Supporting the purge on plastic

A new garbage-gathering system designed to extract plastic from rivers was launched by The Ocean Cleanup in late 2019 – and we’re providing the coatings technology for the floating devices.

Known as the Interceptor™, the system will be placed in 1,000 rivers over the next five years to help prevent plastic debris from adding to the build up in our oceans.

Capable of extracting up to 50,000 kilos of trash per day, each Interceptor system has a storage capacity of 50m³. The devices feature protective coatings from our International product range, notably Intershield 300 – an industry-leading anti-corrosive universal primer with an extensive track record of 30 years. Our experts were also involved in the design of the Interceptor devices.

To learn more about our protective coatings, visit www.international-pc.com
We’re global experts in the proud craft of making paints and coatings, setting the standard in color and protection since 1792. Our passion for paint means our world class portfolio of established brands is trusted by customers around the globe.

By investing in innovation, sustainable solutions, organic growth and bolt-on acquisitions, we intend to create long-term value for all our stakeholders and become the reference in paints and coatings.

We’re building our future on solid foundations – our long and proud heritage, our core principles and our values. Our success will be driven by our passion for paint, precise processes, powerful performance and proud people.

We have adopted a laser sharp focus towards delivering on our Winning together: 15 by 20 ambition as we continue our transformation into a focused paints and coatings company.

Our commercial teams are organized into business units, reporting to the Chief Operating Officer. Each business unit has a clear mandate to deliver on our 15 by 20 ambition.

The integration of all supply chain activities (including manufacturing and distribution) into a single, global Integrated Supply Chain (ISC) organization, has been a major transformation. We’re leveraging our scale and functional expertise more effectively, as well as accelerating continuous improvement through our AkzoNobel Leading Performance System (known as ALPS).

PUTTING PRECISE PROCESSES IN PLACE

To ensure people across our organization can efficiently collaborate, we continue to invest in standardizing processes and aligned systems. Integrated Business Planning (IBP), a monthly decision-making process, results in a single operating plan and financial forecast for the company.

During 2019, we also put more focus on our key end-to-end processes, using reliable, real-time information for decision-making and hardwiring cost consciousness. This will enable us to drive further efficiencies, improve transparency and lower the cost of getting products to our customers.
pursue potential opportunities that offer a strong strategic fit with our portfolio.

PROUD PEOPLE PUSHING THE BOUNDARIES OF INNOVATION

Innovation is fundamental to our success. Our innovation group is led by our Chief Technology Officer and brings together the combined know-how of global experts who work on one, unified innovation road map. For us, innovation means going beyond conventional expectations, going beyond the imagination of our customers and going beyond generations.

A recent example of this is our Awlgrip HDT (high definition technology) topcoat, which combines protection, high performance and a stunning, long-lasting finish, all without sacrificing convenience during application.

Digital innovation is a key component. A great example of this was the two digital color innovations we introduced to the industrial and professional paint markets during 2019. Handy and compact, both the new Color Sensor and ColorFinder interact with a mobile phone to enable painters to find a precise color match for their clients in just seconds.

We’re also leading the paints and coatings industry through our Paint the Future innovation ecosystem. We began by launching an industry-first global startup challenge, which proved to be a big success. This was followed by a regional startup challenge in Brazil in early 2020.

SUSTAINABILITY DRIVING BUSINESS SUCCESS

Sustainability is a core principle and shapes what happens at AkzoNobel every day. Our new holistic approach to sustainability is called “People. Planet. Paint.” It’s designed to demonstrate the positive benefits of our products and services and how we can reduce the environmental impact of our own operations, along with those of our suppliers, customers and society in general. We continue to focus on actions aligned with the most relevant UN Sustainable Development Goals (SDGs).

We aim to remain the sustainability leader in the paints and coatings industry, offering the most sustainable and best performing portfolio of products to our customers. For more details, see the Sustainability statements.

FOCUSED ON POWERFUL PERFORMANCE

In 2019, we again showed that we’re delivering on our promises. We demonstrated an impressive improvement in financial performance on the previous year, despite a soft macro-economic environment.

The deployment of one common ERP (enterprise resource planning) system across all businesses is progressing well, enabling further cost savings and better management of operations and performance.

In addition, we continue to deliver significant cost savings by streamlining our support functions – for example by transferring activities to Global Business Services (GBS). Our Transformation Office is continuing to track all initiatives to ensure accountability of different teams for delivering cost savings and implementing new ways of working across the organization.

BUILDING ON OUR PASSION FOR PAINT

Our strategy is to build on our existing foundation by focusing on our strong brands, leading market positions, customer intimacy and innovation capabilities. We’re targeting acquisitions to boost our presence in key markets, generate synergies and give us access to new technologies.

In 2019, we strengthened our global position in aerospace coatings – notably in the structural and cabin coatings sub-segments – with the acquisition of Mapaero. We also announced the intended acquisition of Mauvilac Industries, a leading paints and coatings company in Mauritius. We continue to actively manage a pipeline of acquisition targets to proactively

end of the year by an open collaboration event with a wide range of selected suppliers. Encouraged by this success, we are now taking Paint the Future to the next level by staging a regional startup challenge in Brazil in early 2020.

We completed the promised €2.5 billion share buyback plan and announced a new share buyback of €500 million, to be completed in the first half of 2020. Our cost discipline has delivered significant savings, while pricing initiatives also compensated for higher raw material costs.

In September, we unveiled Tranquil Dawn as our 2020 Color of the Year. A delicate, fluid shade somewhere between green, blue and grey, it’s designed to capture the essence of what makes us human as a new decade arrives.

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HOW WE CREATED VALUE IN 2019

By delivering more value to our customers, shareholders, employees and society in general, we can better accelerate profitability while positioning ourselves for growth.

ECONOMIC VALUE

Financial overview
Revenue was flat, with price/mix up 4% overall, mainly driven by pricing initiatives. Acquisitions contributed 1%. Volumes were 5% lower due to our value over volume strategy. Adjusted operating income was up 24% at €991 million (2018: €798 million), driven by pricing initiatives and cost-saving programs. Operating income was up 39% at €841 million and includes €150 million negative impact from identified items (2018: €605 million, including €193 million negative impact from identified items).

Revenue
Revenue was flat. Continued focus on pricing initiatives contributed to positive price/mix of 4%, while volumes were 5% lower, mainly due to our value over volume strategy. Acquisitions contributed 1% to revenues.

- In Decorative Paints, revenue was flat, and up 1% in constant currencies.

Revenue development in % versus 2018

<table>
<thead>
<tr>
<th>Volume</th>
<th>Price/ mix</th>
<th>Acquisitions/ divestments</th>
<th>Exchange rates</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5%</td>
<td>4%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Revenue in € millions

<table>
<thead>
<tr>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decorative Paints</td>
<td>5,775</td>
<td>5,563</td>
</tr>
<tr>
<td>Performance Coatings</td>
<td>5,587</td>
<td>5,633</td>
</tr>
<tr>
<td>Total</td>
<td>11,362</td>
<td>11,204</td>
</tr>
</tbody>
</table>

Revenue by destination in %

<table>
<thead>
<tr>
<th>Region</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Mature Europe</td>
<td>35</td>
</tr>
<tr>
<td>B Asia Pacific</td>
<td>30</td>
</tr>
<tr>
<td>C North America</td>
<td>12</td>
</tr>
<tr>
<td>D South America</td>
<td>9</td>
</tr>
<tr>
<td>E Emerging Europe</td>
<td>10</td>
</tr>
<tr>
<td>F Other regions</td>
<td>4</td>
</tr>
</tbody>
</table>
Positive price/mix (4%) was more than offset by lower volumes (5%). Acquisitions contributed 2% to revenues.

- In Performance Coatings, revenue was flat, and 1% lower in constant currencies. Price/mix (4%) was more than offset by lower volumes (5%), due to our value over volume strategy.

Acquisitions
- The acquisition of Mapaero to further strengthen our global position in the steadily growing aerospace coatings industry was completed in Q4.
- The intended acquisition of Mauvilac Industries to support our position in the African decorative paints market was also announced in Q4.

Raw material price development
Raw materials continued to be a headwind in the first half of 2019 and turned moderately favorable towards the end of the year. In total, raw material costs were €64 million higher than in 2018.

Adjusted operating income
Adjusted operating income was up at €991 million (2018: €798 million), driven by pricing initiatives and cost-saving programs. ROS, excluding unallocated costs, increased to 12.0% (2018: 10.6%). ROS was up 2.1% at 10.7% (2018: 8.6%) and ROI was at 14.1% (2018: 12.6%).

- Decorative Paints continued to improve. Price/mix effects and cost savings more than offset raw material inflation and lower volumes. ROS was up at 11.3% (2018: 9.4%).

- Performance Coatings improved as pricing initiatives and cost savings more than offset higher raw material costs and lower volumes. ROS was up at 12.4% (2018: 11.3%).

- Other activities/eliminations improved €62 million to €115 million (2018: €177 million), mainly due to lower costs and one-off gains on disposals.

Operating income
Operating income was up 39% at €841 million, and includes €150 million negative impact from identified items, mainly related to transformation costs and non-cash impairments, partly offset by a gain on disposal of €54 million following asset network optimization (2018: €605 million, including €193 million negative impact from identified items). OPI margin improved to 9.1% (2018: 6.5%).

Net financing income and expenses
Net financing expenses increased by €24 million to €76 million, mainly due to an interest benefit on a tax settlement in 2018 and the inclusion in 2019 of interest on lease liabilities, following the adoption of IFRS 16 per January 1, 2019.

Income tax
The effective tax rate was 29% (2018: 21%). Excluding identified items, the effective tax rate in 2019 was 25%. The 2018 income tax expenses were positively impacted by a re-recognition of deferred tax assets and a tax settlement.

Income tax paid in € millions

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>266</td>
<td>164</td>
<td>184</td>
</tr>
<tr>
<td>2018</td>
<td>164</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>184</td>
<td></td>
</tr>
</tbody>
</table>

Cash flows and net debt
Operating activities in 2019 resulted in an inflow of €33 million (2018: €162 million). This was mainly caused by higher profitability, more than offset by higher pension related payments and increased working capital.

At December 31, 2019, net debt was positive €802 million versus negative €5,861 million at year-end 2018. This was mainly due to the share buyback (€2.5 billion), a capital repayment (€2.0 billion), a special cash dividend payment (€1.0 billion), pension related payment (€642 million), the final dividend 2018 (€315 million), capital expenditures (€214 million) and net cash outflow for acquisitions and divestments (€120 million).

Invested capital
Invested capital at December 31, 2019, totaled €7.0 billion, up €0.8 billion from year-end 2018, mainly due to higher operating working capital, the impact of the adoption of IFRS 16 and increased goodwill and other intangible assets due to acquisitions.

Allocation of 2019 capital expenditures of €214 million (2.3% of revenue)

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Decorative Paints</td>
<td>62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B Performance Coatings</td>
<td>113</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C Corporate and other</td>
<td>39</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Innovation investments**

<table>
<thead>
<tr>
<th>Year</th>
<th>Research and Development Expenses in € millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>270</td>
</tr>
<tr>
<td>2018</td>
<td>264</td>
</tr>
<tr>
<td>2019</td>
<td>255</td>
</tr>
</tbody>
</table>

**Innovation**

We continue to invest in research, development and innovation to help us fulfill future customer needs and fuel our targeted growth in revenue share of eco-premium solutions.

**Eco-premium solutions**

We achieved 22% of our sales from eco-premium solutions for the second year in a row, well ahead of our 2020 target of 20%. These solutions deliver clear benefits for our customers in terms of economic, environmental and social performance, as well as keeping us ahead of the competition.

Eco-premium solutions are a moving target, as they need to exceed the sustainability performance of the constantly evolving market reference. Initial assessments indicate that another estimated 20% of sales were from eco-performers, which have clear sustainability features, and are overall on a par with mainstream alternatives. Total sales of sustainable solutions was around 42%.

For more details, see Note 1 of the Sustainability statements.

**Dividend**

Our dividend policy is to pay a stable to rising dividend. In 2019, an interim dividend of €0.41 per common share (2018: €0.37) was paid. We propose a 2019 final dividend of €1.49 (2018: €1.43) per common share, which would equal a total 2019 dividend of €1.90 (2018: €1.80).

In line with our announcement on April 19, 2017, we returned the vast majority of net proceeds from the sale of Specialty Chemicals to our shareholders.

The Extraordinary General Meeting of November 13, 2018, approved the return of €2.0 billion to shareholders by means of a capital repayment and share consolidation, which was executed in January 2019. A share consolidation ratio of 9:8 was applied.

We distributed €1.0 billion by means of a special cash dividend of €4.50 per common share (post consolidation) on February 25, 2019.

A share buyback program to repurchase common shares up to the value of €2.5 billion was due to be completed at the end of 2019, acquiring 31.2 million common shares. On October 23, 2019, a new €500 million share buyback was announced, for which 0.4 million common shares were acquired in 2019.

**Earnings per share total operations in €**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3.31</td>
<td>26.19</td>
<td>2.53</td>
</tr>
</tbody>
</table>

**Adjusted earnings per share from continuing operations in €**

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2.35</td>
<td>1.91</td>
<td>3.10</td>
</tr>
</tbody>
</table>

**Environmental Value**

We manage the environmental impact of our supply chain operations through our multi-year resource productivity program. We mainly focus on waste, energy, water and VOC emissions.

**Waste**

Effective raw material management and process efficiency in manufacturing contributes to reducing generated waste, reducing both our environmental footprint and costs. Since 2011, our waste per ton of product has reduced by more than 40%. As well as reducing waste, we also aim to increase the share of reusable waste. In 2019, over half our waste was reusable, contributing to a circular economy.
We also aim to achieve zero waste to landfill by the end of 2020. The first priority is to eliminate hazardous waste to landfill. At the end of 2019, 117 sites had no hazardous waste to landfill and have plans in place for 2020 to further drive to zero, taking into account legal and technical limitations.

Energy and greenhouse gas emissions
In 2019, energy per ton of product was reduced by 2% compared with the previous year. The energy reduction was negatively impacted by product mix and our value over volume strategy. Our share of renewable energy was 31% in 2019, with 33 locations using 100% renewable electricity. We have also increased the number of locations with on-site solar energy production to 14 in total. We expect this number to grow significantly in the future.

Electricity consumption and fuel for heating are the main drivers for greenhouse gas (GHG) emissions from our facilities. GHG emissions per ton of product and the total GHG emission decreased by 16% compared with the previous year. For more details, see Note 4 of the Sustainability statements.

VOC emissions
Air emissions generated from our own operations are primarily volatile organic compounds (VOCs). We aim to reduce emissions through product design, good management practices and environmental controls at our sites. In 2019, VOC emissions per ton of product and our total VOC emissions both decreased by 24%, exceeding our target of 10%.

Cradle-to-grave carbon footprint
More than 98% of our value chain carbon footprint comes from our suppliers and the use of our products by customers. Applying circular economy principles across the value chain will be our biggest contributor to the Paris climate agreement.

As well as our internal initiatives on the circular economy, we continue to work with suppliers to source material with a low carbon footprint, such as renewable raw materials or materials generated with renewable energy.

We also continue to offer our customers technologies and solutions to help them reduce their own emissions and material use. Our 2019 value chain emissions were 14.6 million tons of CO₂(e) in 2019, 3% lower than the previous year. For more details, see the Planet section of the Sustainability statements.

SOCIAL VALUE

Employees
We use a quarterly company-wide employee survey, which goes beyond only measuring people engagement and focuses on measuring our wider organizational health. In 2019, our organizational health score was 61. The outcomes of the survey are reflected in action plans. We aim to be in the top quartile in 2020 (currently 74).

At year-end 2019, the number of employees decreased by 2% to 33,800 people (year-end 2018: 34,500 people). For more details, see Note 6 of the Consolidated financial statements.

For more details, see Note 9 of the Sustainability statements.

For more details, see Note 6 of the Sustainability statements.

Programs
During 2019, we carried out 140 Community Program projects and 83 “Let’s Colour” projects.

For more details, see Note 9 of the Sustainability statements.

Employees
33,800 at year-end 2019

Organizational Health Index score
61 at year-end 2019

Employees by segment in %
at December 31, 2019

A Decorative Paints 13,300
B Performance Coatings 18,000
C Corporate and other 2,500
Target (set in 2017):

1. Return on sales (ROS)\(^1\)
   Achieve return on sales (adjusted operating income/revenue) of 15% by 2020
   
   2019 PROGRESS
   12.0% \(\uparrow\)

2. Return on investment (ROI)\(^2\)
   Achieve return on investment (adjusted operating income/average invested capital) of more than 25% by 2020
   
   2019 PROGRESS
   17.2% \(\uparrow\)

3. Eco-premium solutions
   Maintain at least 20% of revenue from eco-premium solutions by 2020
   
   2019 PROGRESS
   22%
Return on sales (ROS)\textsuperscript{1}

We use return on sales (ROS) as a performance indicator to reflect profitability relative to revenue. ROS as a financial guidance aims to focus management on delivery and quality of profits. ROS is defined as adjusted operating income as percentage of revenue.

\begin{itemize}
  \item Revenue was flat, with positive price/mix of 4% and acquisitions contributing 1%, offset by 5% lower volumes due to our value over volume strategy
  \item Adjusted operating income up 24% at €991 million driven by pricing initiatives and cost savings
  \item Progress towards delivering €200 million of savings planned for 2020: €80 million delivered in 2019
  \item Progress towards delivering our Winning together: 15 by 20 ambition and continue creating a fit-for-purpose organization for a focused paints and coatings company
\end{itemize}

\textsuperscript{1} Excluding unallocated corporate center costs; assumes no significant market disruption.

\[
\begin{array}{c|c|c|c}
\text{Year} & \text{2018} & \text{2019} \\
\hline
\text{ROS} & 10.6 & 12.0 \\
\end{array}
\]

Return on investment (ROI)\textsuperscript{2}

We use return on investment (ROI) as a performance indicator to reflect profit relative to invested capital. ROI as a financial guidance aims to focus management on delivering value through returns in excess of our cost of capital. ROI is defined as adjusted operating income of the last 12 months as percentage of average invested capital.

\begin{itemize}
  \item Adjusted operating income up 24% at €991 million, driven by pricing initiatives and cost savings
  \item Invested capital totaled €7.0 billion, up €0.8 billion from year-end 2018, mainly due to higher operating working capital, the impact of the adoption of IFRS 16 and increased goodwill and other intangible assets due to acquisitions
\end{itemize}

\textsuperscript{2} Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

\[
\begin{array}{c|c|c|c|c|c|c|c}
\text{Year} & \text{2017} & \text{2018} & \text{2019} \\
\hline
\text{ROI} & 16.6 & 17.2 & \\
\end{array}
\]

Eco-premium solutions

We use eco-premium solutions to track our performance in creating shared value for our business, our customers and society. We aim to maintain at least 20% of revenue from eco-premium solutions by constantly innovating, based on insights into evolving environmental concerns and societal needs. Eco-premium solutions need to exceed the reference in each market in terms of sustainability performance. It is therefore a moving target, as the reference is constantly improving.

\begin{itemize}
  \item In 2019, we achieved 22% of our sales from eco-premium solutions for the second year running
  \item Initial assessments indicate that another estimated 20% of sales were from eco-performers, which offer clear sustainability features and are overall on a par with mainstream alternatives. Total sales of sustainable solutions was therefore around 42%
\end{itemize}

\[
\begin{array}{c|c|c|c|c|c|c|c}
\text{Year} & \text{2013} & \text{2014} & \text{2015} & \text{2016} & \text{2017} & \text{2018} & \text{2019} \\
\hline
\text{Eco-premium} & 19 & 20 & 20 & 21 & 21 & 22 & 22 \\
\text{Solutions} & & & & & & & \\
\end{array}
\]
2019 facts and figures

North America 12%
Mature Europe 35%
Emerging Europe 10%
Asia Pacific 30%

€9.28 bln revenue
€991 mln adjusted operating income
€841 mln operating income
€2.53 earnings per share
33,800 employees

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

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