

REPORT 2022

AkzoNobel

Rising to the challenge

The world's biggest offshore wind farm is being protected from the ravages of the North Sea by our International coatings. Hornsea 2 is located off the east coast of England and is capable of powering more than 1.3 million homes. All 165 of its towering 8MW turbines feature Interzone 954, a high-performance coating which has now protected over 2,000 offshore wind assets worldwide.

Our results at a glance

Highlights Grow & Deliver (compared with Q2 2021)

- Revenue up 14% and 10% higher in constant currencies, pricing up 16%
- ROS at 8.7% (2021: 13.3%), resulting from lower volumes and continued raw material and freight costs inflation
- Adjusted EBITDA at €337 million (2021: €419 million)
- Acquisition of Grupo Orbis completed in April 2022. Intended acquisition of Kansai Paint's business in Africa announced in June 2022. Intended acquisition of the liquid wheel coatings business of Germany-based Lankwitzer Lackfabrik GmbH announced in July 2022

Highlights Q2 2022 (compared with Q2 2021)

- Pricing up 16%; offsetting the increase of raw material and other variable costs. Volumes 9% lower
- Operating income at €205 million (2021: €384 million), includes €44 million negative impact from Identified items (2021: €49 million net positive impact). OPI margin 7.2% (2021: 15.3%)
- Adjusted operating income at €249 million (2021: €335 million)
- Net cash from operating activities decreased to negative €52 million (2021: positive €168 million)
- Net income attributable to shareholders at €106 million (2021: €261 million)
- EPS from total operations at €0.60 (2021: €1.40); adjusted EPS from continuing operations at €0.84 (2021: €1.20)

Highlights half-year (compared with half-year 2021)

- Revenue up 13% and 10% higher in constant currencies, pricing up 16%
- Operating income at €437 million (2021: €687 million), includes €42 million negative impact from Identified items (2021: €45 million net positive impact). OPI margin 8.1% (2021: 14.4%)
- Adjusted operating income at €479 million (2021: €642 million)
- Net cash from operating activities decreased to negative €154 million (2021: positive €137 million)
- Net income attributable to shareholders at €260 million (2021: €478 million)

Outlook

AkzoNobel targets to grow at or above its relevant markets, in line with the company's Grow & Deliver strategy. Trends differ per region and segment, with raw material and other variable cost inflation (including freight) expected to gradually ease towards the end of 2022. AkzoNobel aims to continue to offset raw material and other variable cost inflation (including freight) through pricing initiatives. Macroeconomic uncertainties have increased due to geopolitical tension, the resurgence of COVID-19 and inflation. Assuming there are no further significant market disruptions, AkzoNobel aims to deliver the €2 billion adjusted EBITDA target for 2023, and an average annual 50 basis points increase in return on sales over the period 2021-2023*. AkzoNobel targets a leverage ratio of 1-2 times net debt/EBITDA and is committed to retaining a strong investment grade credit rating.

* Please refer to the glossary on page 22 for underlying assumptions

Summary of financial results

Second quarter			January-June			
2021	2022	Δ%	in € millions / %	2021	2022	Δ%
2,511	2,853	14%	Revenue	4,774	5,378	13%
469	292	(38%)	EBITDA*	857	613	(28%)
419	337	(20%)	Adjusted EBITDA*	810	654	(19%)
384	205	(47%)	Operating income	687	437	(36%)
49	(44)		Identified items*	45	(42)	
335	249	(26%)	Adjusted operating income*	642	479	(25%)
15.3	7.2		OPI margin (%)*	14.4	8.1	
13.3	8.7		ROS (%)*	13.4	8.9	
			Average invested capital*	6,673	7,332	10%
			ROI (%)*	19.3	12.7	
62	67		Capital expenditures	119	124	
			Net debt	1,857	3,865	
			Leverage ratio (net debt/EBITDA)*	1.2	3.2	
			Number of employees	32,800	36,100	
168	(52)		Net cash from operating activities	137	(154)	
261	106		Net income attributable to shareholders	478	260	
187.0	175.9		Weighted average number of shares (in millions)	187.9	176.8	
1.40	0.60		Earnings per share from total operations (in €)	2.54	1.47	
1.20	0.84		Adjusted earnings per share from continuing operations (in €)*	2.38	1.70	

* Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 17 and 18.

Alternative performance measures (APM)

AkzoNobel uses APM adjustments to 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 17 and 18.

Financial highlights

Q2 2022

Revenue

Pricing up 16%. Revenue was 14% higher, and 10% higher in constant currencies. Volumes were 9% lower, mainly as a result of destocking in the DIY channel in Europe and continued COVID-19 restrictions in China for both Performance Coatings and Decorative Paints. Furthermore, volumes were negatively impacted by supply constraints, especially in North America. Acquisitions added 3%.

Cost of sales

Raw material and other variable costs (including freight), adjusted for the impact of lower volumes, increased €321 million compared with the second quarter of 2021.

Half-year 2022

Revenue

Pricing up 16%. Revenue was 13% higher, and 10% higher in constant currencies, mainly resulting from significant pricing initiatives. Volumes were 8% lower, mainly as a result of destocking in the DIY channel in Europe and continued COVID-19 restrictions in China for both Performance Coatings and Decorative Paints. Furthermore, volumes were negatively impacted by supply constraints, especially in North America. Acquisitions added 2%.

Acquisitions

Grupo Orbis

In April 2022, the acquisition of Colombia-based paints and coatings company Grupo Orbis was completed. A provisional purchase price allocation is included in the figures and will be further updated and disclosed as work progresses.

Grupo Orbis results are included in business unit Decorative Paints Latin America and business unit Other for Performance Coatings. The allocation of revenues to the Decorative Paints and Performance Coatings segments is based on the nature and products of the underlying activities. Further allocation of

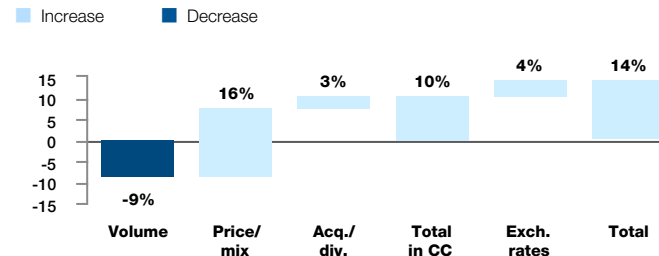
revenues to business unit level within the Performance Coatings segment is expected to be available as from the start of 2023.

The contribution of Grupo Orbis to operating income for the quarter is virtually nil, mainly as a result of additional depreciation, amortization and cost of sales resulting from the provisional purchase price allocation.

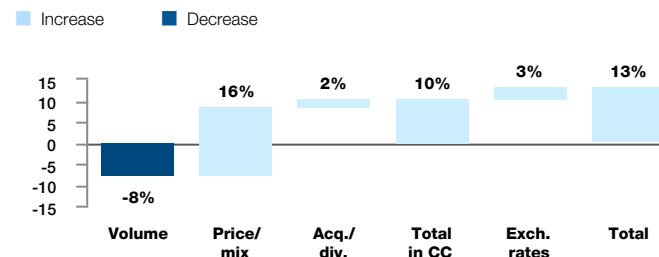
Other acquisitions

On June 1, 2022, the intention to acquire Kansai Paint's activities in Africa was announced. The acquisition is expected to be completed in the course of 2023. Further, on July 6, the intended acquisition of the liquid wheel coatings business of Germany-based Lankwitzer Lackfabrik GmbH was announced, which is expected to be completed before the end of 2022.

Revenue development Q2 2022



Revenue development half-year 2022



Revenue

Second quarter					January-June				
2021	2022	Δ%	Δ% CC*	in € millions	2021	2022	Δ%	Δ% CC*	
1,086	1,182	9%	6%	Decorative Paints	2,016	2,188	9%	6%	
1,423	1,670	17%	13%	Performance Coatings	2,755	3,188	16%	12%	
2	1			Other activities	3	2			
2,511	2,853	14%	10%	Total	4,774	5,378	13%	10%	

* Change excluding currency impact.

in % versus Q2 2021	Volume	Price/mix	Acq./div.	Exch. rates	Total
Decorative Paints	(8)	11	3	3	9
Performance Coatings	(9)	19	3	4	17
Total	(9)	16	3	4	14

in % versus year-to-date 2021	Volume	Price/mix	Acq./div.	Exch. rates	Total
Decorative Paints	(7)	11	2	3	9
Performance Coatings	(8)	19	1	4	16
Total	(8)	16	2	3	13

Volume development per quarter (year-on-year) in %	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Decorative Paints	22	(11)	(8)	(7)	(8)
Performance Coatings	30	(2)	(5)	(7)	(9)
Total	26	(6)	(6)	(7)	(9)

Price/mix development per quarter (year-on-year) in %	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Decorative Paints	(2)	10	10	12	11
Performance Coatings	4	11	14	19	19
Total	1	11	12	16	16

Currency development per quarter (year-on-year) in %	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
Decorative Paints	(2)	—	1	2	3
Performance Coatings	(4)	1	2	2	4
Total	(3)	—	2	2	4

Financial highlights

Q2 2022

Operating income

Operating income at €205 million (2021: €384 million), despite pricing initiatives more than compensating for the continued significant impact from raw material and freight costs inflation. Lower volumes in both Decorative Paints and Performance Coatings, mainly due to destocking in the DIY channel in Europe, the impact of COVID-19 restrictions in China and supply constraints for all Performance Coatings businesses, especially in North America. Operating expenses increased as a result of increased manufacturing, supply chain and IT costs.

Operating income includes negative Identified items of €44 million, mainly related to transformation initiatives (2021: €49 million positive Identified items mainly relating to one-off gains from the Brazil ICMS case and UK pensions curtailment). OPI margin at 7.2% (2021: 15.3%).

Other activities decreased €7 million to €35 million negative (2021: €28 million negative), mainly due to higher costs for acquisitions in Q2 2022 and insurance gains in Q2 2021.

Adjusted operating income

Adjusted operating income at €249 million (2021: €335 million). ROS at 8.7% (2021: 13.3%).

Half-year 2022

Operating income

Operating income at €437 million (2021: €687 million), despite pricing initiatives more than compensating for the continued significant impact from raw material and freight costs inflation. Lower volumes in both Decorative Paints and Performance Coatings, mainly due to destocking in the DIY channel in Europe, the impact of COVID-19 restrictions in China and supply constraints for all Performance Coatings businesses, especially in North America. Operating expenses increased as a result of increased manufacturing, supply chain and IT costs.

Operating income includes negative Identified items of €42 million, mainly related to transformation initiatives (2021: €45 million net positive Identified items, mainly relating to one-off

gains from the Brazil ICMS case and UK pensions curtailment). OPI margin at 8.1% (2021: 14.4%).

Other activities decreased €13 million to €66 million negative (2021: €53 million negative), mainly due to transformation initiatives and costs from acquisitions.

Adjusted operating income

Adjusted operating income at €479 million (2021: €642 million). ROS at 8.9% (2021: 13.4%).

Impact from the conflict in Ukraine and sanctions on Russia

Our business in Ukraine and Russia combined represented about 2% of our revenue prior to the start of the conflict, of which the vast majority concerns Russia.

In Q1, activities in Ukraine came to a halt. In Russia, our Aerospace Coatings activities and new investments and marketing activities had been suspended.

In Q2, following the EU sanctions, the majority of our coatings business in Russia was suspended and the residual Russian business will be locally operated. More of the remaining business in Russia could decline in the next months, especially due to limited availability of raw materials in Russia.

In Q2, the direct financial impact from impairment of accounts receivable and inventories was immaterial.

Operating income

Second quarter			January-June			
2021*	2022	Δ%	in € millions	2021*	2022	Δ%
234	128	(45%)	Decorative Paints	377	241	(36%)
178	112	(37%)	Performance Coatings	363	262	(28%)
(28)	(35)		Other activities	(53)	(66)	
384	205	(47%)	Total	687	437	(36%)

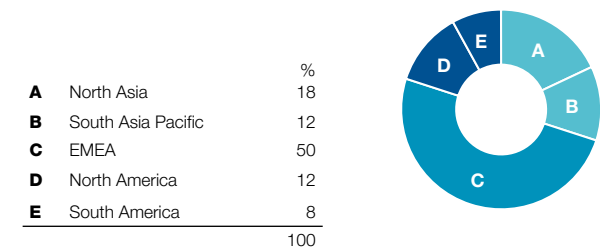
* Operating income per segment for 2021 has been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in 'Other activities'. More information is available on our website.

Adjusted operating income

Second quarter			January-June			
2021*	2022	Δ%	in € millions	2021*	2022	Δ%
187	133	(29%)	Decorative Paints	331	238	(28%)
171	143	(16%)	Performance Coatings	359	292	(19%)
(23)	(27)		Other activities	(48)	(51)	
335	249	(26%)	Total	642	479	(25%)

* Adjusted operating income per segment for 2021 has been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in 'Other activities'. More information is available on our website.

AkzoNobel around the world Revenue by destination



(Based on the full-year 2021)

Financial highlights

Half-year 2022

Financing income and expenses

Financing income and expenses increased by €28 million to €40 million. Interest on net debt increased by €13 million, mainly as a result of the bonds issued in March 2022 and financing related to the Grupo Orbis acquisition. Other interest includes €11 million expenses from Argentina and Türkiye hyperinflation accounting and €10 million interest income related to the UK ACT case, the latter booked as Identified item. The finance income and expenses in Q2 2021 included a gain of €20 million from one-off interest income related to the Brazil ICMS case.

Income tax

The effective tax rate was 31.5% (2021: 28.4%). The increase compared with the previous year is mainly related to a €14 million true-up of the tax charge related to the UK ACT case, booked as Identified item. Excluding Identified items, the effective tax rate was 28.5% (2021: 25.1%).

Net income

Net income attributable to shareholders was €260 million (2021: €478 million). Earnings per share from total operations decreased to €1.47 (2021: €2.54), including the impact of share buyback programs.

Operating income to net income

Second quarter			January-June	
2021	2022	in € millions	2021	2022
384	205	Operating income	687	437
(4)	(28)	Financing income and expenses	(12)	(40)
8	5	Results from associates and joint ventures	15	13
388	182	Profit before tax	690	410
(123)	(67)	Income tax	(196)	(129)
265	115	Profit from continuing operations	494	281
7	(6)	Profit from discontinued operations	5	(6)
272	109	Profit for the period	499	275
(11)	(3)	Non-controlling interests	(21)	(15)
261	106	Net income	478	260



New solar project boosts ESG performance

A major solar energy project was completed at our Izmir powder coatings facility in Türkiye. More than 2,300 panels have been installed, making AkzoNobel the first company to invest in solar energy in the Aegean Free Trade Zone. It's another step towards realizing our ambition of 100% renewable electricity by 2030. This drive to reduce carbon emissions was also recognized with AkzoNobel featuring in the top 25 companies on Euronext Amsterdam's new AEX® ESG Index.

Decorative Paints

Highlights Q2 2022

- Pricing up 13%. Revenue up 9% and up 6% in constant currencies
- ROS at 11.3% (2021: 17.2%), resulting from lower volumes and continued raw material and freight cost inflation

Q2 2022

Pricing up 13%. Revenue was up 9% and 6% higher in constant currencies, with significant pricing initiatives partly offset by lower volumes due to destocking in the DIY channel in Europe and COVID-19 restrictions in China. Volumes excluding China, Russia and acquisitions increased 3% compared with Q2 2019.

Operating income of €128 million (2021: €234 million), as pricing initiatives were offset by lower volumes and continued raw material and freight cost inflation. Operating income included €5 million negative Identified items, mainly related to transformation initiatives (2021: positive €47 million mainly related to one-off gains from the Brazil ICMS case and UK pensions curtailment).

Adjusted operating income at €133 million (2021: €187 million) and ROS at 11.3% (2021: 17.2%).

Half-year 2022

Pricing up 13%. Revenue was up 9% and 6% higher in constant currencies, with significant pricing initiatives partly offset by lower volumes due to normalization of DIY in Q1 and resulting destocking in the DIY channel in Europe in Q2.

Operating income of €241 million (2021: €377 million) as pricing initiatives were offset by lower volumes and continued raw material and freight cost inflation. Operating income includes €3 million positive Identified items, mainly related to divestments and partly offset by transformation initiatives (2021: positive €46 million mainly related to one-off gains from the Brazil ICMS case and UK pensions curtailment).

Adjusted operating income at €238 million (2021: €331 million) and ROS at 10.9% (2021: 16.4%).

Revenue

Second quarter				January-June				
2021	2022	Δ%	Δ% CC*	in € millions	2021	2022	Δ%	Δ% CC ¹
720	673	(7%)	(6%)	Decorative Paints EMEA	1,316	1,273	(3%)	(3%)
101	201	99%	78%	Decorative Paints Latin America ²	198	320	62%	49%
265	308	16%	7%	Decorative Paints Asia	502	595	19%	11%
1,086	1,182	9%	6%	Total	2,016	2,188	9%	6%

¹ Change excluding currency impact

² Previously reported as Decorative Paints South America; includes Grupo Orbis Paints business as from April 21, 2022

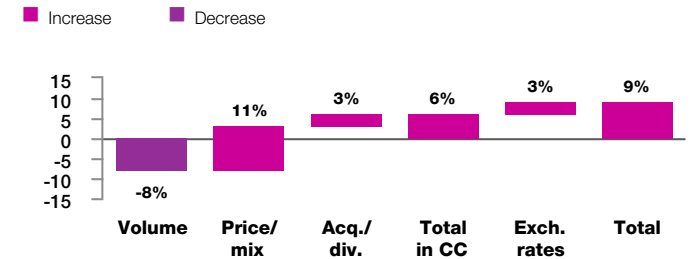
Key financial figures

Second quarter				January-June		
2021	2022	Δ%	in € millions / %	2021	2022	Δ%
234	128	(45%)	Operating income ¹	377	241	(36%)
47	(5)		Identified items ²	46	3	
187	133	(29%)	Adjusted operating income ^{1,2}	331	238	(28%)
21.5	10.8		OPI margin (%) ^{1,2}	18.7	11.0	
17.2	11.3		ROS (%) ^{1,2}	16.4	10.9	
			Average invested capital ²	2,734	3,226	18%
			ROI (%) ^{1,2}	24.3	15.1	

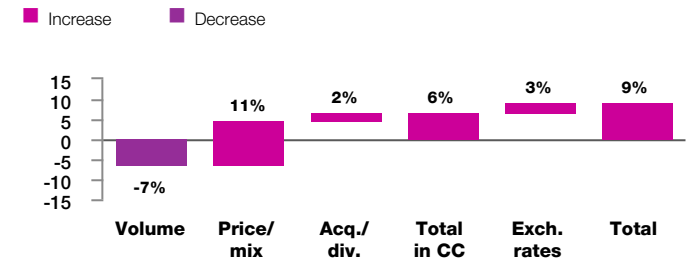
¹ Operating income and adjusted operating income (and related measures) for 2021 have been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in 'Other activities'. More information is available on our website.

² Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 17 and 18.

Revenue development Q2 2022



Revenue development half-year 2022



Europe, Middle East and Africa

Revenue in Q2 was 7% lower and 6% lower in constant currencies, as significant pricing initiatives and continued strong demand in the professional segment were offset by lower volumes due to destocking in the DIY channel in Europe. The DIY volume impact was more significant in the first half of the quarter with improvement in the latter half of the quarter.

Half-year revenue was 3% lower, strong pricing initiatives and continued strong demand in the professional market were offset by normalization of demand in DIY in Q1 and resulting destocking in the DIY channel in Europe in Q2.

Latin America

Revenue in Q2 was 99% higher and up 78% in constant currencies, driven by the acquisition of Grupo Orbis (effective April 21, 2022) and pricing initiatives. Revenue further grew as a result of store expansion and new product introductions. Excluding Grupo Orbis, revenue in Latin America was 56% higher compared with Q2 2021 (40% in constant currencies).

Half-year revenue was 62% higher and 49% higher in constant currencies, driven by the acquisition of Grupo Orbis, pricing initiatives and store expansion. Excluding Grupo Orbis, revenue in Latin America was 40% higher compared with the first half-year of 2021 (29% in constant currencies).

Asia

Revenue in Q2 was 16% higher and up 7% in constant currencies, driven by significant pricing initiatives in Asia and strong volume growth in South Asia. In China, pricing initiatives, premium product growth and geographic expansion offset lower volumes as a result of COVID-19 restrictions. South Asia continued to show strong sequential recovery with strong volume growth, especially in India and Vietnam.

Half-year revenue was up 19% and 11% higher in constant currencies as a result of pricing initiatives, China geographic expansion and growth in South Asia, partly offset by COVID-19 restrictions in China. Despite two months of impact from COVID-19 restrictions, China revenue grew as a result of pricing initiatives and significant growth from geographic expansion. South Asia revenue grew significantly as a result of strong pricing and volume growth.



Deal agreed to acquire Kansai Paint's activities in Africa

We've reached an agreement to acquire the African paints and coatings activities of Kansai Paint. The intended deal will further strengthen our footprint in the region, where our Dulux brand is already a long-established brand. Present in 12 countries in Africa, Kansai Paint has regional consolidated revenue of around €280 million. Completion is expected during the course of 2023.

Performance Coatings

Highlights Q2 2022

- Pricing up 18%. Revenue up 17% and up 13% in constant currencies. Revenue growth in all segments, despite the impact from COVID-19 in China
- ROS at 8.6% (2021: 12.0%), resulting from continued raw material and freight cost inflation and supply constraints, mainly in North America

Q2 2022

Pricing up 18%. Revenue was 17% higher and up 13% in constant currencies, driven by strong pricing initiatives in all segments. Volumes lower due to COVID-19 impact in China and remaining supply constraints, especially in North America. Volumes excluding China, Russia and acquisitions were 1% lower compared with Q2 2021.

Operating income of €112 million (2021: €178 million), despite pricing initiatives more than compensating for the continued significant impact from raw material and freight costs inflation. Operating income included €31 million negative Identified items related to transformation initiatives (2021: positive €7 million mainly related to one-off gains from the Brazil ICMS case).

Adjusted operating income at €143 million (2021: €171 million). ROS at 8.6% (2021: 12.0%).

Half-year 2022

Pricing up 18%. Revenue was 16% higher and up 12% in constant currencies, driven by strong pricing initiatives in all segments. Lower volumes due to COVID-19 impact in China and supply constraints, especially in North America.

Operating income of €262 million (2021: €363 million), despite pricing initiatives more than compensating for the continued significant impact from raw material and freight costs inflation. Operating income included €30 million negative Identified items related to transformation initiatives (2021: positive €4 million mainly related to one-off gains from the Brazil ICMS case, partly offset by transformation initiatives).

Adjusted operating income at €292 million (2021: €359 million). ROS at 9.2% (2021: 13.0%).

Revenue				January-June				
Second quarter				January-June				
2021	2022	Δ%	Δ% CC*	in € millions	2021	2022	Δ%	Δ% CC*
345	354	3%	(1%)	Powder Coatings	663	698	5%	3%
297	342	15%	10%	Marine and Protective Coatings	567	643	13%	9%
309	354	15%	10%	Automotive and Specialty Coatings	612	694	13%	10%
472	578	22%	18%	Industrial Coatings	913	1,111	22%	19%
—	42			Other activities	—	42		
1,423	1,670	17%	13%	Total	2,755	3,188	16%	12%

* Change excluding currency impact.

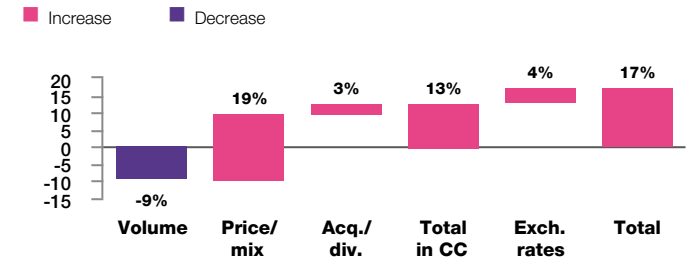
Key financial figures

Second quarter				January-June		
2021	2022	Δ%	in € millions / %	2021	2022	Δ%
178	112	(37%)	Operating income ¹	363	262	(28%)
7	(31)		Identified items ²	4	(30)	
171	143	(16%)	Adjusted operating income ^{1,2}	359	292	(19%)
12.5	6.7		OPI margin (%) ^{1,2}	13.2	8.2	
12.0	8.6		ROS (%) ^{1,2}	13.0	9.2	
			Average invested capital ²	3,409	3,721	9%
			ROI (%) ^{1,2}	22.5	14.7	

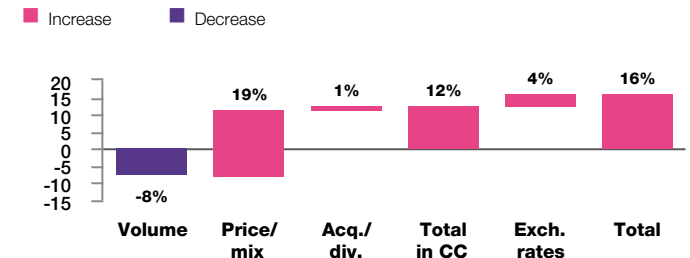
¹ Operating income and adjusted operating income (and related measures) for 2021 have been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in 'Other activities'. More information is available on our website.

² Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 17 and 18.

Revenue development Q2 2022



Revenue development half-year 2022



Powder Coatings

Revenue in Q2 was up 3% and 1% lower in constant currencies. Strong pricing initiatives, mainly in the industrial, consumer and automotive segments. Powder Coatings was impacted by COVID-19 restrictions in China, as well as impact from supply constraints, especially in North America.

Half-year revenue was up 5% and 3% higher in constant currencies, resulting from strong pricing initiatives, mainly in the industrial, consumer and automotive segments.

Marine and Protective Coatings

Revenue in Q2 was up 15% and 10% higher in constant currencies. The increase was driven by pricing initiatives and volume growth in all regions except China, as China was impacted by COVID-19 restrictions.

Half-year revenue was up 13% and 9% higher in constant currencies, with continued strong pricing initiatives offsetting the impacts from COVID-19 and supply constraints.

Automotive and Specialty Coatings

Revenue in Q2 was 15% higher and 10% higher in constant currencies, mainly due to pricing initiatives more than offsetting slightly lower volumes. Aerospace and vehicle refinishes showed volume growth. Outside of China, volumes were flat compared with Q2 2021.

Half-year revenue was 13% higher and 10% up in constant currencies, mainly as a result of strong pricing initiatives. Demand for aerospace and vehicle refinishes increased.

Industrial Coatings

Revenue in Q2 was up 22% and 18% in constant currencies, driven by significant pricing initiatives. Revenue growth in all segments, especially in coil and packaging, despite volume impacts from COVID-19 restrictions and supply constraints.

Half-year revenue was up 22% and 19% higher in constant currencies, with all segments showing strong revenue growth resulting from pricing initiatives.

Other activities

Other activities includes Grupo Orbis revenues (as from April 21, 2022) to the extent these relate to the Performance Coatings segment.



Set to acquire Lankwitzer Lackfabrik wheel liquid coatings

An agreement is in place to acquire the aluminum wheel liquid coatings business of Lankwitzer Lackfabrik GmbH, operating out of Germany. The deal will bolster our performance coatings portfolio with products approved for use by car manufacturers such as Daimler, Audi, VW, Opel, Fiat and Renault. Completion is expected by the end of 2022.

Principal risks and uncertainties

In our 2021 annual report we consider risk assessment and mitigation a continuous process, which is carried out against the background of an evolving risk landscape that includes short-, medium- and longer-term challenges. We consider the major risk factors as communicated in the annual report of 2021 to be still valid. The below is reflecting the updated risk assessment since the publication of the 2021 annual report.

Risks assessed to increase

Risk	Risk description	Mitigating actions
Global economy and the geo-political context	The world's unpredictable geo-political situation, with its impact on supply and demand and the highly competitive markets in which we operate, requires ongoing attention to protect our financial performance.	<ul style="list-style-type: none"> • Geo-political assessment as part of investment decisions and medium-term operational planning (e.g. task force Russian-Ukrainian conflict) • Deployment of commercial and procurement excellence programs • Continued focus on operational cost, complexity reduction and margin management in our Grow & Deliver strategy
Organic growth	Market leadership in those parts of the world where our markets are growing is a cornerstone of our strategy. A global presence, in combination with locally tailored go-to-market models, is an essential ingredient of success.	<ul style="list-style-type: none"> • Drive BU strategic mandates underpinning Grow & Deliver strategy • Investment in sales capability and deployment of commercial excellence programs • Driving demand planning, product innovation and supply chain agility through integrated business planning • Establishing strong Product Management excellence processes across all business units

Principal risks and uncertainties

Risks assessed to remain fairly stable

Risk	Risk description	Mitigating actions
Supply disruptions and key raw material shortages	<p>Supply disruptions due to continued worldwide supply shortages, climate change impacts and catastrophic events on the supplier side require continuous attention to protect our service levels to our customers.</p>	<ul style="list-style-type: none"> • Maintain and further improve strong industry and market intelligence analysis of suppliers and raw material markets • Drive supply chain network design, end-to-end from supplier to end customer • Roll out raw material plan through integrated business planning • Assess climate change impact and develop mitigation plans for own operations and key suppliers' locations and logistics (see Sustainability statements Annual Report) • Continue to apply an internal carbon price for large investment decisions (see Sustainability statements Annual Report) • Continue to deploy our sustainable product portfolio management to further develop low carbon and more circular solutions (see Sustainability statements Annual Report)
Pandemic	<p>The risk of a global pandemic materialized in 2020. The company acted to safeguard employee health and well-being and minimize business disruption.</p>	<ul style="list-style-type: none"> • Safety guidelines for our staff, contractors and/or third-party suppliers working on our premises, updated in real time based on local regulations/guidance • Focus on well-being support to our staff • Agility of supply chain and distribution channels • Continuous monitoring of pandemic impact, including updating of forecasts • Continued focus on operational cost and complexity reduction
Innovation, identification and successful implementation of major transforming technologies	<p>Our leadership positions and future success are underpinned by investment in research, the adoption of major transforming technologies and continuous development of the talents and skills of our people.</p>	<ul style="list-style-type: none"> • Improve product management lifecycle through the Product Management Network • Build leading capability and value chain collaboration to underpin our 50% carbon reduction commitment by 2030 • IT resources to support the business in new technology applications
Information technology and cybersecurity	<p>With the increasing frequency and magnitude of cyber security threats facing us, we're taking additional measures to strengthen our security to be better able to respond and recover as quickly as possible in the event of an incident impacting our company.</p>	<ul style="list-style-type: none"> • Continually reinforcing a cybersecurity culture (intensified training, awareness creation) • Continuation of system rationalization to remove redundant legacy systems where they exist • Increasing collaboration with suppliers on various detection and response activities and measures
Attraction and retention of talent	<p>Our organization's ability to attract and retain talent in a tightening talent market and rapidly evolving business environment determines, to a large extent, the success of our organization to deliver on our targets.</p>	<ul style="list-style-type: none"> • Strengthen AkzoNobel's value proposition, based on our commitment to employee growth and the company's purpose • Focus on talent acquisition plan, talent development programs and succession planning (e.g. Talent and Opportunity Review, Young AkzoNobel, nomination of Talent Managers) • Embed Talent Management Framework driving talent and leadership development

Condensed consolidated financial statements

Condensed consolidated statement of income

Condensed consolidated statement of income				
Second quarter			January-June	
2021	2022	in € millions	2021	2022
Continuing operations				
2,511	2,853	Revenue	4,774	5,378
(1,466)	(1,820)	Cost of sales*	(2,731)	(3,364)
1,045	1,033	Gross profit	2,043	2,014
(719)	(826)	SG&A costs*	(1,415)	(1,575)
58	(2)	Other results	59	(2)
384	205	Operating income	687	437
(4)	(28)	Financing income and expenses	(12)	(40)
8	5	Results from associates and joint ventures	15	13
388	182	Profit before tax	690	410
(123)	(67)	Income tax	(196)	(129)
265	115	Profit for the period from continuing operations	494	281
Discontinued operations				
7	(6)	Profit/(loss) for the period from discontinued operations	5	(6)
272	109	Profit for the period	499	275
Attributable to				
261	106	Shareholders of the company	478	260
11	3	Non-controlling interests	21	15
272	109	Profit for the period	499	275

* Cost of sales and SG&A costs for 2021 have been updated to reflect changes in the financial reporting structure related to recent changes in the organizational set-up and related governance structure, with no net impact on operating income or net income. More information is available on our website.

Condensed consolidated statement of comprehensive income

Condensed consolidated statement of comprehensive income				
Second quarter			January-June	
2021	2022	in € millions	2021	2022
272	109	Profit for the period	499	275
Other comprehensive income				
(13)	98	Exchange differences arising on translation of foreign operations	199	124
—	(16)	Cash flow hedges	—	19
115	7	Post-retirement benefits	68	47
(18)	(4)	Tax relating to components of other comprehensive income	(20)	(16)
84	85	Other comprehensive income for the period (net of tax)	247	174
356	194	Comprehensive income for the period	746	449
Comprehensive income for the period attributable to				
350	180	Shareholders of the company	726	427
6	14	Non-controlling interests	20	22
356	194	Comprehensive income for the period	746	449

Condensed consolidated balance sheet

Condensed consolidated balance sheet		
in € millions	December 31, 2021	June 30, 2022
Assets		
Non-current assets		
Intangible assets	3,690	4,297
Property, plant and equipment	1,800	1,960
Right-of-use assets	304	296
Other non-current assets	2,736	2,601
Total non-current assets	8,530	9,154
Current assets		
Inventories	1,650	2,118
Trade and other receivables	2,339	2,904
Current tax assets	149	151
Short-term investments	58	782
Cash and cash equivalents	1,152	1,076
Total current assets	5,348	7,031
Total assets	13,878	16,185
Equity and liabilities		
Group equity		
	5,636	5,434
Non-current liabilities		
Provisions and deferred tax liabilities	1,379	1,330
Long-term borrowings	1,994	3,404
Total non-current liabilities	3,373	4,734
Current liabilities		
Short-term borrowings	1,556	2,319
Trade and other payables	2,948	3,292
Other short-term liabilities	365	406
Total current liabilities	4,869	6,017
Total equity and liabilities	13,878	16,185

Shareholders' equity

Shareholders' equity amounted to €5.2 billion at June 30, 2022, compared with €5.4 billion at year-end 2021. Main movements relate to:

- Profit for the period of €260 million
- Currency effects of €117 million positive (including taxes)

Offset by:

- Share buyback of €404 million (including taxes)
- Dividend of €272 million

Dividend

The dividend policy remains unchanged and is to pay a stable to rising dividend.

The final 2021 dividend of €1.54 per common share was approved by the AGM in April 2022 and was paid. The total 2021 dividend amounted to €1.98 per share (2020: €1.95).

Outstanding share capital

The outstanding share capital was 177.7 million common shares at the end of June 2022. This included 3.2 million shares acquired in the share buyback programs not yet cancelled.

The weighted average number of shares in Q2 2022 was 175.9 million shares. The weighted average number of shares for the first half-year of 2022 was 176.8 million shares. These weighted average numbers of shares exclude shares bought back and not yet cancelled and were the basis for the calculation of earnings per share.

In February 2021, a €1 billion share buyback program was announced, which was completed in January 2022.

In February 2022, a €500 million share buyback program was announced, to be completed by Q1 2023. As at June 30, 2022, 3.2 million shares had been acquired under this program for a value of €245 million.

Changes in equity

in € millions	Subscribed share capital	Cash flow hedge reserve	Cumulative translation reserves	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
Balance at December 31, 2020	95	—	(873)	6,524	5,746	204	5,950
Profit for the period	—	—	—	478	478	21	499
Other comprehensive income	—	—	198	50	248	(1)	247
Comprehensive income for the period	—	—	198	528	726	20	746
Dividend	—	—	—	(285)	(285)	(7)	(292)
Share buyback	—	—	—	(489)	(489)	—	(489)
Equity-settled transactions	—	—	—	10	10	—	10
Balance at June 30, 2021	95	—	(675)	6,288	5,708	217	5,925
Balance at December 31, 2021	91	(19)	(493)	5,846	5,425	211	5,636
Impact IAS 29 Hyperinflation Türkiye*	—	—	—	18	18	2	20
Balance at January 1, 2022	91	(19)	(493)	5,864	5,443	213	5,656
Profit for the period	—	—	—	260	260	15	275
Other comprehensive income	—	19	117	31	167	7	174
Comprehensive income for the period	—	19	117	291	427	22	449
Dividend	—	—	—	(272)	(272)	(8)	(280)
Share buyback	(2)	—	—	(402)	(404)	—	(404)
Equity-settled transactions	—	—	—	10	10	—	10
Acquisitions and divestments	—	—	—	—	—	3	3
Balance at June 30, 2022	89	—	(376)	5,491	5,204	230	5,434

*As per June 2022, Türkiye has been identified as a hyperinflation economy. IAS 29 "Financial Reporting in Hyperinflationary Economies" has been applied for our activities in Türkiye.

Cash flows and net debt

Net cash from operating activities in Q2 resulted in an outflow of €52 million (2021: inflow of €168 million). The outflow was mainly driven by higher changes in working capital and lower profit for the quarter.

Net cash from investing activities in Q2 resulted in an outflow of €315 million (2021: outflow of €54 million) and mainly relates to payments for acquisitions, partly offset by repayments of short-term investments. Acquisitions and divestments net of cash acquired/divested includes payments for the acquisition of Grupo Orbis, which was completed in Q2 for a total consideration of €561 million (net of hedge results, subject to finalization of closing statements).

Net cash from financing activities in Q2 resulted in an outflow of €15 million (2021: outflow of €108 million). Net cash from financing activities mainly related to an inflow of €425 million from borrowings, offset by the outflow for dividend (€273 million) and the outflow for share buyback programs (€167 million).

At June 30, 2022, net debt was €3,865 million versus €2,340 million at year-end 2021, mainly due to outflows related to acquisitions (€539 million), the share buyback programs (€363 million), dividend (€280 million), net cash used for operating activities (€154 million) and capital expenditures (€124 million). The net debt/EBITDA leverage ratio at June 30, 2022 was 3.2 (June 30, 2021: 1.2).

Free cash flows

The free cash flow in Q2 was lower compared with Q2 2021, mainly due to the impact from changes in working capital and lower profit for the quarter.

Condensed consolidated statements of cash flows

Second quarter			January-June	
2021	2022	in € millions	2021	2022
1,156	1,364	Net cash and cash equivalents at beginning of period	1,581	1,112
265	115	Profit for the period from continuing operations	494	281
85	87	Amortization and depreciation	170	176
(1)	1	Impairment losses	(1)	4
4	28	Financing income and expenses	12	40
(8)	(5)	Results from associates and joint ventures	(15)	(13)
—	—	Pre-tax result on acquisitions and divestments	(11)	(13)
123	67	Income tax	196	129
(170)	(284)	Changes in working capital	(461)	(688)
—	—	Pension pre-funding	—	48
(26)	(2)	Changes in post-retirement benefit provisions	(37)	(3)
(13)	7	Changes in other provisions	(68)	(6)
(21)	(20)	Interest paid	(25)	(24)
(46)	(59)	Income tax paid	(90)	(98)
(24)	13	Other changes	(27)	13
168	(52)	Net cash generated from/(used for) operating activities	137	(154)
(62)	(67)	Capital expenditures	(119)	(124)
1	(545)	Acquisitions and divestments net of cash acquired/divested	(64)	(539)
4	—	Investments in short-term investments	(47)	(1,045)
2	298	Repayments of short-term investments	2	322
1	(1)	Other changes	4	10
(54)	(315)	Net cash generated from/(used for) investing activities	(224)	(1,376)
427	425	Changes from borrowings	399	2,034
(288)	(167)	Share buyback	(291)	(363)
(247)	(273)	Dividend paid	(456)	(280)
(108)	(15)	Net cash from/(used for) financing activities	(348)	1,391
6	(382)	Net cash generated from/(used for) continuing operations	(435)	(139)
—	—	Cash flows from discontinued operations	—	—
6	(382)	Net change in cash and cash equivalents of continuing and discontinued operations	(435)	(139)
—	16	Effect of exchange rate changes on cash and cash equivalents	16	25
1,162	998	Net cash and cash equivalents at June 30	1,162	998

Consolidated statement of free cash flows

Second quarter			January-June	
2021	2022	in € millions	2021	2022
469	292	EBITDA	857	613
(1)	1	Impairment losses	(1)	4
—	—	Pre-tax results on acquisitions and divestments	(11)	(13)
(170)	(284)	Changes in working capital	(461)	(688)
—	—	Pension pre-funding	—	48
(1)	—	Pension top-up payments	(9)	(1)
(38)	5	Other changes in provisions	(96)	(8)
(21)	(20)	Interest paid	(25)	(24)
(46)	(59)	Income tax paid	(90)	(98)
(24)	13	Other	(27)	13
168	(52)	Net cash generated from/(used for) operating activities	137	(154)
(62)	(67)	Capital expenditures	(119)	(124)
106	(119)	Free cash flow	18	(278)



Graffiti artists transform neighborhoods in Tunisia

More than 30 graffiti artists recently gave the Tunisian district of Jbel Jelloud a colorful makeover, using 900 liters of our Astral paint. World famous names such as Eelco van den Berg worked alongside local street artists to decorate four neighborhoods with over 7,000m² of stunning frescoes. The event was staged as part of the Chokri Belaid World Forum for Arts and Culture – the fifth arts festival dedicated to the lawyer and civil rights activist.

Invested capital

Invested capital at June 30, 2022, totaled €8.4 billion, up €1.3 billion from year-end 2021. This increase was mainly caused by higher operating working capital (trade) and higher non-current assets (largely resulting from the Grupo Orbis acquisition).

Operating working capital (trade)

Operating working capital (trade) was €2.0 billion at June 30, 2022 (June 30, 2021: €1.3 billion). Operating working capital (trade) as a percentage of revenue was 17.4% in Q2, compared with 13.2% in Q2 2021. This increase in operating working capital (trade) as a percentage of revenue was mainly due to the increase in raw material prices and market disruption, mainly China lock-downs and destocking in the DIY channel in Europe. The Grupo Orbis acquisition added 40 basis points to the operating working capital (trade) percentage of revenue.

Pension

The net balance sheet position (according to IAS19) of the pension plans at the end of Q2 was a surplus of €1.1 billion (year-end 2021: surplus of €1.1 billion). The development during 2022 was the result of the net effect of:

- Higher discount rates in key countries

Offset by:

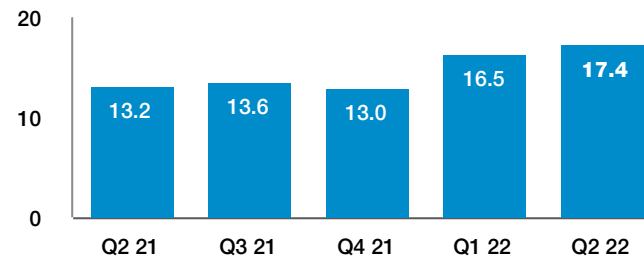
- Lower plan asset returns in key countries

Workforce

At June 30, 2022, the number of people employed was 36,100 (March 31, 2022: 32,900). Acquisitions in Q2 2022 added around 2,900 people.

Invested capital			
in € millions	June 30, 2021	December 31, 2021	June 30, 2022
Trade receivables	2,201	1,973	2,521
Inventories	1,400	1,650	2,118
Trade payables	(2,277)	(2,376)	(2,657)
Operating working capital (trade)	1,324	1,247	1,982
Other working capital items	(412)	(273)	(322)
Non-current assets	8,411	8,530	9,154
Less investments in associates and joint ventures	(168)	(178)	(189)
Less pension assets	(1,666)	(1,638)	(1,523)
Deferred tax liabilities	(558)	(567)	(675)
Invested capital	6,931	7,121	8,427

Operating working capital (trade) in % of revenue In % of revenue



Mosquito-repellent coating launched to help combat disease

A powerful mosquito-repellent coating has been launched by our Coral brand in Brazil. The colorless matt varnish has been specifically designed to combat the *Aedes aegypti* mosquito – a notorious carrier of dengue fever, as well as the zika and chikungunya virus. The breakthrough product, known as Well-being Protection Anti-Mosquito, has been proven to give continuous protection 24 hours a day for up to two years.

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 condensed financial statements of Akzo Nobel N.V. and its consolidated subsidiaries (in this document referred to as "AkzoNobel", "the Group" or "the company"). The company was incorporated under the laws of the Netherlands and is listed on Euronext Amsterdam.

Basis of preparation

All figures in this report 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 2021 annual report as published on March 2, 2022. The 2021 financial statements were adopted by the Annual General Meeting of shareholders on April 22, 2022. 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 interim condensed consolidated financial statements are consistent with those applied in AkzoNobel's consolidated financial statements for the year ended December 31, 2021, except for IFRS standards and interpretations becoming effective on January 1, 2022. This includes, among others, amendments to IFRS 3 "References to the Conceptual Framework", amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use", amendments to IAS 37 "Onerous Contracts – Costs of Fulfilling a Contract" and IFRS 9 "Financial instruments – Fees in the '10 percent' test for derecognition of Financial liabilities". 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

January-June 2022

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets				
The Netherlands	109	60	2	171
Other EMEA countries	1,164	1,312	–	2,476
North Asia	291	543	–	834
South Asia Pacific	304	364	–	668
North America	–	702	–	702
South America	320	207	–	527
Total	2,188	3,188	2	5,378
Timing of revenue recognition				
Goods transferred at a point in time	2,160	3,088	–	5,248
Services transferred over time	28	100	2	130
Total	2,188	3,188	2	5,378

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.

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 margins are used as performance measures. ROS is adjusted operating income as percentage of revenue. 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.

Updates in financial reporting structure

Operating income, adjusted operating income, EBITDA and adjusted EBITDA (and related measures) per segment for 2021 and 2022 have been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in "Other activities". More information is available on our website.

Operating income

Second quarter			January-June			
2021	2022	Δ%	in € millions	2021	2022	Δ%
234	128	(45%)	Decorative Paints	377	241	(36%)
178	112	(37%)	Performance Coatings	363	262	(28%)
(28)	(35)		Other activities	(53)	(66)	
384	205	(47%)	Total	687	437	(36%)

Identified items

Second quarter			January-June			
2021	2022		in € millions	2021	2022	
47	(5)		Decorative Paints	46	3	
7	(31)		Performance Coatings	4	(30)	
(5)	(8)		Other activities	(5)	(15)	
49	(44)		Total	45	(42)	

Adjusted operating income

Second quarter			January-June			
2021	2022	Δ%	in € millions	2021	2022	Δ%
187	133	(29%)	Decorative Paints	331	238	(28%)
171	143	(16%)	Performance Coatings	359	292	(19%)
(23)	(27)		Other activities	(48)	(51)	
335	249	(26%)	Total	642	479	(25%)

EBITDA

Second quarter			January-June			
2021	2022	Δ%	in € millions	2021	2022	Δ%
384	205	(47%)	Operating income	687	437	(36%)
85	87		Depreciation and amortization	170	176	
469	292	(38%)	EBITDA	857	613	(28%)

Adjusted EBITDA

Second quarter			January-June			
2021	2022	Δ%	in € millions	2021	2022	Δ%
335	249	(26%)	Adjusted operating income	642	479	(25%)
84	88		Depreciation and amortization (excluding Identified items)	168	175	
419	337	(20%)	Adjusted EBITDA	810	654	(19%)

OPI margin

Second quarter			January-June		
2021	2022	in %	2021	2022	
21.5	10.8		Decorative Paints	18.7	11.0
12.5	6.7		Performance Coatings	13.2	8.2
15.3	7.2		Total	14.4	8.1

ROS

Second quarter			January-June		
2021	2022	in %	2021	2022	
17.2	11.3		Decorative Paints	16.4	10.9
12.0	8.6		Performance Coatings	13.0	9.2
13.3	8.7		Total	13.4	8.9

* ROS% and OPI margin for Other activities are not shown, as this is not meaningful.

Adjusted earnings per share from continuing operations

Second quarter			January-June		
2021	2022	in € millions	2021	2022	
388	182	Profit before tax from continuing operations	690	410	
(49)	44	Identified items reported in operating income	(45)	42	
(20)	(10)	Identified items reported in interest	(20)	(10)	
(83)	(65)	Adjusted income tax	(157)	(126)	
(11)	(3)	Non-controlling interests	(21)	(15)	
225	148	Adjusted net income from continuing operations	447	301	
187.0	175.9	Weighted average number of shares (in millions)	187.9	176.8	

1.20	0.84	Adjusted earnings per share from continuing operations	2.38	1.70
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ROI is adjusted operating income of the last 12 months as percentage of average invested capital.

Average invested capital

July 2020 - June 2021/July 2021 - June 2022

in € millions	2021	2022	Δ%
Decorative Paints	2,734	3,226	18%
Performance Coatings	3,409	3,721	9%
Other activities	530	385	
Total	6,673	7,332	10%

ROI%

July 2020 - June 2021/July 2021 - June 2022

in %	2021	2022
Decorative Paints	24.3	15.1
Performance Coatings	22.5	14.7
Other activities*		
Total	19.3	12.7

* 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

July 2020 - June 2021/July 2021 - June 2022

in € millions	2021	2022
Operating income	1,256	868
Depreciation and amortization	351	357
EBITDA	1,607	1,225

Net debt

in € millions	June 30, 2021	June 30, 2022
Short-term investments	(295)	(782)
Cash and cash equivalents	(1,216)	(1,076)
Long-term borrowings	2,761	3,404
Short-term borrowings	607	2,319
Total	1,857	3,865

Leverage ratio

July 2020 - June 2021/July 2021 - June 2022

in € millions	2021	2022
Net debt	1,857	3,865
EBITDA	1,607	1,225
Leverage ratio	1.2	3.2

Outlook

AkzoNobel targets to grow at or above its relevant markets, in line with the company's Grow & Deliver strategy. Trends differ per region and segment, with raw material and other variable cost inflation (including freight) expected to gradually ease towards the end of 2022. AkzoNobel aims to continue to offset raw material and other variable costs inflation (including freight) through pricing initiatives. Macroeconomic uncertainties have increased due to geopolitical tension, the resurgence of COVID-19 and inflation. Assuming there are no further significant market disruptions, AkzoNobel aims to deliver the €2 billion adjusted EBITDA target for 2023, and an average annual 50 basis points increase in return on sales over the period 2021-2023*. AkzoNobel targets a leverage ratio of 1-2 times net debt/EBITDA and is committed to retaining a strong investment grade credit rating.

* Please refer to the glossary on page 22 for underlying assumptions

Amsterdam, July 19, 2022 The Board of Management

Thierry Vanlancker
Maarten de Vries

Paints and Coatings

Quarterly statistics

					2021				2022
Q1	Q2	Q3	Q4	Year	in € millions	Q1	Q2	Year-to-date	
Revenue									
930	1,086	1,013	950	3,979	Decorative Paints	1,006	1,182	2,188	
1,332	1,423	1,396	1,452	5,603	Performance Coatings	1,518	1,670	3,188	
1	2	1	1	5	Other activities	1	1	2	
2,263	2,511	2,410	2,403	9,587	Total	2,525	2,853	5,378	
EBITDA^{1,2}									
179	271	181	145	776	Decorative Paints	151	164	315	
223	217	166	170	776	Performance Coatings	190	155	345	
(14)	(19)	(34)	(16)	(83)	Other activities	(20)	(27)	(47)	
388	469	313	299	1,469	Total	321	292	613	
17.1	18.7	13.0	12.4	15.3	EBITDA margin (in %)	12.7	10.2	11.4	
Adjusted EBITDA (excluding Identified items)^{1,2}									
179	222	184	143	728	Decorative Paints	142	169	311	
225	210	168	170	773	Performance Coatings	188	187	375	
(13)	(13)	(27)	(12)	(65)	Other activities	(13)	(19)	(32)	
391	419	325	301	1,436	Total	317	337	654	
17.3	16.7	13.5	12.5	15.0	Adjusted EBITDA margin (in %)	12.6	11.8	12.2	
Depreciation/Depreciation excluding Identified items²									
(31)/(30)	(32)/(30)	(33)/(32)	(38)/(36)	(134)/(128)	Decorative Paints	(33)/(32)	(30)/(30)	(63)/(62)	
(29)/(28)	(31)/(31)	(32)/(32)	(33)/(33)	(125)/(124)	Performance Coatings	(31)/(30)	(33)/(34)	(64)/(64)	
(8)/(9)	(5)/(6)	(4)/(2)	(5)/(5)	(22)/(22)	Other activities	(7)/(7)	(3)/(3)	(10)/(10)	
(68)/(67)	(68)/(67)	(69)/(66)	(76)/(74)	(281)/(274)	Total	(71)/(69)	(66)/(67)	(137)/(136)	
Amortization/Amortization excluding Identified items²									
(5)/(5)	(5)/(5)	(5)/(5)	(5)/(5)	(20)/(20)	Decorative Paints	(5)/(5)	(6)/(6)	(11)/(11)	
(9)/(9)	(8)/(8)	(9)/(9)	(9)/(9)	(35)/(35)	Performance Coatings	(9)/(9)	(10)/(10)	(19)/(19)	
(3)/(3)	(4)/(4)	(4)/(4)	(4)/(4)	(15)/(15)	Other activities	(4)/(4)	(5)/(5)	(9)/(9)	
(17)/(17)	(17)/(17)	(18)/(18)	(18)/(18)	(70)/(70)	Total	(18)/(18)	(21)/(21)	(39)/(39)	

¹ Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 17 and 18.

² EBITDA, adjusted EBITDA, depreciation and amortization (and related measures) per segment for 2021 have been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in 'Other activities'. More information is available on our website.

Paints and Coatings

Quarterly statistics

					2021				2022
Q1	Q2	Q3	Q4	Year	in € millions	Q1	Q2	Year-to-date	
Operating income²									
143	234	143	102	622	Decorative Paints	113	128	241	
185	178	125	128	616	Performance Coatings	150	112	262	
(25)	(28)	(42)	(25)	(120)	Other activities	(31)	(35)	(66)	
303	384	226	205	1,118	Total	232	205	437	
13.4	15.3	9.4	8.5	11.7	OPI margin (in %)	9.2	7.2	8.1	
Identified items included in operating income									
(1)	47	(4)	—	42	Decorative Paints	8	(5)	3	
(3)	7	(2)	—	2	Performance Coatings	1	(31)	(30)	
—	(5)	(9)	(4)	(18)	Other activities	(7)	(8)	(15)	
(4)	49	(15)	(4)	26	Total	2	(44)	(42)	
Adjusted operating income (excluding identified items)^{1,2}									
144	187	147	102	580	Decorative Paints	105	133	238	
188	171	127	128	614	Performance Coatings	149	143	292	
(25)	(23)	(33)	(21)	(102)	Other activities	(24)	(27)	(51)	
307	335	241	209	1,092	Total	230	249	479	
13.6	13.3	10.0	8.7	11.4	ROS (in %)	9.1	8.7	8.9	
Reconciliation financing income and expenses									
3	4	2	3	12	Financing income	4	1	5	
(17)	(18)	(20)	(19)	(74)	Financing expenses	(16)	(29)	(45)	
(14)	(14)	(18)	(16)	(62)	Net interest on net debt	(12)	(28)	(40)	
Other interest movements									
3	3	4	3	13	Financing expenses related to post-retirement benefits	5	5	10	
5	(2)	—	—	3	Interest on provisions	6	6	12	
(2)	9	(5)	5	7	Other items	(11)	(11)	(22)	
6	10	(1)	8	23	Net other financing charges	—	—	—	
(8)	(4)	(19)	(8)	(39)	Financing income and expenses	(12)	(28)	(40)	

¹ Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 17 and 18.

² Operating income and adjusted operating income (and related measures) per segment for 2021 have been updated to reflect changes in the financial reporting structure related to a narrower definition of corporate activities and corporate costs in 'Other activities'. More information is available on our website.

AkzoNobel

Quarterly statistics

					2021				2022
Q1	Q2	Q3	Q4	Year		Q1	Q2	Year-to-date	
Quarterly net income analysis (in € millions)									
7	8	6	5	26	Results from associates and joint ventures	8	5	13	
302	388	213	202	1,105	Profit before tax	228	182	410	
(73)	(123)	(48)	(2)	(246)	Income tax	(62)	(67)	(129)	
229	265	165	200	859	Profit for the period from continuing operations	166	115	281	
24	32	23	1	22	Effective tax rate (in %)	27	37	31	
Earnings per share from continuing operations (in €)									
1.16	1.36	0.89	1.03	4.45	Basic	0.87	0.64	1.50	
1.16	1.35	0.89	1.02	4.43	Diluted	0.86	0.63	1.50	
Earnings per share from discontinued operations (in €)									
(0.01)	0.04	—	0.01	0.03	Basic	—	(0.03)	(0.03)	
(0.01)	0.04	—	0.01	0.03	Diluted	—	(0.03)	(0.03)	
Earnings per share from total operations (in €)									
1.15	1.40	0.89	1.04	4.48	Basic	0.87	0.60	1.47	
1.15	1.39	0.89	1.03	4.46	Diluted	0.86	0.60	1.47	
Number of shares (in millions)									
188.8	187.0	184.1	180.6	185.0	Weighted average number of shares ¹	177.7	175.9	176.8	
187.8	185.6	182.4	178.9	178.9	Number of shares at end of quarter ¹	176.9	174.5	174.5	
Adjusted earnings from continuing operations (in € millions)²									
302	388	213	202	1,105	Profit before tax from continuing operations	228	182	410	
4	(49)	15	4	(26)	Identified items reported in operating income	(2)	44	42	
—	(20)	(1)	(8)	(29)	Identified items reported in interest	—	(10)	(10)	
(74)	(83)	(54)	(50)	(261)	Adjusted income tax	(61)	(65)	(126)	
(10)	(11)	(1)	(14)	(36)	Non-controlling interests	(12)	(3)	(15)	
222	225	172	134	753	Adjusted net income from continuing operations	153	148	301	
1.18	1.20	0.93	0.74	4.07	Adjusted earnings per share from continuing operations (in €)	0.86	0.84	1.70	

¹ After share buyback

² Alternative performance measures; please refer to reconciliation to the most directly comparable IFRS measures on pages 17 and 18.

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.

Free cash flow is net cash generated from/(used for) operating activities minus capital expenditures.

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, among others, China, Japan and South Korea.

Operating income is defined as income excluding net financing expenses, results from associates and joint ventures, income tax and profit/loss 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.

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.

Assumptions for 2023

- Revenue growth \geq market CAGR (market data by Orr & Boss, internally reduced forecast)
- €2 billion adjusted EBITDA
- 150 bps ROS expansion versus 2020
- Other activities €100-130 million cost
- Effective tax rate ~26%
- Capital expenditures ~3% of revenues
- Dividend policy “stable to rising”
- Leverage 1-2x net debt/EBITDA
- No significant market disruption

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.

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Financial calendar

Report for the third quarter

October 20, 2022

AkzoNobel

We supply the sustainable and innovative paints and coatings that our customers, communities – and the environment – are increasingly relying on. That's why everything we do starts with People. Planet. Paint. 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 a pioneering paints company that's committed to science-based targets and is taking genuine action to address globally relevant challenges and protect future generations.

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