

# Q3 Report

# 2018

**Passion for paint: 2019 Color of the Year announced**

Spiced Honey has been unveiled by AkzoNobel as the Color of the Year for 2019. It was selected following expert research into global trends, insights and consumer behavior. The warm amber tone – which perfectly captures the theme of “Let the light in” – is being marketed under well-known decorative paints brands such as Dulux, Coral, Levis and Flexa.

# Our results at a glance

- **Decorative Paints ROS up at 12.1% (2017: 9.4%) with 5% positive price/mix driven by pricing initiatives**
- **Performance Coatings ROS up at 12.2% (2017: 10.3%) with higher selling prices contributing to price/mix up 7%**
- **Volumes were lower, partly driven by moving away from lower margins given our value over volume strategy**
- **Continued focus on transformation delivered €35 million cost savings in Q3**
- **Taking next step in our transformation to deliver next €200 million cost savings by 2020**
- **Completed sale of Specialty Chemicals on October 1, 2018; returning a total of €6.5 billion to shareholders**
- **Acquisition of Xylazel in Spain; acquisition of Fabryo in Romania completed on October 1, 2018**

## Q3 2018:

- Revenue 4% lower, and flat in constant currencies, with positive price/mix offset by lower volumes
- Adjusted operating income was up €18 million at €243 million (2017: €225 million) driven by pricing initiatives and cost saving programs despite €10 million adverse impact from foreign currencies
- Operating income was up €22 million at €237 million (2017: €215 million) and includes a €6 million adverse impact from identified items, mainly related to the transformation
- ROS improved to 10.4% (2017: 9.3%); ROI at 12.6% (2017: 13.4%)
- Net income from total operations at €301 million (2017: €216 million), including discontinued operations at €152 million (2017: €95 million)
- Interim dividend of €0.37 per share, rebased for AkzoNobel as a focused paints and coatings company

## Outlook:

We are delivering towards our "Winning together: 15 by 20" strategy and continue creating a fit-for-purpose organization for a focused paints and coatings company, contributing to the achievement of our 2020 guidance. Demand trends differ per region and segment. Raw material inflation is projected to continue for the remainder of 2018, although at a slower rate than during the start of the year. Robust pricing initiatives and cost saving programs are in place to address the current challenges. We are taking the next step in our transformation to deliver the next €200 million cost savings by 2020, incurring total one-off costs of €350 million between 2018 and 2020.

2020  
guidance\*

ROS 15%  
ROI >25%

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

## Summary of financial outcomes

Third quarter			January - September			
2017 <sup>1</sup>	2018	Δ%	in € millions	2017 <sup>1</sup>	2018	Δ%
2,419	2,326	(4%)	Revenue	7,329	6,948	(5%)
294	303	3%	Adjusted EBITDA	941	797	(15%)
225	243	8%	Adjusted operating income	727	617	(15%)
215	237	10%	Operating income	686	537	(22%)
9.3	10.4		ROS%	9.9	8.9	
8.9	10.2		OPI margin	9.4	7.7	
			Average invested capital	6,559	6,322	(4%)
			ROI%	13.4	12.6	
59	36	(39%)	Capital expenditures	165	106	(36%)
			Net debt	1,910	2,700	
			Number of employees	36,200	34,300	(5%)
157	284	81%	Net cash from operating activities - continuing	(24)	(157)	
259	179	(31%)	Net cash from operating activities - discontinued	464	427	(8%)
121	149	23%	Net income from continuing operations	415	375	(10%)
95	152	60%	Net income from discontinued operations	342	450	32%
216	301	39%	Net income from total operations	757	825	9%
0.86	1.18	37%	Earnings per share from total operations (in €)	3.02	3.24	7%
0.53	0.60	13%	Adjusted earnings per share from continuing operations (in €) <sup>2</sup>	1.81	1.48	(18%)
0.99	1.24	25%	Adjusted earnings per share from total operations (in €) <sup>2</sup>	3.20	3.37	5%

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

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

# Financial highlights

## Q3 2018:

### Revenue

Revenue was 4% lower, and flat in constant currencies. Price/mix was up 6% overall, driven by higher selling prices. Volumes were 6% lower, also due to focus on value over volume.

- Decorative Paints revenue was flat in constant currencies. Price/mix was up 5%. Higher selling prices were offset by lower volumes
- Performance Coatings revenue was flat in constant currencies. Price/mix was up 7%, with higher selling prices, although volumes were lower, mainly for Marine and Protective Coatings

### Raw material price development

Raw material prices in 2018 continue to be higher compared with the previous year. Robust pricing initiatives are being implemented to deal with these higher raw material costs. Raw material inflation is projected to continue for the remainder of 2018, although at a slower rate than during the start of the year.

### Acquisitions

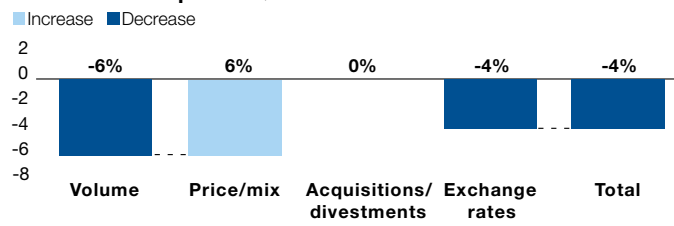
The acquisition of Xylazel in Spain and Doves Decorating Supplies in the UK were announced and completed in September 2018.

The acquisition of Fabryo Corporation S.R.L., announced in June 2018, was completed on October 1, 2018.

Other recent acquisitions include:

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

### Revenue development Q3 2018



### Revenue

Third quarter

January - September

2017 <sup>1</sup>	2018	Δ%	CC <sup>2</sup>	in € millions	2017 <sup>1</sup>	2018	Δ%	CC <sup>2</sup>
1,007	951	(6%)	0%	Decorative Paints	2,975	2,803	(6%)	0%
1,428	1,388	(3%)	0%	Performance Coatings	4,403	4,184	(5%)	0%
(16)	(13)			Other activities/eliminations	(49)	(39)		
<b>2,419</b>	<b>2,326</b>	<b>(4%)</b>	<b>0%</b>	<b>Total</b>	<b>7,329</b>	<b>6,948</b>	<b>(5%)</b>	<b>0%</b>

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

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

in % versus Q3 2017	Volume	Price/mix	Acquisitions/divestments	Exchange rates	Total
Decorative Paints	(5)	5	-	(6)	(6)
Performance Coatings	(7)	7	-	(3)	(3)
<b>Total</b>	<b>(6)</b>	<b>6</b>	<b>-</b>	<b>(4)</b>	<b>(4)</b>

### Volume development per quarter

(year-on-year in %)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18
Decorative Paints	5	12	(1)	(2)	(5)
Performance Coatings	1	(2)	(5)	(3)	(7)
<b>Total</b>	<b>3</b>	<b>3</b>	<b>(3)</b>	<b>(3)</b>	<b>(6)</b>

### Price/mix development per quarter

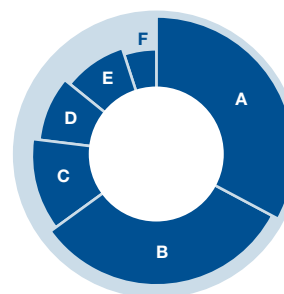
(year-on-year in %)	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18
Decorative Paints	(3)	(5)	-	4	5
Performance Coatings	-	-	3	5	7
<b>Total</b>	<b>(1)</b>	<b>(1)</b>	<b>2</b>	<b>5</b>	<b>6</b>

### Currency development per quarter

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

### AkzoNobel around the world Revenue by destination

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



(Based on the full-year 2017)

# Financial highlights

## Q3 2018

### Adjusted operating income

Adjusted operating income at €243 million (2017: €225 million) was up, driven by pricing initiatives and cost saving programs, despite €10 million adverse impact from foreign currencies. Savings from continuous improvement were more than €30 million. Creating a fit-for-purpose organization delivered €35 million, on track to deliver the €110 million planned for 2018. ROS was up at 10.4% (2017: 9.3%).

- Decorative Paints delivered a strong performance with higher prices and cost savings more than compensating for raw material costs, currency effects and lower volumes. ROS was up at 12.1% (2017: 9.4%)
- Performance Coatings improved as a result of pricing initiatives, positive impact from asset network optimization and cost savings more than offsetting higher raw material costs, adverse currencies and lower volumes. ROS was up at 12.2% (2017: 10.3%)
- Other activities/eliminations was €25 million lower, as Q3 2017 was favorably impacted by one-off items, as well as lower pension and insurance related costs totaling €20 million

### Operating income

Operating income increased €22 million and was adversely impacted by identified items of €6 million, mainly related to the transformation.

### Net financing income/(expenses)

Net financing expenses decreased by €11 million, mainly due to lower interest on provisions driven by discount rate developments.

### Tax

Income tax expenses increased by €9 million, mainly as a result of increased profit before tax.

### Profit from discontinued operations

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

In the Specialty Chemicals business, revenue was up 6%, and 9% higher in constant currencies, mainly driven by positive price/mix. Adjusted operating income was 7% lower, as strong pricing and productivity improvements, did not fully offset environmental costs and other one-off items (totaling €35 million) as well as adverse currencies.

### Net income

Net income attributable to shareholders was €301 million, of which €149 million was attributable to continuing operations and €152 million to discontinued operations.



### Acquisition of Xylazel

The acquisition strengthens our position as a leader in the decorative paints market in Spain and means we are now the leader in the country's woodcare segment. It also strengthens our position in metalcare. Xylazel has about 100 employees, with one production facility in Porriño. 2017 revenue totaled approximately €20 million.

### Adjusted operating income

Third quarter			January - September			
2017 *	2018	Δ%	in € millions	2017 *	2018	Δ%
95	115	21%	Decorative Paints	293	294	-
147	170	16%	Performance Coatings	536	476	(11%)
(17)	(42)		Other activities/ eliminations	(102)	(153)	
<b>225</b>	<b>243</b>	<b>8%</b>	<b>Total</b>	<b>727</b>	<b>617</b>	<b>(15%)</b>

### ROS%

Third quarter			January - September			
2017 *	2018	Δ	in %'s	2017 *	2018	Δ
9.4%	12.1%	2.7%	Decorative Paints	9.8%	10.5%	0.7%
10.3%	12.2%	1.9%	Performance Coatings	12.2%	11.4%	(0.8%)
<b>9.3%</b>	<b>10.4%</b>	<b>1.1%</b>	<b>Total</b>	<b>9.9%</b>	<b>8.9%</b>	<b>(1.0%)</b>

### Operating income

Third quarter			January - September			
2017 *	2018	Δ%	in € millions	2017 *	2018	Δ%
95	112	18%	Decorative Paints	293	271	(8%)
147	164	12%	Performance Coatings	536	447	(17%)
(27)	(39)		Other activities/ eliminations	(143)	(181)	
<b>215</b>	<b>237</b>	<b>10%</b>	<b>Total</b>	<b>686</b>	<b>537</b>	<b>(22%)</b>

### Operating income to net income

Third quarter			January - September		
2017 *	2018	in € millions	2017 *	2018	
<b>215</b>	<b>237</b>	<b>Operating income</b>	<b>686</b>	<b>537</b>	
(31)	(20)	Net financing expenses	(63)	(29)	
3	4	Results from associates and joint ventures	15	14	
<b>187</b>	<b>221</b>	<b>Profit before tax</b>	<b>638</b>	<b>522</b>	
(57)	(66)	Income tax	(172)	(112)	
<b>130</b>	<b>155</b>	<b>Profit from continuing operations</b>	<b>466</b>	<b>410</b>	
96	153	Profit from discontinued operations	346	460	
<b>226</b>	<b>308</b>	<b>Profit for the period</b>	<b>812</b>	<b>870</b>	
(10)	(7)	Non-controlling interests	(55)	(45)	
<b>216</b>	<b>301</b>	<b>Net income</b>	<b>757</b>	<b>825</b>	

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



# Decorative Paints

- **ROS up at 12.1% (2017: 9.4%) with 5% positive price/mix driven by pricing initiatives**
- **Acquisition of Xylazel in Spain; acquisition of Fabryo in Romania completed on October 1, 2018**

## Q3 2018:

- Revenue 6% lower, and flat in constant currencies; price/mix was 5% positive, driven by higher selling prices
- Adjusted operating income increased to €115 million (2017: €95 million) with higher prices and cost savings more than compensating for raw material costs, currency effects and lower volumes
- Adverse currency effects were driven by various currencies including the Argentinian peso, Brazilian real and Turkish lira
- ROS higher at 12.1% (2017: 9.4%); ROI at 12.6% (2017: 12.4%)

## Q3 2018:

Revenue was 6% lower and flat in constant currencies. Price realization is gaining momentum and selling prices were up overall. Volumes were lower in all segments, mainly due to continued focus on pricing initiatives.

Adjusted operating income was higher due to improved pricing and cost savings more than offsetting higher raw material costs, currency effects and lower volumes, resulting in ROS up at 12.1% (2017: 9.4%).

Operating income was adversely impacted by €3 million identified items relating to the transformation of the organization.

## Europe, Middle East and Africa

Revenue in Q3 was 3% lower, and flat in constant currencies. Price increases are taking effect, while volumes were lower.

Adverse currency impacts were mainly driven by the Turkish lira.

The acquisition of Xylazel in Spain and Doves Decorating Supplies in the UK were announced and completed in September 2018. The acquisition of Fabryo Corporation S.R.L., announced in June 2018, was completed on October 1, 2018.

## Latin America

Revenue in Q3 was 9% lower (including positive impact of hyperinflation accounting), although up 8% in constant currencies, mainly driven by positive price/mix effects. Higher selling prices and cost control offset increased raw material costs. Adverse currency effects were driven by the Argentinian peso and Brazilian real.

## Asia

Revenue in Q3 was 9% lower and 7% lower in constant currencies. Selling prices increased as a result of continued focus on pricing initiatives. Volumes were lower in China, also due to focus on value over volume, while growth continued in India and Vietnam.



**Entire Chinese theme park coated by AkzoNobel**  
Colorful Yunnan Happy World, the first theme park in southwest China, opened to the public in Kunming, Yunnan province, after collaborating with AkzoNobel's Dulux Pro brand to paint around 180,000 square meters of attractions and facilities in approximately 80 different colors.

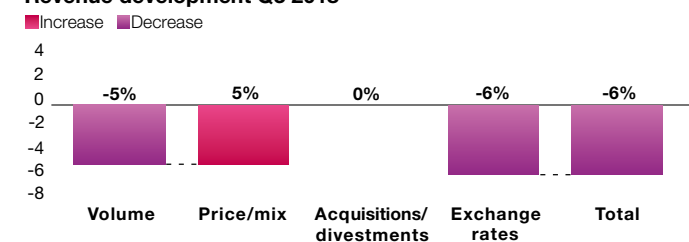
## Revenue

Third quarter				January - September				
2017	2018	Δ%	CC <sup>1</sup>	in € millions	2017	2018	Δ%	CC <sup>1</sup>
561	546	(3%)	0%	Decorative Paints Europe, Middle East and Africa	1,652	1,628	(1%)	1%
129	117	(9%) <sup>2</sup>	8%	Decorative Paints Latin America	366	329	(10%)	12%
318	288	(9%)	(7%)	Decorative Paints Asia	961	849	(12%)	(7%)
(1)	-			Other/intragroup eliminations	(4)	(3)		
<b>1,007</b>	<b>951</b>	<b>(6%)</b>	<b>0%</b>	<b>Total</b>	<b>2,975</b>	<b>2,803</b>	<b>(6%)</b>	<b>0%</b>

<sup>1</sup> Change in constant currencies

<sup>2</sup> Including 9% positive impact of hyperinflation accounting as per IAS 29 for our Argentinian operations

## Revenue development Q3 2018



## Key financial figures

Third quarter				January - September		
2017	2018	Δ%	in € millions	2017	2018	Δ%
95	115	21%	Adjusted operating income	293	294	-
95	112	18%	Operating income	293	271	(8%)
9.4	12.1		ROS%	9.8	10.5	
			Average invested capital	2,771	2,790	
			ROI%	12.4	12.6	

# Performance Coatings

- ROS up at 12.2% (2017: 10.3%) and higher selling prices contributing to price/mix of 7%
- Powder Coatings continued the positive trend with growth of 9% in constant currencies

## Q3 2018:

- Revenue 3% lower, and flat in constant currencies, with 7% positive price/mix driven by higher selling prices
- Adjusted operating income was up €23 million at €170 million (2017: €147 million) mainly driven by pricing initiatives, positive impact from asset network optimization and cost control more than offsetting adverse currencies, higher raw material costs and lower volumes
- ROS at 12.2% (2017: 10.3%); ROI at 20.2% (2017: 24.8%)

## Q3 2018:

Revenue was 3% lower, and flat in constant currencies. Pricing initiatives continued to gain traction, with further increases planned. Volumes were lower, mainly for Marine and Protective Coatings.

Adjusted operating income increased as results of the pricing initiatives, the positive impact of asset network optimization and cost control more than offset adverse currencies, higher raw material costs and lower volumes.

Operating income was adversely impacted by €6 million identified items relating to the transformation of the organization.

## Powder Coatings

Revenue in Q3 was 6% higher; up 9% in constant currencies and up in all regions. Growth was supported by new applications and selling price increases.

The acquisition of the V. Powdertech business in Thailand continued to fuel growth and strengthen the Powder Coatings business in South East Asia.

## Marine and Protective Coatings

Revenue in Q3 was 8% lower, and 7% lower in constant currencies, with a continued focus on selling price increases and cost savings. Volumes in Marine Coatings continued to be affected by the slow-down of new build activity, despite some recovery in other segments.

Protective Coatings volumes also decreased due to fewer oil and gas projects. We continue to implement measures focused on restructuring and right-sizing.

## Automotive and Specialty Coatings

Revenue in Q3 was 1% lower, although up 1% in constant currencies, with positive price/mix more than offsetting lower volumes.

## Industrial Coatings

Revenue in Q3 was 4% lower, and 1% lower in constant currencies, with a continued focus on pricing initiatives. Price increases were offset by lower volumes.



## Embraer goes wild with AkzoNobel's aerospace coatings

Animal attraction has drawn AkzoNobel and Embraer together to develop stunning livery for three of the aircraft maker's latest line of E2 commercial jets. The eye-catching trio of designs – depicting an eagle, a tiger and a shark – were created using aerospace coatings from the company's Alumigrip and Aerodur ranges. The artwork was applied at Embraer's facility in São José dos Campos, Brazil, which houses a dedicated AkzoNobel color mixture center.

## Revenue

Third quarter

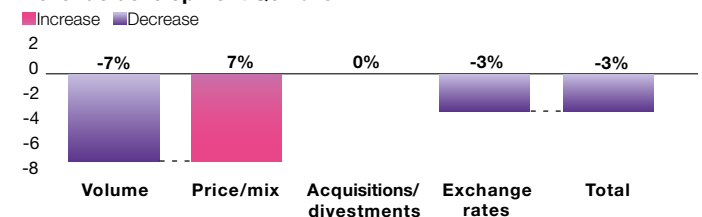
January - September

2017 <sup>1</sup>	2018	Δ%	Δ% CC <sup>2</sup>	in € millions	2017 <sup>1</sup>	2018	Δ%	Δ% CC <sup>2</sup>
286	302	6%	9%	Powder Coatings	877	911	4%	9%
347	318	(8%)	(7%)	Marine and Protective Coatings	1,104	958	(13%)	(8%)
351	346	(1%)	1%	Automotive and Specialty Coatings	1,073	1,051	(2%)	3%
457	438	(4%)	(1%)	Industrial Coatings	1,386	1,317	(5%)	1%
(13)	(16)			Other/intragroup eliminations	(37)	(53)		
<b>1,428</b>	<b>1,388</b>	<b>(3%)</b>	<b>0%</b>	<b>Total</b>	<b>4,403</b>	<b>4,184</b>	<b>(5%)</b>	<b>0%</b>

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

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

## Revenue development Q3 2018



## Key financial figures

Third quarter

January - September

2017	2018	Δ%	in € millions	2017	2018	Δ%
147	170	16%	Adjusted operating income	536	476	(11%)
147	164	12%	Operating income	536	447	(17%)
10.3	12.2		ROS%	12.2	11.4	
			Average invested capital	2,781	3,021	
			ROI%	24.8	20.2	

# Discontinued operations (including Specialty Chemicals)

## Discontinued operations and held for sale

The results and cash flows from discontinued operations in 2018, as well as 2017, and the assets and liabilities held for sale at September 30, 2018, and December 31, 2017, almost completely relate to the Specialty Chemicals business.

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

Specialty Chemicals business as discontinued operations. The sale of the Specialty Chemicals business closed on October 1, 2018; hence in this Q3 report the business is still included as held for sale.

## Revenue

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

## Adjusted operating income

In Q3 2018, adjusted operating income was € 221 million (2017: €158 million).

- In Specialty Chemicals, adjusted operating income was lower, as strong pricing and productivity improvements, were more than

offset by adjustments to environmental provisions, other one-off items and adverse currencies.

- Held for sale effects/other mainly relates to the impact of ceasing depreciation and amortization, partly offset by the related impact on inventory valuation following IFRS 5 assets held for sale accounting. Total impact in Q3 2018 was €80 million.

## Operating income

In Q3 2018, operating income was up 67% at €206 million (2017: €123 million). In Q3 2018, operating income was negatively impacted by identified items totaling €15 million (2017: €35 million negative) relating to the implementation of the new strategy to create two focused high-performing businesses.

## Summary of financial outcomes discontinued operations

Third quarter			January - September		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
in € millions					
1,205	1,281	6%	3,741	3,791	1%
158	221	40%	494	681	38%
123	206	67%	469	644	37%
13.1	17.3		13.2	18.0	
10.2	16.1		12.5	17.0	
Average invested capital					
			3,667	3,614	
ROI%					
			15.8	22.3	
Capital expenditures					
77	185		241	276	
Net cash from operating activities					
259	185		464	433	
Profit for the period					
96	153		346	460	
Number of employees					
			9,900	9,900	

## Profit and loss discontinued operations

Third quarter			January - September		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
in € millions					
1,205	1,281		3,741	3,791	
(1,083)	(1,077)		(3,279)	(3,164)	
122	204		462	627	
(26)	(51)		(116)	(167)	
96	153		346	460	

## Adjusted operating income of discontinued operations

Third quarter			January-September		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
in € millions					
156	145	(7%)	488	470	(4%)
2	76		6	211	
158	221	40%	494	681	38%

## Operating income of discontinued operations

Third quarter			January-September		
2017 <sup>1</sup>	2018	Δ%	2017 <sup>1</sup>	2018	Δ%
in € millions					
156	145	(7%)	506	470	(7%)
(33)	61		(37)	174	
123	206	67%	469	644	37%

## Assets and liabilities held for sale

in € millions	December 31, 2017	September 30, 2018
Intangible assets	787	799
Property, plant and equipment	2,266	2,490
Financial non-current assets	205	202
Inventories	503	533
Receivables	840	984
<b>Assets held for sale</b>	<b>4,601</b>	<b>5,008</b>
Non-current liabilities	765	787
Short-term borrowings	341	227
Current payables	1,090	1,113
<b>Liabilities held for sale</b>	<b>2,196</b>	<b>2,127</b>

## Cash flows from discontinued operations

Third quarter	January - September	
2017	2018	in € millions
259	179	Net cash from operating activities
(76)	(117)	Net cash from investing activities
(3)	(28)	Net cash from financing activities
180	34	<b>Cash flows from discontinued operations</b>

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

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

# Specialty Chemicals (reported as discontinued operations)

## Q3 2018:

- Revenue up 6%, and up 9% in constant currencies, mainly due to positive price/mix
- Adjusted operating income 7% lower at €145 million (2017: €156 million); strong pricing and productivity improvements were more than offset by environmental and other one-off items (totaling €35 million) and adverse currencies
- ROS at 11.3% (2017: 12.9%); ROI at 16.4% (2017: 15.6%)

## Q3 2018:

Revenue was up 6%, and 9% higher in constant currencies, driven by positive price/mix. All business units benefited from higher selling prices, as raw material price increases are being passed through. Industrial Chemicals continued to benefit from strong caustic market prices. Volume growth in Functional Chemicals and Pulp and Performance Chemicals was more than offset by lower volumes in Surface Chemistry.

Adjusted operating income was 7% lower, as strong pricing and productivity improvements were more than offset by adjustments to environmental provisions and other one-off items (totaling €35 million) and adverse currencies.

## Functional Chemicals

Revenue in Q3 was up 9%, and 11% higher in constant currencies driven by volume growth and positive price/mix effects. Volumes were up 2%.

## Industrial Chemicals

Revenue in Q3 was up 12%, and 13% higher in constant currencies due to strong positive price/mix effects, driven by the continued tight caustic soda market.

## Surface Chemistry

Revenue in Q3 was 1% up, and 6% higher in constant currencies with positive price/mix effects partly offset by lower volumes.

## Pulp and Performance Chemicals

Revenue in Q3 was down 2%, and up 5% in constant currencies. Volumes were 4% higher, and up in all segments. Demand in Brazil continued to be strong.



### Investing to grow with our customers

AkzoNobel Specialty Chemicals announced several more investments during the quarter to support the growth of customers. These include an upgrade of the company's Rotterdam chlor-alkali plant to strengthen development of the local industrial cluster, as well as a second expansion of chloromethanes capacity at Frankfurt to serve customers in end-use markets including pharmaceuticals. In addition, the company broke ground for construction of a €90 million plant at Tianjin, China to produce organic peroxides, essential in the manufacture of a wide range of polymers including PVC and thermoset resins.

## Revenue

Third quarter

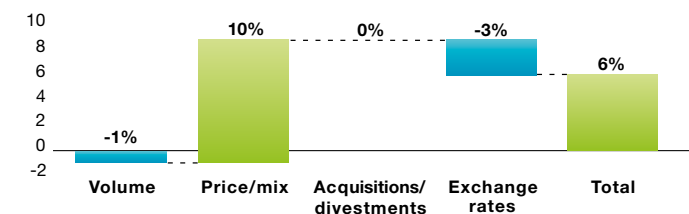
January - September

2017	2018	Δ%	Δ% CC *	in € millions	2017	2018	Δ%	Δ% CC *
437	476	9%	11%	Functional Chemicals	1,379	1,433	4%	9%
319	358	12%	13%	Industrial Chemicals	938	1,043	11%	12%
252	255	1%	6%	Surface Chemistry	818	758	(7%)	–
226	221	(2%)	5%	Pulp and Performance Chemicals	696	651	(6%)	2%
(25)	(23)	(8%)		Other/intragroup eliminations	(74)	(76)		
<b>1,209</b>	<b>1,287</b>	<b>6%</b>	<b>9%</b>	<b>Total</b>	<b>3,757</b>	<b>3,809</b>	<b>1%</b>	<b>7%</b>

\* Change in constant currencies

## Revenue development Q3 2018

■ Increase ■ Decrease



## Key financial figures

Third quarter

January - September

2017 <sup>1</sup>	2018	Δ%	in € millions	2017 <sup>1</sup>	2018	Δ%
156	145	(7%)	Adjusted operating income <sup>2</sup>	488	470	(4%)
156	145	(7%)	Operating income <sup>2</sup>	506	470	(7%)
12.9	11.3		ROS%	13.0	12.3	
			Average invested capital	3,667	3,599	
			ROI%	15.6	16.4	

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

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



# Condensed financial statements

## Condensed consolidated statement of income

The Specialty Chemicals business is reported as discontinued operations. Therefore, the results of the Specialty Chemicals business are included on the line "Profit for the period from discontinued operations" in the consolidated statement of income for 2018, as well as 2017.

### Condensed consolidated statement of income

Third quarter			January - September	
2017 *	2018	in € millions	2017 *	2018
<b>Continuing operations</b>				
2,419	2,326	Revenue	7,329	6,948
(1,372)	(1,326)	Cost of sales	(4,078)	(3,972)
<b>1,047</b>	<b>1,000</b>	<b>Gross profit</b>	<b>3,251</b>	<b>2,976</b>
(823)	(763)	SG&A costs	(2,530)	(2,439)
(9)	-	Other results	(35)	-
<b>215</b>	<b>237</b>	<b>Operating income</b>	<b>686</b>	<b>537</b>
(31)	(20)	Net financing expenses	(63)	(29)
3	4	Results from associates and joint ventures	15	14
<b>187</b>	<b>221</b>	<b>Profit before tax</b>	<b>638</b>	<b>522</b>
(57)	(66)	Income tax	(172)	(112)
<b>130</b>	<b>155</b>	<b>Profit for the period from continuing operations</b>	<b>466</b>	<b>410</b>
<b>Discontinued operations</b>				
96	153	Profit for the period from discontinued operations	346	460
<b>226</b>	<b>308</b>	<b>Profit for the period</b>	<b>812</b>	<b>870</b>
<b>Attributable to</b>				
216	301	Shareholders of the company	757	825
10	7	Non-controlling interests	55	45
<b>226</b>	<b>308</b>	<b>Profit for the period</b>	<b>812</b>	<b>870</b>

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

## Condensed consolidated statement of comprehensive income

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

### Condensed consolidated statement of comprehensive income

Third quarter			January - September	
2017	2018	in € millions	2017	2018
<b>226</b>	<b>308</b>	<b>Profit for the period</b>	<b>812</b>	<b>870</b>
<b>Other comprehensive income</b>				
(112)	(127)	Exchange differences arising on translation of foreign operations	(456)	(213)
16	16	Cash flow hedges	9	46
(33)	(76)	Post-retirement benefits	(155)	(6)
(2)	1	Tax relating to components of other comprehensive income	(22)	(3)
<b>(131)</b>	<b>(186)</b>	<b>Other comprehensive income for the period (net of tax)</b>	<b>(624)</b>	<b>(176)</b>
<b>95</b>	<b>122</b>	<b>Comprehensive income for the period</b>	<b>188</b>	<b>694</b>
<b>Comprehensive income for the period attributable to</b>				
97	136	Shareholders of the company	171	673
(2)	(14)	Non-controlling interests	17	21
<b>95</b>	<b>122</b>	<b>Comprehensive income for the period</b>	<b>188</b>	<b>694</b>

## Condensed consolidated balance sheet

The assets and liabilities of the Specialty Chemicals business are classified as held for sale. As a result, the assets and liabilities of the Specialty Chemicals business are reported on the line "Assets held for sale" and "Liabilities held for sale" in the balance sheet of September 30, 2018, as well as of December 31, 2017.

### Condensed consolidated balance sheet

in € millions	December 31, 2017	September 30, 2018
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	3,409	3,354
Property, plant and equipment	1,832	1,698
Other financial non-current assets	1,894	2,071
<b>Total non-current assets</b>	<b>7,135</b>	<b>7,123</b>
<b>Current assets</b>		
Inventories	1,094	1,150
Trade and other receivables	1,964	2,275
Cash and cash equivalents	1,322	1,040
Other current assets	62	66
Assets held for sale	4,601	5,008
<b>Total current assets</b>	<b>9,043</b>	<b>9,539</b>
<b>Total assets</b>	<b>16,178</b>	<b>16,662</b>
<b>Equity and liabilities</b>		
<b>Group equity</b>		
	6,307	6,656
<b>Non-current liabilities</b>		
Provisions and deferred tax liabilities	1,249	1,156
Long-term borrowings	2,300	2,297
<b>Total non-current liabilities</b>	<b>3,549</b>	<b>3,453</b>
<b>Current liabilities</b>		
Short-term borrowings	973	1,443
Trade and other payables	2,794	2,593
Liabilities held for sale	2,196	2,127
Other short-term liabilities	359	390
<b>Total current liabilities</b>	<b>6,322</b>	<b>6,553</b>
<b>Total equity and liabilities</b>	<b>16,178</b>	<b>16,662</b>

## Shareholders' equity

Shareholders' equity increased from €5.9 billion at year-end 2017 to €6.2 billion at the end of September 30, 2018, mainly due to the net effect of:

- Profit for the period of €825 million
- Dividend payments of €295 million
- Adverse currency effects of €172 million (including taxes)
- Actuarial losses of €15 million (including taxes)
- Opening balance adjustment for IFRS 9 and IFRS 15 of €46 million negative
- Opening balance adjustment of €23 million positive, due to hyperinflation accounting as per IAS 29 for our Argentinian operations

## Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Cumulative translation reserves	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
<b>Balance at January 1, 2017</b>	504	745	3	(47)	5,348	6,553	481	7,034
Profit for the period	–	–	–	–	757	757	55	812
Other comprehensive income	–	–	7	(421)	(172)	(586)	(38)	(624)
<b>Comprehensive income for the period</b>	–	–	7	(421)	585	171	17	188
Dividend	3	125	–	–	(320)	(192)	(39)	(231)
Equity-settled transactions	–	–	–	–	28	28	–	28
Issue of common shares	2	(2)	–	–	–	–	–	–
Share repurchase	(5)	(155)	–	–	–	(160)	–	(160)
<b>Balance at September 30, 2017</b>	504	713	10	(468)	5,641	6,400	459	6,859
<b>Balance at December 31, 2017</b>	505	769	15	(549)	5,125	5,865	442	6,307
Impact adoption IFRS 9 and IFRS 15	–	–	–	–	(46)	(46)	(5)	(51)
Impact application IAS 29	–	–	–	23	–	23	–	23
<b>Balance at January 1, 2018 *</b>	505	769	15	(526)	5,079	5,842	437	6,279
Profit for the period	–	–	–	–	825	825	45	870
Other comprehensive income	–	–	35	(172)	(15)	(152)	(24)	(176)
<b>Comprehensive income for the period</b>	–	–	35	(172)	810	673	21	694
Dividend	5	191	–	–	(491)	(295)	(21)	(316)
Equity-settled transactions	–	–	–	–	28	28	–	28
Issue of common shares	2	(2)	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	(18)	(18)	(11)	(29)
<b>Balance at September 30, 2018</b>	512	958	50	(698)	5,408	6,230	426	6,656

\* Opening balance is adjusted for the effects of the implementation of IFRS 9 (€3 million negative on other reserves), IFRS 15 (€43 million negative on other reserves and €5 million negative on non-controlling interests) and the application of IAS 29 (€23 million positive in cumulative translation reserves).

### Invested capital

Invested capital of continuing operations at the end of September 30, 2018, totaled €6.4 billion, up €0.4 billion from year-end 2017, mainly due to seasonality of operating working capital. Operating working capital as % of revenue increased to 14.1% in Q3 2018 compared with 12.0% in Q3 2017, mainly due to higher trade receivables and increased inventories, driven by higher raw material costs.

### Pension

The net balance sheet position (IAS19) of the pension plans at the end of Q3 2018 was a surplus of €0.5 billion (year-end 2017: a surplus of €0.4 billion). The development in the first nine months of 2018 was the result of the net effect of:

- Top-up payments of €186 million
- Higher discount rates in key countries

Partially offset by:

- Lower asset returns and higher inflation in key countries

### Workforce

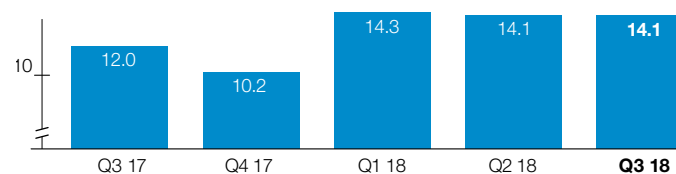
At September 30, 2018, the number of people employed in the continuing operations was 34,300 (year-end 2017: 35,700).

#### Invested capital (continuing operations)

in € millions	December 31, 2017	September 30, 2018
Trade receivables	1,699	1,982
Inventories	1,094	1,150
Trade payables	(1,866)	(1,816)
<b>Operating working capital</b>	<b>927</b>	<b>1,316</b>
Other working capital items	(719)	(597)
Non-current assets	7,135	7,123
Less investments in associates and joint ventures	(118)	(136)
Less pension assets	(895)	(1,021)
Deferred tax liabilities	(285)	(267)
<b>Invested capital</b>	<b>6,045</b>	<b>6,418</b>

#### Operating working capital (continuing operations)

In % of revenue



### Cash flows and net debt

Operating activities in Q3 2018 resulted in an inflow of €284 million (2017: €157 million). This was mainly driven by higher working capital inflow compared with 2017.

At September 30, 2018, net debt was €2,700 million versus €1,951 million at year-end 2017. The increase is mainly due to seasonality of the operating working capital.

### Outlook

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

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

We are taking the next step in our transformation to deliver the next €200 million cost savings by 2020, incurring total one-off costs of €350 million between 2018 and 2019.

### Amsterdam, October 17, 2018 The Board of Management

Thierry Vanlancker  
Maarten de Vries

### Condensed consolidated statements of cash flows

Third quarter			January-September	
2017	2018	in € millions	2017	2018
877	837	<b>Net cash and cash equivalents at beginning of period</b>	1,441	1,278
130	155	Profit for the period	466	410
69	60	Amortization and depreciation	214	180
43	155	Changes in working capital	(344)	(427)
(66)	(45)	Changes in provisions	(329)	(248)
(25)	(27)	Interest paid	(37)	(41)
(80)	(74)	Income tax paid	(204)	(111)
86	60	Other changes	210	80
<b>157</b>	<b>284</b>	<b>Net cash from operating activities</b>	<b>(24)</b>	<b>(157)</b>
(59)	(36)	Capital expenditures	(165)	(106)
(33)	(13)	Acquisitions and divestments net of cash acquired	(28)	6
6	(4)	Other changes	5	31
<b>(86)</b>	<b>(53)</b>	<b>Net cash from investing activities</b>	<b>(188)</b>	<b>(69)</b>
(65)	(74)	Changes from borrowings	26	418
(13)	(23)	Dividend paid	(224)	(501)
-	-	Share repurchase	(160)	-
(1)	(29)	Other changes	-	(28)
<b>(79)</b>	<b>(126)</b>	<b>Net cash from financing activities</b>	<b>(358)</b>	<b>(111)</b>
<b>(8)</b>	<b>105</b>	<b>Net cash used for continuing operations</b>	<b>(570)</b>	<b>(337)</b>
180	34	Cash flows from discontinued operations	218	34
<b>172</b>	<b>139</b>	<b>Net change in cash and cash equivalents of continued and discontinued operations</b>	<b>(352)</b>	<b>(303)</b>
(17)	(24)	Effect of exchange rate changes on cash and cash equivalents	(57)	(23)
<b>1,032</b>	<b>952</b>	<b>Net Cash and cash equivalents at September 30</b>	<b>1,032</b>	<b>952</b>



# Paints and Coatings (continuing operations)

## Quarterly statistics

	Q1	Q2	Q3	Q4	2017 * year	in € millions	Q1	Q2	Q3	2018 year-to-date
<b>Revenue</b>										
	922	1,046	1,007	923	3,898	Decorative Paints	846	1,006	951	2,803
	1,471	1,504	1,428	1,372	5,775	Performance Coatings	1,342	1,454	1,388	4,184
	(16)	(17)	(16)	(12)	(61)	Other activities/eliminations	(12)	(14)	(13)	(39)
	<b>2,377</b>	<b>2,533</b>	<b>2,419</b>	<b>2,283</b>	<b>9,612</b>	<b>Total</b>	<b>2,176</b>	<b>2,446</b>	<b>2,326</b>	<b>6,948</b>
<b>Adjusted EBITDA (excluding identified items)</b>										
	109	152	124	87	472	Decorative Paints	79	145	138	362
	225	242	185	165	817	Performance Coatings	169	207	204	580
	(53)	(28)	(15)	(12)	(108)	Other activities/eliminations	(39)	(67)	(39)	(145)
	<b>281</b>	<b>366</b>	<b>294</b>	<b>240</b>	<b>1,181</b>	<b>Total</b>	<b>209</b>	<b>285</b>	<b>303</b>	<b>797</b>
	<b>11.8</b>	<b>14.4</b>	<b>12.2</b>	<b>10.5</b>	<b>12.3</b>	<b>Adjusted EBITDA margin (in %)</b>	<b>9.6</b>	<b>11.7</b>	<b>13.0</b>	<b>11.5</b>
<b>Depreciation</b>										
	(23)	(23)	(23)	(22)	(91)	Decorative Paints	(18)	(18)	(17)	(53)
	(25)	(27)	(26)	(27)	(105)	Performance Coatings	(26)	(26)	(24)	(76)
	(3)	(1)	(1)	(1)	(6)	Other activities/eliminations	(2)	(2)	(4)	(8)
	<b>(51)</b>	<b>(51)</b>	<b>(50)</b>	<b>(50)</b>	<b>(202)</b>	<b>Total</b>	<b>(46)</b>	<b>(46)</b>	<b>(45)</b>	<b>(137)</b>
<b>Amortization</b>										
	(9)	(8)	(6)	(7)	(30)	Decorative Paints	(5)	(4)	(6)	(15)
	(13)	(13)	(12)	(5)	(43)	Performance Coatings	(9)	(9)	(10)	(28)
	-	-	(1)	-	(1)	Other activities/eliminations	-	(1)	1	-
	<b>(22)</b>	<b>(21)</b>	<b>(19)</b>	<b>(12)</b>	<b>(74)</b>	<b>Total</b>	<b>(14)</b>	<b>(14)</b>	<b>(15)</b>	<b>(43)</b>
<b>Adjusted operating income (excluding identified items)</b>										
	77	121	95	58	351	Decorative Paints	56	123	115	294
	187	202	147	133	669	Performance Coatings	134	172	170	476
	(56)	(29)	(17)	(13)	(115)	Other activities/eliminations	(41)	(70)	(42)	(153)
	<b>208</b>	<b>294</b>	<b>225</b>	<b>178</b>	<b>905</b>	<b>Total</b>	<b>149</b>	<b>225</b>	<b>243</b>	<b>617</b>
	<b>8.8</b>	<b>11.6</b>	<b>9.3</b>	<b>7.8</b>	<b>9.4</b>	<b>ROS%</b>	<b>6.8</b>	<b>9.2</b>	<b>10.4</b>	<b>8.9</b>

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

# Paints and Coatings (continuing operations)

## Quarterly statistics

					2017 *					2018
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Q3	year-to-date	
<b>Operating income</b>										
77	121	95	41	334	Decorative Paints	48	111	112	271	
187	202	147	132	668	Performance Coatings	121	162	164	447	
(56)	(60)	(27)	(34)	(177)	Other activities/eliminations	(61)	(81)	(39)	(181)	
<b>208</b>	<b>263</b>	<b>215</b>	<b>139</b>	<b>825</b>	<b>Total</b>	<b>108</b>	<b>192</b>	<b>237</b>	<b>537</b>	
<b>Identified items per Business Area</b>										
-	-	-	(17)	(17)	Decorative Paints	(8)	(12)	(3)	(23)	
-	-	-	(1)	(1)	Performance Coatings	(13)	(10)	(6)	(29)	
-	(31)	(10)	(21)	(62)	Other activities/eliminations	(20)	(11)	3	(28)	
<b>-</b>	<b>(31)</b>	<b>(10)</b>	<b>(39)</b>	<b>(80)</b>	<b>Total</b>	<b>(41)</b>	<b>(33)</b>	<b>(6)</b>	<b>(80)</b>	
<b>Reconciliation net financing income/(expenses)</b>										
6	6	3	8	23	Financing income	6	5	3	14	
(22)	(22)	(23)	(23)	(90)	Financing expenses	(22)	(22)	(24)	(68)	
<b>(16)</b>	<b>(16)</b>	<b>(20)</b>	<b>(15)</b>	<b>(67)</b>	<b>Net interest on net debt</b>	<b>(16)</b>	<b>(17)</b>	<b>(21)</b>	<b>(54)</b>	
<b>Other interest movements</b>										
(1)	(2)	(1)	(3)	(7)	Financing expenses related to post-retirement benefits	2	3	2	7	
(2)	(2)	(14)	2	(16)	Interest on provisions	-	(1)	-	(1)	
2	5	4	1	12	Other items	33	(13)	(1)	19	
<b>(1)</b>	<b>1</b>	<b>(11)</b>	<b>-</b>	<b>(11)</b>	<b>Net other financing charges</b>	<b>35</b>	<b>(11)</b>	<b>1</b>	<b>25</b>	
<b>(17)</b>	<b>(15)</b>	<b>(31)</b>	<b>(15)</b>	<b>(78)</b>	<b>Net financing expenses</b>	<b>19</b>	<b>(28)</b>	<b>(20)</b>	<b>(29)</b>	
<b>Quarterly net income analysis</b>										
6	6	3	2	17	Results from associates and joint ventures	4	6	4	14	
197	254	187	126	764	Profit before tax	131	170	221	522	
(52)	(63)	(57)	(81)	(253)	Income tax	1	(47)	(66)	(112)	
145	191	130	45	511	Profit for the period from continuing operations	132	123	155	410	
26	25	30	64	33	Effective tax rate (in %)	(1)	28	30	21	

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

# AkzoNobel (continuing and discontinued operations)

## Quarterly statistics

	Q1	Q2	Q3	Q4	2017 1 year		Q1	Q2	Q3	2018 year-to-date
<b>Earnings per share from continuing operations (in €)</b>										
	0.50	0.67	0.48	0.11	1.76	Basic	0.47	0.42	0.58	1.47
	0.50	0.67	0.48	0.11	1.75	Diluted	0.47	0.42	0.58	1.47
<b>Earnings per share from discontinued operations (in €)</b>										
	0.46	0.53	0.38	0.18	1.55	Basic	0.53	0.64	0.60	1.77
	0.45	0.53	0.37	0.18	1.54	Diluted	0.53	0.64	0.59	1.76
<b>Earnings per share from total operations (in €)</b>										
	0.96	1.20	0.86	0.29	3.31	Basic	1.00	1.06	1.18	3.24
	0.95	1.20	0.85	0.29	3.29	Diluted	1.00	1.06	1.17	3.23
<b>Number of shares (in millions)</b>										
	251.3	251.1	251.9	252.3	251.6	Weighted average number of shares	252.9	254.5	255.8	254.4
	252.6	254.3	251.9	252.6	252.6	Number of shares at end of quarter	253.2	255.8	255.8	255.8
<b>Adjusted earnings from continuing operations (in € millions) <sup>2</sup></b>										
	197	254	187	126	764	Profit before tax from continuing operations	131	170	221	522
	–	31	10	39	80	Identified items reported in operating income	41	33	6	80
	–	–	–	–	–	Interest on tax settlement	(31)	1	–	(30)
	(52)	(68)	(53)	(12)	(185)	Adjusted income tax	(39)	(55)	(67)	(161)
	(19)	(23)	(9)	(17)	(68)	Non-controlling interests	(13)	(16)	(6)	(35)
	126	194	135	136	591	Adjusted net income from continuing operations	89	133	154	376
	<b>0.50</b>	<b>0.78</b>	<b>0.53</b>	<b>0.54</b>	<b>2.35</b>	<b>Adjusted earnings per share from continuing operations (in €)</b>	<b>0.35</b>	<b>0.52</b>	<b>0.60</b>	<b>1.48</b>
<b>Adjusted earnings from total operations (in € millions) <sup>2</sup></b>										
	362	430	307	225	1,324	Profit before tax from total operations	320	404	425	1,149
	–	20	45	64	129	Identified items reported in operating income	55	41	21	117
	–	–	–	–	–	Interest on tax settlement	(31)	1	–	(30)
	(101)	(110)	(93)	(55)	(359)	Adjusted income tax	(87)	(125)	(121)	(333)
	(21)	(24)	(10)	(17)	(72)	Non-controlling interests	(21)	(17)	(7)	(45)
	240	316	249	217	1,022	Adjusted net income from total operations	236	304	318	858
	<b>0.96</b>	<b>1.26</b>	<b>0.99</b>	<b>0.86</b>	<b>4.06</b>	<b>Adjusted earnings per share from total operations (in €)</b>	<b>0.93</b>	<b>1.19</b>	<b>1.24</b>	<b>3.37</b>

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

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

# Discontinued operations (including Specialty Chemicals)

## Quarterly statistics discontinued operations

					2017 <sup>1</sup>					2018
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Q3	year-to-date	
<b>Revenue</b>										
1,289	1,259	1,209	1,228	4,985	Specialty Chemicals <sup>2</sup>	1,252	1,270	1,287	3,809	
(5)	(7)	(4)	(6)	(22)	Held for sale effects/other	(6)	(6)	(6)	(18)	
<b>1,284</b>	<b>1,252</b>	<b>1,205</b>	<b>1,222</b>	<b>4,963</b>	<b>Total</b>	<b>1,246</b>	<b>1,264</b>	<b>1,281</b>	<b>3,791</b>	
<b>Adjusted EBITDA (excluding identified items)</b>										
251	252	239	205	947	Specialty Chemicals <sup>2</sup>	233	258	229	720	
2	2	2	(2)	4	Held for sale effects/other	(25)	(6)	(8)	(39)	
<b>253</b>	<b>254</b>	<b>241</b>	<b>203</b>	<b>951</b>	<b>Total</b>	<b>208</b>	<b>252</b>	<b>221</b>	<b>681</b>	
<b>19.7</b>	<b>20.3</b>	<b>20.0</b>	<b>16.6</b>	<b>19.2</b>	<b>EBITDA margin (in %)</b>	<b>16.7</b>	<b>19.9</b>	<b>17.3</b>	<b>18.0</b>	
<b>Depreciation</b>										
(73)	(74)	(72)	(74)	(293)	Specialty Chemicals <sup>2</sup>	(72)	(71)	(73)	(216)	
-	-	-	8	8	Held for sale effects/other	72	71	73	216	
<b>(73)</b>	<b>(74)</b>	<b>(72)</b>	<b>(66)</b>	<b>(285)</b>	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Amortization</b>										
(12)	(12)	(11)	(12)	(47)	Specialty Chemicals <sup>2</sup>	(11)	(12)	(11)	(34)	
-	-	-	1	1	Held for sale effects/other	11	12	11	34	
<b>(12)</b>	<b>(12)</b>	<b>(11)</b>	<b>(11)</b>	<b>(46)</b>	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Adjusted operating income (excluding identified items)</b>										
166	166	156	119	607	Specialty Chemicals <sup>2</sup>	150	175	145	470	
2	2	2	7	13	Held for sale effects/other	58	77	76	211	
<b>168</b>	<b>168</b>	<b>158</b>	<b>126</b>	<b>620</b>	<b>Total</b>	<b>208</b>	<b>252</b>	<b>221</b>	<b>681</b>	
<b>13.1</b>	<b>13.4</b>	<b>13.1</b>	<b>10.3</b>	<b>12.5</b>	<b>ROS (in %)</b>	<b>16.7</b>	<b>19.9</b>	<b>17.3</b>	<b>18.0</b>	
<b>Operating income</b>										
166	184	156	119	625	Specialty Chemicals <sup>2</sup>	150	175	145	470	
2	(6)	(33)	(17)	(54)	Held for sale effects/other	44	69	61	174	
<b>168</b>	<b>178</b>	<b>123</b>	<b>102</b>	<b>571</b>	<b>Total</b>	<b>194</b>	<b>244</b>	<b>206</b>	<b>644</b>	
<b>Identified items</b>										
-	18	-	-	18	Specialty Chemicals <sup>2</sup>	-	-	-	-	
-	(8)	(35)	(24)	(67)	Held for sale effects/other	(14)	(8)	(15)	(37)	
<b>-</b>	<b>10</b>	<b>(35)</b>	<b>(24)</b>	<b>(49)</b>	<b>Total</b>	<b>(14)</b>	<b>(8)</b>	<b>(15)</b>	<b>(37)</b>	

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

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



# Notes to the condensed financial statements

## General information

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

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

## Basis of preparation

All quarterly figures are unaudited. The interim condensed financial statements have been prepared in accordance with IAS 34 "Interim financial reporting".

The interim condensed consolidated financial statements were discussed and approved by the Board of Management and Supervisory Board. The interim condensed consolidated financial statements should be read in conjunction with AkzoNobel's consolidated financial statements in the 2017 annual report as published on March 15, 2018. The financial statements were adopted by the Annual General Meeting of shareholders on April 26, 2018. In accordance with Article 393 of Book 2 of the Dutch Civil Code, PricewaterhouseCoopers Accountants N.V. has issued an unqualified auditor's opinion on these financial statements.

## Accounting policies and restatements

The significant accounting policies applied in the condensed consolidated interim financial statements are consistent with those applied in AkzoNobel's consolidated financial statements for the year ended December 31, 2017, except for the following changes in accounting policies and disclosures:

IFRS 15, "Revenue from contracts with customers", replaces pre-existing revenue recognition guidance in IFRS. Further information on the implementation of IFRS 15, is included on page 18 of this report.

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

The impact of the adoption of IFRS 9 and IFRS 15, has been reflected in the table below "Impact of adoption of IFRS 9 and IFRS 15" as included in this report.

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

IAS 29, "Financial Reporting in Hyperinflationary Economies" is applied to the financial statements for entities who's functional currency is the currency of a hyperinflationary economy. Since July 1, 2018, Argentina qualifies as a so-called hyperinflationary country under IFRS. As a consequence, special accounting procedures have been applied to

eliminate hyperinflation effects from the accounts of the Argentinian operations, starting on January 1, 2018. The revaluation effect on the non-monetary assets at January 1, 2018, was a gain of €23 mln after taxes, recorded as an adjustment to opening shareholders' equity. Effects during the year were limited so far.

## Related parties

We purchased and sold goods and services to various related parties in which we hold a 50% or less equity interest (associates and joint ventures). Such transactions were conducted at arm's length with terms comparable with transactions with third parties. We consider the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 "Related parties". In the ordinary course of business, we have transactions with various organizations with which certain of the members of the Supervisory Board and Executive Committee are associated. All related party transactions were conducted at arm's length.

## Seasonality

Revenue and results in Decorative Paints are impacted by seasonal influences. Revenue and profitability tend to be higher in the second and third quarter of the year as weather conditions determine whether paints and coatings can be applied. In Performance Coatings, revenue and profitability vary with building patterns from original equipment manufacturers. In Specialty Chemicals, the Functional Chemicals and the Surface Chemistry businesses experience seasonal influences. Revenue and profitability are affected by developments in the agricultural season and tend to be higher in the first half of the year.

## Other activities

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

## Impact of adoption of IFRS 9 and IFRS 15

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

# Notes to the condensed financial statements

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

IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. AkzoNobel has adopted IFRS 15 as per January 1, 2018, and has not restated its 2017 comparative figures.

The transition effect on group equity as per January 1, 2018, is €48 million after tax. For further information, reference is made to Note 1 of the 2017 Financial Statements. The impact on the interim condensed consolidated financial statements is not significant. The table below reflects the disaggregation of revenue. Additional disaggregation of revenue is included on page 5 for Decorative Paints and page 6 for Performance Coatings.

## Revenue disaggregation

January-September

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets				
The Netherlands	158	70	1	229
Other European Countries	1,316	1,538	1	2,855
USA and Canada	–	849	–	849
Latin America	313	260	–	573
Asia	843	1,166	–	2,009
Other regions	173	301	(41)	433
<b>Total</b>	<b>2,803</b>	<b>4,184</b>	<b>(39)</b>	<b>6,948</b>
Timing of revenue recognition				
Goods transferred at a point in time	2,778	4,053	(41)	6,790
Services transferred over time	25	131	2	158
<b>Total</b>	<b>2,803</b>	<b>4,184</b>	<b>(39)</b>	<b>6,948</b>

# Glossary

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

**Adjusted EBIT** is equal to adjusted operating income.

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

**Adjusted operating income** is operating income excluding identified items.

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

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

**EBIT** is equal to operating income.

**EBITDA** is operating income excluding depreciation and amortization.

**EBITDA margin** is EBITDA as percentage of revenue.

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

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

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

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

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

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

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

**OPI margin%** is operating income as percentage of revenue.

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

**ROS%** is adjusted operating income as percentage of revenue.

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

## Safe Harbor Statement

This report contains statements which address such key issues as AkzoNobel's growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecast and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures as well as the separation of Specialty Chemicals. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more comprehensive discussion of the risk factors affecting our business, please see our latest Annual Report.

## Brand and trademarks

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

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The explanatory sheets used during the press conference can be viewed on AkzoNobel's corporate website [www.akzonobel.com/quarterlyresults](http://www.akzonobel.com/quarterlyresults)

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**Financial calendar**

Ex-dividend date of 2018 interim dividend	October 19, 2018
Record date of 2018 interim dividend	October 22, 2018
Payment of 2018 interim dividend	October 26, 2018
Extraordinary General Meeting (EGM)	November 13, 2018
Report for the full-year and the fourth quarter 2018	February 13, 2019

# AkzoNobel

AkzoNobel has a passion for paint. We're experts in the proud craft of making paints and coatings, setting the standard in color and protection since 1792. Our world class portfolio of brands – including Dulux, International, Sikkens and Interpon – is trusted by customers around the globe. Headquartered in the Netherlands, we are active in over 150 countries and employ around 35,000 talented people who are passionate about delivering the high performance products and services our customers expect.

**For more information please visit [www.akzonobel.com](http://www.akzonobel.com).**

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