	(5)	(50)	(79)	Other activities	(1)
	(27)	(31)	(27)	(51)	(136)	Total	(4)
Adjusted operating income (excluding identified items)¹							
	64	175	208	126	573	Decorative Paints	148
	190	103	195	212	700	Performance Coatings	196
	(40)	(40)	(50)	(44)	(174)	Other activities	(37)
	214	238	353	294	1,099	Total	307
	10.4	12.0	15.5	13.3	12.9	ROS²	13.6
Reconciliation net financing income/(expenses)							
	4	3	3	4	14	Financing income	3
	(15)	(17)	(17)	(17)	(66)	Financing expenses	(17)
	(11)	(14)	(14)	(13)	(52)	Net interest on net debt	(14)
Other interest movements							
	4	3	4	3	14	Financing expenses related to post-retirement benefits	3
	(2)	(5)	–	(3)	(10)	Interest on provisions	5
	(4)	(9)	(5)	(3)	(21)	Other items	(2)
	(2)	(11)	(1)	(3)	(17)	Net other financing charges	6
	(13)	(25)	(15)	(16)	(69)	Net financing expenses	(8)

¹ Alternative performance measures: please refer to reconciliation to the most directly comparable IFRS measures on pages 12 and 13.

² ROS is adjusted operating income as percentage of revenue; ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.

AkzoNobel

Quarterly statistics

	Q1	Q2	Q3	Q4	2020 year		2021 Q1
Quarterly net income analysis (in € millions)							
	7	5	6	7	25	Results from associates and joint ventures	7
	181	187	317	234	919	Profit before tax	302
	(54)	(53)	(82)	(52)	(241)	Income tax	(73)
	127	134	235	182	678	Profit for the period from continuing operations	229
	30	28	26	22	26	Effective tax rate (in %)	24
Earnings per share from continuing operations (in €)							
	0.59	0.68	1.18	0.88	3.33	Basic	1.16
	0.59	0.67	1.18	0.88	3.32	Diluted	1.16
Earnings per share from discontinued operations (in €)							
	–	–	(0.03)	(0.01)	(0.04)	Basic	(0.01)
	–	–	(0.03)	(0.01)	(0.04)	Diluted	(0.01)
Earnings per share from total operations (in €)							
	0.59	0.68	1.15	0.87	3.29	Basic	1.15
	0.59	0.67	1.15	0.87	3.28	Diluted	1.15
Number of shares (in millions)							
	194.0	190.7	190.6	190.5	191.4	Weighted average number of shares ¹	188.8
	191.4	190.6	190.6	189.9	189.9	Number of shares at end of quarter ¹	187.8
Adjusted earnings from continuing operations (in € millions)²							
	181	187	317	234	919	Profit before tax from continuing operations	302
	27	31	27	51	136	Identified items reported in operating income	4
	–	–	–	(3)	(3)	Identified items reported in interest	–
	(59)	(60)	(87)	(63)	(269)	Adjusted income tax	(74)
	(12)	(5)	(10)	(14)	(41)	Non-controlling interests	(10)
	137	153	247	205	742	Adjusted net income from continuing operations	222
	0.71	0.80	1.30	1.08	3.88	Adjusted earnings per share from continuing operations (in €)	1.18

¹ After share buyback

² Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 12 and 13.

Glossary

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

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

Adjusted EBITDA margin is adjusted EBITDA as percentage of revenue.

Adjusted operating income is operating income excluding identified items.

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

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

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

EBITDA is operating income excluding depreciation and amortization.

EBITDA margin is EBITDA as percentage of revenue.

EMEA is Europe, Middle East and Africa.

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

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

Leverage ratio is calculated as net debt divided by EBITDA, which is calculated as the total of the last 12 months.

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

North America includes Mexico.

North Asia includes China, Japan, Mongolia and South Korea.

Operating income is defined as income excluding net financing expenses, results from associates and joint ventures, income tax and results from discontinued operations. Operating income includes the share of non-controlling interests. Operating income includes identified items to the extent these relate to lines included in operating income.

Operating working capital (trade) is defined as the sum of inventories, trade receivables and trade payables. 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.
Note: ROS excluding unallocated cost was reported in relation to the Winning together: 15 by 20 strategy and is no longer reported.

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

South America excludes Mexico.

South Asia Pacific includes South East Asia and Asia Pacific.

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 significant market disruptions such as the impact of pandemics. 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.

Akzo Nobel N.V.

Christiaan Neefestraat 2
P.O. Box 75730
1070 AS Amsterdam, the Netherlands
T +31 88 969 7555
www.akzonobel.com

For more information:

The explanatory sheets used during the analyst call can be viewed on AkzoNobel's corporate website www.akzonobel.com/en/investors/results-center

AkzoNobel Global Communications
T +31 88 969 7833
E media.relations@akzonobel.com

AkzoNobel Investor Relations
T +31 88 969 7856
E investor.relations@akzonobel.com

Financial calendar

Annual General Meeting of shareholders	April 22, 2021
Ex-dividend date of 2020 final dividend	April 26, 2021
Record date of 2020 final dividend	April 27, 2021
Payment of 2020 final dividend	May 6, 2021
Report for the second quarter	July 21, 2021

AkzoNobel

We've been pioneering a world of possibilities to bring surfaces to life for well over 200 years. As experts in making coatings, there's a good chance you're only ever a few meters away from one of our products. Our world class portfolio of brands – including Dulux, International, Sikkens and Interpon – is trusted by customers around the globe. We're active in more than 150 countries and have set our sights on becoming the global industry leader. It's what you'd expect from the most sustainable paints company, which has been inventing the future for more than two centuries.

For more information please visit www.akzonobel.com.

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