

Q3 Report

AkzoNobel



2021 Color of the Year announced

Brave Ground has been unveiled as AkzoNobel's Color of the Year for 2021. It's a warm and grounding neutral shade that gives us the courage to embrace change. A range of palettes has been developed to help customers of the company's Decorative Paints, Automotive and Specialty Coatings, Powder Coatings and Wood Coatings businesses choose on-trend colors with confidence.

2020

Our results at a glance

Highlights Q3 2020

- ROS, excluding unallocated costs, increased to 17.7% (2019: 13.8%) due to strong margin management and cost savings
- Growth in volumes of 3%, with strong demand trends for most segments and regions
- Total cost savings delivered €49 million, of which €27 million structural savings related to transformation initiatives
- Net cash from operating activities improved by 46% to €457 million (2019: €312 million); maintained a strong balance sheet
- On October 19, the acquisition of Titan Paints in Spain was announced, with completion expected before the end of Q1 2021
- €300 million share buyback announced, to be completed in the first half of 2021

Q3 2020 (compared with Q3 2019)

- Revenue 5% lower, while up 1% in constant currencies. Volumes up 3%, showing strong demand for Decorative Paints, partly offset by lower volumes in Performance Coatings and unfavorable price/mix of 1%
- Adjusted operating income up 18% at €353 million (2019: €300 million); ROS increased to 15.5% (2019: 12.5%)
- Operating income of €326 million includes €27 million negative impact from identified items, related to transformation costs (2019: €247 million operating income, including €53 million negative identified items); OPI margin up at 14.3% (2019: 10.3%)
- Net income attributable to shareholders increased 36% to €220 million (2019: €162 million)
- Adjusted EPS from continuing operations up 34% at €1.30 (2019: €0.97); EPS from total operations up at €1.15 (2019: €0.79)
- Interim dividend of €0.43 per share (2019: €0.41 per share)

Outlook:

AkzoNobel has suspended its 2020 financial ambition in response to the significant market disruption resulting from the pandemic. Headwinds related to COVID-19 continued to ease, 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 fourth quarter 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 and commits to retain a strong investment grade credit rating.

Alternative performance measures (APM)

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

Summary of financial outcomes

| Third quarter | | | January-September | | |
|---------------|-------|----------------------|-------------------|--------|-------|
| 2019 | 2020 | Δ% in € millions / % | 2019 | 2020 | Δ% |
| 2,398 | 2,276 | (5%) | 7,034 | 6,321 | (10%) |
| 387 | 439 | 13% | 1,029 | 1,062 | 3% |
| 334 | 417 | 24% | 929 | 991 | 6% |
| 300 | 353 | 18% | 768 | 805 | 5% |
| (53) | (27) | | (100) | (85) | |
| 247 | 326 | 32% | 668 | 720 | 8% |
| 12.5 | 15.5 | | 10.9 | 12.7 | |
| 10.3 | 14.3 | | 9.5 | 11.4 | |
| | | | 6,823 | 6,974 | |
| | | | 13.9 | 14.7 | |
| 13.8 | 17.7 | | 12.3 | 14.8 | |
| | | | 16.8 | 18.8 | |
| 52 | 64 | | 135 | 156 | |
| | | | 537 | 1,315 | |
| | | | 0.5 | 1.0 | |
| | | | 34,300 | 32,400 | |
| 312 | 457 | | (421) | 605 | |
| 162 | 225 | 39% | 442 | 469 | 6% |
| - | (5) | | 16 | (6) | |
| 162 | 220 | 36% | 458 | 463 | 1% |
| 204.3 | 190.6 | | 218.0 | 191.7 | |
| 0.97 | 1.30 | 34% | 2.35 | 2.80 | 19% |
| 0.79 | 1.15 | 46% | 2.10 | 2.41 | 15% |

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

Financial highlights

Revenue Q3 2020

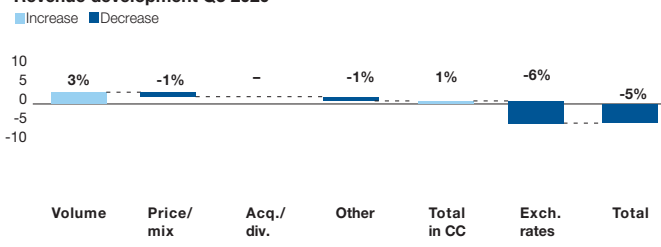
Revenue was 5% lower, while up 1% up in constant currencies. Volumes were up 3% overall, mainly driven by Decorative Paints. Price/mix was 1% lower.

- Decorative Paints revenue was up 4% compared with the same period last year and 11% higher in constant currencies. Revenues were significantly impacted by currency devaluation in South America. Volume was up 14%, mainly due to strong end market demand in Europe and South America. Positive price developments were more than offset by unfavorable mix impacts due to geographical shifts, resulting in price/mix 4% lower
- Performance Coatings revenue was 10% lower and 5% lower in constant currencies. Volumes were 5% lower, especially for oil and gas related projects, as well as automotive and aerospace industries
- Other activities includes service revenue. In 2019, other activities included royalty revenues mainly related to services to the former Specialty Chemicals business, which have been phased out during 2020

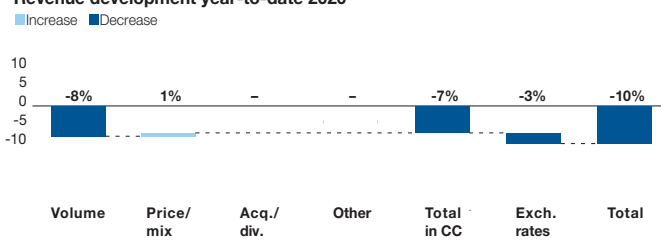
Cost of sales

Raw material and other variable costs in the third quarter of 2020 were €38 million lower compared with the third quarter of 2019.

Revenue development Q3 2020

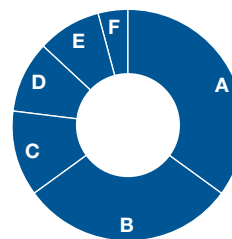


Revenue development year-to-date 2020



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 |
| | 100 |



(Based on the full-year 2019)

Revenue

Third quarter

January-September

| 2019 ¹ | 2020 | Δ% | Δ% CC ² | in € millions | 2019 ¹ | 2020 | Δ% | Δ% CC ² |
|-------------------|--------------|-------------|-----------------------|----------------------|-------------------|--------------|--------------|-----------------------|
| 968 | 1,004 | 4% | 11% | Decorative Paints | 2,801 | 2,657 | (5%) | -% |
| 1,413 | 1,270 | (10%) | (5%) | Performance Coatings | 4,184 | 3,651 | (13%) | (10%) |
| 17 | 2 | | | Other activities | 49 | 13 | | |
| 2,398 | 2,276 | (5%) | 1% | Total | 7,034 | 6,321 | (10%) | (7%) |

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

² Change excluding currency impact.

| in % versus Q3 2019 | Volume | Price/mix | Acq./div. | Other | Exchange rates | Total |
|----------------------|----------|------------|-----------|------------|----------------|------------|
| Decorative Paints | 14 | (4) | - | 1 | (7) | 4 |
| Performance Coatings | (5) | 1 | - | (1) | (5) | (10) |
| Total | 3 | (1) | - | (1) | (6) | (5) |

| in % versus year-to-date 2019 | Volume | Price/mix | Acq./div. | Other | Exchange rates | Total |
|-------------------------------|------------|-----------|-----------|----------|----------------|-------------|
| Decorative Paints | (1) | 1 | - | - | (5) | (5) |
| Performance Coatings | (12) | 2 | - | - | (3) | (13) |
| Total | (8) | 1 | - | - | (3) | (10) |

Volume development per quarter

| (year-on-year) in % | Q3 19 | Q4 19 | Q1 20 | Q2 20 | Q3 20 |
|----------------------|------------|------------|------------|-------------|----------|
| Decorative Paints | (5) | (4) | (9) | (10) | 14 |
| Performance Coatings | (3) | (4) | (7) | (23) | (5) |
| Total | (4) | (4) | (7) | (18) | 3 |

Price/mix development per quarter

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

Currency development per quarter

| (year-on-year) in % | Q3 19 | Q4 19 | Q1 20 | Q2 20 | Q3 20 |
|----------------------|----------|----------|------------|------------|------------|
| Decorative Paints | 1 | - | (2) | (4) | (7) |
| Performance Coatings | 2 | 1 | - | (1) | (5) |
| Total | 1 | 1 | (1) | (2) | (6) |

Financial highlights

Q3 2020

Adjusted operating income

Adjusted operating income was up 18% at €353 million (2019: €300 million); driven by strong margin management and cost-saving programs. Continuous improvement initiatives successfully offset inflation. Total cost savings delivered €49 million, of which €27 million were structural savings related to transformation initiatives. ROS was 15.5% (2019: 12.5%).

- Decorative Paints adjusted operating income was up 54%, driven by higher volumes, margin management and cost savings. ROS was up at 20.7% (2019: 13.9%)
- Performance Coatings adjusted operating income was higher, with margin management and cost savings more than offsetting lower volumes. ROS was up at 15.4% (2019: 13.7%)
- Other activities was €21 million lower at negative €50 million, as a result of one-off items including insurance and office footprint optimization (2019: €29 million, including a one-off gain on a disposal and higher royalty income)

Year-to-date 2020

Adjusted operating income

Adjusted operating income was up at €805 million (2019: €768 million); driven by margin management and cost-saving programs. Continuous improvement initiatives successfully offset inflation. ROS was higher at 12.7% (2019: 10.9%).

- Decorative Paints performance continued to improve. Margin management and cost savings more than compensated for lower volumes. ROS was up at 16.8% (2019: 11.8%)
- Performance Coatings adjusted operating income was lower, with positive price/mix, margin management and cost savings more than offset by lower volumes. ROS increased to 13.4% (2019: 12.6%)
- Other activities was €38 million lower at negative €130 million, as a result of one-off items including insurance and office footprint optimization (2019: €92 million, including a one-off gain on a disposal and higher royalty income)

Operating income

Operating income was up at €720 million (2019: €668 million) and included negative identified items of €85 million (€18 million in Decorative Paints, €38 million in Performance Coatings and €29 million in Other activities), mainly related to transformation costs. In 2019, identified items were negative €100 million, 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 11.4% (2019: 9.5%).

Net financing income/(expenses)

Net financing expenses decreased by €5 million, mainly due to lower interest on provisions.

Income tax

The effective tax rate was 27.6% (2019: 24.1%). Excluding identified items, the effective tax rate in 2020 was 26.8% (2019: 24.7%).

Net income

Net income attributable to shareholders was €463 million (2019: €458 million). Adjusted earnings per share from continuing operations increased to €2.80 (2019: €2.35), including the impact of the share consolidation in 2019 and share buyback programs.

COVID-19

The pandemic situation is being closely monitored and appropriate measures are being taken to continue serving customers and save costs, while at the same time keeping the organization intact and able to respond quickly to changes in end market demand. Although demand trends differ per region and segment, the overall impact in Q3 was less than in Q2.

AkzoNobel has a strong balance sheet and solid cash position. At September 30, 2020, cash and cash equivalents were €1.5 billion and financial leverage (net debt/EBITDA) was 1.0x. AkzoNobel is committed to retain a strong investment grade credit rating.

In Q2, a detailed assessment was performed of potential valuation adjustments to the overall asset base, either due to the direct impact of COVID-19 or due to its impact on future profitability. As a result, the allowance for impairment of trade receivables was increased by €14 million in Q2. Based on procedures performed in Q3, no further valuation adjustments were deemed necessary.

In Q3, a benefit of €9 million related to governmental support measures for COVID-19 was recognized. 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.

Adjusted operating income

| Third quarter | | | January-September | | | |
|---------------|------------|------------|----------------------|------------|------------|-----------|
| 2019 | 2020 | Δ% | in € millions | 2019 | 2020 | Δ% |
| 135 | 208 | 54% | Decorative Paints | 331 | 447 | 35% |
| 194 | 195 | 1% | Performance Coatings | 529 | 488 | (8%) |
| (29) | (50) | | Other activities | (92) | (130) | |
| 300 | 353 | 18% | Total | 768 | 805 | 5% |

ROS%

| Third quarter | | | January-September | | |
|---------------|-------------|------|-----------------------------------|-------------|-------------|
| 2019 | 2020 | in % | 2019 | 2020 | |
| 13.9 | 20.7 | | Decorative Paints ¹ | 11.8 | 16.8 |
| 13.7 | 15.4 | | Performance Coatings ¹ | 12.6 | 13.4 |
| | | | Other activities ² | | |
| 12.5 | 15.5 | | Total | 10.9 | 12.7 |
| 13.8 | 17.7 | | Excl. Unallocated costs | 12.3 | 14.8 |

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

| Third quarter | | | January-September | | | |
|---------------|------------|------------|----------------------|------------|------------|-----------|
| 2019 | 2020 | Δ% | in € millions | 2019 | 2020 | Δ% |
| 130 | 202 | 55% | Decorative Paints | 350 | 429 | 23% |
| 156 | 179 | 15% | Performance Coatings | 427 | 450 | 5% |
| (39) | (55) | | Other activities | (109) | (159) | |
| 247 | 326 | 32% | Total | 668 | 720 | 8% |

Operating income to net income

| Third quarter | | | January-September | |
|---------------|------------|--|-------------------|------------|
| 2019 | 2020 | in € millions | 2019 | 2020 |
| 247 | 326 | Operating income | 668 | 720 |
| (27) | (15) | Net financing income/(expenses) | (58) | (53) |
| 6 | 6 | Results from associates and joint ventures | 16 | 18 |
| 226 | 317 | Profit before tax | 626 | 685 |
| (51) | (82) | Income tax | (151) | (189) |
| 175 | 235 | Profit from continuing operations | 475 | 496 |
| - | (5) | Profit from discontinued operations | 16 | (6) |
| 175 | 230 | Profit for the period | 491 | 490 |
| (13) | (10) | Non-controlling interests | (33) | (27) |
| 162 | 220 | Net income | 458 | 463 |

Decorative Paints

Highlights Q3 2020

- Revenue up 4% and 11% higher in constant currencies compared with Q3 2019, with demand being particularly strong in Europe, South America and China
- ROS was up at 20.7% (2019: 13.9%) driven by continued strong performance in Europe and South America; OPI margin increased to 20.1% (2019: 13.4%)

Q3 2020

- Revenue up 4% and 11% higher in constant currencies with 14% higher volumes, partly offset by unfavorable price/mix of 4%
- Adjusted operating income increased to €208 million (2019: €135 million), mainly driven by higher volumes and cost savings, more than compensating for unfavorable price/mix impact
- Operating income increased to €202 million (2019: €130 million)

Q3 2020

Revenue was 4% higher compared with Q3 2019 and up 11% in constant currencies, with demand particularly strong in Europe, South America and China, while South America was heavily impacted by unfavorable currency impact.

Positive price developments were more than offset by unfavorable geographic mix impacts, due to higher than average demand for countries including Turkey, the Middle East and Africa compared with many other countries in Europe.

Adjusted operating income increased to €208 million (2019: €135 million), mainly driven by higher volumes and cost savings, more than compensating for unfavorable price/mix impact.

Operating income increased to €202 million and was negatively impacted by €6 million identified items related to transformation costs.

Europe, Middle East and Africa

Revenue in Q3 was up 10% and 13% higher in constant currencies, showing strong growth driven by continued increased demand. Demand was higher than average for countries including Turkey, the Middle East and Africa compared with many other countries in Europe.

South America

Revenue in Q3 was 3% lower and 34% up in constant currencies, as positive volumes and price/mix effects were more than offset by significant unfavorable currency impact. Demand rebounded strongly during the quarter, primarily as a result of reopening of distribution channels.

Asia

Revenue in Q3 was 5% lower and flat in constant currencies. During the third quarter, China returned to growth, while other countries such as India and Vietnam continued to be adversely impacted by lockdown restrictions.

Revenue

Third quarter

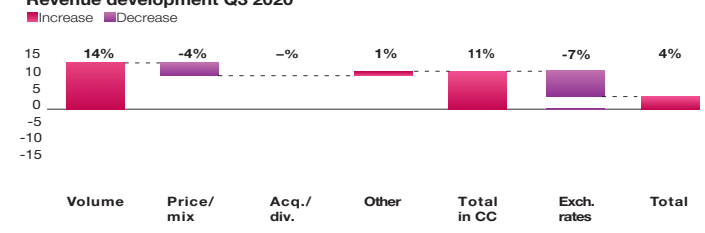
January-September

| 2019 ¹ | 2020 | Δ% | Δ% CC ² | in € millions | 2019 ¹ | 2020 | Δ% | Δ% CC ² |
|-------------------|--------------|-----------|--------------------|--|-------------------|--------------|-------------|--------------------|
| 565 | 620 | 10% | 13% | Decorative Paints Europe, Middle East and Africa | 1,674 | 1,749 | 4% | 6% |
| 120 | 116 | (3%) | 34% | Decorative Paints South America | 320 | 259 | (19%) | 6% |
| 283 | 268 | (5%) | -% | Decorative Paints Asia | 807 | 649 | (20%) | (18%) |
| - | - | - | - | Other activities | - | - | - | - |
| 968 | 1,004 | 4% | 11% | Total | 2,801 | 2,657 | (5%) | (-%) |

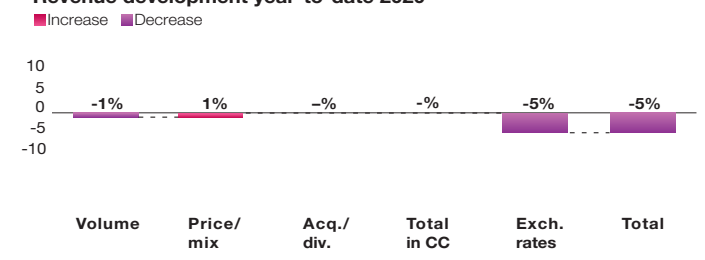
¹ Represented to present revenue from third parties instead of total revenue.

² Change excluding currency impact.

Revenue development Q3 2020



Revenue development year-to-date 2020



Key financial figures

Third quarter

January-September

| 2019 | 2020 | Δ% | in € millions / % | 2019 | 2020 | Δ% |
|------|------|-----|----------------------------|-------|-------|-----|
| 135 | 208 | 54% | Adjusted operating income* | 331 | 447 | 35% |
| (5) | (6) | | Identified items* | 19 | (18) | |
| 130 | 202 | 55% | Operating income | 350 | 429 | 23% |
| 13.9 | 20.7 | | ROS%* | 11.8 | 16.8 | |
| 13.4 | 20.1 | | OPI margin%* | 12.5 | 16.1 | |
| | | | Average invested capital* | 3,076 | 2,882 | |
| | | | ROI%* | 12.5 | 18.5 | |

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

Performance Coatings

Highlights Q3 2020

- Revenue 10% lower and 5% lower in constant currencies, with strong demand in many segments, offset by continued weakness in oil and gas related projects, as well as the automotive and aerospace industries
- ROS up at 15.4% (2019: 13.7%) helped by margin management and cost savings; OPI margin was 14.1% (2019: 11.0%)

Q3 2020

- Revenue 10% lower and 5% lower in constant currencies. Volumes 5% lower, mainly due to the impact of COVID-19 on end market demand, in particular for oil and gas related projects, as well as the automotive and aerospace industries
- Adjusted operating income was €195 million (2019: €194 million) as margin management and cost savings more than offset lower volumes and unfavorable currency impact
- Operating income was €179 million (2019: €156 million)

Q3 2020

Revenue was 10% lower, and 5% lower in constant currencies. Volumes were 5% lower, mainly due to the impact of COVID-19 on end market demand, in particular in oil and gas related projects, as well as the automotive and aerospace industries.

Adjusted operating income was €195 million (2019: €194 million) as margin management and cost control were more than offset by lower volumes due to the impact of COVID-19.

Operating income at €179 million was adversely impacted by €16 million identified items, mainly related to transformation costs. In 2019, operating income of €156 million was adversely impacted by €38 million identified items, mainly related to the transformation of the organization and non-cash impairments in Industrial Coatings, following the implementation of portfolio management.

Powder Coatings

Revenue in Q3 was 4% lower and 1% up in constant currencies. Demand returned to growth during the quarter, except for the automotive industry. Reopening of distribution channels and construction activities was offset by continued weakness in the automotive industry.

Marine and Protective Coatings

Revenue in Q3 was 22% lower and 18% lower in constant currencies. Both the marine and protective segments continue to be impacted. Protective Coatings was mostly impacted by delayed oil and gas projects, while Marine Coatings saw a decline in new build, partly offset by an increase in maintenance. Demand for yacht coatings was strong.

Automotive and Specialty Coatings

Revenue in Q3 was 12% lower and 7% lower in constant currencies, mainly caused by lower volumes. Automotive and Specialty Coatings was affected by lower end market demand, which particularly impacted demand in the automotive and aerospace industries. Demand for vehicle refinishes recovered during the quarter.

Industrial Coatings

Revenue in Q3 was 4% lower and 2% up in constant currencies, with positive price/mix being partly offset by lower volumes. Industrial Coatings continued to improve during the third quarter driven by a strong return of demand, especially in the metal and packaging coatings segments.

Revenue

Third quarter

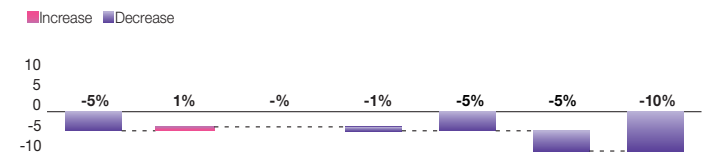
January-September

| 2019 ¹ | 2020 | Δ% | Δ% CC ² | in € millions | 2019 ¹ | 2020 | Δ% | Δ% CC ² |
|-------------------|--------------|--------------|-----------------------|-----------------------------------|-------------------|--------------|--------------|-----------------------|
| 313 | 300 | (4%) | 1% | Powder Coatings | 927 | 814 | (12%) | (10%) |
| 331 | 257 | (22%) | (18%) | Marine and Protective Coatings | 964 | 804 | (17%) | (14%) |
| 326 | 288 | (12%) | (7%) | Automotive and Specialty Coatings | 990 | 824 | (17%) | (15%) |
| 441 | 425 | (4%) | 2% | Industrial Coatings | 1,300 | 1,209 | (7%) | (4%) |
| 2 | - | | | Other activities | 3 | - | | |
| 1,413 | 1,270 | (10%) | (5%) | Total | 4,184 | 3,651 | (13%) | (10%) |

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

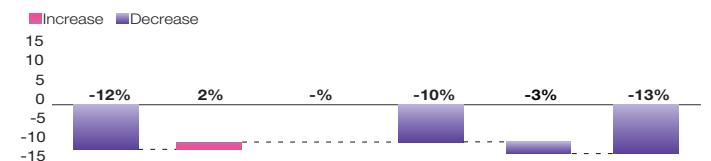
² Change excluding currency impact.

Revenue development Q3 2020



| Volume | Price/mix | Acq./div. | Other | Total in CC | Exch. rates | Total |
|--------|-----------|-----------|-------|-------------|-------------|-------|
|--------|-----------|-----------|-------|-------------|-------------|-------|

Revenue development year-to-date 2020



| Volume | Price/mix | Acq./div. | Total in CC | Exch. rates | Total |
|--------|-----------|-----------|-------------|-------------|-------|
|--------|-----------|-----------|-------------|-------------|-------|

Key financial figures

Third quarter

January-September

| 2019 | 2020 | Δ% | in € millions / % | 2019 | 2020 | Δ% |
|------|------|-----|----------------------------|-------|-------|------|
| 194 | 195 | 1% | Adjusted operating income* | 529 | 488 | (8%) |
| (38) | (16) | | Identified items* | (102) | (38) | |
| 156 | 179 | 15% | Operating income | 427 | 450 | 5% |
| 13.7 | 15.4 | | ROS%* | 12.6 | 13.4 | |
| 11.0 | 14.1 | | OPI margin%* | 10.2 | 12.3 | |
| | | | Average invested capital* | 3,272 | 3,406 | |
| | | | ROI%* | 20.8 | 19.0 | |

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

Condensed consolidated financial statements

Condensed consolidated statement of income

| Condensed consolidated statement of income | | | Third quarter | | January-September | |
|--|--------------|---|---------------|--------------|-------------------|--|
| 2019 | 2020 | in € millions | 2019 | 2020 | | |
| Continuing operations | | | | | | |
| 2,398 | 2,276 | Revenue | 7,034 | 6,321 | | |
| (1,378) | (1,259) | Cost of sales | (4,033) | (3,511) | | |
| 1,020 | 1,017 | Gross profit | 3,001 | 2,810 | | |
| (776) | (694) | SG&A costs | (2,332) | (2,090) | | |
| 3 | 3 | Other results | (1) | - | | |
| 247 | 326 | Operating income | 668 | 720 | | |
| (27) | (15) | Net financing expenses | (58) | (53) | | |
| 6 | 6 | Results from associates and joint ventures | 16 | 18 | | |
| 226 | 317 | Profit before tax | 626 | 685 | | |
| (51) | (82) | Income tax | (151) | (189) | | |
| 175 | 235 | Profit for the period from continuing operations | 475 | 496 | | |
| Discontinued operations | | | | | | |
| - | (5) | Profit / (loss) for the period from discontinued operations | 16 | (6) | | |
| 175 | 230 | Profit for the period | 491 | 490 | | |
| Attributable to | | | | | | |
| 162 | 220 | Shareholders of the company | 458 | 463 | | |
| 13 | 10 | Non-controlling interests | 33 | 27 | | |
| 175 | 230 | Profit for the period | 491 | 490 | | |

Condensed consolidated statement of comprehensive income

| Condensed consolidated statement of comprehensive income | | | Third quarter | | January-September | |
|--|--------------|---|---------------|--------------|-------------------|--|
| 2019 | 2020 | in € millions | 2019 | 2020 | | |
| 175 | 230 | Profit for the period | 491 | 490 | | |
| Other comprehensive income | | | | | | |
| 81 | (123) | Exchange differences arising on translation of foreign operations | 88 | (438) | | |
| 65 | (133) | Post-retirement benefits | (100) | 290 | | |
| 23 | 25 | Tax relating to components of other comprehensive income | 49 | (49) | | |
| 169 | (231) | Other comprehensive income for the period (net of tax) | 37 | (197) | | |
| 344 | (1) | Comprehensive income for the period | 528 | 293 | | |
| Comprehensive income for the period attributable to | | | | | | |
| 325 | (2) | Shareholders of the company | 492 | 285 | | |
| 19 | 1 | Non-controlling interests | 36 | 8 | | |
| 344 | (1) | Comprehensive income for the period | 528 | 293 | | |

Condensed consolidated balance sheet

| Condensed consolidated balance sheet | December 31, 2019 | September 30, 2020 |
|---|-------------------|--------------------|
| in € millions | | |
| Assets | | |
| Non-current assets | | |
| Intangible assets | 3,625 | 3,523 |
| Property, plant and equipment | 1,700 | 1,586 |
| Right-of-use assets | 374 | 328 |
| Other non-current assets | 2,541 | 2,770 |
| Total non-current assets | 8,240 | 8,207 |
| Current assets | | |
| Inventories | 1,139 | 1,134 |
| Trade and other receivables | 2,133 | 2,228 |
| Other current assets | 63 | 67 |
| Short-term investments | 138 | 110 |
| Cash and cash equivalents | 1,271 | 1,502 |
| Total current assets | 4,744 | 5,041 |
| Total assets | 12,984 | 13,248 |
| Equity and liabilities | | |
| Group equity | | |
| | 6,568 | 6,051 |
| Non-current liabilities | | |
| Provisions and deferred tax liabilities | 1,372 | 1,438 |
| Long-term borrowings | 2,042 | 2,761 |
| Total non-current liabilities | 3,414 | 4,199 |
| Current liabilities | | |
| Short-term borrowings | 169 | 167 |
| Trade and other payables | 2,406 | 2,423 |
| Other short-term liabilities | 427 | 408 |
| Total current liabilities | 3,002 | 2,998 |
| Total equity and liabilities | 12,984 | 13,248 |

Shareholders' equity

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

- Share buyback of €485 million (including taxes)
- Profit for the period of €463 million
- Final 2019 dividend of €284 million
- Currency effects of €413 million negative (including taxes)
- Post-retirement benefits of €235 million positive (including taxes)

Dividend

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

An interim dividend of €0.43 per share will be paid. In 2019, an interim dividend of €0.41 per share was paid.

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 190.6 million common shares at the end of September 2020. The weighted average number of shares in Q3 2020 was 190.6 million shares. The weighted average number of shares in the first three quarters of 2020 was 191.7 million. These weighted average numbers of shares exclude shares bought back while 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 | – | – | – | 458 | 458 | 33 | 491 |
| Other comprehensive income | – | – | 89 | (55) | 34 | 3 | 37 |
| Comprehensive income for the period | – | – | 89 | 403 | 492 | 36 | 528 |
| Dividend | – | – | – | (1,341) | (1,341) | (12) | (1,353) |
| Share buyback | – | – | – | (2,207) | (2,207) | – | (2,207) |
| Capital repayment and share consolidation | (407) | (958) | – | (635) | (2,000) | – | (2,000) |
| Equity-settled transactions | – | – | – | 13 | 13 | – | 13 |
| Issue of common shares | – | – | – | – | – | – | – |
| Balance at September 30, 2019 | 105 | – | (519) | 7,205 | 6,791 | 228 | 7,019 |
| Balance at December 31, 2019 | 100 | – | (469) | 6,719 | 6,350 | 218 | 6,568 |
| Profit for the period | – | – | – | 463 | 463 | 27 | 490 |
| Other comprehensive income | – | – | (413) | 235 | (178) | (19) | (197) |
| Comprehensive income for the period | – | – | (413) | 698 | 285 | 8 | 293 |
| Dividend | – | – | – | (284) | (284) | (8) | (292) |
| Share buyback | (5) | – | – | (480) | (485) | – | (485) |
| Equity-settled transactions | – | – | – | 10 | 10 | – | 10 |
| Acquisitions and divestments | – | – | – | (29) | (29) | (14) | (43) |
| Balance at September 30, 2020 | 95 | – | (882) | 6,634 | 5,847 | 204 | 6,051 |

Cash flows and net debt

Net cash from operating activities in Q3 2020 resulted in an inflow of €457 million (2019: inflow of €312 million). This increase was mainly driven by higher profit for the period of €235 million (2019: inflow of €175 million) and the higher inflow of working capital of €101 million (2019: inflow of €35 million).

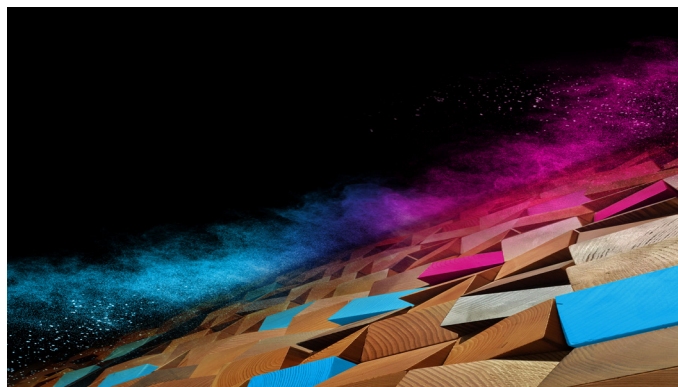
Net cash from investing activities in Q3 2020 resulted in an outflow of €117 million (2019: inflow of €526 million), mainly related to capital expenditures. In Q3 2019, there was a net cash inflow from short-term investments of €570 million used for the share buyback.

Net cash from financing activities in Q3 2020 resulted in an outflow of €35 million (2019: outflow of €754 million). Net cash from financing activities in Q3 2020 primarily relates to an outflow from changes in borrowings (€27 million), whereas the Q3 2019 outflow mainly concerned the share buyback.

At September 30, 2020, net debt was €1,315 million versus €802 million at year-end 2019. This increase was mainly due to the share buyback program (€479 million) and dividend paid (€292 million). The net debt/EBITDA leverage ratio at September 30, 2020, was 1.0x (September 30, 2019: 0.5x).

Free cash flows

The cash generation in Q3 2020 improved compared with Q3 2019, mainly due to the increase in EBITDA for the period, a higher inflow of working capital and lower income tax paid.



Stahl acquisition delivers unique powder coatings technology

During Q3, we completed the acquisition of Stahl Performance Powder Coatings and its range of products for heat sensitive substrates. The deal gives us accelerated access to unique low curing technology which is the only one of its kind in the powder coatings industry. It includes both UV and thermally curing powders and will enable the company to penetrate the ultra-low cure (80-100°C) domain.

Condensed consolidated statements of cash flows

| Third quarter | | | January-September | |
|---------------|--------------|---|-------------------|--------------|
| 2019 | 2020 | in € millions | 2019 | 2020 |
| 1,059 | 1,179 | Net cash and cash equivalents at beginning of period | 2,732 | 1,210 |
| 175 | 235 | Profit for the period from continuing operations | 475 | 496 |
| 87 | 91 | Amortization and depreciation | 261 | 271 |
| 28 | 1 | Impairment losses | 61 | 1 |
| 27 | 15 | Financing income and expenses | 58 | 53 |
| (6) | (6) | Results from associates and joint ventures | (16) | (18) |
| (5) | (10) | Pre-tax result on acquisitions and divestments | (71) | (10) |
| 51 | 82 | Income tax | 151 | 189 |
| 35 | 101 | Changes in working capital | (502) | (182) |
| - | - | Pension pre-funding* | (161) | - |
| (11) | (13) | Changes in post-retirement benefit provisions | (497) | (25) |
| (5) | 8 | Changes in other provisions | (11) | (38) |
| (29) | (22) | Interest paid | (50) | (37) |
| (45) | (32) | Income tax paid | (132) | (93) |
| 10 | 7 | Other changes | 13 | (2) |
| 312 | 457 | Net cash from operating activities | (421) | 605 |
| (52) | (64) | Capital expenditures | (135) | (156) |
| 6 | 5 | Acquisitions and divestments net of cash acquired/divested | 92 | (46) |
| (220) | (61) | Investment in short-term investments | (1,565) | (108) |
| 790 | 1 | Repayments of short-term investments | 6,069 | 136 |
| 2 | 2 | Other changes | 5 | 15 |
| 526 | (117) | Net cash from investing activities | 4,466 | (159) |
| (30) | (27) | Changes from borrowings | (85) | 684 |
| (8) | (7) | Dividend paid | (1,353) | (292) |
| - | - | Capital repayment | (2,000) | - |
| (717) | - | Share buyback | (2,206) | (479) |
| - | (1) | Buy-out of non-controlling interests | - | (45) |
| 1 | - | Other changes | 1 | - |
| (754) | (35) | Net cash from financing activities | (5,643) | (132) |
| 84 | 305 | Net cash used for continuing operations | (1,598) | 314 |
| (4) | (1) | Cash flows from discontinued operations | (5) | (2) |
| 80 | 304 | Net change in cash and cash equivalents of continued and discontinued operations | (1,603) | 312 |
| 16 | (23) | Effect of exchange rate changes on cash and cash equivalents | 26 | (62) |
| 1,155 | 1,460 | Net cash and cash equivalents at September 30 | 1,155 | 1,460 |

* 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 net cash from investing activities.

Consolidated statement of free cash flows

| Third quarter | | | January-September | |
|---------------|------------|---|-------------------|------------|
| 2019 | 2020 | in € millions | 2019 | 2020 |
| 334 | 417 | EBITDA | 929 | 991 |
| 28 | 1 | Impairment losses | 61 | 1 |
| (5) | (10) | Pre-tax results on acquisitions and divestments | (71) | (10) |
| 35 | 101 | Changes in working capital | (502) | (182) |
| - | - | Pension pre-funding | (161) | - |
| (2) | (11) | Pension top-up payments | (481) | (17) |
| (14) | 6 | Other changes in provisions | (27) | (46) |
| (29) | (22) | Interest paid | (50) | (37) |
| (45) | (32) | Income tax paid | (132) | (93) |
| 10 | 7 | Other | 13 | (2) |
| 312 | 457 | Net cash from operating activities | (421) | 605 |
| (52) | (64) | Capital expenditures | (135) | (156) |
| 260 | 393 | Free cash flow | (556) | 449 |

Invested capital

Invested capital at September 30, 2020, totaled €6.7 billion, €0.3 billion lower from year-end 2019, mainly due to seasonally higher operating working capital (Trade), more than offset by other invested capital items.

Operating working capital (Trade)

Operating working capital (Trade) as a percentage of revenue decreased to 13.5% in Q3 of 2020, compared with 13.9% in Q3 2019, mainly due to lower trade receivables as a percentage of revenue.

Operating working capital levels show strong sequential improvement compared with Q2 2020, due to an increased focus on cash collection.

Weekly demand and supply reviews, to closely manage trade receivables and inventories, remain in place in response to COVID-19.

Pension

The net balance sheet position (according to IAS19) of the pension plans at the end of Q3 2020 was a surplus of €1.1 billion (year-end 2019: surplus of €0.8 billion). The development during the first three quarters 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

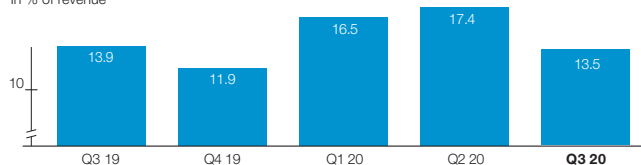
At September 30, 2020, the number of people employed was 32,400 (September 30, 2019: 34,300). Acquisitions in 2019 and 2020 added around 400 people.

Invested capital

| in € millions | September 30, 2019 | December 31, 2019 | September 30, 2020 |
|---|--------------------|-------------------|--------------------|
| Trade receivables | 2,080 | 1,812 | 1,962 |
| Inventories | 1,221 | 1,139 | 1,134 |
| Trade payables | (1,970) | (1,883) | (1,863) |
| Operating working capital (Trade) | 1,331 | 1,068 | 1,233 |
| Other working capital items | (293) | (335) | (409) |
| Non-current assets | 8,146 | 8,240 | 8,207 |
| Less investments in associates and joint ventures | (153) | (150) | (159) |
| Less pension assets | (1,545) | (1,418) | (1,690) |
| Deferred tax liabilities | (362) | (391) | (498) |
| Invested capital | 7,124 | 7,014 | 6,684 |

Operating working capital (Trade)

In % of revenue



Chinese site makes switch to water-based products

Our Guangzhou decorative paints site in China is undergoing a major upgrade to enable it to exclusively produce water-based products. It's the last of our four Chinese deco plants to make the switch, enabling us to meet growing demand for more eco-premium, water-based paints.

Notes to the condensed consolidated financial statements

General information

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

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

Basis of preparation

All quarterly figures are unaudited. The interim condensed consolidated financial statements were discussed and approved by the Board of Management and 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 that became 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.

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 4 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

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

January-September 2020

| in € millions | Decorative Paints | Performance Coatings | Other | Total |
|--------------------------------------|-------------------|----------------------|-----------|--------------|
| Primary geographical markets | | | | |
| The Netherlands | 186 | 71 | 13 | 270 |
| Other European countries | 1,449 | 1,316 | - | 2,765 |
| US and Canada | - | 758 | - | 758 |
| South America | 259 | 219 | - | 478 |
| Asia | 648 | 1,150 | - | 1,798 |
| Other regions | 115 | 137 | - | 252 |
| Total | 2,657 | 3,651 | 13 | 6,321 |
| Timing of revenue recognition | | | | |
| Goods transferred at a point in time | 2,627 | 3,510 | - | 6,137 |
| Services transferred over time | 30 | 141 | 13 | 184 |
| Total | 2,657 | 3,651 | 13 | 6,321 |

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 on this page and the next 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

| Third quarter | | | January-September | | | |
|---------------|------------|------------------|----------------------|------------|------------|-----------|
| 2019 | 2020 | Δ% in € millions | 2019 | 2020 | Δ% | |
| 130 | 202 | 55% | Decorative Paints | 350 | 429 | 23% |
| 156 | 179 | 15% | Performance Coatings | 427 | 450 | 5% |
| (39) | (55) | | Other activities | (109) | (159) | |
| 247 | 326 | 32% | Total | 668 | 720 | 8% |

Identified items

| Third quarter | | | January-September | | |
|---------------|-------------|---------------|----------------------|--------------|-------------|
| 2019 | 2020 | in € millions | 2019 | 2020 | |
| (5) | (6) | | Decorative Paints | 19 | (18) |
| (38) | (16) | | Performance Coatings | (102) | (38) |
| (10) | (5) | | Other activities | (17) | (29) |
| (53) | (27) | | Total | (100) | (85) |

Adjusted operating income

| Third quarter | | | January-September | | | |
|---------------|------------|------------------|------------------------------------|------------|------------|-----------|
| 2019 | 2020 | Δ% in € millions | 2019 | 2020 | Δ% | |
| 135 | 208 | 54% | Decorative Paints | 331 | 447 | 35% |
| 194 | 195 | 1% | Performance Coatings | 529 | 488 | (8%) |
| 329 | 403 | 22% | Excluding unallocated costs | 860 | 935 | 9% |
| (29) | (50) | | Other activities | (92) | (130) | |
| 300 | 353 | 18% | Total | 768 | 805 | 5% |

OPI margin

| Third quarter | | | January-September | | |
|---------------|-------------|------|----------------------|------------|-------------|
| 2019 | 2020 | in % | 2019 | 2020 | |
| 13.4 | 20.1 | | Decorative Paints | 12.5 | 16.1 |
| 11.0 | 14.1 | | Performance Coatings | 10.2 | 12.3 |
| | | | Other activities* | | |
| 10.3 | 14.3 | | Total | 9.5 | 11.4 |

ROS%

| Third quarter | | | January-September | | |
|---------------|-------------|------|----------------------|-------------|-------------|
| 2019 | 2020 | in % | 2019 | 2020 | |
| 13.9 | 20.7 | | Decorative Paints | 11.8 | 16.8 |
| 13.7 | 15.4 | | Performance Coatings | 12.6 | 13.4 |
| | | | Other activities* | | |
| 12.5 | 15.5 | | Total | 10.9 | 12.7 |

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

ROS% excluding unallocated costs

| Third quarter | | | January-September | | |
|---------------|--------------|---------------|---|--------------|--------------|
| 2019 | 2020 | in € millions | 2019 | 2020 | |
| 2,398 | 2,276 | | Total revenue | 7,034 | 6,321 |
| (17) | (2) | | Less: revenue unallocated | (49) | (13) |
| 2,381 | 2,274 | | Revenue excluding unallocated revenue | 6,985 | 6,308 |
| | | | | | |
| 329 | 403 | | Adjusted operating income excluding unallocated costs* | 860 | 935 |
| 13.8 | 17.7 | | ROS% excluding unallocated costs | 12.3 | 14.8 |

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

Adjusted earnings per share from continuing operations

| Third quarter | | | January-September | | |
|---------------|-------------|---------------|---|-------------|-------------|
| 2019 | 2020 | in € millions | 2019 | 2020 | |
| 226 | 317 | | Profit before tax from continuing operations | 626 | 685 |
| 53 | 27 | | Identified items reported in operating income | 100 | 85 |
| (68) | (87) | | Adjusted income tax | (180) | (206) |
| (13) | (10) | | Non-controlling interests | (33) | (27) |
| 198 | 247 | | Adjusted net income from continuing operations | 513 | 537 |
| | | | | | |
| 204.3 | 190.6 | | Weighted average number of shares | 218.0 | 191.7 |
| 0.97 | 1.30 | | Adjusted earnings per share from continuing operations | 2.35 | 2.80 |

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

October 2019 - September 2020

| in € millions | 2019 | 2020 | Δ% |
|----------------------|--------------|--------------|-----------|
| Decorative Paints | 3,076 | 2,882 | (6%) |
| Performance Coatings | 3,272 | 3,406 | 4% |
| Other activities | 475 | 686 | |
| Total | 6,823 | 6,974 | 2% |

ROI%

October 2019 - September 2020

| in % | 2019 | 2020 |
|----------------------|-------------|-------------|
| Decorative Paints | 12.5 | 18.5 |
| Performance Coatings | 20.8 | 19.0 |
| Other activities* | | |
| Total | 13.9 | 14.7 |

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

ROI% excluding unallocated costs

October 2019 - September 2020

| in € millions | 2019 | 2020 |
|---|--------------|--------------|
| Average invested capital | 6,823 | 6,974 |
| Less: unallocated average invested capital | (475) | (686) |
| Average invested capital excluding unallocated capital | 6,348 | 6,288 |
| Adjusted operating income excluding unallocated costs | 1,065 | 1,181 |
| Total ROI in % | 16.8 | 18.8 |

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

EBITDA

October 2019 - September 2020

| in € millions | 2019 | 2020 |
|-------------------------------|--------------|--------------|
| Operating income | 736 | 893 |
| Depreciation and amortization | 320 | 370 |
| EBITDA | 1,056 | 1,263 |

Net debt

| in € millions | September 30, 2019 | September 30, 2020 |
|---------------------------|--------------------|--------------------|
| Short-term investments | (1,576) | (110) |
| Cash and cash equivalents | (625) | (1,502) |
| Long-term borrowings | 2,038 | 2,761 |
| Short-term borrowings | 700 | 167 |
| Net debt | 537 | 1,315 |

Leverage ratio

| in € millions | September 30, 2019 | September 30, 2020 |
|-----------------------|--------------------|--------------------|
| Net debt | 537 | 1,315 |
| EBITDA | 1,056 | 1,263 |
| Leverage ratio | 0.5 | 1.0 |

Revenue representation

Revenue of 2019 is represented to present revenue from third parties instead of total revenue. The table below reflects the 2019 revenue as reported in 2019 and the represented revenue for 2019 as included in this report. The quarterly statistics on page 15 of this report reflect the represented quarterly revenue for 2019.

Representation of revenue 2019

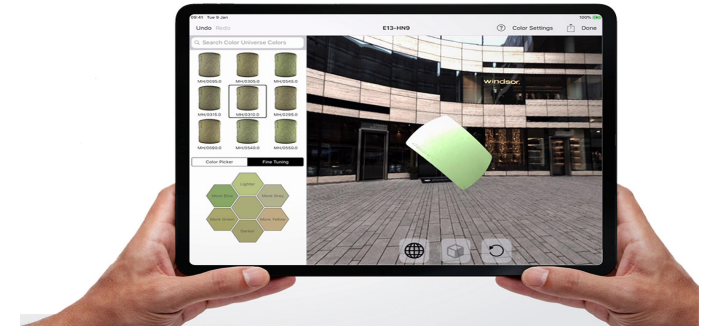
| Third quarter | | | January-September | |
|---------------|--------------|--|-------------------|--------------|
| Reported | Repre-sented | in € millions | Reported | Repre-sented |
| 573 | 565 | Decorative Paints Europe, Middle East and Africa | 1,699 | 1,674 |
| 121 | 120 | Decorative Paints South America | 324 | 320 |
| 283 | 283 | Decorative Paints Asia | 807 | 807 |
| – | – | Other/eliminations | (4) | – |
| 977 | 968 | Decorative Paints total | 2,826 | 2,801 |
| 314 | 313 | Powder Coatings | 929 | 927 |
| 335 | 331 | Marine and Protective Coatings | 976 | 964 |
| 344 | 326 | Automotive and Specialty Coatings | 1,044 | 990 |
| 451 | 441 | Industrial Coatings | 1,320 | 1,300 |
| (26) | 2 | Other/eliminations | (67) | 3 |
| 1,418 | 1,413 | Performance Coatings total | 4,202 | 4,184 |
| 3 | 17 | Other/eliminations | 6 | 49 |
| 2,398 | 2,398 | Total | 7,034 | 7,034 |

Outlook

AkzoNobel has suspended its 2020 financial ambition in response to the significant market disruption resulting from the pandemic. Headwinds related to COVID-19 continued to ease, 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 fourth quarter 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 and commits to retain a strong investment grade credit rating.

Amsterdam, October 20, 2020 The Board of Management

Thierry Vanlancker
Maarten de Vries



Interpon launches immersive 3D imaging technology

Choosing the right powder coating has never been easier, thanks to the introduction of immersive 3D imaging technology by our Interpon brand. The new color tool – available via the AkzoNobel Design app – is designed to help architects and specifiers find exactly the right product for their needs. As well as enabling users to digitally rotate coatings samples, it's also possible to zoom in and out and view them in the context of different environments.

Paints and Coatings

Quarterly statistics

| | | | | | 2019 | | | | | | 2020 |
|---|--------------|--------------|--------------|--------------|---|--------------|--------------|--------------|--------------|--|------|
| Q1 | Q2 | Q3 | Q4 | year | in € millions | Q1 | Q2 | Q3 | year-to-date | | |
| Revenue¹ | | | | | | | | | | | |
| 836 | 997 | 968 | 868 | 3,669 | Decorative Paints | 754 | 899 | 1,004 | 2,657 | | |
| 1,333 | 1,438 | 1,413 | 1,366 | 5,550 | Performance Coatings | 1,295 | 1,086 | 1,270 | 3,651 | | |
| 16 | 16 | 17 | 8 | 57 | Other activities | 9 | 2 | 2 | 13 | | |
| 2,185 | 2,451 | 2,398 | 2,242 | 9,276 | Total | 2,058 | 1,987 | 2,276 | 6,321 | | |
| Adjusted EBITDA (excluding identified items) | | | | | | | | | | | |
| 95 | 177 | 174 | 127 | 573 | Decorative Paints | 100 | 211 | 243 | 554 | | |
| 182 | 241 | 238 | 200 | 861 | Performance Coatings | 230 | 139 | 232 | 601 | | |
| (29) | (24) | (25) | (15) | (93) | Other activities | (28) | (29) | (36) | (93) | | |
| 248 | 394 | 387 | 312 | 1,341 | Total | 302 | 321 | 439 | 1,062 | | |
| 11.4 | 16.1 | 16.1 | 13.9 | 14.4 | Adjusted EBITDA margin (in %) | 14.7 | 16.2 | 19.3 | 16.8 | | |
| Depreciation (excluding identified items)² | | | | | | | | | | | |
| (30) | (35) | (34) | (35) | (134) | Decorative Paints | (31) | (31) | (30) | (92) | | |
| (34) | (35) | (35) | (31) | (135) | Performance Coatings | (31) | (27) | (29) | (87) | | |
| (5) | (4) | (4) | (8) | (21) | Other activities | (10) | (9) | (11) | (30) | | |
| (69) | (74) | (73) | (74) | (290) | Total | (72) | (67) | (70) | (209) | | |
| Amortization (excluding identified items)² | | | | | | | | | | | |
| (5) | (6) | (5) | (5) | (21) | Decorative Paints | (5) | (5) | (5) | (15) | | |
| (10) | (9) | (9) | (10) | (38) | Performance Coatings | (9) | (9) | (8) | (26) | | |
| (1) | - | - | - | (1) | Other activities | (2) | (2) | (3) | (7) | | |
| (16) | (15) | (14) | (15) | (60) | Total | (16) | (16) | (16) | (48) | | |
| Adjusted operating income (excluding identified items) | | | | | | | | | | | |
| 60 | 136 | 135 | 87 | 418 | Decorative Paints | 64 | 175 | 208 | 447 | | |
| 138 | 197 | 194 | 159 | 688 | Performance Coatings | 190 | 103 | 195 | 488 | | |
| (35) | (28) | (29) | (23) | (115) | Other activities | (40) | (40) | (50) | (130) | | |
| 163 | 305 | 300 | 223 | 991 | Total | 214 | 238 | 353 | 805 | | |
| 7.5 | 12.4 | 12.5 | 9.9 | 10.7 | ROS% | 10.4 | 12.0 | 15.5 | 12.7 | | |
| 9.1 | 13.7 | 13.8 | 11.0 | 12.0 | ROS% excluding unallocated costs | 12.4 | 14.0 | 17.7 | 14.8 | | |

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.

For the quarters in 2020, these amounts are:

Q1 2020: €2 million

Q2 2020: €7 million

Q3 2020: €5 million

Paints and Coatings

Quarterly statistics

| | | | | 2019 | | | | | 2020 |
|---|-------------|-------------|-------------|--------------|--|-------------|-------------|-------------|--------------|
| Q1 | Q2 | Q3 | Q4 | year | in € millions | Q1 | Q2 | Q3 | year-to-date |
| Identified items per Business Area | | | | | | | | | |
| (6) | 30 | (5) | (12) | 7 | Decorative Paints | (6) | (6) | (6) | (18) |
| (41) | (23) | (38) | (21) | (123) | Performance Coatings | (8) | (14) | (16) | (38) |
| (3) | (4) | (10) | (17) | (34) | Other activities | (13) | (11) | (5) | (29) |
| (50) | 3 | (53) | (50) | (150) | Total | (27) | (31) | (27) | (85) |
| Operating income | | | | | | | | | |
| 54 | 166 | 130 | 75 | 425 | Decorative Paints | 58 | 169 | 202 | 429 |
| 97 | 174 | 156 | 138 | 565 | Performance Coatings | 182 | 89 | 179 | 450 |
| (38) | (32) | (39) | (40) | (149) | Other activities | (53) | (51) | (55) | (159) |
| 113 | 308 | 247 | 173 | 841 | Total | 187 | 207 | 326 | 720 |
| Reconciliation net financing income/(expenses) | | | | | | | | | |
| 5 | 4 | 4 | 4 | 17 | Financing income | 4 | 3 | 3 | 10 |
| (17) | (20) | (21) | (18) | (76) | Financing expenses | (15) | (17) | (17) | (49) |
| (12) | (16) | (17) | (14) | (59) | Net interest on net debt | (11) | (14) | (14) | (39) |
| Other interest movements | | | | | | | | | |
| 5 | 6 | 4 | 6 | 21 | Financing expenses related to post-retirement benefits | 4 | 3 | 4 | 11 |
| (3) | (2) | (8) | (1) | (14) | Interest on provisions | (2) | (5) | - | (7) |
| (3) | (6) | (6) | (9) | (24) | Other items | (4) | (9) | (5) | (18) |
| (1) | (2) | (10) | (4) | (17) | Net other financing charges | (2) | (11) | (1) | (14) |
| (13) | (18) | (27) | (18) | (76) | Net financing expenses | (13) | (25) | (15) | (53) |
| Quarterly net income analysis | | | | | | | | | |
| 5 | 5 | 6 | 4 | 20 | Results from associates and joint ventures | 7 | 5 | 6 | 18 |
| 105 | 295 | 226 | 159 | 785 | Profit before tax | 181 | 187 | 317 | 685 |
| (31) | (69) | (51) | (79) | (230) | Income tax | (54) | (53) | (82) | (189) |
| 74 | 226 | 175 | 80 | 555 | Profit for the period from continuing operations | 127 | 134 | 235 | 496 |
| 30 | 23 | 23 | 50 | 29 | Effective tax rate (in %) | 30 | 28 | 26 | 28 |

AkzoNobel

Quarterly statistics

| | | | | 2019 | | | | | 2020 |
|---|-------------|-------------|-------------|-------------|--|-------------|-------------|-------------|--------------|
| Q1 | Q2 | Q3 | Q4 | year | | Q1 | Q2 | Q3 | 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 | 1.18 | 2.45 |
| 0.28 | 1.00 | 0.79 | 0.38 | 2.42 | Diluted | 0.59 | 0.67 | 1.18 | 2.44 |
| Earnings per share from discontinued operations (in €) | | | | | | | | | |
| - | 0.07 | - | 0.03 | 0.10 | Basic | - | - | (0.03) | (0.03) |
| - | 0.07 | - | 0.03 | 0.10 | Diluted | - | - | (0.03) | (0.03) |
| Earnings per share from total operations (in €) | | | | | | | | | |
| 0.28 | 1.07 | 0.79 | 0.41 | 2.53 | Basic | 0.59 | 0.68 | 1.15 | 2.41 |
| 0.28 | 1.07 | 0.79 | 0.41 | 2.52 | Diluted | 0.59 | 0.67 | 1.15 | 2.41 |
| Number of shares (in millions) | | | | | | | | | |
| 234.3 | 215.7 | 204.3 | 198.5 | 213.1 | Weighted average number of shares* | 194.0 | 190.7 | 190.6 | 191.7 |
| 223.9 | 208.7 | 200.2 | 196.4 | 196.4 | Number of shares at end of quarter* | 191.4 | 190.6 | 190.6 | 190.6 |
| Adjusted earnings from continuing operations (in € millions) | | | | | | | | | |
| 105 | 295 | 226 | 159 | 785 | Profit before tax from continuing operations | 181 | 187 | 317 | 685 |
| 50 | (3) | 53 | 50 | 150 | Identified items reported in operating income | 27 | 31 | 27 | 85 |
| (39) | (73) | (68) | (57) | (237) | Adjusted income tax | (59) | (60) | (87) | (206) |
| (9) | (11) | (13) | (5) | (38) | Non-controlling interests | (12) | (5) | (10) | (27) |
| 107 | 208 | 198 | 147 | 660 | Adjusted net income from continuing operations | 137 | 153 | 247 | 537 |
| 0.46 | 0.96 | 0.97 | 0.74 | 3.10 | Adjusted earnings per share from continuing operations (in €) | 0.71 | 0.80 | 1.30 | 2.80 |

* 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. 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.

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The explanatory sheets used during the press conference can be viewed on AkzoNobel's corporate website www.akzonobel.com/quarterlyresults

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Financial calendar

| | |
|--|-------------------|
| Ex-dividend date of 2020 interim dividend | October 23, 2020 |
| Record date of 2020 interim dividend | October 26, 2020 |
| Payment of 2020 interim dividend | November 5, 2020 |
| Report for the full-year and the fourth quarter 2020 | February 17, 2021 |

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 32,000 talented people who are passionate about delivering the high-performance products and services our customers expect.

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