

Q2 Report

AkzoNobel



Partnership with SOS Children's Villages extended
Our global partnership with SOS Children's Villages has been extended for another three years. Part of our "Let's Colour" initiative, the collaboration has already benefited more than 20,000 children and young people all over the world. It will continue to focus on renewing living spaces and offer practical skills training so that young people, families at risk and children without adequate parental care can have a brighter future.

2020

Our results at a glance

Highlights Q2 2020

- ROS, excluding unallocated costs, increased to 14.0% (2019: 13.7%) due to strong margin management and cost savings
- Headwinds related to COVID-19 eased during the quarter, with revenue almost 30% lower in April and nearly 5% lower in June
- Total cost savings delivered €116 million, of which €38 million structural savings related to transformation initiatives
- Net cash from operating activities improved to €308 million (2019: €152 million); maintained a strong balance sheet

Q2 2020 (compared to Q2 2019)

- Revenue 19% lower and 17% lower in constant currencies, with positive price/mix of 2% and 18% lower volumes, mainly due to the impact of COVID-19
- Adjusted operating income at €238 million (2019: €305 million); ROS was 12.0% (2019: 12.4%)
- Operating income at €207 million includes €31 million negative impact from identified items, related to transformation costs (2019: €308 million, including €3 million positive identified items); OPI margin was 10.4% (2019: 12.6%)
- Net income attributable to shareholders at €129 million (2019: €231 million)
- Adjusted EPS from continuing operations at €0.80 (2019: €0.96); EPS from total operations at €0.68 (2019: €1.07)

Half-year 2020 (compared to half-year 2019)

- Revenue 13% lower and 11% lower in constant currencies, with 2% positive price/mix and 12% lower volumes, mainly due to the impact of COVID-19
- Operating income at €394 million includes €58 million negative impact from identified items, related to transformation costs (2019: €421 million, including €47 million negative identified items); OPI margin increased to 9.7% (2019: 9.1%)
- Net income attributable to shareholders at €243 million (2019: €296 million)
- Adjusted EPS from continuing operations up 8% at €1.51 (2019: €1.40); EPS from total operations at €1.26 (2019: €1.32)
- At June 30, 2020, net debt was €1,683 million (2019: €62 million), mainly due to share buyback programs and dividends paid

Outlook:

AkzoNobel has suspended its 2020 financial ambition in response to the significant market disruption resulting from the pandemic. COVID-19 will continue to impact the second half of 2020, although demand trends differ per region and segment in an uncertain macro-economic environment. Raw material costs are expected to have a favorable impact for the second half of 2020. Continued margin management and cost-saving programs are in place to address the current challenges. The company targets a leverage ratio of 1-2 times net debt/EBITDA by the end of 2020 and commits to retain a strong investment grade credit rating.

Alternative performance measures (APM)

AkzoNobel uses APM adjustments to the IFRS measures to provide supplementary information on the reporting of the underlying developments of the business. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the tables on pages 17 and 18.

Summary of financial outcomes

Second quarter			January-June		
2019	2020	Δ% in € millions	2019	2020	Δ%
2,451	1,987	(19%)	Revenue	4,636	4,045 (13%)
394	321	(19%)	Adjusted EBITDA*	642	623 (3%)
397	297	(25%)	EBITDA*	597	574 (4%)
305	238	(22%)	Adjusted operating income*	468	452 (3%)
3	(31)		Identified items*	(47)	(58)
308	207	(33%)	Operating income	421	394 (6%)
12.4	12.0		ROS%*	10.1	11.2
12.6	10.4		OPI margin*	9.1	9.7
			Average invested capital*	6,648	7,060
			ROI%*	13.4	13.8
13.7	14.0		ROS% excl. unallocated costs*	11.5	13.2
			ROI% excl. unallocated costs*	16.5	17.4
46	46		Capital expenditures	83	92
			Net debt	62	1,683
			Leverage ratio (net debt/EBITDA)*	0.1	1.4
			Number of employees	34,500	33,200
152	308		Net cash from operating activities	(733)	148
215	129	(40%)	Net income from continuing operations	280	244 (13%)
16	-		Net income from discontinued operations	16	(1)
231	129	(44%)	Net income attributable to shareholders	296	243 (18%)
215.7	190.7		Weighted average number of shares	225.0	192.3
0.96	0.80	(17%)	Adjusted earnings per share from continuing operations (in €)*	1.40	1.51 8%
1.07	0.68	(36%)	Earnings per share from total operations (in €)	1.32	1.26 (5%)

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

Financial highlights

Revenue

Q2 2020

Revenue was 19% lower, and 17% lower in constant currencies. Price/mix was up 2% overall. Volumes were 18% lower, mainly due to the impact of COVID-19 on end market demand.

- Decorative Paints revenue was 10% lower and 6% lower in constant currencies, including significant currency devaluation in South America. Price/mix was up 4%, while volumes were 10% lower, mainly due to lower end market demand
- Performance Coatings revenue was 24% lower and 23% lower in constant currencies. Volumes were 23% lower, mainly due to the impact of COVID-19 on end market demand, especially for automotive and aerospace markets
- Other activities includes royalty and service revenue mainly related to services to the former Specialty Chemicals business, which have been phased out during 2020

Half-year 2020

Revenue was 13% lower, and 11% lower in constant currencies. Price/mix was up 2% overall. Volumes were 12% lower, mainly due to the impact of COVID-19 on end market demand.

- Decorative Paints revenue was 10% lower and 7% lower in constant currencies, with 3% positive price/mix, more than offset by 10% lower volumes, mainly due to COVID-19
- Performance Coatings revenue was 14% lower and 13% lower in constant currencies. Revenue was positively impacted by 2% price/mix, while volumes were 15% lower, mainly due to the impact of COVID-19 on end market demand
- Other activities includes royalty and service revenue mainly related to services to the former Specialty Chemicals business, which have been phased out during 2020

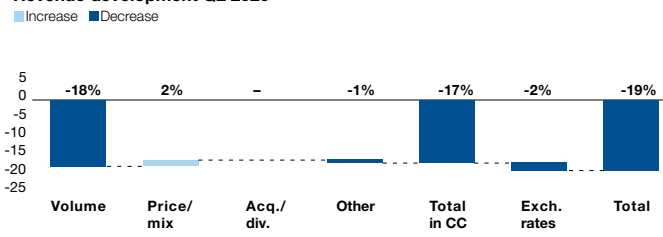
Cost of sales

Raw material and other variable costs in the second quarter of 2020 were €32 million lower compared with the second quarter of 2019. In the first half-year, raw material and other variable costs were €82 million lower versus the first half-year 2019.

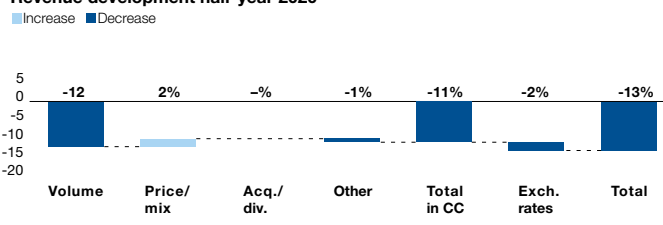
Acquisitions

The acquisition of Mauvilac Industries, announced on December 12, 2019, was closed on April 1, 2020.

Revenue development Q2 2020

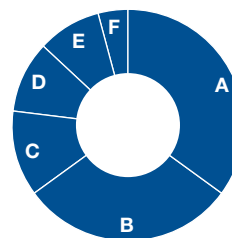


Revenue development half-year 2020



AkzoNobel around the world Revenue by destination

Destination	%
A Mature Europe	35
B Asia Pacific	30
C North America	12
D Emerging Europe	10
E South America	9
F Other regions	4
Total	100



(Based on the full-year 2019)

Revenue

Second quarter

January-June

2019 ¹	2020	Δ%	Δ% CC ²	in € millions	2019 ¹	2020	Δ%	Δ% CC ²
997	899	(10%)	(6%)	Decorative Paints	1,833	1,653	(10%)	(7%)
1,438	1,086	(24%)	(23%)	Performance Coatings	2,771	2,381	(14%)	(13%)
16	2			Other activities	32	11		
2,451	1,987	(19%)	(17%)	Total	4,636	4,045	(13%)	(11%)

¹ Represented to present revenue from third parties instead of total revenue.

² Change excluding currency impact.

in % versus Q2 2019	Volume	Price/mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(10)	4	-	-	(4)	(10)
Performance Coatings	(23)	-	-	-	(1)	(24)
Total	(18)	2	-	(1)	(2)	(19)

in % versus year-to-date 2019	Volume	Price/mix	Acq./div.	Other	Exchange rates	Total
Decorative Paints	(10)	3	-	-	(3)	(10)
Performance Coatings	(15)	2	-	-	(1)	(14)
Total	(12)	2	-	(1)	(2)	(13)

Volume development per quarter

(year-on-year) in %	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Decorative Paints	(4)	(5)	(4)	(9)	(10)
Performance Coatings	(7)	(3)	(4)	(7)	(23)
Total	(6)	(4)	(4)	(7)	(18)

Price/mix development per quarter

(year-on-year) in %	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Decorative Paints	4	5	2	1	4
Performance Coatings	7	3	-	3	-
Total	5	4	1	2	2

Currency development per quarter

(year-on-year) in %	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
Decorative Paints	(2)	1	-	(2)	(4)
Performance Coatings	(1)	2	1	-	(1)
Total	(1)	1	1	(1)	(2)

Financial highlights

Q2 2020

Adjusted operating income

Adjusted operating income was €238 million (2019: €305 million); margin management and cost-saving programs partly compensated for lower end market demand as a result of the impact from COVID-19. Continuous improvement initiatives successfully offset inflation. Total cost savings delivered €116 million, of which €38 million structural savings related to transformation initiatives. ROS was 12.0% (2019: 12.4%).

- Decorative Paints performance continued to improve despite the impact of COVID-19. Margin management and cost savings more than compensated for lower volumes. ROS was up at 19.5% (2019: 13.6%)
- Performance Coatings income decreased, with positive price/mix, margin management and cost savings more than offset by lower volumes from COVID-19. ROS was 9.5% (2019: 13.7%)
- Other activities was €12 million lower at €40 million (2019: €28 million, including a one-off gain on a disposal and higher royalty income)

Half-year 2020

Adjusted operating income

Adjusted operating income was €452 million (2019: €468 million). Margin management and cost-saving programs helped to compensate for the impact of COVID-19. Continuous improvement initiatives successfully offset inflation. ROS was higher at 11.2%. (2019: 10.1%).

- Decorative Paints performance continued to improve despite the impact from COVID-19. Margin management and cost savings more than compensated for lower volumes. ROS was up at 14.5% (2019: 10.7%)
- Performance Coatings income decreased, with positive price/mix, margin management and cost savings more than offset by lower volumes due to COVID-19. ROS increased to 12.3% (2019: 12.1%)
- Other activities was €17 million lower at €80 million (2019: €63 million, including a one-off gain on a disposal and higher royalty income)

Operating income

Operating income was €394 million (2019: €421 million) and included negative identified items of €58 million, mainly related to transformation costs. In 2019, identified items were €47 million negative, and mainly related to transformation costs and non-cash impairments, partly offset by a gain on disposal of €57 million following asset network optimization. OPI margin increased to 9.7% (2019: 9.1%)

Net financing income/(expenses)

Net financing expenses increased €7 million, mainly due to higher interest on provisions.

Income tax

The effective tax rate was 29.1% (2019: 25.0%). Excluding identified items, the effective tax rate in 2020 was 27.9% (2019: 25.1%).

Net income

Net income attributable to shareholders was €243 million (2019: €296 million). Adjusted earnings per share from continuing operations increased to €1.51 (2019: €1.40), including the impact of the share consolidation in 2019 and share buyback programs.

Adjusted operating income

Second quarter			January-June			
2019	2020	Δ%	in € millions	2019	2020	Δ%
136	175	29%	Decorative Paints	196	239	22%
197	103	(48%)	Performance Coatings	335	293	(13%)
(28)	(40)		Other activities	(63)	(80)	
305	238	(22%)	Total	468	452	(3%)

ROS%

Second quarter			January-June			
2019	2020	Δ	in € millions	2019	2020	Δ
13.6%	19.5%	5.9%	Decorative Paints ¹	10.7%	14.5%	3.8%
13.7%	9.5%	(4.2%)	Performance Coatings ¹	12.1%	12.3%	0.2%
			Other activities ²			
12.4%	12.0%	(0.4%)	Total	10.1%	11.2%	1.1%
13.7%	14.0%	0.3%	Excl. Unallocated costs	11.5%	13.2%	1.7%

¹ROS% 2019 represented, based on revenue from third parties in stead of total revenue.

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

Operating income

Second quarter			January-June			
2019	2020	Δ%	in € millions	2019	2020	Δ%
166	169	2%	Decorative Paints	220	227	3%
174	89	(49%)	Performance Coatings	271	271	-%
(32)	(51)		Other activities	(70)	(104)	
308	207	(33%)	Total	421	394	(6%)

Operating income to net income

Second quarter			January-June	
2019	2020	in € millions	2019	2020
308	207	Operating income	421	394
(18)	(25)	Net financing expenses	(31)	(38)
5	5	Results from associates and joint ventures	10	12
295	187	Profit before tax	400	368
(69)	(53)	Income tax	(100)	(107)
226	134	Profit from continuing operations	300	261
16	-	Profit from discontinued operations	16	(1)
242	134	Profit for the period	316	260
(11)	(5)	Non-controlling interests	(20)	(17)
231	129	Net income	296	243

COVID-19

COVID-19 is having a significant impact. The pandemic situation is being closely monitored and appropriate necessary measures are being taken to continue serving customers and rapidly reduce costs, while at the same time keeping the organization intact and able to respond quickly to changes in end market demand.

During the first quarter, COVID-19 adversely impacted revenue by around 5%. Asia was most affected, with other regions impacted only from the second half of March onwards. During the second quarter, COVID-19 adversely impacted revenue by around 18%. Market headwinds were strongest in April and eased during the quarter.

AkzoNobel has a strong balance sheet and solid cash position. At June 30, 2020, cash and cash equivalents were €1.2 billion and the financial leverage (net debt/EBITDA) was 1.4x. The company has a €1.3 billion unutilized revolving credit facility with a maturity of 2025. The next bond maturity is €750 million in July 2022. AkzoNobel is committed to retain a strong investment grade credit rating. On April 15, 2020, AkzoNobel received the proceeds of a €750 million bond, with a ten-year maturity and a coupon of 1.625%. In addition, the company has sufficient access to commercial paper and bank credit facilities.

An assessment was performed of potential valuation adjustments to our asset base, that might be required as a result of the possible impact of COVID-19 on our future profitability and cash flow generation. As part of this assessment, an additional impairment test was performed in Q2, applying the value-in-use method. Calculation models as used in this impairment test were the same as the ones used in the 2019 impairment test, for which reference is made to the 2019 financial statements. These calculation models were populated with the most recent revised forecast information. Furthermore, a revised weighted average cost of capital (WACC) and terminal growth rate were applied.

The key assumptions used in the projections are:

- Revenue growth: based on actual experience, analysis of market growth and the expected market share development
- Adjusted EBITDA margin development: based on actual experience and management's long-term projections

For all businesses, a terminal value was calculated based on the long-term inflation expectations of 1.0%. The estimated pre-tax cash flows were discounted to their present value using a pre-tax WACC. The discount rates were determined for each business and range from 9.6% to 15.1% (2019: 8.8% to 12.7%), with a weighted average of 10.4% (2019: 9.4%).

Average revenue growth rates

in %	2020-2025
Decorative Paints	1.3
Performance Coatings	1.1

The average revenue growth rates are heavily impacted by COVID-19. The growth rates for 2020-2025 in the above table include the negative impact of COVID-19 in 2020. Average revenue growth rates for 2021-2025 of 3.7% for Decorative Paints and 3.6% for Performance Coatings include the expected recovery in the first years after COVID-19.

Sensitivity tests were performed for growth assumptions (a 50% reduction in the revenue growth rate), adjusted EBITDA margin development assumptions (a one percentage point decrease) and for the WACC (a one percentage point increase). All sensitivity tests confirmed sufficient headroom in all businesses. No impairment charges were recognized in relation to this additional impairment test.

In the context of COVID-19, management has also assessed whether it is still probable that deferred tax assets recognized on the balance sheet will be realized. No derecognition as a result of this assessment was recorded. Furthermore, management has updated its assessment of expected credit losses. As a result, the allowance for impairment of trade receivables has been increased by €14 million.

In Q2, a benefit of €18 million related to governmental support measures for COVID-19 was recognized. The majority of this concerned China, France, Singapore and the UK. Where applicable, extended payment terms for income and other taxes and social security charges were used. No application was made for the "Noodmaatregel Overbrugging voor Werkgelegenheid (NOW)" in the Netherlands.



Rising to the challenge

The outbreak of COVID-19 has not only seen us continue to supply our products to critical industries around the world. Our businesses and employees have also made every effort to support local projects and community initiatives in an effort to help as many people as possible.

Decorative Paints

Highlights Q2 2020

- Revenue was 10% lower, mainly due to the impact of COVID-19: demand rebounded strongly in Europe and China recovered towards previous levels, while other regions continued to be impacted for most of the quarter
- ROS up 5.9% at 19.5% (2019: 13.6%) driven by continued strong performance in EMEA; OPI margin increased to 18.8% (2019: 16.6%)

Q2 2020

- Revenue was 10% lower and 6% lower in constant currencies; positive price/mix of 4% was more than offset by 10% lower volumes, mainly due to the impact of COVID-19
- Adjusted operating income increased to €175 million (2019: €136 million), driven by positive price/mix and cost savings more than compensating for lower volumes
- Operating income increased to €169 million (2019: €166 million)

Half-year 2020

- Revenue was 10% lower and 7% lower in constant currencies; positive price/mix of 3% was more than offset by 10% lower volumes, mainly due to the impact of COVID-19
- Adjusted operating income increased to €239 million (2019: €196 million), driven by margin management and cost savings more than compensating for lower volumes
- Operating income increased to €227 million (2019: €220 million)

Q2 2020

Revenue was 10% lower and 6% lower in constant currencies as positive price/mix of 4% was more than offset by 10% lower volumes, mainly due to the impact of COVID-19.

Adjusted operating income increased to €175 million (2019: €136 million). Margin management and cost savings more than offset lower volumes, resulting in ROS of 19.5% (2019: 13.6%).

Operating income increased to €169 million and was negatively impacted by €6 million identified items related to transformation costs. In 2019, operating income of €166 million was positively impacted by €30 million identified items related to a gain on a disposal following asset network optimization (€57 million) and transformation costs (€27 million).

Half-year 2020

Revenue was 10% lower and 7% lower in constant currencies as positive price/mix of 3% was more than offset by 10% lower volumes, mainly due to the impact of COVID-19.

Adjusted operating income increased to €239 million (2019: €196 million). Margin management and cost savings more than offset lower volumes, resulting in ROS of 14.5% (2019: 10.7%).

Operating income increased to €227 million and was negatively impacted by €12 million identified items related to transformation costs. In 2019, operating income of €220 million was positively impacted by €24 million identified items related to a gain on a disposal following asset network optimization (€57 million) and transformation costs (€33 million).

Revenue

Second quarter

January-June

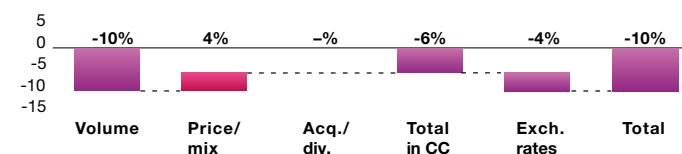
2019 ¹	2020	Δ%	Δ% CC ²	in € millions	2019 ¹	2020	Δ%	Δ% CC ²
611	638	4%	6%	Decorative Paints Europe, Middle East and Africa	1,109	1,129	2%	3%
102	58	(43%)	(22%)	Decorative Paints South America	200	143	(29%)	(8%)
284	203	(29%)	(27%)	Decorative Paints Asia	524	381	(27%)	(27%)
-	-	-	-	Other activities	-	-	-	-
997	899	(10%)	(6%)	Total	1,833	1,653	(10%)	(7%)

¹ Represented to present revenue from third parties instead of total revenue.

² Change excluding currency impact.

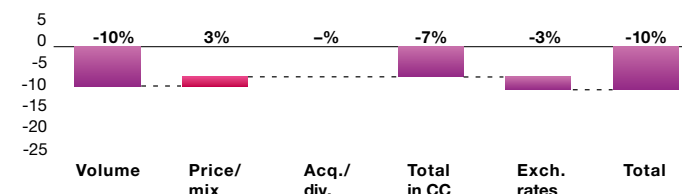
Revenue development Q2 2020

■ Increase ■ Decrease



Revenue development half-year 2020

■ Increase ■ Decrease



Key financial figures

Second quarter

January-June

2019	2020	Δ%	in € millions	2019	2020	Δ%
136	175	29%	Adjusted operating income*	196	239	22%
30	(6)		Identified items*	24	(12)	
166	169	2%	Operating income	220	227	3%
13.6	19.5		ROS*	10.7	14.5	
16.6	18.8		OPI margin*	12.0	13.7	
			Average invested capital*	2,984	2,959	
			ROI*	12.2	15.5	

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

Europe, Middle East and Africa

Revenue in Q2 was 4% higher and 6% higher in constant currencies, due to positive price/mix more than offsetting lower volumes. Demand rebounded strongly during the quarter, supported by the reopening of distribution channels, especially for the DIY segment.

Revenue in the first half-year was 2% higher and 3% higher in constant currencies, with positive price/mix effects more than offsetting lower volumes due to the impact of COVID-19.

South America

Revenue in Q2 was 43% lower and 22% lower in constant currencies, as positive price/mix effects were more than offset by lower volumes. This was mainly due to the impact of COVID-19, particularly the lockdown distribution channels for most of the quarter. Strong focus on pricing initiatives and cost control partly offset significant currency devaluations.

Revenue in the first half-year was 29% lower, and 8% lower in constant currencies. Currency impact was driven by the Brazilian real and the Argentinian peso, which was partly offset by the application of IAS 29 for hyperinflation accounting for Argentina.

Asia

Revenue in Q2 was 29% lower and 27% lower in constant currencies. South Asia was most heavily impacted by COVID-19. By the end of the second quarter, demand in China and Vietnam had almost recovered towards previous levels, while varied degrees of lockdown led to market disruption, particularly in India.

Revenue in the first half-year was 27% lower, and 27% lower in constant currencies. Volumes in China were lower due to the impact of COVID-19 at the beginning of the year and then returned towards previous levels, while market disruption resulting from COVID-19 impacted many countries in Asia, particularly India, during the second quarter.



Dulux gets tough on walls

The battle to keep interior walls stain-free has escalated following the launch of Dulux EasyCare+. Reinforced with Scuff Resist technology, the paint forms a durable matt coating, providing extraordinary mechanical strength. So it prevents those familiar battle scars you often get when plastic, rubber or wood is knocked against a wall.

Performance Coatings

Highlights Q2 2020

- Revenue was 24% lower, mainly due to the impact of COVID-19, especially in the automotive and aerospace industries
- ROS was 9.5% (2019: 13.7%) helped by margin management and cost discipline; OPI margin was 8.2% (2019: 12.1%)

Q2 2020

- Revenue was 24% lower and 23% lower in constant currencies, with 23% lower volumes, mainly due to the impact of COVID-19 on end market demand, in particular for Automotive and Specialty Coatings
- Adjusted operating income was €103 million (2019: €197 million) as margin management and cost savings were more than offset by lower volumes
- Operating income was €89 million (2019: €174 million)

Half-year 2020

- Revenue was 14% lower and 13% lower in constant currencies, with 2% positive price/mix, more than offset by 15% lower volumes, mainly due to the impact of COVID-19 on end market demand
- Adjusted operating income was €293 million (2019: €335 million) with margin management and cost savings more than offset by lower volumes, mainly due to the impact of COVID-19
- Operating income was flat at €271 million

Q2 2020

Revenue was 24% lower, and 23% lower in constant currencies. Volumes were 23% lower, mainly due to the impact of COVID-19 on end market demand, in particular in the automotive and aerospace industries.

Adjusted operating income was €103 million (2019: €197 million) as margin management and cost control were more than offset by lower volumes due to the impact of COVID-19.

Operating income at €89 million was adversely impacted by €14 million identified items, mainly related to transformation costs. In 2019, operating income of €174 million was adversely impacted by €23 million identified items, mainly related to the transformation of the organization.

Half-year 2020

Revenue was 14% lower, and 13% lower in constant currencies. Price/mix was 2% positive, while volumes were 15% lower, mainly due to the impact of COVID-19 on end market demand, in particular for the automotive and aerospace industries.

Adjusted operating income was €293 million (2019: €335 million) as margin management and cost control were more than offset by lower volumes due to the impact of COVID-19.

Operating income at €271 million was adversely impacted by €22 million identified items, mainly related to the transformation of the organization. In 2019, operating income of €271 million was adversely impacted by €64 million identified items, mainly related to the transformation and non-cash impairments in Industrial Coatings, following the implementation of portfolio management actions.

Revenue

Second quarter

January-June

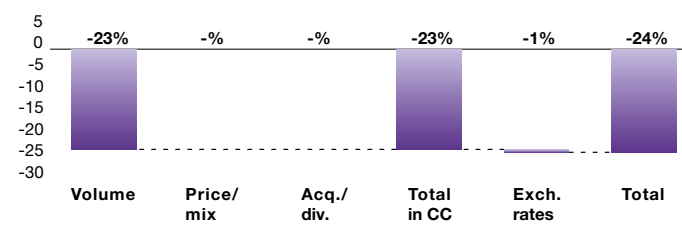
2019 ¹	2020	Δ%	Δ% CC ²	in € millions	2019 ¹	2020	Δ%	Δ% CC ²
316	233	(26%)	(25%)	Powder Coatings	614	514	(16%)	(15%)
338	257	(24%)	(22%)	Marine and Protective Coatings	633	547	(14%)	(13%)
345	222	(36%)	(34%)	Automotive and Specialty Coatings	664	536	(19%)	(18%)
439	374	(15%)	(13%)	Industrial Coatings	859	784	(9%)	(8%)
-	-	-	-	Other activities	1	-	-	-
1,438	1,086	(24%)	(23%)	Total	2,771	2,381	(14%)	(13%)

¹ Represented to present revenue from third parties instead of total revenue.

² Change excluding currency impact.

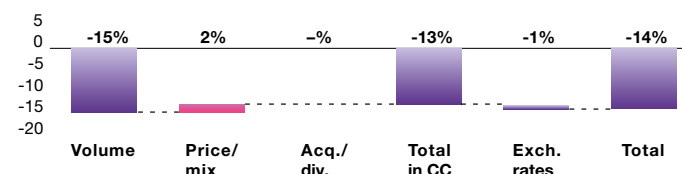
Revenue development Q2 2020

■ Increase ■ Decrease



Revenue development half-year 2020

■ Increase ■ Decrease



Key financial figures

Second quarter

January-June

2019	2020	Δ%	in € millions	2019	2020	Δ%
197	103	(48%)	Adjusted operating income*	335	293	(13%)
(23)	(14)	(39%)	Identified items*	(64)	(22)	(66%)
174	89	(49%)	Operating income	271	271	-%
13.7	9.5		ROS%*	12.1	12.3	
12.1	8.2		OPI margin%*	9.8	11.4	
			Average invested capital*	3,200	3,400	
			ROI%*	20.6	19.0	

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

Powder Coatings

Revenue in Q2 was 26% lower and 25% lower in constant currencies. Price/mix was flat and volumes were lower due to the impact COVID-19, especially for the automotive industry, as well as lockdown of distribution channels and construction activities, particularly at the start of the quarter.

Revenue in the first half-year was 16% lower and 15% lower in constant currencies. Positive price/mix effects were more than offset by lower volumes.

Marine and Protective Coatings

Revenue in Q2 was 24% lower and 22% lower in constant currencies. Volumes were lower due to the impact of COVID-19; end market demand was more heavily impacted for protective than marine coatings.

Revenue in the first half-year was 14% lower and 13% lower in constant currencies. Positive price/mix effects were more than offset by lower volumes.

Automotive and Specialty Coatings

Revenue in Q2 was 36% lower and 34% lower in constant currencies, with positive price/mix more than offset by lower volumes. Automotive and Specialty Coatings was affected by the impact of COVID-19 on end market demand, which particularly impacted demand in the automotive and aerospace industries.

Revenue in the first half-year was 19% lower and 18% lower in constant currencies. Price/mix effects were more than offset by lower volumes.

Industrial Coatings

Revenue in Q2 was 15% lower and 13% lower in constant currencies, mainly due to lower volumes as a result of the impact of COVID-19. Packaging coatings continued its positive momentum and demand was higher for coil coatings in North America.

Revenue in the first half-year was 9% lower and 8% in constant currencies. Positive price/mix effects were more than offset by lower volumes.



Interpon puts the emphasis on hygiene

Our Interpon powder coatings continue to make an important contribution to critical industries around the world. We recently expanded our antimicrobial offering (which already includes products for hygiene sensitive environments such as hospitals) by enhancing the functionality of our Interpon D1000 and 2000 range of architectural powder coatings. The inclusion of BioCote® antimicrobial technology means that building interiors can now be given increased protection against microbes such as bacteria and mold – which can cause issues such as bad odors, staining or material degradation.

*BioCote® technology does not protect users or others against disease-causing bacteria, germs, viruses or other harmful organisms. This technology is not a substitute for good hygiene and/or cleaning practices.

Principal risks and uncertainties

In our 2019 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 2019 to be still valid, with the addition of the pandemic risk (COVID-19).

Risks emerging in 2020

Risk

Pandemic

Risk description

The outbreak of a pandemic, such as COVID-19, might lead to risks for our staff, disruption of our supply chain, lockdown of distribution channels and long-term decrease of economic activities. Furthermore, there may be a direct or indirect impact on the valuation of the company's assets.

Mitigating actions

- Safety measures for our staff
- Alternative supply chain options and distribution channels
- Continuous monitoring of impact of pandemic, including updating of forecasts and implementation of mitigating actions
- Review of the valuation of the company's assets

Risks assessed to increase

Risk

Global economy and the geo-political context

Risk description

The world's unpredictable geo-political situation and the highly competitive markets in which we operate require our ongoing attention to protect our financial performance.

Mitigating actions

- Continued focus on operational cost and complexity reduction
- Deployment of commercial and procurement excellence programs
- Geo-political assessment as part of investment decisions and medium-term operational planning

Organic growth

Market leadership in those parts of the world where our markets are growing is one of the cornerstones of our strategy. A global presence, in combination with locally tailored go-to-market models, is an essential ingredient for success.

- Clear BU strategic mandates to deliver on growth opportunities
- Deployment of commercial excellence programs
- Digitally driven marketing
- Investment in sales capability

Information technology and cybersecurity

The company's longer term IT strategy means we increasingly rely on fewer consolidated critical applications. With the number of digital business transactions on the increase, the non-availability of IT systems – or unauthorized access – could have a direct impact on our business processes, competitive position and reputation.

- System (ERP) consolidation to increase robustness of digital landscape
- New security standards for industrial control systems
- Lifecycle planning for key applications
- Embedding a cybersecurity culture (training, awareness creation)
- KPI definition around vulnerability management
- Deployment of information protection in the new generation workplace

Principal risks and uncertainties

Risks assessed to remain stable

Risk	Risk description	Mitigating actions
Strategic moves in our value chain	<p>An accumulation of strategic moves (horizontally and/or vertically) could impact our competitive position and/or increase the vulnerability of operations.</p>	<ul style="list-style-type: none"> Competitive intelligence analysis of (new) competitors, customers and suppliers Secure freedom to invest through strategic alignment with shareholders and other stakeholders Identify opportunities for M&A, based on strategic rationale
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"> Funding for technology road maps and innovation strategies Investing in promising venture funds Partnering with innovative startups (Paint the Future) IT resources to support the business in new technology applications
Management of change	<p>Our Winning together: 15 by 20 ambition is transforming the company. At the same time, we also recognize the risks associated with change, as well as the need to invest in building an organization structure which encourages and embraces change, while balancing opportunity and managing risk.</p>	<ul style="list-style-type: none"> Set up a Transformation Office to support adoption of new organizational model Global Process Owners to implement standard solutions across the company Reward system to set desired behavioral changes in motion and keep momentum Launch of organizational health initiatives and periodic tracking of progress Range of programs to attract and retain talent Updating internal authority procedures and our control framework to reflect changes in roles and responsibilities
Analytics and big data	<p>In order to utilize data analytics and “big data” to support even better decision making, we recognize the need to invest in an appropriate organizational structure and governance framework with common standards, methods and tools to deliver insightful information across the company.</p>	<ul style="list-style-type: none"> Risk and mitigation ownership with an empowered community of Global Process Owners Define master data quality standards and priorities Extended set of key controls
Complying with laws and regulatory development	<p>As a global player, we are exposed to increasingly stringent laws and regulations covering a growing range of subjects (such as environmental releases, human rights, competition law). The company's longer term IT strategy means we increasingly rely on fewer consolidated critical applications.</p>	<ul style="list-style-type: none"> Fostering an open and transparent culture, continuously educating and training Implementation of a Business Partner Compliance Framework Define ambitious standards in VOC/dust emission/energy control systems Operate under state-of-the-art safety requirements for our manufacturing and R&D sites

Condensed consolidated financial statements

Condensed consolidated statement of income

Condensed consolidated statement of income			January-June	
Second quarter			2019	
2019	2020	in € millions	2019	2020
Continuing operations				
2,451	1,987	Revenue	4,636	4,045
(1,375)	(1,110)	Cost of sales	(2,655)	(2,252)
1,076	877	Gross profit	1,981	1,793
(765)	(667)	SG&A costs	(1,556)	(1,396)
(3)	(3)	Other results	(4)	(3)
308	207	Operating income	421	394
(18)	(25)	Net financing expenses	(31)	(38)
5	5	Results from associates and joint ventures	10	12
295	187	Profit before tax	400	368
(69)	(53)	Income tax	(100)	(107)
226	134	Profit for the period from continuing operations	300	261
Discontinued operations				
16	-	Profit for the period from discontinued operations	16	(1)
242	134	Profit for the period	316	260
Attributable to				
231	129	Shareholders of the company	296	243
11	5	Non-controlling interests	20	17
242	134	Profit for the period	316	260

Condensed consolidated statement of comprehensive income

Condensed consolidated statement of comprehensive income			January-June	
Second quarter			2019	
2019	2020	in € millions	2019	2020
242	134	Profit for the period	316	260
Other comprehensive income				
(143)	(74)	Exchange differences arising on translation of foreign operations	7	(315)
(54)	(329)	Post-retirement benefits	(165)	423
2	(14)	Tax relating to components of other comprehensive income	26	(74)
(195)	(417)	Other comprehensive income for the period (net of tax)	(132)	34
47	(283)	Comprehensive income for the period	184	294
Comprehensive income for the period attributable to				
42	(286)	Shareholders of the company	167	287
5	3	Non-controlling interests	17	7
47	(283)	Comprehensive income for the period	184	294

Condensed consolidated balance sheet

Condensed consolidated balance sheet			December 31,	
in € millions			2019	
			2019	June 30, 2020
Assets				
Non-current assets				
Intangible assets			3,625	3,573
Property, plant and equipment			1,700	1,616
Right-of-use assets			374	363
Other non-current assets			2,541	2,937
Total non-current assets			8,240	8,489
Current assets				
Inventories			1,139	1,178
Trade and other receivables			2,133	2,191
Other current assets			63	70
Short-term investments			138	50
Cash and cash equivalents			1,271	1,230
Total current assets			4,744	4,719
Total assets			12,984	13,208
Equity and liabilities				
Group equity				
Non-current liabilities				
Provisions and deferred tax liabilities			1,372	1,480
Long-term borrowings			2,042	2,779
Total non-current liabilities			3,414	4,259
Current liabilities				
Short-term borrowings			169	184
Trade and other payables			2,406	2,311
Other short-term liabilities			427	399
Total current liabilities			3,002	2,894
Total equity and liabilities			12,984	13,208

Shareholders' equity

Shareholders' equity decreased from €6.4 billion at year-end 2019 to €5.8 billion at June 30, 2020, mainly due to the net effect of:

- Share repurchase of €485 million (including taxes)
- Profit for the period of €243 million
- Final 2019 dividend of €284 million
- Currency effects of €300 million negative (including taxes)
- Post-retirements benefits of €344 million positive (including taxes)

Dividend

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

The final 2019 dividend of €1.49 per common share was approved by the AGM in April 2020 and was paid. The total 2019 dividend amounted to €1.90 per share (2018: €1.80).

On October 23, 2019, a €500 million share buyback program was announced and subsequently completed during Q2 2020.

Outstanding share capital

The outstanding share capital was 193.3 million common shares at the end of June 2020. This included 2.7 million shares acquired in the share buyback program, which have not yet been cancelled. The weighted average number of shares in Q2 2020 was 190.7 million shares. The weighted average number of shares in the first half-year of 2020 was 192.3 million. These weighted average numbers of shares exclude shares not yet cancelled and were the basis for the calculation of earnings per share.

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cumulative translation reserves	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
Balance at December 31, 2018	512	958	(608)	10,972	11,834	204	12,038
Profit for the period	–	–	–	296	296	20	316
Other comprehensive income	–	–	10	(139)	(129)	(3)	(132)
Comprehensive income for the period	–	–	10	157	167	17	184
Dividend	–	–	–	(1,341)	(1,341)	(3)	(1,344)
Share repurchase	–	–	–	(1,510)	(1,510)	–	(1,510)
Capital repayment and share consolidation	(399)	(958)	–	(643)	(2,000)	–	(2,000)
Equity-settled transactions	–	–	–	9	9	–	9
Issue of common shares	1	–	–	(1)	–	–	–
Balance at June 30, 2019	114	–	(598)	7,643	7,159	218	7,377
Balance at December 31, 2019	100	–	(469)	6,719	6,350	218	6,568
Profit for the period	–	–	–	243	243	17	260
Other comprehensive income	–	–	(300)	344	44	(10)	34
Comprehensive income for the period	–	–	(300)	587	287	7	294
Dividend	–	–	–	(284)	(284)	(3)	(287)
Share repurchase	(3)	–	–	(482)	(485)	–	(485)
Equity-settled transactions	–	–	–	8	8	–	8
Acquisitions and divestments	–	–	–	(29)	(29)	(14)	(43)
Balance at June 30, 2020	97	–	(769)	6,519	5,847	208	6,055

Cash flows and net debt

Net cash from operating activities in Q2 2020 resulted in an inflow of €308 million (2019: inflow of €152 million). This increase was mainly driven by the inflow of working capital of €70 million (2019: outflow of €116 million) and lower income tax paid of €27 million (2019: €57 million).

Net cash from investing activities in Q2 2020 resulted in an outflow of €144 million (2019: inflow of €1,216 million). In Q2 2019, there was a net cash inflow from short-term investments of €1,175 million, which was used for the share buyback.

Net cash from financing activities in Q2 2020 resulted in an inflow of €298 million (2019: outflow of €1,534 million). Net cash from financing activities relates to an inflow from changes in borrowings (€662 million, which includes the new €750 million bond), an outflow for dividend paid (€284 million), the share buyback (€66 million) and an outflow for the buy-out of non-controlling interests (€14 million). In Q2 2019, a significantly higher amount (€1,186 million) was used for the share buyback.

At June 30, 2020, net debt was €1,683 million versus €802 million at year-end 2019. This increase was mainly due to a share buyback program (€479 million) and the dividend paid (€285 million). The net debt/EBITDA leverage ratio at June 30, 2020, was 1.4x (June 30, 2019: 0.1x).

Condensed consolidated statements of cash flows

Second quarter			January-June	
2019	2020	in € millions	2019	2020
1,239	719	Net cash and cash equivalents at beginning of period	2,732	1,210
226	134	Profit for the period from continuing operations	300	261
89	90	Amortization and depreciation	174	180
-	-	Impairment losses	33	-
18	25	Financing income and expenses	31	38
(5)	(5)	Results from associates and joint ventures	(10)	(12)
(66)	-	Pre-tax result on acquisitions and divestments	(66)	-
69	53	Income tax	100	107
(116)	70	Changes in working capital	(537)	(283)
-	-	Pension pre-funding*	(161)	-
(5)	(3)	Changes in post-retirement benefit provisions	(487)	(12)
11	(17)	Changes in other provisions	(5)	(46)
(15)	(10)	Interest paid	(21)	(15)
(57)	(27)	Income tax paid	(87)	(61)
3	(2)	Other changes	3	(9)
152	308	Net cash from operating activities	(733)	148
(46)	(46)	Capital expenditures	(83)	(92)
83	(52)	Acquisitions and divestments net of cash acquired/divested	86	(51)
(1,050)	(47)	Investment in short-term investments	(1,345)	(47)
2,225	-	Repayments of short-term investments	5,279	135
4	1	Other changes	3	13
1,216	(144)	Net cash from investing activities	3,940	(42)
(30)	662	Changes from borrowings	(55)	711
(319)	(284)	Dividend paid	(1,345)	(285)
-	-	Capital repayment	(2,000)	-
(1,186)	(66)	Share buyback	(1,489)	(479)
-	(14)	Buy-out of non-controlling interests	-	(44)
1	-	Other changes	-	-
(1,534)	298	Net cash from financing activities	(4,889)	(97)
(166)	462	Net cash used for continuing operations	(1,682)	9
(1)	-	Cash flows from discontinued operations	(1)	(1)
(167)	462	Net change in cash and cash equivalents of continued and discontinued operations	(1,683)	8
(13)	(2)	Effect of exchange rate changes on cash and cash equivalents	10	(39)
1,059	1,179	Net cash and cash equivalents at June 30	1,059	1,179

* Pension pre-funding has been included in net cash from operating activities, whereas in the first quarter of 2019, when the payment was made, this was included in the net cash from investing activities.

Free cash flows

The cash generation in Q2 2020 improved compared to Q2 2019, mainly due to an inflow of working capital and lower income tax paid.

Consolidated statement of free cash flows

Second quarter			January-June	
2019	2020	in € millions	2019	2020
397	297	EBITDA	595	574
-	-	Impairment losses	33	-
(66)	-	Pre-tax results on acquisitions and divestments	(66)	-
(116)	70	Changes in working capital	(537)	(283)
-	-	Pension pre-funding	(161)	-
(1)	(1)	Pension top-up payments	(479)	(6)
6	(20)	Other changes in provisions	(13)	(52)
(15)	(10)	Interest paid	(21)	(15)
(57)	(27)	Income tax paid	(87)	(61)
4	(1)	Other	3	(9)
152	308	Net cash from operating activities	(733)	148
(46)	(46)	Capital expenditures	(83)	(92)
106	262	Free cash flow	(816)	56

Invested capital

Invested capital at June 30, 2020, totaled €6.9 billion, €0.1 billion lower from year-end 2019, mainly due to seasonally higher operating working capital (Trade), more than offset by a decrease of the other invested capital items.

Operating working capital (Trade)

Operating working capital (Trade) as percentage of revenue increased to 17.4% in Q2 of 2020, compared with 14.0% in Q2 2019, mainly due to higher trade receivables as a percentage of revenue. This was partly due to some extended payment terms to support customers. Most of these extended terms were reversed within the quarter, while still impacting the amounts outstanding at quarter end. In addition, trade payables were lower due to reduced activity levels. Weekly demand and supply reviews, to closely manage trade receivables and inventories, are in place in response to COVID-19.

Pension

The net balance sheet position (according to IAS19) of the pension plans at the end of Q2 2020 was a surplus of €1.2 billion (year-end 2019: surplus of €0.8 billion). The development during the first half-year of 2020 was the result of the net effect of:

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

Offset by:

- Lower discount rates in key countries

Workforce

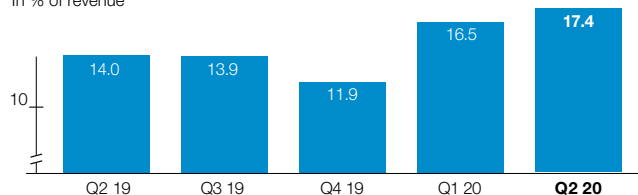
At June 30, 2020, the number of people employed was 33,200 (June 30, 2019: 34,500). Acquisitions in 2019 and 2020 added around 410 people.

Invested capital

in € millions	June 30, 2019	December 31, 2019	June 30, 2020
Trade receivables	2,129	1,812	1,913
Inventories	1,225	1,139	1,178
Trade payables	(1,981)	(1,883)	(1,711)
Operating working capital (Trade)	1,373	1,068	1,380
Other working capital items	(325)	(335)	(429)
Non-current assets	7,953	8,240	8,489
Less investments in associates and joint ventures	(148)	(150)	(162)
Less pension assets	(1,384)	(1,418)	(1,828)
Deferred tax liabilities	(369)	(391)	(529)
Invested capital	7,100	7,014	6,921

Operating working capital (Trade)

In % of revenue



Innovation out of adversity

We received nearly 200 entries for our internal Paint the Future innovation challenge. It aimed to capture some of the creative thinking which emerged over the last few months following the COVID-19 outbreak, as employees improvised and learned to adapt to new and challenging situations. A group of 500 employees from across the company was invited to rate the ideas and drew up the shortlist which was used to determine the winners.

Notes to the condensed consolidated financial statements

General information

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

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

Basis of preparation

All quarterly figures are unaudited. The interim condensed consolidated financial statements 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. 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 2019 annual report as published on March 10, 2020. The financial statements were adopted by the Annual General Meeting of shareholders on April 23, 2020. 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

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, 2019, except for IFRS standards and interpretations effective on January 1, 2020. These include, amongst others amendments to IFRS 3 "Definition of a Business", amendments to IAS 1 and IAS 8 "Definition of Material" and "Amendments to References to the Conceptual Framework in IFRS Standards". These changes have been assessed for their potential impact and do not have a material effect on AkzoNobel's Consolidated financial statements.

Any potential valuation adjustments to our asset base, that might be required as a result of the possible impact of COVID-19 on our future profitability and cash flow generation, have been assessed. Reference is made to the paragraph on COVID-19 on page 5 of this report.

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.

Other activities

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

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.

Revenue disaggregation

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

Revenue disaggregation

First half-year 2020

in € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets				
The Netherlands	126	50	11	187
Other European countries	938	873	–	1,811
US and Canada	–	507	–	507
South America	142	136	–	278
Asia	377	651	–	1,028
Other regions	70	164	–	234
Total	1,653	2,381	11	4,045
Timing of revenue recognition				
Goods transferred at a point in time	1,641	2,284	–	3,925
Services transferred over time	12	97	11	120
Total	1,653	2,381	11	4,045

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. These alternative performance measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. Alternative performance measures do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. Where a non-financial measure is used to calculate an operational or statistical ratio, this is also considered an APM.

AkzoNobel uses APM adjustments to the IFRS measures to provide supplementary information on the reporting of the underlying developments of the business. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the tables for adjusted operating income and adjusted earnings from continuing operations on this page.

OPI margin, ROS% and ROS% excluding unallocated costs are used as performance measures. OPI margin is operating income as percentage of revenue. ROS% is adjusted operating income as percentage of revenue. ROS% excluding unallocated costs is adjusted operating income as percentage of revenue for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs. The calculations are based on the revenue as disclosed in the revenue table on page 3.

Operating income

Second quarter			January-June			
2019	2020	Δ% in € millions	2019	2020	Δ%	
166	169	2%	Decorative Paints	220	227	3%
174	89	(49%)	Performance Coatings	271	271	–
(32)	(51)		Other activities	(70)	(104)	
308	207	(33%)	Total	421	394	(6%)

Identified items

Second quarter			January-June			
2019	2020	Δ% in € millions	2019	2020	Δ%	
30	(6)	(120%)	Decorative Paints	24	(12)	(150%)
(23)	(14)	(39%)	Performance Coatings	(64)	(22)	(66%)
(4)	(11)		Other activities	(7)	(24)	
3	(31)	–	Total	(47)	(58)	23%

Adjusted operating income

Second quarter			January-June			
2019	2020	Δ% in € millions	2019	2020	Δ%	
136	175	29%	Decorative Paints	196	239	22%
197	103	(48%)	Performance Coatings	335	293	(13%)
333	278	(17%)	Excluding unallocated costs	531	532	–
(28)	(40)		Other activities	(63)	(80)	
305	238	(22%)	Total	468	452	(3%)

OPI margin

Second quarter			January-June			
2019	2020	Δ% in € millions	2019	2020	Δ%	
16.6%	18.8%	2.2%	Decorative Paints	12.0%	13.7%	1.7%
12.1%	8.2%	(3.9%)	Performance Coatings	9.8%	11.4%	1.6%
			Other activities*			
12.6%	10.4%	(2.2%)	Total	9.1%	9.7%	0.6%

ROS%

Second quarter			January-June			
2019	2020	Δ in € millions	2019	2020	Δ	
13.6%	19.5%	5.9%	Decorative Paints	10.7%	14.5%	3.8%
13.7%	9.5%	(4.2%)	Performance Coatings	12.1%	12.3%	0.2%
			Other activities*			
12.4%	12.0%	(0.6%)	Total	10.1%	11.2%	1.1%

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

ROS% excluding unallocated costs

Second quarter			January-June	
2019	2020	in € millions	2019	2020
2,451	1,987	Total revenue	4,636	4,045
(16)	(2)	Less: revenue unallocated	(32)	(11)
2,435	1,985	Revenue excluding unallocated revenue	4,604	4,034
333	278	Adjusted operating income excluding unallocated costs*	531	532
13.7	14.0	ROS% excluding unallocated costs	11.5	13.2

* Adjusted operating income excluding unallocated costs equals the total of the adjusted operating incomes of Decorative Paints and Performance Coatings as calculated in the table Adjusted operating income.

Adjusted earnings per share from continuing operations

Second quarter			January-June	
2019	2020	in € millions	2019	2020
295	187	Profit before tax from continuing operations	400	368
(3)	31	Identified items reported in operating income	47	58
(73)	(60)	Adjusted income tax	(112)	(119)
(11)	(5)	Non-controlling interests	(20)	(17)
208	153	Adjusted net income from continuing operations	315	290
215.7	190.7	Weighted average number of shares	225.0	192.3
0.96	0.80	Adjusted earnings per share from continuing operations	1.40	1.51

ROI is adjusted operating income of the last 12 months as percentage of average invested capital. ROI excluding unallocated cost is adjusted operating income of the last 12 months as percentage of average invested capital, for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs and invested capital.

Average invested capital

July 2019 - June 2020

in € millions	2019	2020	Δ%
Decorative Paints	2,984	2,959	(1%)
Performance Coatings	3,200	3,400	6%
Other activities	464	701	
Total	6,648	7,060	6%

ROI%

July 2019 - June 2020

in € millions	2019	2020	Δ%
Decorative Paints	12.2%	15.5%	3.3%
Performance Coatings	20.6%	19.0%	(0.4%)
Other activities*			
Total	13.4%	13.8%	0.4%

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

ROI% excluding unallocated costs

July 2019 - June 2020

in € millions	2019	2020
Average invested capital	6,648	7,060
Less: unallocated average invested capital	(464)	(701)
Average invested capital excluding unallocated capital	6,184	6,359
Adjusted operating income excluding unallocated costs	1,021	1,107
Total	16.5	17.4

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

EBITDA

July 2019 - June 2020

in € millions	2019	2020
Operating income	726	814
Depreciation and amortization	295	366
EBITDA	1,021	1,180

Net debt

in € millions	June 30, 2019	June 30, 2020
Short-term investments	(1,526)	(50)
Cash and cash equivalents	(1,158)	(1,230)
Long-term borrowings	2,038	2,779
Short-term borrowings	709	184
Net debt	63	1,683

Leverage ratio

in € millions	June 30, 2019	June 30, 2020
Net debt	63	1,683
EBITDA	1,021	1,180
Leverage ratio	0.1	1.4

Revenue representation

Revenue of 2019 is represented to present revenue from third parties instead of total revenue. The table below reflects the 2019 Q2 revenue as reported in 2019 and the represented revenue for Q2 2019 as included in this report. The quarterly statistics on page 20 of this report reflect the represented quarterly revenue for 2019.

Representation of revenue 2019

Second quarter

Reported	Repre-sented	in € millions	Reported	Repre-sented
620	611	Decorative Paints Europe, Middle East and Africa	1,126	1,109
103	102	Decorative Paints South America	203	200
284	284	Decorative Paints Asia	524	524
(2)	–	Other/eliminations	(2)	–
1,005	997	Decorative Paints total	1,849	1,833
317	316	Powder Coatings	615	614
341	338	Marine and Protective Coatings	641	633
364	345	Automotive and Specialty Coatings	700	664
445	439	Industrial Coatings	869	859
(22)	–	Other/eliminations	(41)	1
1,445	1,438	Performance Coatings total	2,784	2,771
1	16	Other/eliminations	3	32
2,451	2,451	Total	4,636	4,636

Outlook

AkzoNobel has suspended its 2020 financial ambition in response to the significant market disruption resulting from the pandemic. COVID-19 will continue to impact the second half of 2020, although demand trends differ per region and segment in an uncertain macro-economic environment. Raw material costs are expected to have a favorable impact for the second half of 2020. Continued margin management and cost-saving programs are in place to address the current challenges. The company targets a leverage ratio of 1-2 times net debt/EBITDA by the end of 2020 and commits to retain a strong investment grade credit rating.

Board of Management's statement on the condensed consolidated half-year 2020 financial statements and the interim management report.

We have prepared the half-year financial report 2020 of AkzoNobel, and the undertakings included in the consolidation taken as a whole, in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for half-yearly financial reports.

To the best of our knowledge:

1. The condensed consolidated financial statements in this half-year financial report 2020 give a true and fair view of our assets and liabilities, financial position at June 30, 2020, and of the result of our consolidated operations for the first half-year of 2020.
2. The interim management report in this half-year financial report 2020 includes a fair view of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision.

Amsterdam, July 21, 2020 The Board of Management

Thierry Vanlancker
Maarten de Vries



Beaming with pride

Our CEO, Thierry Vanlancker, has signed the Declaration of Amsterdam to show AkzoNobel's support for LGBTI+ inclusion. During the official signing event, he said he wanted everyone working at AkzoNobel to feel at home, and that all employees deserve a workplace where they feel respected and are offered equal opportunities, regardless of sexual orientation, race, gender or nationality. Organized by Workplace Pride, signing the declaration is a visible and very positive way for the company to show its commitment to creating an inclusive environment for everybody.

Paints and Coatings

Quarterly statistics

					2019				2020
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date	
Revenue¹									
836	997	968	868	3,669	Decorative Paints	754	899	1,653	
1,333	1,438	1,413	1,366	5,550	Performance Coatings	1,295	1,086	2,381	
16	16	17	8	57	Other activities	9	2	11	
2,185	2,451	2,398	2,242	9,276	Total	2,058	1,987	4,045	
Adjusted EBITDA (excluding identified items)									
95	177	174	127	573	Decorative Paints	100	211	311	
182	241	238	200	861	Performance Coatings	230	139	369	
(29)	(24)	(25)	(15)	(93)	Other activities	(28)	(29)	(57)	
248	394	387	312	1,341	Total	302	321	623	
11.4	16.1	16.1	13.9	14.4	Adjusted EBITDA margin (in %)	14.7	16.2	15.4	
Depreciation (excluding identified items)²									
(30)	(35)	(34)	(35)	(134)	Decorative Paints	(31)	(31)	(62)	
(34)	(35)	(35)	(31)	(135)	Performance Coatings	(31)	(27)	(58)	
(5)	(4)	(4)	(8)	(21)	Other activities	(10)	(9)	(19)	
(69)	(74)	(73)	(74)	(290)	Total	(72)	(67)	(139)	
Amortization (excluding identified items)²									
(5)	(6)	(5)	(5)	(21)	Decorative Paints	(5)	(5)	(10)	
(10)	(9)	(9)	(10)	(38)	Performance Coatings	(9)	(9)	(18)	
(1)	-	-	-	(1)	Other activities	(2)	(2)	(4)	
(16)	(15)	(14)	(15)	(60)	Total	(16)	(16)	(32)	
Adjusted operating income (excluding identified items)									
60	136	135	87	418	Decorative Paints	64	175	239	
138	197	194	159	688	Performance Coatings	190	103	293	
(35)	(28)	(29)	(23)	(115)	Other activities	(40)	(40)	(80)	
163	305	300	223	991	Total	214	238	452	
7.5	12.4	12.5	9.9	10.7	ROS%	10.4	12.0	11.2	
9.1	13.7	13.8	11.0	12.0	ROS% excluding unallocated costs	12.4	14.0	13.2	

¹ 2019 figures represented to present revenue from third parties instead of total revenue.

² Depreciation and amortization of Q4 2019 and full-year 2019 is excluding €10 million of depreciation and amortization, which are recognized as identified items on the next page.

Depreciation and amortization of Q1 2020 is excluding €2 million of depreciation and amortization, which are recognized as identified items on the next page.

Depreciation and amortization of Q2 2020 is excluding €7 million of depreciation and amortization, which are recognized as identified items on the next page.

Paints and Coatings

Quarterly statistics

				2019				2020
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
Identified items per Business Area								
(6)	30	(5)	(12)	7	Decorative Paints	(6)	(6)	(12)
(41)	(23)	(38)	(21)	(123)	Performance Coatings	(8)	(14)	(22)
(3)	(4)	(10)	(17)	(34)	Other activities	(13)	(11)	(24)
(50)	3	(53)	(50)	(150)	Total	(27)	(31)	(58)
Operating income								
54	166	130	75	425	Decorative Paints	58	169	227
97	174	156	138	565	Performance Coatings	182	89	271
(38)	(32)	(39)	(40)	(149)	Other activities	(53)	(51)	(104)
113	308	247	173	841	Total	187	207	394
Reconciliation net financing income/(expenses)								
5	4	4	4	17	Financing income	4	3	7
(17)	(20)	(21)	(18)	(76)	Financing expenses	(15)	(17)	(32)
(12)	(16)	(17)	(14)	(59)	Net interest on net debt	(11)	(14)	(25)
Other interest movements								
5	6	4	6	21	Financing expenses related to post-retirement benefits	4	3	7
(3)	(2)	(8)	(1)	(14)	Interest on provisions	(2)	(5)	(7)
(3)	(6)	(6)	(9)	(24)	Other items	(4)	(9)	(13)
(1)	(2)	(10)	(4)	(17)	Net other financing charges	(2)	(11)	(13)
(13)	(18)	(27)	(18)	(76)	Net financing expenses	(13)	(25)	(38)
Quarterly net income analysis								
5	5	6	4	20	Results from associates and joint ventures	7	5	12
105	295	226	159	785	Profit before tax	181	187	368
(31)	(69)	(51)	(79)	(230)	Income tax	(54)	(53)	(107)
74	226	175	80	555	Profit for the period from continuing operations	127	134	261
30	23	23	50	29	Effective tax rate (in %)	30	28	29

AkzoNobel

Quarterly statistics

				2019		2020		
Q1	Q2	Q3	Q4	year		Q1	Q2	year-to-date
Earnings per share from continuing operations (in €)								
0.28	1.00	0.79	0.38	2.43	Basic	0.59	0.68	1.27
0.28	1.00	0.79	0.38	2.42	Diluted	0.59	0.67	1.26
Earnings per share from discontinued operations (in €)								
-	0.07	-	0.03	0.10	Basic	-	-	(0.01)
-	0.07	-	0.03	0.10	Diluted	-	-	-
Earnings per share from total operations (in €)								
0.28	1.07	0.79	0.41	2.53	Basic	0.59	0.68	1.26
0.28	1.07	0.79	0.41	2.52	Diluted	0.59	0.67	1.26
Number of shares (in millions)								
234.3	215.7	204.3	198.5	213.1	Weighted average number of shares*	194.0	190.7	192.3
223.9	208.7	200.2	196.4	196.4	Number of shares at end of quarter*	191.4	190.6	190.6
Adjusted earnings from continuing operations (in € millions)								
105	295	226	159	785	Profit before tax from continuing operations	181	187	368
50	(3)	53	50	150	Identified items reported in operating income	27	31	58
(39)	(73)	(68)	(57)	(237)	Adjusted income tax	(59)	(60)	(119)
(9)	(11)	(13)	(5)	(38)	Non-controlling interests	(12)	(5)	(17)
107	208	198	147	660	Adjusted net income from continuing operations	137	153	290
0.46	0.96	0.97	0.74	3.10	Adjusted earnings per share from continuing operations (in €)	0.71	0.80	1.51

* After share buyback

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 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.

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

Mature Europe: Western, Northern and Southern Europe, including Austria.

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, anti-trust, 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.

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

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.

Operating income is defined as income excluding Net financing expenses, Results from associates and joint ventures, Income tax and Profit 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 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.

ROI excluding unallocated cost is adjusted operating income of the last 12 months as percentage of average invested capital, for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs and invested capital

ROS is adjusted operating income as percentage of revenue.

ROS excluding unallocated cost is adjusted operating income as percentage of revenue for Decorative Paints and Performance Coatings; it excludes unallocated corporate center costs

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

South America includes Central America.

Safe harbor statement

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

Brand and trademarks

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

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Financial calendar

Report for the third quarter 2020

October 21, 2020

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 33,000 talented people who are passionate about delivering the high-performance products and services our customers expect.

For more information please visit
www.akzonobel.com

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