AkzoNobel

2018

Report

2018 FACTS AND FIGURES

Opened our new powder coatings plant in China – one of the largest facilities of its kind in the world

Did you know our Interpon powder coatings hold the screws in place on NASA Mars rovers?

Completed construction of a €12 mln innovation hub in Felling, UK

Did you know that in our wood coatings labs, the specimens we test are more rigorously climate controlled than the Mona Lisa in the Louvre?

Celebrated the 50th birthday of our Alumigrip aerospace coatings brand

Did you know our aerospace coatings for aircraft exteriors can withstand temperatures ranging from -50°C to +50°C?

17 sites now using 100% renewable electricity

Did you know that metal roofs coated with our COOL CHEMISTRY solar reflective technology can help reduce energy costs by up to 23%?

Value chain carbon emissions dropped 5%

Did you know our Intersleek products have helped ship owners and operators save over 10 mln tons of fuel and 32 mln tons of CO_2?

Our Report 2018 is also available online. To read the digital version (and view all the case study videos) please visit:

https://report.akzonobel.com/2018

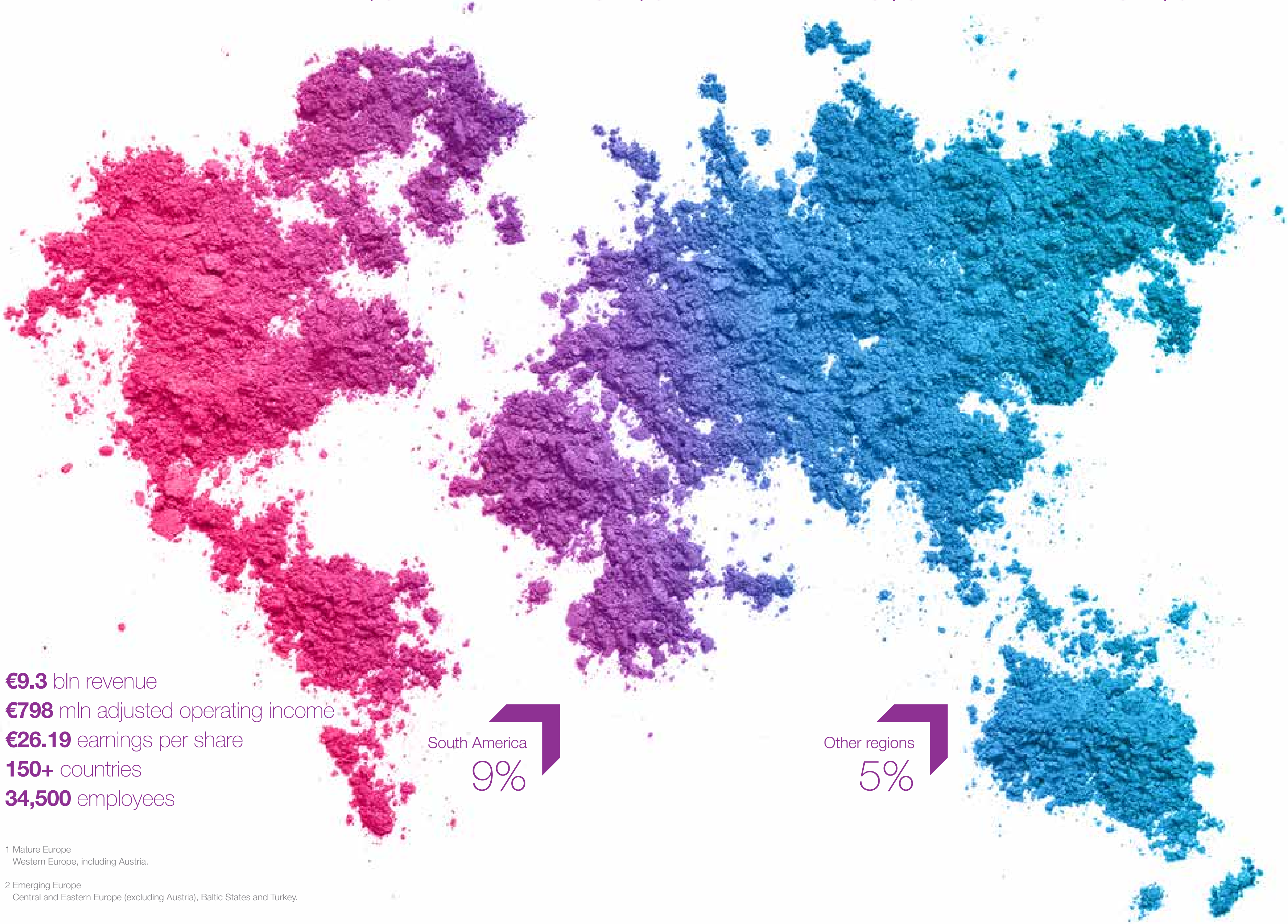
2018 revenue by destination

North America
12%

Mature Europe[1]
34%

Emerging Europe[2]
9%

Asia Pacific
31%



South America
9%

Other regions
5%

€9.3 bln revenue
€798 mln adjusted operating income
€26.19 earnings per share
150+ countries
34,500 employees

1 Mature Europe
Western Europe, including Austria.

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


Dulux
Velvet Touch
Velvet Touch
The Glow of Success
Dulux
Velvet Touch
Dulux
Velvet Touch
NEW
Dulux
Velvet Touch
AkzoNobel

Report 2018

FEATURED CONTENT

"Our goal is clear – to be recognized as the reference in our industry"

CEO STATEMENT

6

GOING WILD WITH OUR AEROSPACE COATINGS

12

CHANGING LIVES THROUGH COLOR

10

TAKING INNOVATION TO ANOTHER DIMENSION

14


FAMOUS ABBEY PUTS
FAITH IN OUR COATINGS
38


A RECORD-BREAKING
JOURNEY TO BE PROUD OF
166

CONTENTS

HOW WE PERFORMED IN 2018

TARGET:

15%

Return on sales (ROS)[1]
Achieve return on sales (adjusted operating income/ revenue) of 15% by 2020

>25%

Return on investment (ROI)[2]
Achieve return on investment (adjusted operating income/ average invested capital) of more than 25% by 2020

20%

Eco-premium solutions
Maintain 20% of revenue from eco-premium solutions with customer benefits by 2020

2018 PROGRESS

10.6%

16.6%

22%

[1] Excluding unallocated corporate center costs; assumes no significant market disruption.

[2] Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

RETURN ON SALES (ROS)[1]

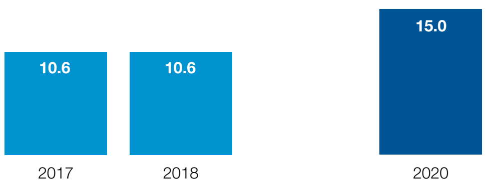
We use return on sales (ROS) as a performance indicator to reflect profitability relative to revenue. ROS as a financial guidance aims to focus management on delivery and quality of profits. ROS is defined as adjusted operating income as percentage of revenue.

- Revenue 4% lower, although up 1% in constant currencies, with price/mix partly offset by lower volumes
- Adjusted operating income impacted by adverse currencies, higher raw material costs and lower volumes, not yet fully offset by positive price/mix and cost savings
- Savings from continuous improvement of €165 million
- Creating a fit-for-purpose organization fully delivered on the €110 million planned for 2018
- Next step taken in our transformation to deliver a further €200 million cost savings by 2020

[1] Excluding unallocated corporate center costs; assumes no significant market disruption.

Target 15% by 2020

Return on sales development
Adjusted operating income as % of revenue
■ Target



RETURN ON INVESTMENT (ROI)[2]

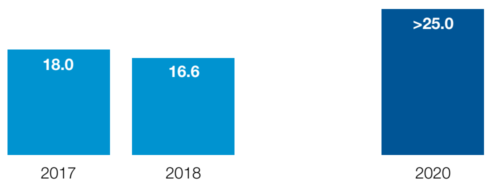
We use return on investment (ROI) as a performance indicator to reflect profit relative to invested capital. ROI as a financial guidance aims to focus management on delivering value through returns in excess of our cost of capital. ROI is defined as adjusted operating income of the last 12 months as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

- Adjusted operating income impacted by adverse currencies, higher raw material costs and lower volumes, not yet fully offset by positive price/mix and cost savings
- Average invested capital decreased 2% to €6.3 billion

[2] Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

Target >25% by 2020

Return on investment development
Adjusted operating income/average invested capital in %
■ Target



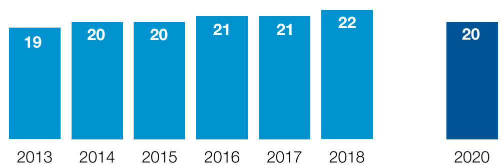
ECO-PREMIUM SOLUTIONS

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.

- In 2018, total share of revenue from eco-premium solutions was 22%
- Fast growth of low VOC products in China and North Asia contributed to the improved performance
- Around another 20% of revenue was from eco-performers, which have clear sustainability benefits and are at least as good as mainstream alternatives, putting the total revenue of solutions with sustainable benefits at approximately 42%

Target 20%

Eco-premium solutions with customer benefits
in % of revenue
■ Target



CEO STATEMENT

For everyone at AkzoNobel, 2018 proved to be a landmark year in our long and proud history. Successfully completing the sale of the Specialty Chemicals business was a significant milestone in our ever-evolving journey to become a focused paints and coatings company. It was great to see all my colleagues around the world rise to the occasion as we continued to build the company into an industry leader, both in terms of size and performance.

watch
video

This determination to be the best is nothing new to AkzoNobel – our passion for paint has been driving our progress since 1792. We already had the global scale, the leading market positions and the world class brands. In 2018, we took our journey to another level. We stepped on the accelerator and channeled all that experience and expertise into getting us to where we rightfully belong – being recognized as the reference in the paints and coatings industry.

The successful separation of Specialty Chemicals was a major first step towards achieving that vision. I'm extremely proud of how everyone pulled together to complete such a complex transaction on time and in full, to the benefit of both sides and all our stakeholders. We promised we would return the vast majority of the proceeds to our shareholders and that's exactly what we're doing. Our progress as a focused paints and coatings company is being driven by a clear Winning together: 15 by 20 strategy to step up our profitability and deliver 15% return on sales (excluding unallocated corporate center costs) by 2020.

A business trip to the US in October provided plenty of opportunities to meet colleagues and customers.

"We continued to build the company into an industry leader, both in terms of size and performance"

Early on in the year, we established laser sharp alignment within the Executive Committee and our Supervisory Board on the strategic mandates of our various business segments and sub-segments. These clear mandates are now the basis for all our decisions on resource allocation, as well as mergers and acquisitions. Given the significant raw material cost headwinds our industry has been experiencing since early 2017, we have made a disciplined shift to focus on value over volume, which powered our performance versus our peers during the second part of the year.

Our Winning together: 15 by 20 strategy also means we need to change a lot internally to move from a collection of businesses operating in parallel, to one integrated company. Virtually every process is being redesigned to deliver a more standard, simplified and precise approach. We're significantly resetting our spending behavior and have carried out the first phase of our transformation into a fit-for-purpose organization, while also announcing the next step, which will be implemented during 2019 and 2020.

What didn't change was our core principles and values. They remain as rock solid as ever and embedded throughout the company. Safety, integrity and sustainability are the foundation upon which our success continues to be built. As we showed again in 2018, we're best-in-class for safety in our industry, having repeated last year's record safety performance. Meanwhile, we achieved our 13th consecutive top ten ranking in the 2018 Dow Jones Sustainability Index. Our continued commitment to sustainability and the recognition it brings is something our people are deservedly proud of. It comes from a deep sense of care for the communities and stakeholders we engage and work with. It's becoming an increasingly essential part of why customers choose our offering over that of our competitors.

Another source of great pride in 2018 was our ability to expand our business by completing some excellent bolt-on acquisitions, as well as investing in our own production assets in order to grow and improve our market positions. The deals we finalized helped to accelerate our momentum towards building something very special. We acquired Fabryo to become the number one decorative paints company in Romania, and purchased Xylazel in Spain. We also acquired Colourland Paints in Malaysia to further build our strong decorative paints position in South East Asia. Towards the end of the year, we acquired the minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China. As a result, we now have greater control over our future growth and direction in the Chinese market. Also in China, we're proud to have opened our new powder coatings plant in Changzhou, which is one of the biggest facilities of its kind in the world.

In terms of our actual 2018 performance, despite unprecedented raw material cost inflation, our fit-for-purpose transformation – as well as our value over volume approach – allowed for a strong ROS% comeback in the second half of the year. Q4 revenue increased 4% in constant currencies and business ROS% (excluding unallocated corporate center

A trip to France in October included visits to see our new colleagues at Disatech in Limoges and the Powder Coatings team in Dourdan.

costs) increased to 9%. Overall, 2018 revenue was up 1% in constant currencies as we introduced structured pricing initiatives and demonstrated excellent cost discipline. This enabled us to turn the tide and start pushing up our profitability.

All this progress and rebuilding work wasn't without its challenges – the difficult operating environment made sure of that. However, despite the unfavorable business climate, we came out stronger than most of our competitors. We had to be bold and took decisive action on pricing and cost containment while being more agile and responsive to the market. We also focused on making ourselves more efficient: day to day through continuous improvement and by structurally changing the way we operate (for example in our supply chain and various functions). We stepped up to the plate and dealt with the challenges as and when they arose, which helped to restore investor confidence.

Our various activities prove that our Winning together: 15 by 20 strategy is about much more than simply achieving a profitability target. It's a mantra for creating the right mindset and processes to transform AkzoNobel into a long-term global leader for way beyond 2020. It has kick-started a revolution internally as we propel ourselves to where we want to be in the future. Our goal is clear – to be recognized as the reference in our industry. Many of our businesses are already there, but 2018 saw us take a big step towards making it the benchmark for everything we do.

A Community Program project in Amsterdam was the perfect opportunity to get to grips with our Sikkens Alpha Rezisto paint.

Our long-term ambition is further evidenced in the way we are embracing open innovation. New ways of doing things often require new ways of thinking. So we were incredibly excited to launch our Paint the Future startup challenge towards the end of the year. Even though we've been successfully innovating for centuries, our industries and applications are advancing so fast we can't just keep doing things all by ourselves. As an industry leader, we need to be part of a broad and open network of innovators to deliver new and exciting solutions to our customers even faster. With Paint the Future, we're looking to combine our own global scale, know-how and technology expertise with the ingenious solutions of a whole universe of startups and scale-ups (see page 14).

In many ways, 2018 was all about sharing – and showing – our passion for paint to all stakeholders. Demonstrating how our proud people and precise processes help to deliver powerful performance. There were many examples of this during the year – from the dazzling animal designs applied to Embraer's new jets using our aerospace coatings (see page 12), to the stunning transformation of an entire neighborhood in Turkey through our global "Let's Colour" program (see page 10). We're proud to have once again brought our expertise to so many exciting projects across the globe.

At the heart of all we've achieved so far on our Winning together: 15 by 20 journey is a dedicated and diverse team of great colleagues across the globe. There was a mountain of work to do in 2018, and as with any transformation, it brought with it a series of challenges and wide-ranging emotions. I speak for the entire leadership team when I say we deeply respect and appreciate how everyone rolled up their sleeves and focused on getting the job done. Our people deserve all the thanks and credit. As for me, the Executive Committee and the Supervisory Board, it continues to be a true privilege to be on this journey with them.

Thierry Vanlancker, CEO and Chairman of the Board of Management and Executive Committee

It was a proud moment when we welcomed record-breaking team AkzoNobel over the finish line in The Hague, to take an overall fourth place in the Volvo Ocean Race. The event was a fantastic showcase for our products and expertise.

TRANSFORMATION GATHERING MOMENTUM

AkzoNobel has a clear strategic focus to become the reference in paints and coatings. To help us achieve this – and outpace the competition – we aim to reach 15% return on sales[1] by 2020. We made excellent progress in 2018 and continue to accelerate our plans to get the company to where it belongs – at the forefront of our industry.

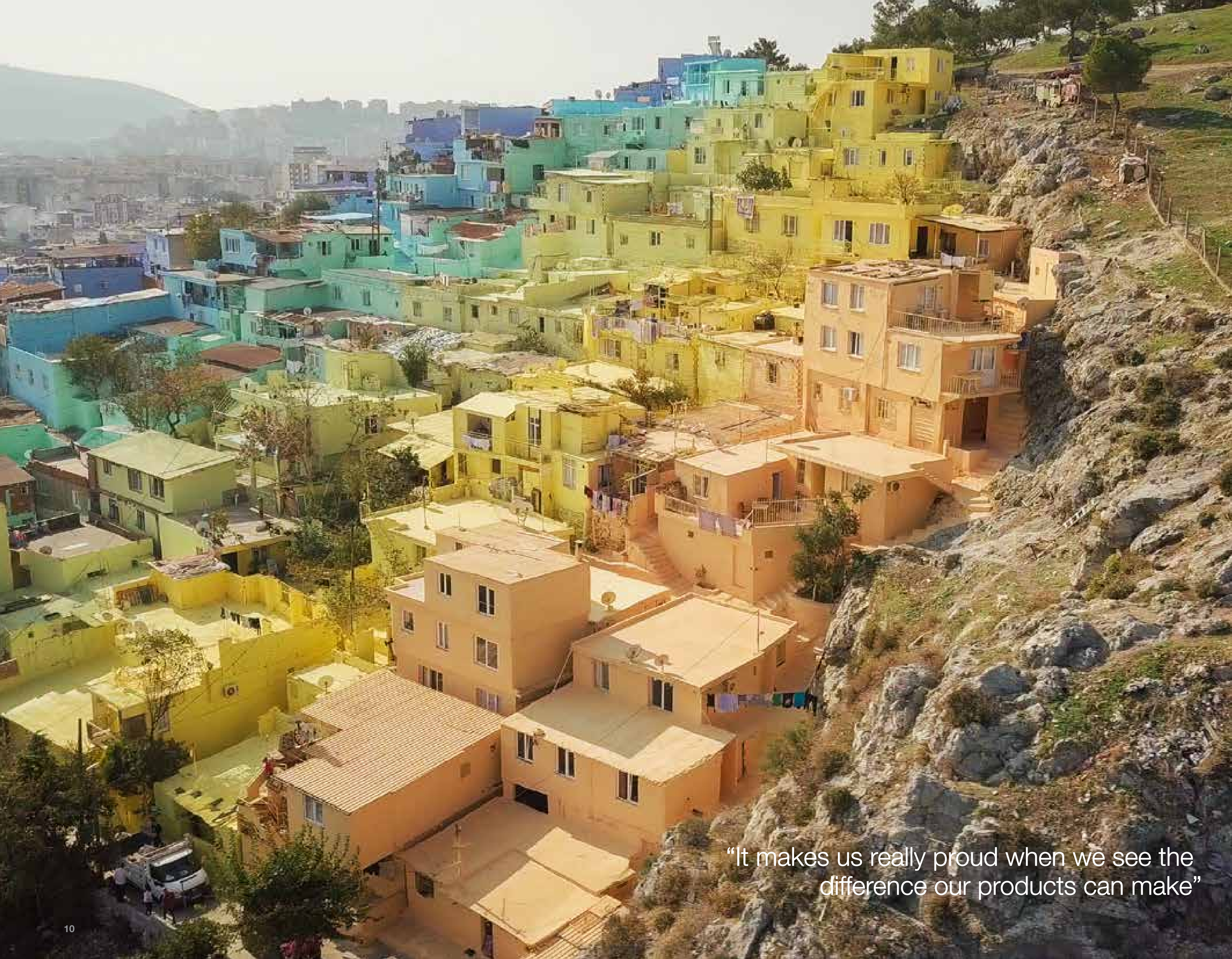
We realize that in order to improve our performance, we need to do things differently. So we've been changing our organization accordingly. The biggest change, of course, was separating our Specialty Chemicals business to become a focused paints and coatings company. This triggered the need to put a new organization structure in place – powered by a high performance culture. As part of this process, we conducted a strategic review across all our regions and business segments. This has allowed us to more deliberately allocate resources in order to profitably grow our business and improve performance.

And now that we're a focused paints and coatings company, everybody in the organization is aligned towards the same ambition. This gives us a lot more clarity in terms of our markets and customers and the synergies we can get from working together across our businesses. Most of the transformational work is being overseen by our Transformation Office. We have assigned leaders and resources to ensure our Winning together: 15 by 20 journey goes smoothly and we deliver on our plans.

Particular attention is being paid to putting the right systems and processes in place, such as Integrated Business Planning. Several work streams have been set up with a focus on key initiatives such as margin management, sales force effectiveness, ALPS continuous improvement, innovation excellence and developing a single ERP system. The positive impact of this approach became increasingly evident during the year – we've realized major reductions in cost and complexity – and it will continue to drive our progress with regard to realizing our 15 by 20 ambition.

Our success depends on creating a fit-for-purpose and sustainable organization. So we're fully focused on continuously improving our performance in both the short and long term. We made strong progress in 2018. Now we're ready to take the next step in our transformation. It's all geared towards building a globally leading paints and coatings company which will make us the clear reference for all our stakeholders – customers, employees, shareholders and the world we live in.

[1] Excluding unallocated corporate center costs; assumes no significant market disruption.



“It makes us really proud when we see the difference our products can make”

CHANGING LIVES THROUGH COLOR

More than 50,000 liters of our Marshall paint brand was used to transform the hilltop neighborhood of Tepe, helping to revitalize the lives of 2,000 residents.

Marshall

Let's Colour

watch video

When you tower high above Turkey's busiest cruise port and are the first thing seen by thousands of visiting tourists, it's important that you look good. But for many residents in the town of Kuşadası on Turkey's Aegean coast, what's more important is the pleasure and pride they get from living in their homes and communities.

So when we partnered with the local Kuşadası municipality and artists from Venuart via our "Let's Colour" program, we knew it was our job to help transform lives and create happier homes – using our passion for paint to make a difference.

The project focused on brightening up the hilltop neighborhood of Tepe, where more than 400 living spaces – and the lives of 2,000 residents – have been revitalized. That's what our "Let's Colour" program is all about. It uses the power of color to energize people and communities. More than 81 million people around the world can already testify to the benefits it brings.

"We love making living spaces more social, pleasurable and habitable, while also inspiring and motivating people through the use of color," says AkzoNobel's Chief Operating Officer, Ruud Joosten. "It makes us really proud when we see the difference our products can make."

Working together with the local community, the project involved using more than 50,000 liters of our Marshall paint brand and is the biggest "Let's Colour" activity to be staged in Turkey so far.

"This project will make a great contribution to our community," adds Kuşadası Mayor, Özer Kayalı. "Tepe is the first place seen by tourists when they arrive at Kuşadası port. It makes for a striking panorama, so it's a crucial location for us. I would like to extend our gratitude to Marshall and Venuart for bringing the "Let's Colour" project to our town."

The transformation of Tepe is Marshall's seventh project under the "Let's Colour" banner since the program first became active in Turkey in 2010. It will bring the total amount of paint used for the company's "Let's Colour" projects globally to well over 1.3 million liters. Nearly 2,300 "Let's Colour" projects have been completed around the world to date, involving more than 12,000 volunteers.

GOING WILD WITH OUR AEROSPACE COATINGS

Airline art reached new heights after we teamed up with aircraft maker Embraer to paint four of its recently launched E190-E2 commercial jets. You can't exactly hang them on your wall, but they do qualify as masterpieces of creative design.

The eye-catching artworks – displaying an eagle, a tiger, a shark and a snow leopard – were painted with products from our Alumigrip and Aerodur ranges. They showcase the amazing artistry of Clodoaldo Quintana, an in-house technician at Embraer who has been described as having "the artistic talent of a modern day Renoir." It took him 20 days to finish the eagle, while for the shark and tiger it was around ten days each.

All the designs were applied at Embraer's facility in São José dos Campos, Brazil, which houses a dedicated AkzoNobel color center. It's manned by a small team who work with Embraer to offer local technical support, color development and paint mixing. Having this available on site helps to reduce the cycle time between ordering a new color and having it ready to be applied to an aircraft by 90%.

"We have a long-standing relationship with Embraer and were thrilled to be involved in this amazing project," says John Griffin, Managing Director of AkzoNobel's Aerospace Coatings business. "We pride ourselves on supplying fit-for-purpose, long-lasting color performance and protection. The new animal designs are a fantastic example of this expertise."

As well as developing the colors and supplying all the products needed to create the striking airline art, our industry-leading base coat/clear coat system was also painted onto the exterior of the four jets.

alumiGRiP

aeroDUR

watch video

"This project was a huge challenge for us and the quality of the paints was key to achieving the results we wanted"

Rodrigo Silva e Souza,
Marketing Vice-President, Embraer

Artist Clodoaldo Quintana pictured in front of his shark design, which took around ten days to complete.

The eye-catching artworks were created with aerospace coatings from our Alumigrip and Aerodur product ranges.

Photography © Embraer


E2
E2


305
© Photo: Yelena Sergienko

TAKING INNOVATION TO ANOTHER DIMENSION

Think paint is just paint? Think again. Our products can already clean the air, withstand extreme heat, reduce fuel consumption and cope with conditions on Mars. Now we're going even further.

watch video

We've embarked on a boundary-busting quest to find the newest, coolest, smartest and most revolutionary developments out there. We want to work with visionaries, entrepreneurs and innovators. Why? Because we're ready to stir things up. We want to combine our global scale, know-how and expertise with the ingenious solutions of startups and scale-ups across the planet.

So we've launched the Paint the Future startup challenge. It's designed to connect us with new disruptive technologies and accelerate innovation in the dynamic world of paints and coatings. It will turn exciting potential into brilliant reality.

"Our passion for paint and innovation goes way back and we're even more excited about the future," says AkzoNobel CEO, Thierry Vanlancker. "We want to capture the creative genius that flows from open innovation and paint the future together."

The challenge is being led by the company's Chief Technology Officer, Klaas Kruithof. "As a technology-driven paints and coatings company, we're full of knowledge, know-how and resources that we're ready to share," he explains. "We have a clear view of what our customers will need and expect in the future, so we're actively looking to collaborate with forward-thinking partners and take our innovation in all areas to another dimension. The future's a blank canvas – this is an exciting opportunity to help us paint it."

Launched in partnership with KPMG, the annual challenge will give the winners the chance to enter into a joint development agreement with AkzoNobel. It's focused on five key areas:

- **SMART APPLICATION**
- **ENHANCED FUNCTIONALITY**
- **CIRCULAR SOLUTIONS**
- **LIFE SCIENCE INFUSION**
- **PREDICTABLE PERFORMANCE**

Open to early stage tech companies and institutes around the world, the collaborative approach will benefit both sides, with the company committed to working with the winners on sustainable business opportunities.

The finalists will be invited to attend a special awards event in May 2019, when the winners will be announced.

For more information, visit **www.letspaintthefuture.com**

PAINT THE FUTURE


TUE 12:30 PM

STRATEGIC PERFORMANCE

This section provides an overview of the progress we're making on our strategy and gives details about our value creation during 2018.

Taking color-matching to the next level

A new standard in quick and reliable advanced color-matching is available to vehicle bodyshops after we combined two of our most innovative tools into a single system.

We've hooked up our Automatchic hand-held spectrophotometer with our MIXIT digital color retrieval technology. Now known as Automatchic in MIXIT, the system creates a single, seamless workflow which allows customers to precisely identify any color from an ever-expanding database of more than two million.

It means customers can now measure and match color with superior accuracy even faster. Tailor-made to streamline operations, Automatchic in MIXIT's ability to improve both accuracy and speed helps to increase profitability and throughput, while reducing waste.

www.colorvation.com

OUR STRATEGY

OUR WINNING TOGETHER: 15 BY 20 STRATEGY

We're now a focused paints and coatings company with strong global brands, leading market positions and a balanced geographic exposure across all regions, with 50% of revenue from emerging markets. Our ambition is to be the reference in paints and coatings. We're building our future on solid foundations – our long and proud heritage of more than 200 years, our core principles and our values. Our success will be driven by our passion for paint, our precise processes, our powerful performance and our proud people.

Our Winning together: 15 by 20 strategy is driving a major transformation to accelerate growth and profitability. We're adopting a laser sharp focus to deliver 15% return on sales1 (ROS) and more than 25% return on investment[2] (ROI) by 2020. We're creating a fit-for-purpose organization with clearer customer focus, continued cost discipline, and a performance-driven culture with simplified ways of working. All our businesses and functions are working together to achieve our ambition. We're reigniting our passion for making and selling paint by gaining a deeper understanding of our customers' needs and stepping up our innovation to develop more sustainable products and solutions in the most efficient way.

MORE EFFICIENT AND STREAMLINED ORGANIZATION

Our new organization structure is designed to drive operational synergies and deliver standardization while leveraging expertise across the business. Since the beginning of 2018, we have a faster and more efficient way of working, with two clear focus areas – making and selling paint. Our commercial activities are organized into business units, reporting to the Chief Operating Officer. Meanwhile, all our supply chain activities are led by the Chief Supply Chain Officer. The commercial organization is focused on our customers and leverages product development across our businesses. For the first time, the sales and marketing teams from all business units are aligning their capabilities and processes. For example, rolling out standardized pricing methodology, sales force effectiveness initiatives, margin and portfolio management. Each business unit has a clear mandate to deliver on our 15 by 20 ambition.

The centralization of all supply chain activities – including manufacturing and procurement – into a single global Integrated Supply Chain organization (ISC), with dedicated experts, has been a major change which is already delivering improvements. We're leveraging scale and expertise across our business units, as well as accelerating continuous improvement through our AkzoNobel Leading Performance System (known as ALPS).

[1] Excluding unallocated corporate center costs; assumes no significant market disruption.
[2] Excluding unallocated corporate center costs and invested capital; assumes no significant market disruption.

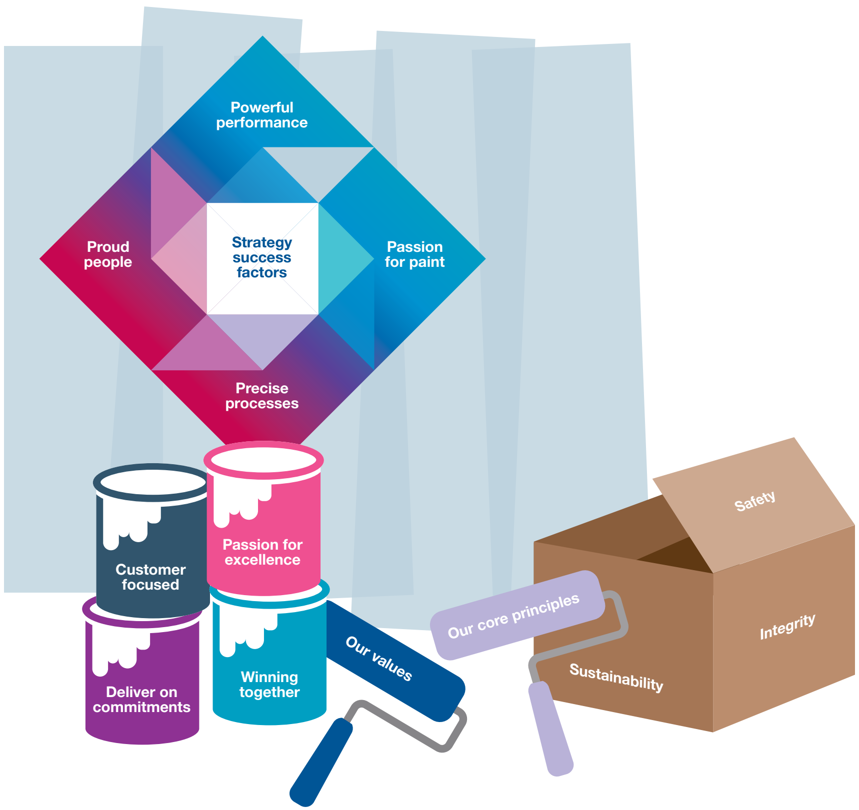
We can achieve faster standardization, drive improvement in safety, quality, service, cost and capital management as we continue to anticipate current and future needs.

SIMPLIFYING OUR PROCESSES

To ensure these organizations can efficiently collaborate, we're investing in precise processes, reliable information (master data) and aligned systems. Integrated Business Planning (IBP) helps to connect teams and drive delivery. IBP involves a formal monthly decision-making process led by senior management, with projections for portfolio, demand and supply, resulting in financial forecasts and a single operating plan. This common way of working is fundamental to our new operating model. We expect IBP to drive further efficiencies and enable the achievement of top quartile performance, including increased forecast accuracy, higher service levels and reduced inventories.

During 2018, we also put more focus on getting the waste out of our key end-to-end processes and using reliable, real-time information for decision-making. This will drive further efficiency, improve transparency and enable us to lower the cost of getting products to customers. The deployment of one common ERP (enterprise resource planning) system across all businesses is also in progress, enabling further cost savings and more powerful management of operations and performance.

Our Transformation Office is tracking all initiatives to ensure accountability of different teams to deliver on the cost savings and implement the new ways of working in the organization. In addition to the initiatives already mentioned, we will also achieve significant cost savings through innovation excellence, making our sales force more effective and by streamlining our support functions, for example by transferring some activities to Global Business Services.



We believe in fostering a trusted workforce with strong values, respect for our core principles and a winning mindset. We intend to accelerate opportunities for the talented people we have around the world. We're building a single, strong and diverse global team for a high performing paints and coatings company. In order to generate stronger collaboration, we're investing in dedicated, high performing team training throughout the company.

We also conduct regular employee surveys to measure our organizational health. This feedback enables us to take appropriate measures to improve engagement and ensure that team priorities are fully aligned with our Winning together: 15 by 20 strategy.

ACQUISITIONS AND INNOVATION CONTRIBUTING TO PROFITABLE GROWTH

Our strategy is to build on our existing position by focusing on our strong brands, leading market positions, customer intimacy and innovation capabilities. In addition to organic growth, we're targeting acquisitions to boost our presence in key markets, generate synergies and give us access to new technologies. The acquisitions we made in 2018 demonstrate the success of this strategy. We added Fabryo in Romania, Xylazel in Spain, Colourland Paints in Malaysia, four distributors in the UK (to enhance our network of Dulux Decorator Centres), and acquired the minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China, reinforcing our positions in all these key markets. We've developed a precise process to integrate our bolt-on acquisitions in an efficient and controlled manner.

CEO Thierry Vanlancker welcomed the local mayor and several other dignitaries to our metal coatings site in Columbus, Ohio, in the US in October when colleagues at the facility celebrated its 130th anniversary.

Our products and technologies already set the industry standard in many markets – and we continue to drive new developments that will keep us ahead of the competition. Our new innovation group is led by our Chief Technology Officer and brings together the combined know-how of experts who now work on one, unified innovation road map. This team includes the AkzoNobel Incubator, which looks for disruptive opportunities, businesses and/or services that go beyond what we do today.

Digital innovation is also a key component of our innovation portfolio. It involves the innovation team partnering with our businesses to develop new solutions closer to our customers' needs. For example, we use digital innovation to help make choosing the right color easy – from precise color-matching tools such as Automatchic Vision for auto bodyshops, to popular decorating apps like our hugely successful Visualizer, which lets you play (via augmented reality) with color ideas before applying any paint to the wall. Collaboration is the future of innovation, and the announcement of our Paint the Future startup challenge (see page 14) reflects this open, collaborative way of working – and winning – together, both inside and outside the company.

SUSTAINABILITY DRIVING BUSINESS SUCCESS

Sustainability is an integral part of our strategy. Over the last 15 years, our pragmatic approach to business sustainability has enabled us to differentiate ourselves from our competitors. Our commitment to generating more value from fewer resources – and turning environmental challenges and societal concerns into product innovations for customers – is helping to establish us as the reference in paints and coatings. Our value proposition for many stakeholders, including employees and business partners, has also been enhanced by making sustainability an explicit differentiator – part of the AkzoNobel brand. Our main focus areas are value selling and resource productivity.

We continue to develop business opportunities aligned with the most relevant UN Sustainable Development Goals (SDGs). Our agenda is built on core principles of sustainability, safety and integrity, including respect for human rights. We set sustainability targets that contribute to our ROS target, in line with our focus areas of resource productivity and value selling.
By prioritizing our innovation towards developing eco-performer and eco-premium solutions, we enhance our value proposition and give customers choice and competitive advantage through our sustainable product portfolios. We believe we can drive growth by understanding how to build a better business, with solutions for environmental and social needs, as outlined by the SDGs (see page 158).

DELIVERING ON OUR COMMITMENTS

In 2018, we showed that we deliver on our promises. We have created a focused paints and coatings company through the successful sale of our Specialty Chemicals business to The Carlyle Group and GIC. We have increased our regular dividend and confirmed we will return to shareholders the vast majority of the net proceeds from the sale of the Specialty Chemicals business. Our cost discipline has delivered significant savings, while pricing initiatives are in place to compensate for challenges including significant raw material headwinds.
By creating a high performing, customer-focused organization, with a clear commitment to deliver on our Winning together: 15 by 20 strategy, we intend to accelerate our growth momentum and enhance profitability. We are committed to increasing returns to shareholders while investing in innovation, sustainable solutions, organic growth and bolt-on acquisitions, creating long-term value for all our stakeholders and becoming the reference in paints and coatings.

Our Dulux Decorator Centres in the UK won the top prize for Customer Service at the 2018 British Coatings Federation Awards. The award recognizes the growing importance of customer service as a differentiator in the industry.

GIVING COATINGS SUPERPOWERS

The future of fouling prevention has never really had a place in the pages of science fiction. Which is interesting, because we're working on an exciting innovation which is on the verge of becoming science fact – and wouldn't look out of place in certain comic book adventures.

Since early 2018, we've been developing revolutionary technology designed to eliminate fouling growth from the underwater surface of ocean-going vessels. The secret weapon? Ultraviolet light-emitting diodes (UV-LEDs).

The pioneering solution obtains its superpowers by combining our cutting-edge surface protection and adhesion know-how with underlying technology developed by Royal Philips. The intention is to integrate UV-LEDs in a protective coating and laminate scheme which will allow for UV light to be emitted from the vessel's surface – providing total prevention of biofouling accumulation on the surface of the protected area.


Photography © Rafal Konkolewski

Recent sea trials have produced impressive results, and with stage two vessel trials already underway, the project is on course to deliver a first commercially viable solution by around 2023.

The implications are huge, because biocidal-free total control of biofouling would represent a substantial economic and environmental benefit for ship owners and operators – not to mention the positive impact on our planet. All of which are inherent in our sustainable approach to doing business.

"This is an exciting project which is fully aligned with our continuous focus on innovation," explains Klaas Kruithof, AkzoNobel's Chief Technology Officer. "Combining our capabilities with Royal Philips' technology will enable us to accelerate the realization of this transformative innovation, which has the potential to completely revolutionize the fouling control industry."

Initially, the focus will be on applications for ships, yachts and offshore assets, but the project will be extended to include other surfaces and areas challenged by biofouling issues. More partners will also be joining to add essential capabilities and accelerate the development.

HOW WE CREATED VALUE IN 2018

By bringing more value to our customers, investors, employees and society in general, we can better position ourselves for growth while accelerating profitability.

Summary of financial outcomes

In € millions	2017	2018	Δ%
Revenue	9,612	9,256	(4)
Adjusted operating income	905	798	(12)
Operating income	825	605	(27)
ROS%[1]	9.4	8.6	
ROS%, excluding unallocated costs	10.6	10.6	
OPI margin %	8.6	6.5	
Average invested capital	6,494	6,340	
ROI%[2]	13.9	12.6	
Capital expenditures	250	160	(36)
Net debt	1,951	(5,861)	
Number of employees	35,700	34,500	(3)
Net income from continuing operations	439	410	(7)
Net income from discontinued operations	393	6,264	
Net income attributable to shareholders	832	6,674	
Earnings per share from total operations (in €)	3.31	26.19	
Adjusted earnings per share from continuing operations (in €)[3]	2.35	1.91	(19)
Adjusted earnings per share from total operations (in €)[3]	4.06	3.78	(7)
Net cash from operating activities	278	162	(42)

[1] ROS% = Adjusted operating income/revenue.
[2] ROI% = 12 months adjusted operating income/12 months average invested capital.
[3] Represented for the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges.

ECONOMIC VALUE

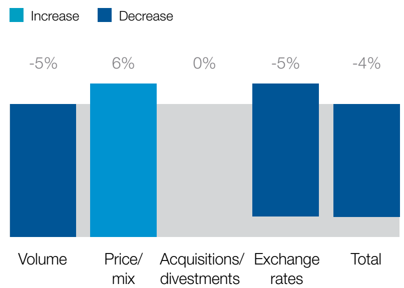
Financial overview

Revenue was 4% lower, although up 1% in constant currencies, with positive price/mix partly offset by lower volumes. Adjusted operating income of €798 million (2017: €905 million) was impacted by adverse currencies, higher raw material costs and lower volumes, not yet fully offset by positive price/mix and cost savings. Operating income was €605 million (2017: €825 million) and includes the adverse impact of identified items of €193 million (mainly related to transformation costs of €130 million) and one-off non-cash pension costs (€57 million). ROS excluding unallocated costs was 10.6% (2017: 10.6%). ROS was at 8.6% (2017: 9.4%) and ROI at 12.6% (2017: 13.9%).

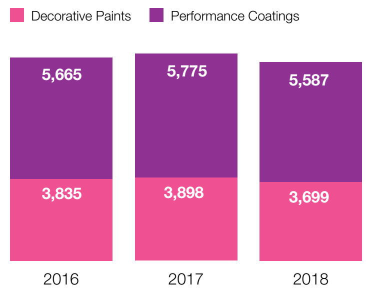
Revenue

Revenue was 4% lower, although up 1% in constant currencies. Volumes were 5% lower versus an exceptionally strong last year in China and driven by our value over volume strategy.

Revenue development in % versus 2017

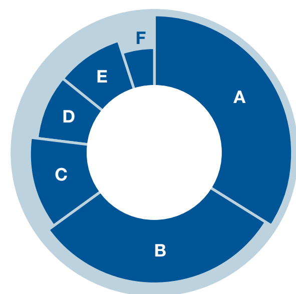


Revenue in € millions



Revenue by destination in %

A Mature Europe	34
B Asia Pacific	31
C North America	12
D South America	9
E Emerging Europe	9
F Other regions	5



- In Decorative Paints, revenue was up 1% in constant currencies. Price/mix was 4% positive. Pricing initiatives offset lower volumes
- In Performance Coatings, revenue was up 1% in constant currencies. Price/mix effect was 7% positive, while volumes were lower

Acquisitions

- The acquisitions of Xylazel in Spain and Doves Decorating Supplies in the UK were completed in September 2018
- The acquisition of Fabryo Corporation S.R.L., was completed on October 1, 2018
- The acquisition of Colourland Paints Sdn Bhd and Colourland Paints (Marketing) Sdn Bhd in Malaysia was completed in November 2018
- The acquisition of the minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China was completed in December 2018

Raw material price development

Raw material prices in 2018 were higher compared with the previous year. Robust pricing initiatives continue being implemented to deal with these higher raw material costs. In the latter part of the year, inflation continued, although at a slower rate than during the start of the year.

Adjusted operating income

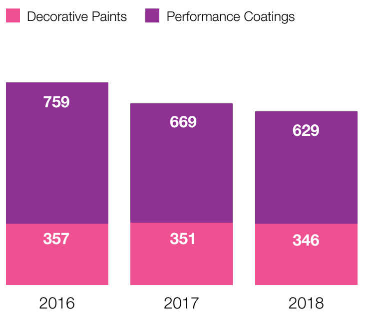
Adjusted operating income at €798 million (2017: €905 million), was impacted by adverse currencies, higher raw material costs and lower volumes, partly compensated by pricing initiatives. Savings from continuous improvement were €165 million, while creating a fit-for-purpose organization fully delivered on the €110 million planned for 2018.

- Decorative Paints was impacted by higher raw material costs and adverse currency effects, partly compensated by higher selling prices and cost savings. ROS was 9.4% (2017: 9.0%)
- Performance Coatings was also impacted by foreign currencies and higher raw material costs, as well as lower volumes. ROS was 11.3% (2017: 11.6%)
- Other activities/eliminations decreased by €62 million. 2017 was impacted by one-off items as well as lower pension and insurance related costs

Operating income

Operating income was negatively impacted by identified items totaling €193 million, mainly related to restructuring costs for the transformation of the Paints and Coatings organization (€130 million)

Adjusted operating income in € millions

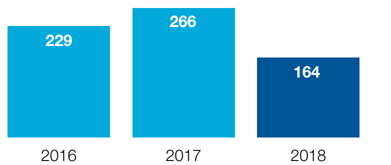


and a one-off non-cash pension cost (€57 million) for the Guaranteed Minimum Pensions equalization regulations, based on a UK precedent set in October 2018.

Net financing income and expenses

Net financing expenses decreased by €26 million, mainly due to a one-off interest benefit on a tax settlement and a lower interest on discounted provisions driven by discount rate developments.

Income tax paid in € millions



Income tax

The effective tax rate decreased to 20.6% (2017: 33.1%), mainly as a result of a re-recognition of certain deferred tax assets and a tax settlement. Excluding these, the 2018 effective tax rate was 28%.

Cash flows and net debt

Operating activities in 2018 resulted in an inflow of €162 million (2017: €278 million). This was mainly caused by lower profitability and related non-cash items, as well as higher working capital, partly offset by lower payments from provisions.

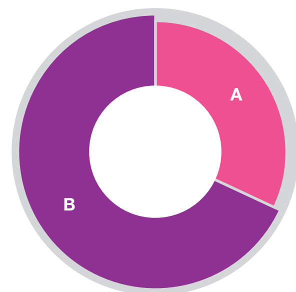
Investing activities resulted in an outflow of €5,668 million, mainly driven by investment of the cash proceeds from the sale of the Specialty Chemicals business in short-term investments.

At December 31, 2018, net debt was € 5,861 million negative versus €1,951 million positive at year-end 2017. The decrease was mainly driven by the receipt of the cash proceeds from the sale of the Specialty Chemicals business.

Invested capital

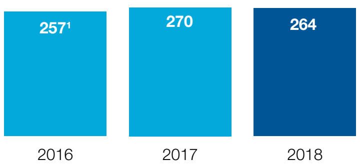
Invested capital of continuing operations at December 31, 2018, totaled €6.2 billion, up €0.2 billion from year-end 2017. Operating working capital as percentage of revenue increased to 12.3% at year-end 2018 (2017: 10.2%), mainly due to higher trade receivables and increased inventories, driven by higher raw material costs.

Allocation of 2018 capital expenditures of €160 million
(1.7% of revenue)



A Decorative Paints	50
B Performance Coatings	106

Innovation investments
research and development expenses
in € millions



[1] 2016 is represented to present the Specialty Chemicals business as discontinued operations.

Innovation

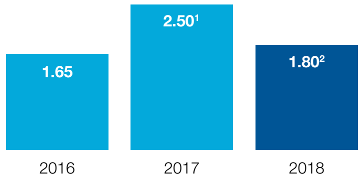
We continue to invest in research, development and innovation to help us fulfill future customer needs and fuel our targeted growth in revenue share of eco-premium solutions with customer benefits.

Eco-premium solutions

We achieved 22% of total sales from eco-premium solutions with customer benefits, ahead of our 2020 target of 20%. 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 in €

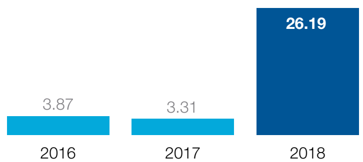


[1] Excludes special cash dividend of €4.00 per share paid as advance proceeds related to the separation of Specialty Chemicals.
[2] Proposed.

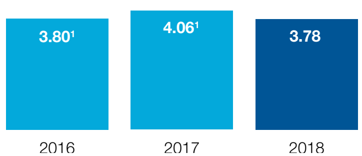
Dividend

Our dividend policy is to pay a stable to rising dividend. In 2018, an interim dividend of €0.37 per share (2017: €0.56) was paid.

Earnings per share total operations
in €



Adjusted earnings per share in €



[1] Represented for the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges.

In line with our announcement on April 19, 2017, we intend to return 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 will distribute €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 is due to be completed at the end of 2019. We intend to cancel these shares after repurchase.

We propose a 2018 final dividend of €1.43 per share (post consolidation), which would equal a total 2018 dividend of €1.80 (2017: €2.50, including €0.85 related to the Specialty Chemicals business) per share.

Outlook

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

Demand trends differ per region and segment in an uncertain macro-economic environment. Raw material inflation is projected to continue during the first half of 2019, although at a lower rate than 2018. Robust pricing initiatives and cost-saving programs are in place to address the current challenges.

We are continuing with our transformation to deliver the next €200 million cost savings by 2020, incurring one-off costs in 2019 and 2020.

We target a leverage ratio of between 1.0-2.0 times net debt/EBITDA by the end of 2020 and commit to retain a strong investment grade credit rating.

ENVIRONMENTAL VALUE

We manage the environmental impact of our sites through our Resource Productivity program. We focus on three key indicators – waste, energy and VOC emissions – for which targets are in place.

Waste

Effective raw material management helps to eliminate waste in our manufacturing operations, while reducing both our environmental footprint and costs. Our target is to drive towards "zero waste to landfill", with our first priority being to eliminate hazardous waste to landfill.

Total waste volume and waste per ton of production generated were down by 12% and 8% respectively in 2018, which meets the reduction target of 5% per ton of production from 2017. Hazardous waste per ton of production decreased by 6%.

For more details, see Note 3 of the Sustainability statements.

Energy and greenhouse gas emissions

In 2018, energy use per ton of production remained flat, while absolute energy consumption was down 3% compared with last year. Our total share of renewable energy was 31%.

Electricity consumption and fuel for heating are the main drivers for greenhouse gas (GHG) emissions from our facilities. GHG emissions per ton of product increased 1%, with absolute emissions decreasing 4%.

For more details, see Note 3 of the Sustainability statements.

VOC emissions

Most of the air emissions generated from our operations are volatile organic compounds (VOC). We aim to reduce emissions through product design, good management practices, and environmental controls at our sites.

VOC emissions per ton of product and our total VOC emissions decreased by 4% and 8% respectively.

For more details, see Note 3 of the Sustainability statements.

Cradle-to-grave carbon footprint

As a focused paints and coatings company, more than 98% of our emissions come from our suppliers and customers. Applying the principles of circular economy across the value chain will be our biggest contributor to the Paris climate agreement. We continue to work with suppliers so we can 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 reduce their emissions and material use.

Our value chain emissions were 5% lower than in 2017.

For more details, see Note 5 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 2018, our organizational health score was 58. The outcomes of the survey are reflected in action plans. We aim to be in the top quartile in 2020 (currently 77).

At year-end 2018, the number of employees decreased by 3% to 34,500 people (year-end 2017: 35,700 people).

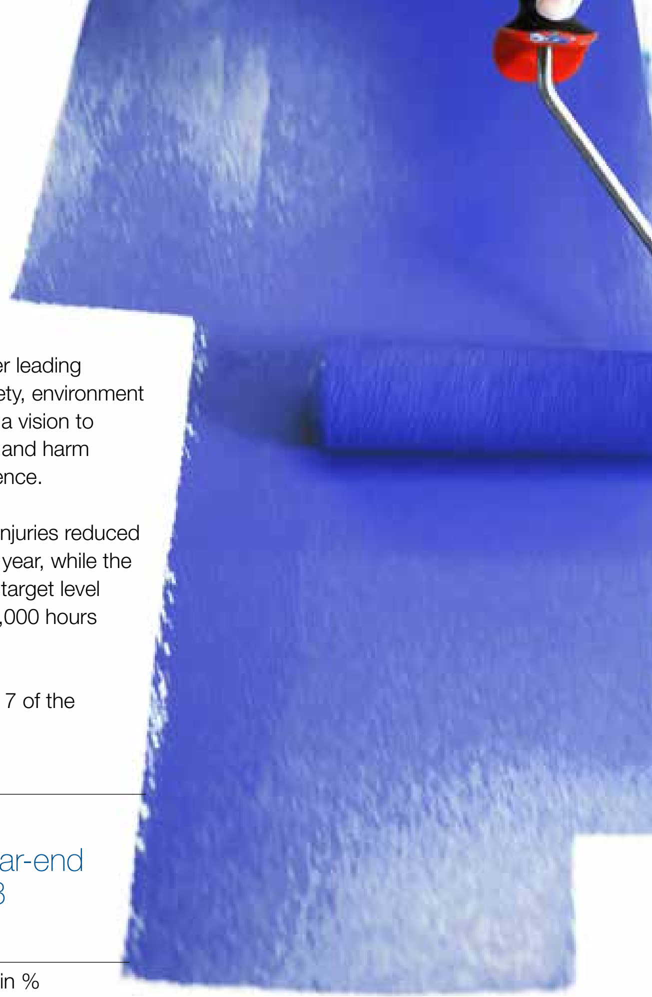
For more details, see Note 6 of the Consolidated financial statements.

Safety

AkzoNobel strives to deliver leading performance in health, safety, environment and security (HSE&S) with a vision to deliver zero injuries, waste and harm through operational excellence.

The number of reportable injuries reduced by 5% compared with last year, while the injury rate is already at the target level set for 2020 (0.20 per 200,000 hours worked).

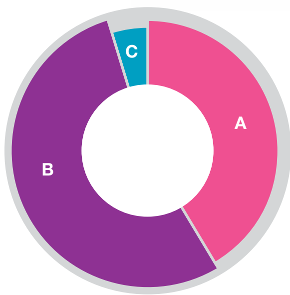
For more details, see Note 7 of the Sustainability statements.



Employees

34,500 at year-end 2018

Employees by segment in %
at December 31, 2018

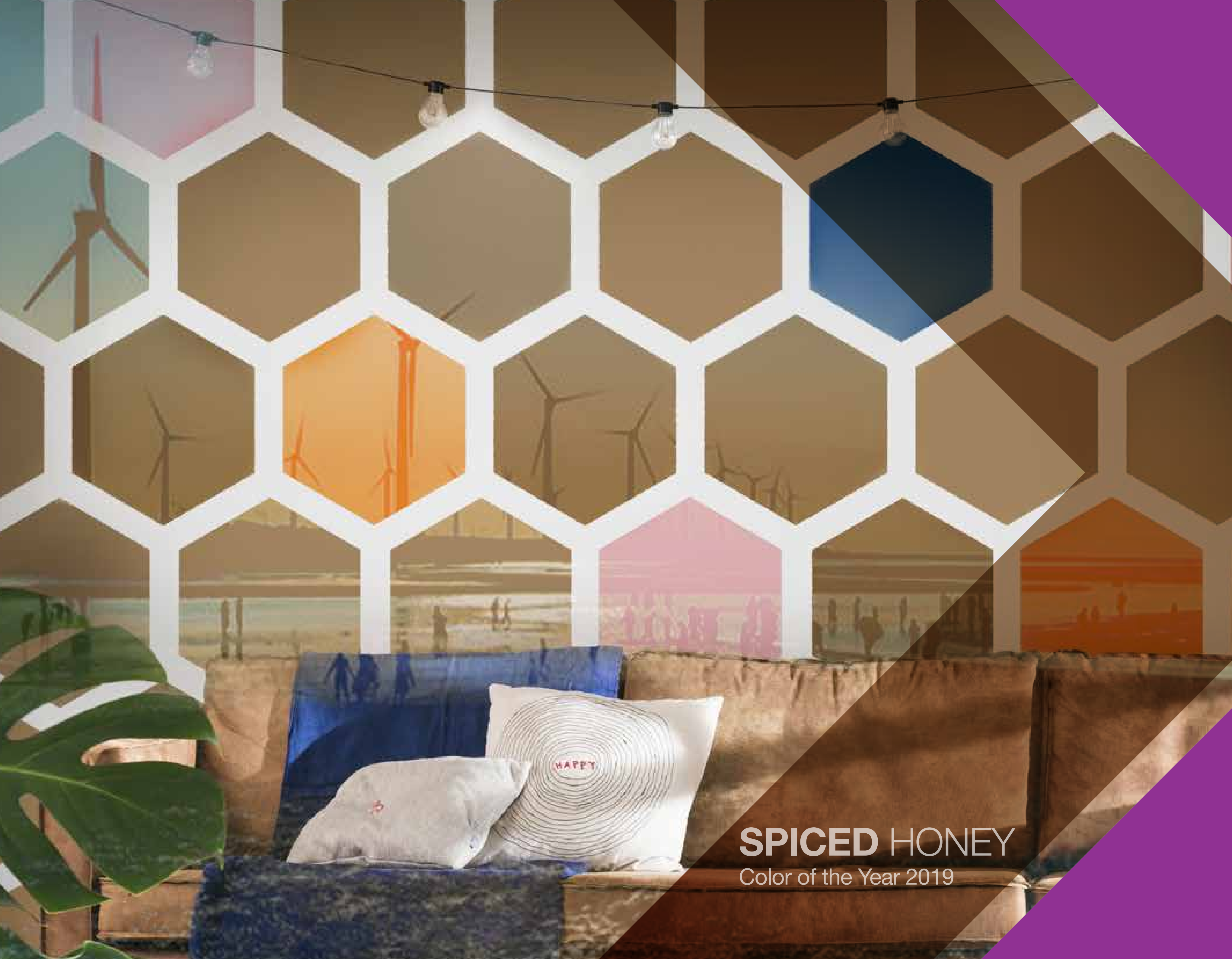


A Decorative Paints	14,300
B Performance Coatings	18,600
C Other	1,600

Programs

During 2018, we carried out 49 Community Program projects and 65 "Let's Colour" projects.

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


SPICED HONEY
Color of the Year 2019

BUSINESS PERFORMANCE

This section provides information about our business segments and how they performed during 2018.

Embracing the sweet life

Spiced Honey was unveiled as our Color of the Year for 2019. The shade was selected following expert research into global trends, insights and consumer behavior.

It's a versatile and contemporary choice, complementing a wide variety of lifestyle and interior design preferences. It also expresses the new sense of optimism felt throughout the global trend research which was carried out.

The warm amber tone is being marketed under well-known decorative paints brands such as Dulux, Coral, Levis and Flexa. Some of our Coatings businesses also adapt the trend research for their own markets.

www.akzonobel.com/en/colourfutures

REVIEW OF THE YEAR by COO Ruud Joosten

Our transformation into a focused paints and coatings company is what really defined 2018 for AkzoNobel. It was a landmark year which gave us more clarity and enabled us to direct all our attention towards our customers in the paints and coatings market.

2018 proved to be a tough year for the whole industry. However, we remained committed to growing the business and improving our performance. So we were quick and decisive in responding to raw material price pressure and made a series of bolt-on acquisitions that proved we're serious about getting ourselves fighting fit for long-term success. Yes, we need to improve profitability – which is what our Winning together: 15 by 20 strategy is primarily about – but we also need to look beyond that.

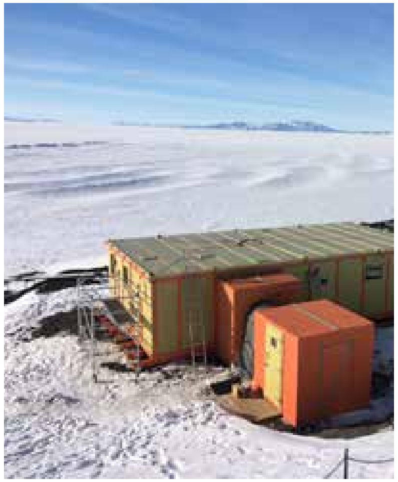
The bolt-on acquisitions we made in 2018 sent a clear signal that we're building, we're growing and we're making good progress. The Fabryo deal makes us a leader for decorative paints in Romania, while acquiring Xylazel increased our presence in Spain's decorative paints market. We were also delighted to acquire the minority interest share and obtain full ownership of the AkzoNobel Swire Paints joint venture in China, as well as purchasing Colourland Paints in Malaysia. Both these deals help to increase our footprint in Asia.

While we had one eye on the future, we also needed to quickly respond to the challenging trading conditions. Raw material prices in particular hit us hard across the board. It's something the entire industry had to deal with. Our response to these challenges was swift, with extensive pricing initiatives being introduced. It made an important difference. When combined with various cost-saving measures, we were able to offset a large part of the headwinds we encountered.

We couldn't compensate entirely, though, due to the turbulent nature of the global economy, including changing dynamics in China, where the building industry was hit by less government investment. South America also proved difficult, due to turbulent economic and political issues. Things were better in North America – where our Coatings activities had a successful year – while Europe was more of a mixed bag.

One of our best performing businesses was Powder Coatings, which continued to do very well and had another excellent year. Aerospace Coatings also put in a

Explorer Sir Edmund Hillary's historic Antarctic hut was restored during 2018 thanks to a successful fundraising campaign and the application of coatings donated by AkzoNobel. A specialist team from the Antarctic Heritage Trust spent three months renovating the famous landmark, which contains hundreds of precious artifacts. Exterior work included building a new aluminum roof over the existing leaky one. The metal is coated with a special topcoat batch of our Polydure coil coatings.



strong performance for 2018, due to a combination of the growing popularity of our market-leading two-coat system and the high levels of service we offer our customers. The results of our Marine business also started to improve in the second half of the year due to the pricing initiatives we introduced and various cost-saving measures. We're starting to see the first signs of an upturn in the cycle – with faster recovery expected in oil and gas – although we won't see the benefits for a while.

There were also several other important developments during the year. In the UK, we acquired four businesses to enhance our network of Dulux Decorator Centres and further improve the service and support we offer our trade customers. The deals involved the purchase of Whites Trade Paints, Cambrian Decorators Supplies, Doves Decorating Supplies, and Trade Paints. It took our total number of stores in the UK to 229, a 20% increase compared with 2017. In China, production started at our new powder coatings plant in Changzhou – one of the largest facilities of its kind in the world. We also opened a newly-constructed mega-warehouse in Texas in the US, which will serve as a central regional hub for our Marine and Protective Coatings business.

In 2018, we continued to set the standard in sustainability and are well positioned to benefit from current and future opportunities. Sustainability is a key value driver. As one of our core principles, it adds purpose and meaning to what we do and our customers appreciate it. Our marketing decisions also continue to be guided by insights into local needs. This has enabled us to position our solutions and the benefits they offer, such as accelerating green building, making shipping more sustainable and improving air quality. In China specifically, the rapid growth of low VOC products contributed to increased eco-premium revenue in the region. Meanwhile, total revenue of eco-premium solutions amounted to 22% of overall revenue, ahead of our target of 20%.

> "We're building, we're growing and making good progress"

Our societal involvement is a key part of our sustainability agenda, so it was encouraging to see our global "Let's Colour" program continue to gather momentum. A particular highlight was an exciting project in Kuşadası, Turkey, which involved repainting 400 homes and transforming the lives of 2,000 people (find out more on page 10).

Towards the end of the year, we announced our Paint the Future startup challenge. This is an amazing opportunity for us to work with innovators and visionaries who dare to be different. As a global leader, we're taking the initiative to co-create customer-focused innovation which has a clear eye on the future, while recognizing that we can't do it all alone. We can't wait to see what develops as a result (read more on page 14).

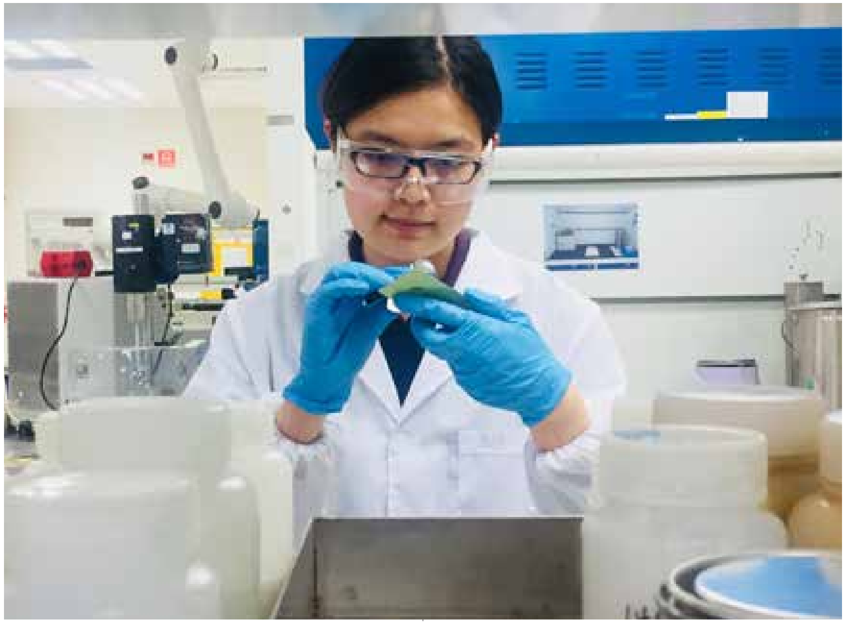
Throughout the year, our employees have shown immense pride in what they do and displayed an infectious passion for paint. It's this energy and commitment which will propel us forward as we continue to build a leading paints and coatings company which delivers for all our stakeholders.

INNOVATION SPRINGS FROM TECHNOLOGY CENTERS IN ASIA

When it comes to innovation, our Asian technology centers are hotbeds of invention and creativity. Located in Shanghai, China, and Bangalore, India, they're bursting with exciting product developments, helping us lead in our paints and coatings markets with boundary-pushing know-how and expertise.

Serving the growing demand from customers for integrated and tailor-made solutions in Asia and around the world, these centers are equipped with a full array of state-of-the-art material analysis and performance testing facilities.

The Shanghai Technology Center is one of our major hubs, and a driving force in building our company's innovation capabilities. Its various labs help us deliver quality products to our customers. In line with China's environmental protection regulations, it focuses on eco-premium solutions, such as water-based and powder coatings products.



Colleagues at our Asian technology centers take great pride in developing products that demonstrate our passion for paint and create value for customers.

A great example is Forest Breath, which was developed by our decorative paints lab. It's a formaldehyde-free, low emission indoor paint which helps clean the air inside homes and protects against germs. Since the product's initial launch in 2016, we've seen competitors trying to replicate our success. But we're staying well ahead, and have now raised the level of air quality we can achieve.

That significant improvement in performance means our current products have been upgraded to pass the internationally-recognized GREENGUARD Gold Class and French A+ Class emission certifications – and our customers can continue improving their indoor environments.

Meanwhile, our Bangalore Technology Center has grown significantly since first opening in 2002. It now includes a whole suite of product and service development areas, working mainly on color and achieving the perfect color match.

The facility houses central color teams for all our coatings businesses – so our experts in Bangalore are working for customers across many industries. The color lab is truly unique, developing hundreds of thousands of colors, all in one location.

Achievements at the site include introducing universal colorants for our Marine and Protective Coatings business; formulating coatings for consumer electronics using a tool we developed in our lab; and even using artificial intelligence to create new color formulas.

That's just a small taste of what's happening at our technology hubs in Asia. All geared towards discovering new opportunities and creating value for our customers.

KEY BUSINESS DEVELOPMENTS

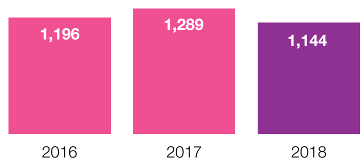
DECORATIVE PAINTS ASIA

- Revenue and volumes were lower in China and North Asia, with strong cost control unable to offset the impact of the slowdown in China's paints market
- South East and South Asia continued to increase revenue, despite the challenging political and economic landscape. Most markets performed well, although Indonesia was impacted by a change of distributor
- Acquired the minority interest share to obtain full ownership of the AkzoNobel Swire Paints joint venture in China. We now have greater control and are well positioned for future growth in the Chinese market
- Acquired Colourland Paints in Malaysia, underlining our commitment to growing in the country and throughout the region
- Dulux Weathershield and Dulux EasyClean were relaunched in several markets, offering enhanced functionality with a new and improved formula
- Launched Dulux Promise in Pakistan, our first entry into the country's mass market paints segment
- In China, an integrated campaign was developed to support the launch of Dulux Forest Breath BioCare. We also launched a BioCare primer to enrich our bio-based product lines
- Our ultra-protective Dulux Weathershield paint was used on the famous Dai Lanh lighthouse in Vietnam, which is more than 100 years old

The winners of our seventh China Student Sustainability Awards were announced in November 2018. The annual event recognizes excellent contributions made by university students to local communities and society at large. In total, 309 entries were submitted by 297 student societies from 130 universities across 55 cities.

- Through our Dulux Easy Paint Service, we cooperated with the China National Institute of Standardization to introduce even higher standards for our corporate repainting service and drive service operation excellence
- Piloted a new concept store in Shanghai, China, to enhance the in-store experience for customers and drive conversion
- Our Dulux and Dulux Professional range of products were accredited with the prestigious GreenPro Certification by the Confederation of Indian Industry
- As part of our global "Let's Colour" initiative, we added Pakistan, China and Indonesia to the list of countries involved in our partnership with SOS Children's Villages

Revenue in € millions



Key brands

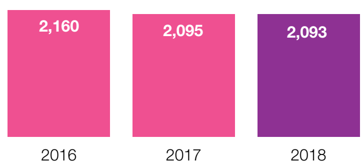
Dulux 多乐士 Glidden

DECORATIVE PAINTS EUROPE, MIDDLE EAST AND AFRICA

- Achieved strong profit growth, despite higher raw material costs. Also saw a significant improvement in return on sales
- Maintained strong market position in Europe and Africa
- Results were impacted by uncertainty in the UK economy due to Brexit and currency fluctuations, such as the weakening of the Turkish lira
- Acquired Fabryo in Romania and Xylazel in Spain
- Expanded our network of Dulux Decorator Centres in the UK and our Sikkens Center franchise network in the Netherlands
- The environmental footprint of our formulations was reduced in virtually all countries, supported by the launch of new water-based products and programs to convert users to these products
- New paint range launched by Sadolin in Uganda, while our successful EasyCare washable wall paints concept was further rolled out
- Launched a program across the region to further optimize the color accuracy of our in-store tinting system
- Celebrated 25 years of Community RePaint in the UK, an initiative which makes use of left-over paint and redistributes it to communities, charities and people in need
- Continued our partnership with SOS Children's Villages, which included activities in Russia, Nigeria, South Africa and Belgium. It involved helping to refurbish villages and provide training in painting and sales skills

Some of our customers
- Bricomarché
- Kingfisher
- Leroy Merlin
- OBI

Revenue in € millions

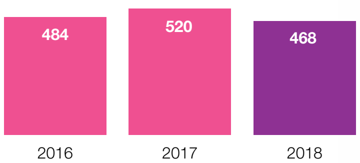


Key brands

DECORATIVE PAINTS SOUTH AMERICA

- Strong pricing initiatives helped offset raw material inflation and currency devaluation. Product mix was also positive, driven by commercial and product innovation
- Brazil delivered volume growth in premium wall paints for the second year in a row, while market segment contracted
- Commercial initiatives continued driving the topline. In Brazil, distributors reached an additional 4,000 stores and category management drove shopping experience improvement in more than 200 stores
- Successful launch of our roller tester in Brazil, the first market outside Europe to introduce the product. Coral Teste Fácil is available in 240 different colors, with more than 700 points of sale being activated and about 600,000 units sold
- Brazil's Coral brand introduced Renova as a new premium wall paint range, inspired by the Dulux Valentine Crème de Couleur range in France. Both products are designed to help consumers make confident color choices and transform their homes with ease
- "Balance technology" concept roll-out drove conversion to water-based trim and woodcare products across the region, representing savings of 14,000 tons of CO_2 from the atmosphere
- In Argentina, our Cetol woodcare brand sponsored the book Extreme Wood, which brings together 32 Argentine studies of wood in architecture protected against extreme weather by Cetol and sustainable balance technology
- Our wastewater treatment plant in Mauá, Brazil (inaugurated in 2017), is already reusing 50% water, and aims to reuse 100% water by 2020
- Supported the Mais Vida nos Morros initiative in Recife through local "Let's Colour" initiatives. About 20,000 liters of donated paint transformed the homes and communities of around 200 families in Beberibe, Sitio São Brás and Vasco da Gama

Revenue in € millions



Key brands

Alba, Coral, Inca, Cetol, Hammerite, Sparlack

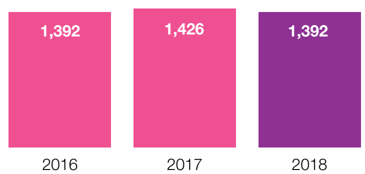
AUTOMOTIVE AND SPECIALTY COATINGS

- Strong performance, despite higher raw material prices, with positive price/mix more than offsetting lower volumes
- Solidified our leading position in aerospace with several key customer wins
- Successfully launched a new e-commerce platform in the US for vehicle refinishes, including the introduction of our bespoke Modern Classikk range
- Celebrated the 160th birthday of our Lesonal premium vehicle refinishes brand. Also successfully launched the Wanda vehicle refinishes range in several new European markets, and Wanda's sustainable product range in our China and Asian markets
- A new digital color matching tool was launched, combining our Automatchic hand-held spectrophotometer and MIXIT digital color retrieval system
- Continued our long-standing partnership with McLaren, developing the stunning Papaya Spark color used on their Formula 1 racing cars
- Received the Best Performer award from Airbus, recognizing our value as supplier and partner of choice
- Bodyshops around the world started adopting Carbeat, which enables the next level of digital transformation in vehicle refinishes
- Launched Intura, our newest range of aircraft cabin coatings
- Marked the 50th anniversary of our Alumigrip aerospace coatings brand
- Successfully developed an imitation glass and gradient coating solution for consumer electronics customers
- Shared our aerospace customers' passion for paint on unique liveries and designs, including special aircraft to celebrate the 100th anniversary of Iceland's independence and sovereignty
- Proudly supplied aerospace coatings to the Mirpuri Foundation and Hi Fly for their latest high profile aircraft, campaigning to save the world's coral reefs

Some of our customers

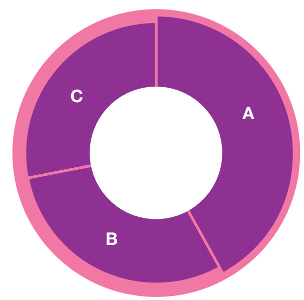
- Airbus
- Allianz
- BBG
- Boeing
- Dell
- General Motors
- Gold Coast Marine
- HP
- KMC/HMC
- Leonardo
- Plastic Omnium
- Samsung

Revenue in € millions



Key brands

Geo-mix revenue by destination in %



A EMEA	42
B Americas	30
C Asia Pacific	28

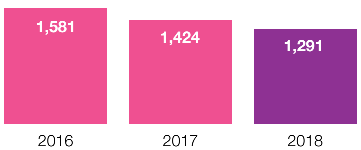
MARINE AND PROTECTIVE COATINGS

- Improved our profitability levels – despite higher raw material costs – through portfolio simplification, a keen focus on selling prices and cost savings
- Slowdown in new build activity in the marine sector continued, despite a recovery in contracts for some vessel types
- Positive trends and increasing market activity indicate a return of opportunities in oil and gas, albeit slowly
- Completed the construction of a new €12 million complex in Felling, UK, which will offer world-leading testing and laboratory facilities when it opens in 2019
- A major highlight was the Volvo Ocean Race. Every boat in the race was protected with our products, bringing us closer to our customers and providing a global stage to showcase the performance of our key brands
- Our Awlgrip Quick Build range – launched in North America and Europe – is driving significant productivity benefits for boat builders. It also won the Innovation award for Boat Care and Maintenance at the 2018 International Boatbuilders' Exhibition and Conference (IBEX)
- Extended our long-standing relationship with shipping giant Nakilat, agreeing to the continued supply of Intersleek 1100SR biocide-free foul release coating to their fleet
- Continued our focus on sustainable shipping by launching new products to help customers meet increased VOC regulations in China. Also continued our partnership with The Ocean Cleanup
- Our technology leadership in passive fire protection continues. Chartek 2218 has been used to protect oil and gas assets located in harsh Arctic conditions
- Interchar 3120 was launched to deliver epoxy fire protection with a step-change in aesthetics for the infrastructure market
- Introduced several new concrete protection and repair products to International's Intercrete range, through the integration of the Flexcrete Technologies Ltd business acquired in 2017

Some of our customers

- Bechtel
- Brunswick
- ExxonMobil
- Feadship
- Florakis
- GE
- Hapag Lloyd
- Hyundai Heavy Industries
- Lürssen
- Pinmar
- Rio Tinto
- Sandvik
- Shell
- Siemens
- Teekey

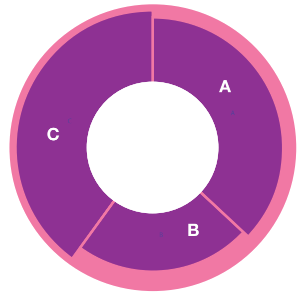
Revenue in € millions



Key brands

International
AWLGRIP

Geo-mix revenue by destination in %



A EMEA	37
B Americas	23
C Asia Pacific	40

INDUSTRIAL COATINGS

- Revenue growth was driven by successfully focusing on increasing prices globally across all segments
- Strong adoption of our new generation BPANI (BPA non-intent) coatings for beer and beverage metal packaging, providing customers with more sustainable and innovative products
- Further integrated the Industrial Coatings business acquired from BASF into our activities. The deal was completed at the end of 2016
- Introduced intelliCURE system of software and machinery, creating a single solution for manufacturers of glued wooden parts
- Launched PurTone, a “no-wipe” stain system which allows a significant reduction in manual labor in the industrial cabinet and furniture industry
- Our new generation chrome-free primer for coil applications now provides the pre-painted metal industry with a more sustainable and innovative solution
- Introduced Expressions print technology for the coil market, which combines the visual appeal of print with a textured finish. This enables customers to create designs with unprecedented definition and dimension, including authentic-looking wood grain, slate or granite patterns

Revenue in € millions

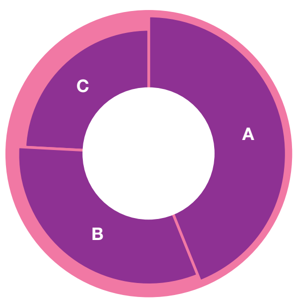
Key brands

AkzoNobel
Zweihorn
Chemcraft
Sikkens Wood Coatings

Trade names

- Aqualure
- Aquaprime
- Ceram-a-Star
- GripPro
- LignuPro
- Polydure
- Trinar
- Vitalac
- Vitalure

Geo-mix revenue by destination in %



A EMEA	44
B Americas	32
C Asia Pacific	24

Some of our customers

Wood Coatings:

- American WoodMark
- Armstrong
- IKEA
- Masco
- Masterbrand
- Pella
- Prosol
- Schweighoffer
- Würth

Coil and Packaging Coatings:

- Arcelor Mittal
- Ardagh
- Ball
- Bluescope Steel
- Crown
- Precoat
- Silgan
- Steel Dynamics
- Tata Steel
- Thyssen Krupp

POWDER COATINGS

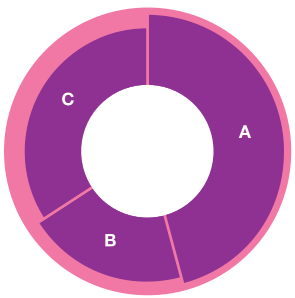
- Achieved strong topline growth, driven by volume, price and product mix. Ongoing focus is on further strengthening our market position for premium products
- Headwinds from raw materials lowered the net impact of margin growth
- Officially opened our new Changzhou plant in China, one of the largest facilities of its kind in the world
- Also opened our new Thane plant near Mumbai in India, which is fully equipped to offer a broad range of products tailored specifically to the local Indian market
- Following the 2017 acquisition of V.Powdertech in Thailand, we began integrating the business into our activities
- Launched Interpon Precis ultra matt, a super-durable architectural powder coating
- Several other new products were also introduced, including Interpon IT 4002, a high performance, single coat TGIC-free polyester powder coating for the telecommunications industry
- Our Interpon brand continues to be the powder coating of choice for protecting and beautifying important landmarks. Recent projects include: Istanbul Airport in Turkey; Van Don Airport in Vietnam (one of the first buildings in South Asia to be protected by our hyper-durable powder coatings); and Westminster Abbey in the UK, where we coated all the window frames on the first major addition to the famous building since 1745 (see page 38)

Revenue in € millions

Key brands

Interpon Powder Coatings
cromadex
RESICOAT Experts in Functional Powder Coatings
RELEST
V.Powdertech

Geo-mix revenue by destination in %



A EMEA	46
B Americas	20
C Asia Pacific	34

Some of our customers

- Bosch Siemens
- GE
- Mercedes Bus
- Prime Wheel
- Samsung
- Schüco
- Signify
- TATA
- Toyota
- Vailant
- Whirlpool

FAMOUS ABBEY PUTS FAITH IN OUR COATINGS

History was made at Westminster Abbey in London during 2018 with the first significant addition to the famous church since 1745. The new £23 million Weston Tower features 500 leaded windows – and every single window frame is protected with our Interpon powder coatings.

watch video

The tower provides staircase and lift access to the Queen's Diamond Jubilee Galleries, located in the medieval Triforium – an area 16 meters (52 feet) above the abbey's floor, which has been unused for centuries. More than 300 precious regal and religious artifacts are on display in the "hidden" attic space, which deftly winds its way around the rafters.

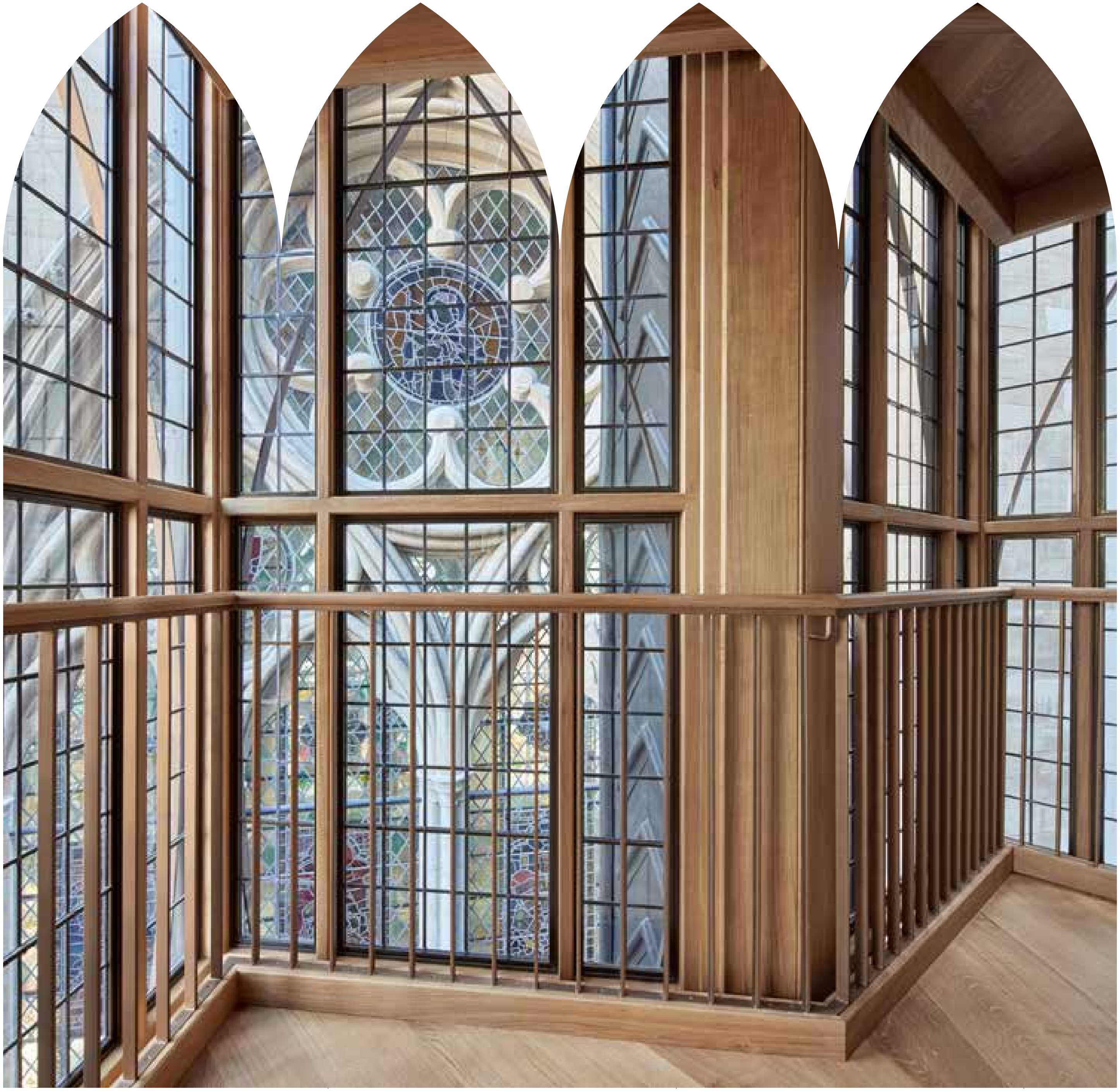
Described by some as a "gothic space rocket" and a "steampunk tower", the new addition has been expertly slotted between the 13th century chapter house and the 16th century Lady Chapel by architect Ptolemy Dean.

Its leaded windows are based on Christopher Wren's late 17th century additions to the abbey. They sit in frames powder coated with our Interpon D2525 Anodic Bronze finish and BPP600 barrier primer, which provide a perfect color match and long-lasting protection. The use of powder coatings also offers inherent sustainability benefits, such as no solvent emissions and hardly any waste during the application process.

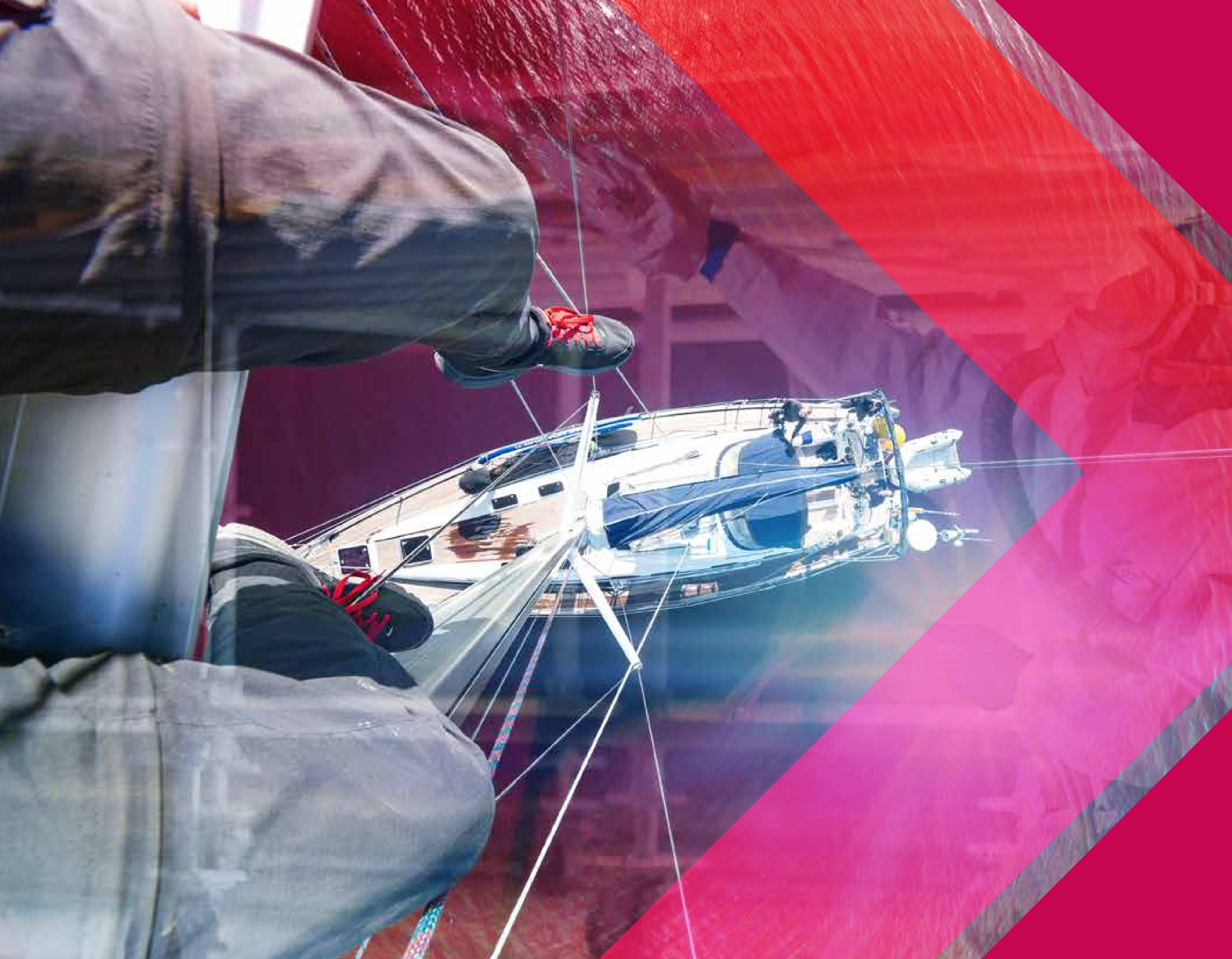
"As the leader in powder coatings, we are very proud to have contributed to such a significant project, which is integral to the history of the UK," says Daniela Vlad, Managing Director of the company's Powder Coatings business. Adds the Very Reverend Dr. John Hall, Dean of Westminster: "The views are breathtaking; the space astonishing; the displays fascinating. Visitors can now gain far greater insight into the life and history of the abbey than ever before."

Westminster Abbey is one of the world's great churches, welcoming over two million worshippers and visitors annually. It's the latest in an impressive list of London landmarks to feature our coatings. We've already supplied products for the London Eye, the Shard, the Gherkin and Wembley Stadium, to name just a few.

Interpon
POWDER COATINGS

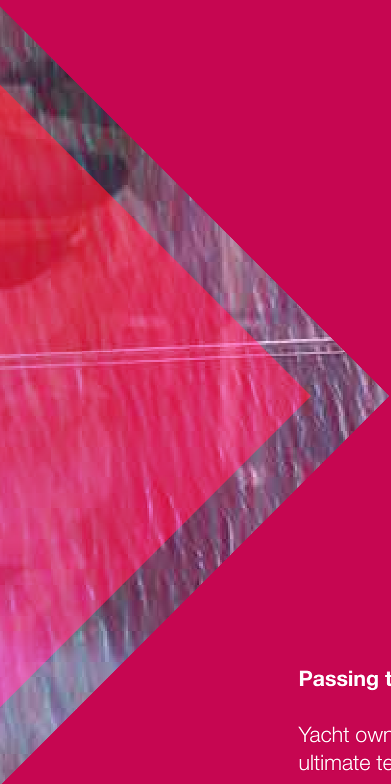


The Queen's Diamond Jubilee Galleries are located in a part of the abbey which has never been open to the public before.



LEADERSHIP

In this section we introduce our Board of Management and Executive Committee, along with our Supervisory Board. You will also find the Report of the Supervisory Board and an overview of their activities during 2018.



Passing the ultimate test

Yacht owners can now benefit from advanced coatings technology which passed the ultimate test during the latest edition of the Volvo Ocean Race.

Before launching this eco-premium solution, we put our new Awlgrip HDT (high definition technology) polyurethane clearcoat through its paces during the punishing offshore sailing event.

Not only is it more durable and abrasion resistant than current market offerings, it's also repairable and lower in VOCs (volatile organic compounds). Already available in North America and Europe, Awlgrip HDT can be used over the full range of Awlcraft SE basecoats, which currently features 18,000 colors – the largest selection on the yacht market.

www.awlgrip.com

OUR BOARD OF MANAGEMENT AND EXECUTIVE COMMITTEE

Thierry Vanlancker

CEO and Chairman of the Board of Management and Executive Committee

(1964, Belgian)

Thierry Vanlancker joined AkzoNobel in 2016, bringing more than 28 years of experience in the chemicals industry. He led operations in polymers, performance coatings and chemicals at DuPont and was President of Fluoroproducts at Chemours. Thierry has lived and worked in Switzerland, the US, Germany, France and Belgium. He holds a degree in Chemical Engineering from the University of Ghent.

David Allen

Chief Supply Chain Officer and member of the Executive Committee

(1954, American)

David Allen joined AkzoNobel as Head of Integrated Supply Chain in 2013. He was previously Chief Operations Officer for China National Bluestar Group and worked for General Electric Company and Sabic in various executive operations, manufacturing and supply chain roles. He holds a Mechanical Engineering degree from Georgia Institute of Technology.

Marten Booisma

Chief Human Resources Officer and member of the Executive Committee

(1966, Dutch)

Marten Booisma joined AkzoNobel as Chief Human Resources Officer in 2013. He spent the previous six years in a similar position at Royal Ahold. Having graduated from the University of Amsterdam with a Master of Science in Politics, he started his career in HR at Shell and Unilever. He then moved on to assume various senior management positions at Ahold.

Maëlys Castella

Chief Corporate Development Officer and member of the Executive Committee

(1966, French)

Maëlys Castella joined AkzoNobel as Chief Financial Officer in 2014. Before joining the company, she held various senior management positions in finance and marketing at Air Liquide. She started her career in oil and gas with ELF at TotalGroup. Maëlys earned an Engineering degree at École Centrale Paris and a Master's degree in Energy Management and Policy from the University of Pennsylvania and the French Institute of Petroleum (IFP).

Isabelle Deschamps

General Counsel and member of the Executive Committee

(1970, Canadian)

Isabelle Deschamps joined AkzoNobel in 2018. Before joining the company, she was responsible for legal and compliance at Unilever's European businesses and its Food and Refreshment division worldwide, and previously Personal Care and Intellectual Property at Nestlé. She started her career at a Canadian law firm after finishing a Master's degree in Law at the University of Montreal. Isabelle is admitted to the England and Wales Law Society and to the Quebec (Canada) Bar, and completed an Executive Business program at the London Business School.

Ruud Joosten

Chief Operating Officer and member of the Executive Committee

(1964, Dutch)

Ruud Joosten joined AkzoNobel in 1996 as International Marketing Manager for Decorative Paints, having graduated from the Vrije Universiteit in Amsterdam with a Master's in Economics. Since then, he has held various management positions within Decorative Paints and Specialty Chemicals, including Manager of the Decorative Paints North and East Europe business and Managing Director of Pulp and Performance Chemicals.

Maarten de Vries

CFO and member of the Board of Management and Executive Committee

(1962, Dutch)

Maarten de Vries joined AkzoNobel in January 2018. He spent the previous three years as CFO at Intertrust Group and TNT Express. He was a member of the Management Board of Intertrust Group and the Executive Board of TNT Express. From 2011 to 2014, Maarten was CEO of TP Vision. Prior to this, he held various senior positions at Royal Philips Electronics, including Chief Information Officer and Chief Purchasing Officer at Group Management Committee level.

For further information please visit our website: akzonobel.com/management

From left to right:
Isabelle Deschamps, Maarten de Vries, Marten Booisma, Thierry Vanlancker, Ruud Joosten, Maëlys Castella, David Allen

STATEMENT OF THE BOARD OF MANAGEMENT

The Board of Management's statement on the financial statements, the management report and internal controls.

We have prepared the Report 2018, 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 annual reports.

To the best of our knowledge:

- The financial statements in this Report 2018 give a true and fair view of our assets and liabilities; our financial position at December 31, 2018; and the result of our consolidated operations for the financial year 2018
- The management report in this Report 2018 includes a fair review of the development and performance of our businesses and the position of AkzoNobel, as well as the undertakings included in the consolidation taken as a whole, and describes our principal risks and uncertainties

The Board of Management is responsible for the establishment and adequate functioning of a system of governance, risk management and internal controls in our company. Consequently, the Board of Management has implemented a broad range of processes and procedures designed to provide control by the Board of Management over the company's operations.

These processes and procedures include measures regarding the general control environment, such as a Code of Conduct – including business principles and a corporate complaints procedure (SpeakUp!) – corporate directives and authority schedules, as well as specific measures, such as a risk management system, a system of controls and a system of letters of financial and non-financial representation by responsible management at various levels within our company.

All these processes and procedures are aimed at providing a reasonable level of assurance that we have identified and managed the significant risks of our company, and that we meet our operational and financial objectives in compliance with applicable laws and regulations. The individual components of the above set of internal controls are in line with the COSO Enterprise Risk Management 2017 Framework.

With respect to supporting and monitoring of compliance with laws and regulations – including our Code of Conduct – a Compliance Committee has been established. The Compliance function makes rules available through the Directives Portal, manages the online compliance training program, provides legal expert support and manages the investigation of the SpeakUp! process.

The Internal Control function maintains AkzoNobel's Internal Control Framework, monitors the compliance and includes updates regarding the emergence of new risks. They support the annual review of the effectiveness of the system of governance, risk management and internal controls of the Board of Management. Internal Audit provides comfort to the Board of Management, as well as the Supervisory Board, that our system of risk management and internal controls – as designed and represented by management – are adequate and effective.

While we routinely work towards continuous improvement of our processes and procedures regarding financial reporting, the Board of Management is of the opinion that:

- The report provides sufficient insights into any failings of the internal risk management and control systems
- These systems provide reasonable assurance that the financial reporting does not contain material inaccuracies
- Based on the current state of affairs, it is justified that the financial reporting is prepared on a going concern basis
- The report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of 12 months after report preparation

For a detailed description of the risk management system and the principal risks identified, reference is made to the Risk management chapter in the Governance and compliance section, as well as the Compliance and integrity management chapter of the Governance and compliance section.

We have discussed the above opinion and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

Amsterdam, February 12, 2019
The Board of Management

Following the acquisition of Flexcrete Technologies Ltd in 2017, we completed the integration this year by making the business' full range of advanced cementitious coatings available as part of our International brand's Intercrete series. Flexcrete products have been used for numerous high profile projects around the world, including Hestskjæret Lighthouse on the western coast of Norway.

SUPERVISORY BOARD CHAIRMAN'S STATEMENT

In 2018, AkzoNobel moved on from the events of the previous year to build a new future as a focused paints and coatings company. It was a year of delivering on commitments and the implementation of the ongoing transformation.

Key to establishing this new future was the successful sale of the Specialty Chemicals business to The Carlyle Group and GIC, which was completed on October 1, 2018. The company also announced it would be returning an additional €5.5 billion to shareholders, following the payment of a special cash dividend of €1 billion as advance proceeds in December 2017. Together, this €6.5 billion represents the vast majority of the €7.5 billion net proceeds returned to shareholders, as promised.

AkzoNobel is now focused on becoming a true leader in the paints and coatings industry. The company's Winning together: 15 by 20 strategy is gathering pace and progress is being made towards realizing 15% return on sales (excluding unallocated corporate center costs) by 2020. It's an ambitious and challenging target, but improving profit margins is absolutely necessary to enable the company to invest in its markets and regain growth momentum. The Supervisory Board has been heavily involved in critically evaluating, advising and approving the ongoing transformation plans, underlined at both the 2018 Annual General Meeting and the Extraordinary General Meeting in November 2018.

The Executive Committee, led by Thierry Vanlancker, has had a very busy year completing the sale of Specialty Chemicals, while at the same time focusing on the transformation of the remaining paints and coatings company. The Supervisory Board has been impressed by the Executive Committee's level of ambition and commitment to leading AkzoNobel to the forefront of the industry.

When reviewing the improvement initiatives that have already had an impact, it's worth mentioning the pricing program. AkzoNobel showed industry leadership and demonstrated the required discipline and commitment to implement its value over volume strategy – which was necessary to compensate for the unprecedented increase in raw material costs that started back in 2017. Towards the end of 2018, the cost-saving programs also began to produce positive results. At the same time, the company continued to pay close attention to its core principles of safety, integrity and sustainability.

Doing business with integrity remains at the heart of AkzoNobel and the company will continue to focus on strengthening the robust compliance culture which runs throughout the organization. The Supervisory Board is actively involved, conducting regular performance and business reviews. The company's strategy and targets for sustainability and safety have also been revised and we remain confident that by making this an explicit differentiator, AkzoNobel will continue to enhance its value proposition for employees and business partners.

During several meetings I had in Amsterdam and at various sites, it was evident that some employees are still digesting the events of 2017 and the divestment of the Specialty Chemicals business. It was therefore encouraging to see that the management team has identified increased engagement and collaboration as a key priority. To become a true leader in the industry, everyone needs to be motivated and feel empowered to play their role in the company's development. It is a top priority for the Supervisory Board that during 2019, as we implement the changes necessary to re-establish our competitiveness and move closer towards our 2020 goals, we also engage the organization in defining and communicating our compelling vision for the long-term future of AkzoNobel.

Finally, I would like to thank the Supervisory Board, the Board of Management, the Executive Committee and all AkzoNobel employees around the world for their commitment and hard work during what was an historic year for the company.

Amsterdam, February 12, 2019
Nils Smedegaard Andersen
Chairman of the Supervisory Board

OUR SUPERVISORY BOARD

Nils Smedegaard Andersen
(1958, Danish) Chairman
Initial appointment: 2018
Current term of office: 2018-2022

Member of the Board of Directors Unilever N.V. and Unilever plc. and BP plc.; Former CEO of A.P. Moller - Maersk A/S; Former CEO and President of Carlsberg A/S.

Peggy Bruzelius (1949, Swedish)
Initial appointment: 2007
Current term of office: 2015-2019

Non-executive Director of Lundin Petroleum AB and Skandia Mutual Life Insurance; Chairman of Lancelot Asset Management A.B.; Former CEO of ABB Financial Services; Former Executive Vice-President of SEB; Former non-executive Director of Diageo plc.

Sue Clark (1964, British)
Initial appointment: 2017
Current term of office: 2017-2021

Non-executive Director of Britvic plc., Bakkavor Group plc., Tulchan Communications LLP and Imperial Brands plc.; Former Managing Director Europe SABMiller plc.; Former Director of Corporate Affairs Railtrack plc. and Scottish Power plc.

Byron E. Grote
(1948, American and British) Vice-Chairman
Initial appointment: 2014
Current term of office: 2018-2022

Non-executive Director of Anglo-American plc., Standard Chartered plc. and Tesco plc.; Former non-executive Director of Unilever N.V. and Unilever plc.; Former Board member BP plc.

Michiel Jaski (1959, Dutch)
Initial appointment: 2017
Current term of office: 2017-2021

Member of the Supervisory Board of Synbra Holding B.V.; Chairman of the Supervisory Board of UNICA Group B.V.; Former CEO of OFFICEFIRST Immobilien A.G. and Grontmij N.V.; Former member of the Executive Board of ARCADIS N.V.; Former VP at Shell.

Pamela Kirby (1953, British)
Initial appointment: 2016
Current term of office: 2016-2020

Non-executive Director at Reckitt Benckiser plc., Hikma Pharmaceuticals plc. and DCC plc.; Senior Independent Director at Victrex plc.

Dick Sluimers (1953, Dutch)
Initial appointment: 2015
Current term of office: 2015-2019

Member of the Supervisory Boards of Atradius N.V., NIBC Bank N.V. and Euronext N.V.; Member of the Board of Directors of FWD Group Limited; Trustee of the Erasmus University Trust; Member of the Board of Governors of the State Academy of Finance and Economics; Former CEO of APG Group.

Patrick Thomas (1957, British)
Initial appointment: 2017
Current term of office: 2017-2021

Chairman of Johnson Matthey plc.; Former Chairman and CEO of Covestro A.G. and Bayer MaterialScience A.G.; Former non-executive Director of BG Group plc.; Former President of Specialties, Huntsman International LLC; Former CEO Polyurethanes division of ICI plc.

Ben Verwaayen (1952, Dutch)
Initial appointment: 2012
Current term of office: 2016-2020

Non-executive Director of Akamai Technologies Inc. and Bharti Airtel Ltd. (until December 31, 2018); Non-executive Director of Ofcom; Former CEO of Alcatel-Lucent; Former Chief Executive/Chairman of the Board's Operating Committee of BT Group.

REPORT OF THE SUPERVISORY BOARD

Supervisory Board attendance record

	SB	AC	RC	NC
Nils Andersen[1]	7/7		2/2	2/2
Peggy Bruzelius	14/15	9/9		
Antony Burgmans[2]	7/8		2/2	1/1
Sue Clark[3]	15/15		2/2	
Byron Grote	16/16	9/9		3/3
Louis Hughes[2]	6/8	3/3		
Michiel Jaski[4]	14/15	5/5		
Pamela Kirby	15/15		4/4	3/3
Dick Sluimers	13/15	9/9	4/4	
Patrick Thomas[4]	13/15	5/5		
Ben Verwaayen	13/15		4/4	3/3

The table indicates the meeting attendance for the Supervisory Board (SB), the Audit Committee (AC), the Remuneration Committee (RC) and the Nomination Committee (NC).

[1] Appointed as member of the Supervisory Board as per April 27, 2018. Appointed to the Remuneration Committee and the Nomination Committee as per June 2018.

[2] Stepped down from the Supervisory Board in April 2018 after serving for the maximum term of 12 years.

[3] Appointed to the Remuneration Committee as per June 2018.

[4] Appointed to the Audit Committee as per June 2018.

Supervisory Board activities 2018

Q1

- Separation of Specialty Chemicals business (including dual track, risks and carve-out)
- Review of Q4 2017 financials and performance
- 2017 financial statements and profit allocation
- Final 2017 dividend
- Business reviews
- Risk management: risk session outcomes
- Review ISC integrated business plan
- HR strategy update
- Review Winning together: 15 by 20 strategy
- Nomination Supervisory Board Chairman Mr. Nils Andersen
- Investor Relations update

Q2

- Review Q1 2018 financials and performance
- Business reviews
- Annual General Meeting 2018
- Review of possible ways to distribute proceeds from the sale of the Specialty Chemicals business
- Review of banking strategy
- Committee appointments
- Sustainability strategy update
- Functional and ISC updates
- Review Winning together: 15 by 20 strategy

Q3

- Review Q2 2018 financials and performance
- Business reviews
- Succession planning and talent management
- Review of possible ways to distribute proceeds from the sale of the Specialty Chemicals business
- Review materials for November 2018 EGM
- Risk management: Enterprise risk management update
- Functional and business strategy review
- Investor Relations update

Q4

- Closing of sale of the Specialty Chemicals business
- Distribution of proceeds from sale of the Specialty Chemicals business
- November 2018 EGM
- Review Q3 2018 financials and performance
- Business reviews
- IM strategy update
- Interim dividend 2018
- Supervisory Board self-evaluation
- Supervisory Board composition
- Review 2019 budget and outlook
- Internal Audit plan 2019
- Update Winning together: 15 by 20 strategy
- Startup challenge: Paint the Future

The table provides an overview of relevant topics discussed and reviewed in Supervisory Board meetings in 2018.

MEETINGS

During 2018, the Supervisory Board held eight regular scheduled meetings, seven additional meetings and a further additional meeting of a delegation of the Supervisory Board consisting of the Chairman and the Vice-Chairman. The additional meetings were required to ensure the Supervisory Board was sufficiently informed and could make considered decisions regarding the divestment of the Specialty Chemicals business and the distribution of the proceeds. The Board of Management attended all regular meetings and all additional meetings. The Executive Committee attended the majority of the scheduled meetings, while the additional meetings were mostly held without the Executive Committee present, but with the General Counsel in attendance. Almost all plenary sessions of the Supervisory Board were preceded or succeeded by an executive session of the Supervisory Board, with the CEO in attendance. The Supervisory Board also regularly held executive sessions without the CEO present.

SUPERVISORY BOARD ATTENDANCE RECORD

The table above left provides an overview of the attendance record of the individual members of the Supervisory Board. The Supervisory Board attaches great value to the attendance of its meetings by each of its nine members. However, if Supervisory Board members are unable to attend a Supervisory Board or committee meeting, they inform the relevant Chairman, stating the reason and granting the Chairman a proxy to act on their behalf. They also have the opportunity to discuss any agenda items with the relevant Chairman. Attendance is expressed as the number of meetings attended out of the number eligible to attend. Mr. Burgmans was excused from decision-making on the nomination of Mr. Andersen as member (and Chairman) of the Supervisory Board. Mr. Grote acted as Vice-Chairman during this meeting

Separation of Specialty Chemicals

In April 2017, the plan to separate Specialty Chemicals within 12 months was announced, which was approved by shareholders at the Extraordinary General Meeting (EGM) held in November 2017. In March 2018, the sale of the Specialty Chemicals business to The Carlyle Group and GIC was announced and completed on October 1, 2018. The Supervisory Board approved the proposal of the Board of Management to distribute a total of €6.5 billion to shareholders, delivering on a commitment to return the vast majority of €7.5 billion net proceeds from the sale of the Specialty Chemicals business. A special cash dividend of €1 billion was paid in December 2017 as advance proceeds. The additional €5.5 billion proceeds will be distributed using a capital repayment and share consolidation of €2 billion (completed in January 2019), a special cash dividend of €1 billion (payable on February 25) and a share buyback thereafter of €2.5 billion (due to be completed by the end of 2019). The capital repayment and share consolidation was approved by shareholders at the EGM in November 2018.

Strategy reviews

During 2018, the Supervisory Board continued to allocate adequate time to discuss strategic activities. This included detailed business analyses and portfolio reviews. By implementing the Winning together: 15 by 20 strategy and a transformation program to create a focused paints and coatings company, the company renewed its efforts to achieve operational and functional excellence and efficiencies. The implementation of Integrated Business Planning (IBP) was considered a key enabler for future performance improvement. In addition, functional and operational strategy updates were reviewed and discussed, including Finance, Information Management, Integrated Supply Chain, Human Resources and Sustainability.

At corporate level, the Supervisory Board received comprehensive market updates and advised, reviewed and approved the transition to the next phase of the company's transformation. During the 2018 AGM and the Extraordinary General Meeting held in November 2018, it was reconfirmed that this strategy is expected to unlock further value and accelerate growth for AkzoNobel as a focused paints and coatings company.

Sustainability

Sustainability is integral to the company's business strategy. For AkzoNobel, this means delivering both short-term and long-term value for shareholders and all other stakeholders, because today's profits are essential to fund tomorrow's growth.

Our focus on value selling and resource productivity through sustainable product portfolios is an investment in the future success of AkzoNobel. Having sustainability as a core principle motivates employees, is a source of pride and helps to define what the company is and what it stands for. The Supervisory Board views sustainability as an intrinsic value driver in the work of all businesses and all functions. Likewise, the Sustainability Council – which advises the Executive Committee on sustainability developments – contains representatives of every business and function and is led by the CEO.

Over the last 15 years, AkzoNobel has successfully differentiated itself from its competitors by taking a pragmatic approach to business sustainability, seeking to generate more value from fewer resources and turn societal concerns and environmental challenges into product innovations that meet a market need. The company has also benchmarked its sustainability processes and earned respect by achieving a clear leadership status in independent rankings.

During 2018, the Supervisory Board also assessed the company's sustainability strategy and targets. The Supervisory Board is confident that by making sustainability an explicit differentiator – part of the company's brand – AkzoNobel enhanced its value proposition for stakeholders, including employees and business partners. Looking forward, the company will continue to develop business opportunities in alignment with relevant UN Sustainable Development Goals (SDGs), creating more shared value from fewer resources.The Supervisory Board pursued a detailed approach to assessing corporate and management performance during the year.

Performance and budget planning

Individual Board of Management and Executive Committee performance was addressed in Supervisory Board meetings following recommendations from the Remuneration Committee. For more details, see the report of the Remuneration Committee on page 54.

Discussions on corporate performance were held at each regular Supervisory Board meeting. These discussions included business reviews and performance updates from corporate functions. Forward-looking targets were also addressed in light of these reviews, and both the proposed budget and operating plan for 2019 were provided for the Supervisory Board's review and approval in the final quarter of the year. The Supervisory Board took a diligent approach to assessing these plans, taking into account prevailing market conditions. Following this assessment, the Supervisory Board has approved the proposed budget and operating plan for 2019.

During 2018, the Supervisory Board was pleased to see the company continuing to benefit from management's strategic initiatives, including cost savings through enhanced efficiencies and operational excellence. This led to profitability improvements during the second half of the year through portfolio simplification, despite higher raw material costs. The nature of this performance provided a basis for the Supervisory Board's approval of the proposal to increase the dividend for the year 2018. Further details on the 2018 dividend proposal are provided in the Consolidated financial statements and profit allocation paragraph. In addition, the Supervisory Board approved the proposal of the Board of Management to distribute a total of €6.5 billion to shareholders, delivering on a commitment to return the vast majority of €7.5 billion net proceeds from the sale of the Specialty Chemicals business. A special cash dividend of €1 billion was already paid in December 2017.

Risk management

The Supervisory Board views risk management as an essential mechanism, not only for safeguarding the business and assets of AkzoNobel, but also for securing long-term performance and value creation. Risk management updates were received during the year as the Supervisory Board sought to assure itself of the robustness of the company's risk mitigation and internal controls. These updates covered a variety of subjects, ranging from the transformation of the company into a focused paints and coatings company, the adoption of a new organization model and the relationship with our shareholders, (cyber) security and the cost of raw materials.

The Board of Management and Executive Committee maintain the risk management framework and system of internal controls. The company's governance, risk and compliance functions support our comprehensive global risk management processes and facilitate risk workshops. During the workshops, risk scenarios are prepared and assessed, including the appropriateness of the controls and mitigation measures. Implementation of risk mitigating measures for the key risks, as identified by the Board of Management and the Executive Committee, is monitored by the Supervisory Board and the Audit Committee during the year by means of risk updates and reviews. Further details are included in the Risk management chapter in the Governance and compliance section.

Corporate governance

The Supervisory Board continuously reviews the company's corporate governance and its compliance with the Dutch Corporate Governance Code.

Talent management and succession planning

Throughout the year, the Supervisory Board discussed and undertook detailed executive succession planning. This included taking the time to discuss its own composition and succession plans in order to ensure continued effectiveness. Discussions in this regard were also held with shareholders. These discussions led to the nomination of Mr. Nils Smedegaard Andersen as a member of the Supervisory Board and the re-appointment of Mr. Byron Grote as a member of the Supervisory Board. The appointment and re-appointment were approved at the AGM held on April 26, 2018. Mr. Andersen has undergone a comprehensive induction to AkzoNobel – including one-on-one meetings with the CEO, CFO and all other Executive Committee members – as well as site visits.

During 2018, the Supervisory Board also discussed changes to the composition of the Executive Committee. The Supervisory Board discussed and supported the appointment of Mrs. Maëlys Castella as Chief Corporate Development Officer and the appointment of Mrs. Isabelle Deschamps as General Counsel.

As the third term of Mrs. Peggy Bruzelius ends in 2019, the Supervisory Board initiated a search for a new member of the Supervisory Board. The requirements of the Dutch Corporate Governance Code and the skills matrix were considered throughout the process.

The Supervisory Board has updated its skills matrix under recommendation from the Nomination Committee. The updated matrix can be found later in this section.

Supervisory Board evaluation

To assess its effectiveness, the Supervisory Board carried out an internal performance evaluation of itself, its individual members, its Audit Committee, Remuneration Committee and Nomination Committee, the Chairman and the chairmen of these committees. The process consisted of Supervisory Board members completing a confidential questionnaire.

The Audit Committee also carried out an internal performance evaluation of itself and invited the members of the Supervisory Board to complete the confidential questionnaire.

In a separate meeting without the Board of Management, the full Supervisory Board discussed the results of the evaluation questionnaires. The Supervisory Board also discussed the functioning of the Board of Management and the performance of its individual members. The Chairman had one-on-one calls with all members of the Supervisory Board to discuss the evaluation. The Audit Committee also had a discussion around the evaluation. These discussions were recorded and conclusions and actions were discussed and confirmed at the meeting of the Supervisory Board and the Audit Committee.

Items addressed were overall performance and composition of the Supervisory Board, the Audit Committee and the other committees, strategic issues and key areas for 2019. Other points discussed were the nature and impact of the discussions, strategy oversight, risk management and internal control and succession planning.

We are pleased to confirm our internal evaluation concluded that the Supervisory

Board and its committees continued to operate proficiently. The Supervisory Board was positive about the relatively new and current composition of the Supervisory Board and the Board of Management. There is a dynamic and open atmosphere offering support and constructive challenge. Improvement areas are succession planning and talent management of the Executive Committee.

The Supervisory Board intends to use an external facilitator in the evaluation process every third year. The last external evaluation took place in 2016.

Financial statements and profit allocation

The financial statements of AkzoNobel N.V. for the financial year 2018 were audited by PricewaterhouseCoopers Accountants N.V.. The Board of Management submitted the report and financial statements, including the report of the Board of Management, to the Supervisory Board for review and approval.

The financial statements, the report and management letter of the external auditors were extensively discussed by the Audit Committee with the external auditors, in the presence of the CFO, and by the full Supervisory Board with the Board of Management and the General Counsel. Based on these discussions, the Supervisory Board is of the opinion that the 2018 financial statements of AkzoNobel N.V. form an adequate basis to account for the supervision provided (see the Consolidated financial statements). The Audit Committee monitors the follow-up by management of the recommendations made by the external auditors.

The Supervisory Board recommends that the AGM adopts the financial statements as presented in this Report 2018 and, as proposed by the Board of Management, the proposed total dividend for 2018 of €1.80 (2017: €2.50, including €0.85 related to the Specialty Chemicals business), including a final dividend of €1.43 per share (post consolidation). An interim dividend of €0.37 (2017: €0.56) per share was paid in November 2018. This reflects the continued commitment to the company's aim of providing a stable to rising dividend. The dividend will be paid in cash.

In addition, it is requested that the AGM discharges the members of the Board of Management from their responsibility for the conduct of business in 2018 and the members of the Supervisory Board for their supervision in 2018.

In September, members of our Supervisory Board and Executive Committee visited the company's Powder Coatings site in Como, Italy. The schedule included business reviews, a tour of the plant and labs and a visit to a large powder coatings customer. It was an excellent opportunity for the senior leadership to get to know our people, our business and our customers a little bit better.

AUDIT COMMITTEE

Mr. Grote has been Chairman of the Audit Committee since his appointment in 2015. The other members of the Audit Committee in 2018 were Mrs. Bruzelius, Mr. Hughes[1], Mr. Jaski[2], Mr. Sluimers and Mr. Thomas[2]. All members of the Audit Committee have extensive accounting and financial management expertise. The Audit Committee held nine meetings during 2018. The attendance record of the members can be seen in the attendance chart on page 48. Issues discussed in Audit Committee meetings were reported back to the full Supervisory Board in subsequent meetings.

[1] Until April 2018.
[2] Appointed to the Audit Committee as of June 2018.

Audit Committee main activities 2018

The table on the right provides an overview of relevant topics discussed and reviewed in Audit Committee meetings in 2018.

External audit

PricewaterhouseCoopers Accountants N.V., AkzoNobel's external auditors, reported in-depth to the Audit Committee on the scope and outcome of the annual audit of the financial statements, including the consolidated financial statements and the company financial statements and report.

The Audit Committee held independent meetings with the external auditors and critically reviewed and constructively challenged their audit approach, fees, risk assessment and audit plan for the year ahead.

Other topics discussed included:

- The "hard close", which was discussed with the intention of improving the efficiency of the year-end process and to highlight important issues for the annual financial statements. AkzoNobel performed a "hard close" as of October 31, 2018
- Separation of Specialty Chemicals
- Quality of the external audit
- Impact of new accounting rules
- Transformation of the Finance function

As the current lead audit partner will retire in 2019, it was decided to appoint a new lead audit partner as per the start of the audit on the financial year 2019. In close cooperation with PricewaterhouseCoopers Accountants N.V. and after having interviews with potential candidates, the Audit Committee decided on the succession of the current lead audit partner.

The Audit Committee performed an annual review of the services of the external auditor, and at each meeting it considered and assessed the status of the auditor's independence. Further details on the external auditors can be found in the Governance and compliance section.

Risk management and internal control systems

The Audit Committee reviewed AkzoNobel's overall approach to governance, risk management and internal controls, its processes, outcomes, financial reporting and disclosures. Regular updates were received from auditors and functions in this regard, and the Audit Committee was provided with comprehensive risk and internal control reports during the year.

In addition, the Audit Committee reviewed the annual operating plan (including budget) and AkzoNobel's dividend proposals. Upon fulfilling its oversight responsibilities in relation to governance, risk management and internal control systems, the Audit Committee met regularly with senior executives.
The General Counsel reported regularly to the Audit Committee on the company's compliance framework and compliance matters and activities, and on major litigation and liability exposures. The Internal Auditor reported to the Audit Committee on their assessment of the

Audit Committee activities 2018

Q1	Q2	Q3	Q4
• Review Q4 2017 financial statements and annual results • Review annual report and accounts • External audit report • Review risk management and internal control • Auditors' management letter • Final dividend 2017 • HSE audit findings • Review full-year compliance report • Review five-year outlook and planning • Separation of Specialty Chemicals business (including dual track, risks and carve-out)	• Review Q1 2018 financial statements • Review year-to-date audit findings (report of Internal Audit) • Review compliance cases year-to-date • Follow-up on audit scope and fee 2018 • Review evaluation external auditor • Review external quality review of Internal Audit • Pension funds update • Implementation of IFRS 16 update • Update finance transformation • Treasury and Investor Relations update • Distribution of proceeds from the sale of the Specialty Chemicals business	• Review Q2 2018 financial statements • Review of possible ways to distribute proceeds from the sale of the Specialty Chemicals business • Review November 2018 EGM materials	• Distribution of proceeds from the sale of the Specialty Chemicals business • Review Q3 2018 financial statements • Recommendation on interim dividend • Review compliance cases year-to-date • Tax strategy review • Review 2019 budget and outlook • Review audit findings year-to-date and hard close audit report • Internal Audit plan 2019 • Review of legal liability exposure report • Update on IFRS changes • Update finance transformation • Follow-up external quality review of Internal Audit • Change lead partner external auditor

status of the system of governance, risk management and internal controls throughout 2018. The Internal Auditor also reported to the Audit Committee her assessment of the Internal Audit function by the Dutch Institute of Internal Auditors, with the assessors being satisfied with the effectiveness of the Internal Audit function.

Business and function reviews

In fulfilling its oversight responsibilities in relation to risk management and internal control systems, the Audit Committee received updates from functions throughout the year. These updates also informed the Audit Committee's review of the annual operating plan, including budget.

During the year, updates were provided from Accounting and Control, Treasury, Investor Relations, Information Management and Tax. The Audit Committee continued to monitor functional initiatives, such as the progress on the transformation of the Finance function and the transformation of the company into a focused paints and coatings company. The Audit Committee also met regularly with other senior executives.

Separation of Specialty Chemicals

An important feature of the Audit Committee's work in 2018 was to review and closely monitor the process for the separation of Specialty Chemicals, including assessing the associated risks and related mitigating actions and receiving regular financial updates. The Audit Committee reviewed and considered the proposal of the Board of Management to distribute an additional €5.5 billion to shareholders from the sale of the Specialty Chemicals business and the preferred methods for distribution.

The striking livery for McLaren's 2018 F1 car saw it voted the season's best looking car in a BBC online poll. The Papaya Spark color scheme was developed by our Sikkens brand, which has been the official supplier of paint solutions to McLaren Racing for a decade.

Internal Audit

The Internal Auditor presented all main audit findings to the Audit Committee and discussed the progress of the audit plan. During the year, the Audit Committee approved the Internal Audit plan and strategy of the Internal Audit function, and agreed on the budget and resource requirements for the function. The Audit Committee also met separately with the Internal Auditor during the year to discuss the results of the audits performed and the status of the follow-up on action plans identified. In 2018, the Audit Committee was satisfied with the effectiveness of the Internal Audit function.

Results and financial statements

Before each publication of the quarterly results and the financial statements, the Audit Committee reviewed the financial results. In addition, the Audit Committee reviewed and commented on the interim and final dividend proposals and on reports and press releases to be published. This was reviewed in addition to the work undertaken by the company's Disclosure Committee in reviewing the company's disclosure of potentially price sensitive information. Based on these discussions, advice was provided by the Audit Committee to the Supervisory Board with regard to the publications and

Sailors from team AkzoNobel visited our Angered site in Sweden during the Volvo Ocean Race stopover in Gothenburg in June. They met employees and enjoyed a tour of the site, which manufactures the same International yacht coatings products that were used by all the boats in the race.

disclosures, and to the interim and final dividends. All quarterly or annual releases of financial results, and any potentially price sensitive public disclosures, were approved by the full Supervisory Board prior to publication and release.

In order to ensure its effectiveness and expertise, the Audit Committee was provided with regular updates on IFRS developments and the anticipated impact of these developments on the financial statements. In addition, the Audit Committee reviewed and assessed management assertions made in regard to relevant accounting treatments.

Audit Committee evaluation

The Supervisory Board and the Audit Committee evaluated the performance of the Audit Committee, while the Audit Committee also carried out a self-assessment of its performance. Both concluded that the Audit Committee is performing effectively. The Audit Committee agreed to organize additional education and deep dive sessions during 2019. Reference is made to the paragraph on the evaluation of the Supervisory Board in this chapter.

REMUNERATION COMMITTEE

The Remuneration Committee consists of five members, following the appointment of Mr. Andersen and Mrs. Clark to the Remuneration Committee in June 2018 and after Mr. Burgmans stepped down in April 2018. The other members of the Remuneration Committee are Mr. Verwaayen, Dr. Kirby and Mr. Sluimers. The Remuneration Committee held four meetings in 2018. The attendance record of the members can be seen in the Supervisory Board attendance chart on page 48.

Remuneration Committee main activities 2018

The table below provides an overview of relevant topics discussed and reviewed in meetings of the Remuneration Committee in 2018.

Review management performance

The work of the Remuneration Committee during the first quarter focused on performance for the year 2017, the individual performance reviews of the Board of Management members and members of the Executive Committee. The Remuneration Committee assessed the adequacy of the peer group used for benchmarking purposes.

Remuneration policy review

In 2018, the Remuneration Committee reviewed the Remuneration policy to assess whether it was aligned with the new strategy and financial targets. Following these discussions, the Remuneration Committee's recommendations have been provided to the Supervisory Board and the proposal to amend the Remuneration policy was approved by the shareholders

Remuneration Committee main 2018 activities

Q1	Q2 & Q3	Q4
• Review of management performance 2017 • Target setting 2018 • Review of management base salaries for 2018 • 2017 Remuneration report	• Remuneration policy review and amendment (AGM 2018) • Review LTI[1] targets and LTI vehicles market evolution • Supervisory Board remuneration	• Forward-looking 2019 target-setting • 2018 STI[2] and LTI performance review

[1] LTI = Long-term incentive.
[2] STI = Short-term incentive.

The world's first diamond coated multihull yacht made its debut in 2018. It was achievable thanks to a partnership which combined our advanced color and application expertise with a diamond coating technique developed by Jean Boulle Luxury. Already used on private aircraft and luxury cars, the Sun King® Diamond Coating debuted in the world of multihull yachts with the 40 Open Sunreef Power. The partnership involves transforming ethically sourced, natural diamonds into a high quality coating which gives a dazzling finish to almost any surface.

at the AGM of April 26, 2018. For further details, reference is made to the Remuneration report.

Review management base salaries 2018

The Remuneration Committee reviewed the base salaries and the establishment of relevant forward-looking target ranges for variable remuneration of Board of Management members and other members of the Executive Committee. The base salaries will continue to be assessed in light of market conditions, the reward structures of peer group companies and performance. In addition, the Remuneration Committee considered the pay ratios within the company and how these compare with peer group companies.

Forward-looking target ranges for variable remuneration of the Board of Management were discussed and proposals for the remuneration of other Executive Committee members were reviewed and discussed with the CEO.

Information on the remuneration of the Board of Management and the Supervisory Board can be found in the Remuneration report and Note 24 of the Consolidated financial statements.

Remuneration Committee evaluation

The Remuneration Committee's evaluation of performance and effectiveness formed part of the overall Supervisory Board evaluation undertaken during 2018, as explained earlier in this section.

NOMINATION COMMITTEE

The Nomination Committee consists of four members, following the appointment of Mr. Andersen as Nomination Committee chairman in June 2018 and after Mr. Burgmans stepped down in April 2018. During the year, the Nomination Committee was chaired by Mr. Burgmans, until he was succeeded by Mr. Andersen in June. The other members of the

Nomination Committee main 2018 activities

Q1	Q2 & Q3	Q4
• Supervisory Board succession planning • Board of Management succession planning • Review (re)appointment scheme	• Update skills matrix • Review Supervisory Board profile	• Review composition of Supervisory Board • Supervisory Board succession planning

Supervisory Board skills and profiles

	N.S. Andersen	P. Bruzelius	S. Clark	B. Grote	M. Jaski	P. Kirby	D. Sluimers	P. Thomas	B. Verwaayen
Independent	●	●	●	●	●	●	●	●	●
Consumer Goods end-user segment	●	●	●	●		●			
Industrial end-user segment	●	●		●	●	●	●	●	●
Buildings and Infrastructure end-user segment		●			●			●	
Transportation end-user segment	●		●	●		●	●	●	●
(International) business, commerce, finance/economics	●	●	●	●	●	●	●	●	●
Scientific/Information technology experience				●	●	●		●	●
Public sector experience							●		
Management experience	●	●	●	●	●	●	●	●	●
Business strategy planning	●	●	●	●	●	●	●	●	●
Investor relations	●	●	●	●	●	●	●	●	●
Manufacturing experience	●		●	●		●		●	
Supply chain/logistics experience	●			●		●			●
Social, environmental or sustainability experience	●	●	●	●		●	●	●	●
Finance expert		●		●			●		
Four or less external directorships	●	●	●	●	●	●	●	●	●
Dutch/EU national	●	●	●	●	●	●	●	●	●
Non-EU national				●					
Pensions experience		●					●		
Business-to-business sales experience						●		●	●
R&D experience				●	●	●		●	
Legal experience						●			●
Industrial/employment relations								●	
Risk management		●		●	●	●	●		
Consulting		●				●	●		●

Nomination Committee are Mr. Grote, Dr. Kirby and Mr. Verwaayen. The Nomination Committee held three meetings in 2018. The attendance record of the members of the Nomination Committee can be seen in the attendance chart on page 48.

Succession matters

As referred to on page 50, the third term of Mrs. Peggy Bruzelius ends in 2019. The search initiated by the Supervisory Board was managed by the Nomination Committee.

Nomination Committee main activities 2018

The table on the previous page provides an overview of relevant topics discussed and reviewed in meetings of the Nomination Committee in 2018.

Board of Management and executive succession

During 2018, the Nomination Committee was consulted and gave its advice regarding the following appointments by the CEO to the Executive Committee: Mrs. Maëlys Castella as Chief Corporate Development Officer and Mrs. Isabelle Deschamps as General Counsel.

Supervisory Board succession

An additional aspect of the Nomination Committee's work is to review the Supervisory Board appointment schedule and make relevant recommendations.

During 2018, the Nomination Committee continued to discuss the size, structure and composition of the Supervisory

The first theme park in South West China opened in 2018 – and our Dulux Pro paint brand was used to coat around 180,000m² of attractions and facilities in 80 different colors. Known as Yunnan Happy World, the park is located in Kunming, Yunnan province.

Board. Following a thorough internal and external search, with the assistance of an independent and well reputed search firm, the Nomination Committee was able to recommend to the Supervisory Board the nomination of Mr. Nils Smedegaard Andersen for consideration by the shareholders at the AGM of April 26, 2018.

The Supervisory Board has updated its skills matrix, as shown opposite. The skills matrix, full details of the current Supervisory Board composition, the schedule of Supervisory Board succession and the profiles of the Supervisory Board members can also be found on our website: www.akzonobel.com

Nomination Committee evaluation

As with the Remuneration Committee, the Nomination Committee's evaluation of performance and effectiveness formed part of the overall Supervisory Board evaluation undertaken during 2018.

ADDITIONAL REMARKS

All members of the Supervisory Board would like to express their appreciation to the Board of Management and Executive Committee, as well as to all employees, for their dedication and hard work during 2018. In particular, the Supervisory Board would like to extend its gratitude to both Mr. Antony Burgmans and Mr. Louis Hughes for their 12 years of service to AkzoNobel and wish them all the best in their future endeavors.

Amsterdam, February 12, 2019
The Supervisory Board

GOVERNANCE AND COMPLIANCE

This section explains our corporate governance structure and outlines the remuneration of our Board of Management. You will also find information about risk management, compliance and integrity management, and AkzoNobel and the capital markets.

Transforming homes with ease

Our Coral brand in Brazil launched its new premium interior wall paint range in 2018. Coral Renova has a creamy consistency, which makes painting easier and leaves a beautiful finish.

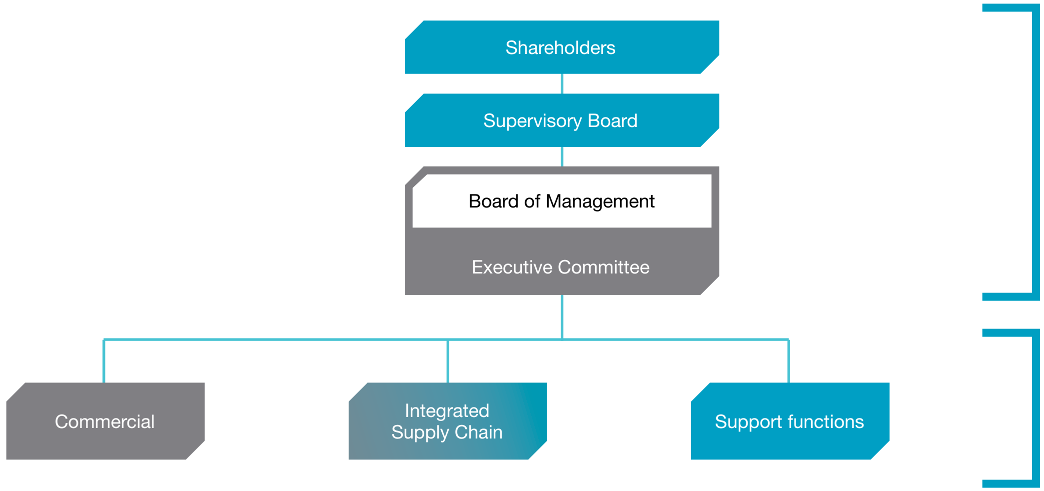
Available in five ready-mixed colors – and a further 240 via in-store tinting systems and roller wet testers – it protects against day-to-day wear and tear and can even be applied directly onto mold, without the need to clean the surface in advance.

Coral Renova was inspired by our Dulux Valentine Crème de Couleur range in France, which has been a big success. Both products are designed to help consumers make confident color choices and transform their homes with ease.

For more details visit
www.akzonobel.com

CORPORATE GOVERNANCE STATEMENT

AkzoNobel aspires to the highest standards of corporate governance and seeks to consistently enhance and improve corporate governance performance, emphasizing transparency and embedding a sustainable culture of long-term value creation.



2018 organization structure

Akzo Nobel N.V. is a public limited liability company (Naamloze Vennootschap) established under the laws of the Netherlands, with common shares listed on Euronext Amsterdam. AkzoNobel has a sponsored level 1 American Depositary Receipt (ADR) program and ADRs can be traded on the international OTCQX platform in the US.

The company's management and supervision are organized under Dutch law in a so-called two-tier system, comprising a Board of Management (solely composed of executive directors) and a Supervisory Board (solely composed of non-executive directors). The Supervisory Board supervises the Board of Management and ensures a strong external presence in the governance of the company. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders (AGM) for the performance of their functions.

Our corporate governance framework is based on the company's Articles of Association, the requirements of the Dutch Civil Code, the Dutch Corporate Governance Code (the "Code"), and all applicable laws and regulations, including securities laws. The Code contains principles and best practices for Dutch companies with listed shares. Deviations from the Code are explained in accordance with the Code's "comply or explain" principle.

With the exception of those aspects of our governance which can only be amended with the approval of the AGM, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied, if this is considered to be in the interest of the company. Where changes are made, these will be reported and explained in the annual report for the relevant year and discussed at the subsequent AGM.

A revised version of the Code was implemented with effect from January 1, 2017. The Code has been implemented in practices where required and is reflected in the Rules of Procedure of the Board of Management and of the Supervisory Board, which are both available on our website. The Code was also published on the website of the Corporate Governance Code Monitoring Committee (www.mccg.nl).

BOARD OF MANAGEMENT AND EXECUTIVE COMMITTEE

General

The Board of Management is entrusted with the management of the company. When it comes to the management of our business, it operates in the context of an Executive Committee. The Executive Committee comprises the members of the Board of Management, (currently the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO)), the Chief Operating Officer, the Chief Supply Chain Officer, the General Counsel, the Chief Corporate Development Officer and the Chief Human Resources Officer. This ensures functional, operational and commercial expertise is entrenched at the highest level of the organization.

Among other responsibilities, the Board of Management defines the strategic direction. It establishes and maintains internal policies and procedures for effective risk management and control, manages the realization of the company's operational and financial targets, its sustainability performance and its pursuit of long-term value creation. In fulfilling their duties, Board of Management members are assisted by the Executive Committee and guided by the interests of the company and its affiliated enterprises, taking into consideration the relevant interests of the company's stakeholders.

The Board of Management and Executive Committee promote openness and engagement through a SpeakUp! grievance mechanism and have established a Code of Conduct, directives, rules, guidelines and manuals incorporated in the company's Directives framework, in order to drive a culture of good governance, consistency and functional excellence. The values of good governance, sustainability and teamwork adopted by the Board of Management are incorporated in these documents. The Board of Management believes these values contribute to a culture focused on long-term value creation and actively encourages these values through leading by example.

A strong company culture fostering a solid and well-embedded balance between performance and organizational health is highly valued by the Board of Management and the Supervisory Board, and is fundamental to AkzoNobel's business strategy. In order to ensure our transformation has a sustainable impact on the whole organization, AkzoNobel's company culture forms an important part of discussions involving internal organizational changes and Human Resources strategy updates. During 2018, a quarterly Insight Survey (Organizational Health Index) was launched to all employees, focusing on our wider organizational health (see Note 4 of the Sustainability statements). The Supervisory Board regularly discusses the results of the survey, the targets and the actions taken to achieve such targets.

The Board of Management takes precedence; all Executive Committee decisions require a majority of the members of the Board of Management. The Board of Management can at all times decide to reserve decisions for the Board of Management. The members of the Board of Management remain accountable for all decisions made by the Executive Committee. The Board of Management is accountable for its performance to the Supervisory Board and is answerable to the shareholders of the company at the AGM. The Executive Committee members who are not also members of the Board of Management report to the CEO.

During 2018, our Dulux Weathershield paint was applied to Vietnam's Dai Lahn lighthouse, which is more than 100 years old. The tough, ultra-protective coating will help the historic structure to cope with anything the elements decide to throw at it.

The Supervisory Board has regular, direct interaction with all members of the Executive Committee and all Executive Committee members attend most Supervisory Board meetings.

The CEO leads the Executive Committee in its overall management of the company. He is the main point of liaison with the Supervisory Board. The CFO is responsible for overseeing AkzoNobel's finances, its corporate control, investor relations and information management.

The tasks, responsibilities and procedures of the Board of Management and Executive Committee are set out in their Rules of Procedure. These rules have been approved by the Supervisory Board and are available on our website.

Authority to represent the company is vested in the two members of the Board of Management, acting jointly. This includes the signing of documents. The Board of Management has also

delegated a level of authority to corporate agents, including the other members of the Executive Committee. The list of authorized signatories is filed with the public registry and is available on request from the Dutch Chamber of Commerce.

The Managing Directors of our business units and the Corporate Directors in charge of the different functions report to individual Executive Committee members with specific responsibility for their activities and performance.

Appointment

Board of Management members are appointed and removed from office by the AGM. The Board of Management members were appointed by EGMs (Extraordinary General Meetings) held in 2017. The other members of the Executive Committee are appointed by the CEO, after consultation with the Supervisory Board. Board of Management members are appointed for a four-year term (or less), with the possibility of re-appointment.

As described later in this section, the Meeting of Holders of Priority Shares has the right to make binding nominations for the appointment of members of the Board of Management and the Supervisory Board. However, as the company subscribes to the principles of the Code in general, members of the Supervisory Board and the Board of Management are (with the exception of those circumstances described later in this section) appointed on the basis of non-binding nominations by the Supervisory Board. In such cases, resolutions to appoint a member of the Supervisory Board or the Board of Management require a simple majority of the votes cast by shareholders.

Under certain conditions specified in the Articles of Association, shareholders may also be entitled to nominate Supervisory Board or Board of Management members for appointment. Such nominations require a two-thirds majority, representing at least 50% of the outstanding share capital, in order to be adopted at an AGM (or EGM).

AkzoNobel believes in the strength of diversity and in accordance with the Code, a Diversity Policy has been adopted for the composition of the Board of Management and Executive Committee. The objective of the Diversity Policy is to enrich the Board of Management's perspective, improve performance, increase member value and enhance the probability of achievement of AkzoNobel's goals and objectives. The Policy addresses concrete targets relating to diversity, including nationality, age, gender, education and work background. A consistent and structured approach is applied to succession planning for the Board of Management and Executive Committee, taking into account the implementation of the Diversity Policy. AkzoNobel currently diverges from the gender target of at least 30% female and at least 30% male Board of Management members. It is believed that due to the size and scale of the Board of Management (being only two members), this divergence is justified as it has ensured the best candidates for the roles were nominated by the Supervisory Board and appointed by shareholders. Nevertheless, at Executive Committee level, AkzoNobel has a gender diversity with 29% female representatives.

Outside directorships

Members of the Executive Committee are not allowed to hold more than one supervisory board membership or non-executive directorship in another listed company. This is more stringent than the requirements of the Dutch Civil Code, which allows members of a board of management to hold two such positions.

The exception to this rule is that in the 18 months prior to their retirement, Executive Committee members are allowed to hold more than one such supervisory board membership or non-executive directorship in order to allow them to prepare for retirement, as long as this does not interfere with the performance of their tasks as a member of the Executive Committee. Furthermore, an exception can be made for an executive joining the Executive Committee upon approval from the Supervisory Board. However, a maximum of two supervisory board memberships or non-executive directorships will apply.

Acceptance of external supervisory board memberships or non-executive directorships in other listed companies by members of the Executive Committee is always subject to approval by the Supervisory Board, for which authority has been delegated to the Chairman of the Supervisory Board. Currently, no outside directorships in listed companies are held by members of the Executive Committee.

Conflicts of interest

Members of the Board of Management and the other members of the Executive Committee shall not participate in the discussions and decision-making on a subject or transaction in relation to which they have a conflict of interest with the company. Supervisory Board approval is required for decisions to enter into transactions under which Board of Management or Executive Committee members have a conflict of interest of material significance to the company and to the relevant member. Any such decisions involving members of the Board of Management will be recorded in the annual report for the relevant year, with reference to the conflict of interest and declaring that the relevant best practice provisions of the Code have been complied with.

During 2018, no transactions were reported under which a member of the Board of Management or Executive Committee had a conflict of interest which was of material significance to the company and to the relevant member.

Remuneration

The remuneration of the members of the Board of Management is set in line with the Remuneration Policy, which is approved by the AGM. The Supervisory Board is responsible for determining the remuneration of the members of the Board of Management on the advice of the Remuneration Committee. The components of Board of Management remuneration, as well as the Remuneration Policy itself, are described in the Remuneration report and in Note 24 of the Consolidated financial statements.

The service contracts of the members of the Board of Management do contain change of control provisions. Further details can be found in the Remuneration report. The service contracts of the Board of Management are compliant with the Code. The main elements of these contracts are available on our website.

Members of our Extended Leadership Team helped to spruce up two buildings in Amsterdam as part of the relaunch of our Community Program. They were joined by a group of colleagues and together they gave a fresh coat of paint to a music school for children and a community center, both located in areas of Amsterdam that have faced serious social challenges over the years.

Operational Control Cycle

To facilitate efficient management and oversight of operations, the Board of Management and Executive Committee have established an Operational Control Cycle (OCC), conducted once per month. The OCC consists of a monthly Business Review Meeting, comprising the CEO, the CFO, the Chief Operating Officer, the Chief Supply Chain Officer and the leadership of our business units.

The other members of the Executive Committee have a standing invitation to these meetings. The meetings provide a forum for regular business and operational oversight, with a focus on commercial activities and supply chain processes.

Executive Committee meetings are frequently held following the Business Review Meeting, at which the implementation of the company's strategy is discussed. The functional agendas of Commercial Excellence; HSE&S; Human Resources (HR); Integrated Supply Chain; Sustainability and the Technology and Technical groups are also discussed at these Executive Committee meetings.

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

Additional meetings are held to discuss specific topics as required.

The Board of Management and Executive Committee have delegated authorities to individual Executive Committee members and to certain committees and councils.

COMMITTEES

Sustainability Council

The Executive Committee has established a Sustainability Council to advise on sustainability developments. The council monitors the integration of sustainability

A famous racing yacht was restored with our yacht coatings before embarking on a global voyage of hope. The Maiden – which was found languishing in a boatyard in the Seychelles having previously sailed twice around the world – has now embarked on a worldwide tour which will help raise awareness and fundraise for girls' education. During the extensive restoration, AkzoNobel provided products for the whole vessel, from topcoat through to tank coatings.

into management processes and oversees the company's sustainability targets and sustainability performance. The council, which meets quarterly, is chaired by the CEO and includes the Chief Corporate Development Officer, Chief Operating Officer, Chief Supply Chain Officer, Chief Human Resources Officer, representative business and functional directors and the Corporate Director of Sustainability. Significant sustainability aspects material to the company are reviewed annually, with input from internal and external stakeholders. The Sustainability Council focuses on topics with the biggest impact on accelerating the AkzoNobel strategy to create shared value, building on our core principles of sustainability, safety and integrity, including respect for human rights.

Progress regarding sustainability objectives, development, target-setting and implementation is reviewed quarterly by the Executive Committee, semi-annually by the Supervisory Board and is verified annually by PricewaterhouseCoopers Accountants N.V.. The Audit Committee takes an active role in assessing the quality and reliability of sustainability performance reporting.

Corporate Compliance Committee

The company has a Corporate Compliance Committee to support the Executive Committee with its responsibility in assuring and managing compliance, and with its reporting to the Supervisory Board. The Corporate Compliance Committee systematically identifies material compliance risks, assists in assurance of compliance with laws, regulations and ethical standards, monitors compliance and reports findings and recommendations to the Executive Committee. The Corporate Compliance Committee is chaired by the General Counsel and also consists of the Corporate Secretary, the Group Controller, two senior business managers and Corporate Directors of Internal Audit, Compliance, HR and HSE&S. Other members may be added at the discretion of the Executive Committee.

AkzoNobel has a company-wide tool in place to discuss and monitor progress with respect to compliance-related issues. More details are available in the Compliance and integrity management chapter.

Executive Pensions Committee

The Executive Pensions Committee oversees the general pension policies of the various pension plans of the company and their financial consequences for the company. The committee is chaired by the CFO and includes the Chief Human Resources Officer, the Director Legal Corporate and Corporate Directors of Treasury, Pensions and Rewards.

Disclosure Committee

The Board of Management has established a Disclosure Committee which consists of senior executives with a background in corporate law, finance and investor relations. The task of the Disclosure Committee is to establish and maintain disclosure controls and procedures, and to advise the Board of Management and a committee comprising the CEO, CFO and General Counsel on the accurate and timely disclosure of material financial and non-financial information.

SUPERVISORY BOARD

General

This section provides an overview of the responsibilities and governance of the Supervisory Board. For an understanding of the activities of the Supervisory Board over the past year, please refer to the Supervisory Board Chairman's statement and the Report of the Supervisory Board.

The responsibility of the Supervisory Board is to supervise the policies adopted by the Board of Management and the Executive Committee and to oversee the general conduct of the business of the company. In practice, this means supervising:

- The corporate strategy
- The achievement of the company's operational and financial objectives
- The design and effectiveness of the internal risk management and control systems
- The main financial parameters, compliance with applicable laws and regulations and risk factors

The Supervisory Board advises the Board of Management and Executive Committee, while taking into account the interests of the company and its stakeholders. Major investments, acquisitions and functional initiatives are subject to Supervisory Board approval.

The Supervisory Board is governed by its Rules of Procedure (available on our website). The Rules of Procedure include the profile and the Charters of the Committees, which set out the tasks and responsibilities of the Supervisory Board, as well as its operational processes.

Role of the Chairman

The Chairman of the Supervisory Board determines the agenda, chairs Supervisory Board meetings and the AGM, monitors the proper functioning of the Supervisory Board and its committees, arranges for adequate provision of information to its members and acts on behalf of the Supervisory Board as the main contact for the Board of Management and Executive Committee. He initiates the evaluation of the functioning of the Supervisory Board, its committees, individual members and the functioning of the Board of Management.

Throughout the year, the Chairman of the Supervisory Board ensures that regular updates are provided to the Supervisory Board on the company's businesses, sustainability, legal matters, social and corporate governance, accounting, investor relations, compliance, risk management and internal controls.

Composition

The Supervisory Board members, including their biographies, can be found in the Leadership section. In compliance with the Dutch Civil Code, the Supervisory Board has a balanced composition, consisting of at least 30% female and at least 30% male members, reflecting the nature and variety of the company's businesses, their international spread and expertise in fields such as finance, economics, information technology (IT), societal, environmental and legal aspects of business, government and public administration.

The current members represent five nationalities and have diverse experience, appropriate to the markets in which AkzoNobel operates, as well as knowledge of different markets and non-operational areas. The Supervisory Board maintains a skills matrix, which provides an overview of the skills and experience of the individual members. The Supervisory Board skills matrix can be found in the Report of the Supervisory Board.

In addition, in accordance with the Code, a Diversity Policy has been adopted for the composition of the Supervisory Board. The objective of the Diversity Policy is to ensure a balanced composition, taking account of nationality, age, gender, education and work background. During 2018, the Diversity Policy was implemented through the Supervisory Board's consistent and structured approach to succession planning. There are no divergences to report. The Diversity Policy is included in the Supervisory Board's Rules of Procedures, which can be found on our website.

When nominating and selecting new candidates for the Supervisory Board, the Supervisory Board profile and skills matrix, the requirements of the Act on

Management and Supervision, and the principles and provisions of the Code, are taken into account.

Appointment

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures identical to those previously outlined for the members of the Board of Management.

In accordance with the Code, the Rules of Procedure of the Supervisory Board have been updated such that Supervisory Board members are eligible for re-election once for a period not exceeding four years. Thereafter, members may be re-elected a second time for a period of two years. This period may be extended by two years at the most. In the event of a re-appointment after an eight-year period, reasons shall be given in the Report of the Supervisory Board. Terms of appointment are based on a re-appointment scheme, available on our website. In 2018, one appointment and one re-appointment to the Supervisory Board were proposed to, and approved by, the Annual General Meeting of shareholders held on April 26.

Induction and training

Following appointment to the Supervisory Board, new members receive a comprehensive induction tailored to their individual needs. This includes extensive briefings about all major business and functional aspects of the company and its corporate governance and compliance requirements. The induction includes meetings with the CEO, CFO, all other Executive Committee members and relevant members of senior management, as well as site visits. This enables new Supervisory Board members to quickly build up an understanding of AkzoNobel's businesses and strategy, as well as the key risks and issues the company faces. In addition, the Chairman ensures the Supervisory Board is provided with regular updates and that the Supervisory Board undertakes training, for example in the area of compliance and ethics.

Independence of the Supervisory Board

Supervisory Board members are required to act critically and independently of one another, the Board of Management, the Executive Committee and the company's stakeholders.

Each member of the Supervisory Board meets the independence requirements as stated in the Code and has completed the annual independence questionnaire addressing the relevant requirements for independence.

To this end, the company takes steps to verify that:

- There are no cross ties between Supervisory Board members and members of the Board of Management
- There have been no employment relationships between Supervisory

- Board members and AkzoNobel during the five years preceding their last appointment
- No personal financial compensation has been paid, other than in relation to work as a Supervisory Board member
- No Supervisory Board member has had important business relationships with the company in the year prior to their last appointment
- There are no significant shareholding ties (amounting to more than 10% of the share capital of the company) between Supervisory Board members, or their closely associated persons and the company

Conflict of interest

Members of the Supervisory Board shall not participate in the discussions and decision-making on a subject or transaction in relation to which they have a conflict of interest with the company. Decisions to enter into transactions under which Supervisory Board members have conflicts of interest that are of material significance to the company, and to the relevant Supervisory Board member, require the approval of the Supervisory Board. Any such decisions will be recorded in the annual report for the relevant year, with reference to the conflict of interest and a declaration that the relevant best practice provisions of the Code have been complied with. During 2018, no transactions were reported under which a member had a conflict of interest which was of material significance to the company.

Remuneration

Supervisory Board members receive a fixed annual remuneration and attendance fee, which is determined by the AGM. More information on the remuneration of the members of the Supervisory Board can be found in Note 24 of the Consolidated financial statements.

SUPERVISORY BOARD COMMITTEES

The Supervisory Board has established three permanent committees – Audit Committee, Nomination Committee and Remuneration Committee. This section explains aspects of the governance and roles and responsibilities of these committees. Information on the work, composition and attendance of the Supervisory Board members at the meetings of the committees during the year is set out in the Report of the Supervisory Board.

Each committee has a charter describing its role and responsibilities, as well as the manner in which it discharges its duties and reports to the full Supervisory Board. These charters are included in the Supervisory Board Rules of Procedure. The committees report on their deliberations and findings to the full Supervisory Board.

In 2017, the Supervisory Board also established a temporary Shareholder Relations Committee. Its role is to oversee the strengthening of AkzoNobel's relationship with shareholders and review relevant feedback from the investor community. The committee reports on its deliberations and findings to the full Super visory Board. The Shareholder Relations Committee comprises Mr. Andersen (Chairman), Mr. Verwaayen, Dr. Kirby and Mr. Grote. Four meetings were held in 2018, with the company's Director of Investor Relations acting as Secretary.

Audit Committee

The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of:

- Accounting, reporting, risk management and internal control practices of the company
- Compliance with legal and regulatory requirements
- Performance of the Internal Audit function
- Qualifications, performance and independence of the external auditor

The Audit Committee has a role in assessing the quality and integrity of reporting on sustainability performance and takes an active role in reviewing the company's sustainability performance data.

As a rule, the CFO, Group Controller, Corporate Director of Internal Audit and lead partner of the external auditor attend all regular meetings. After most Audit Committee meetings, members hold a separate meeting with only the internal auditor present, a separate meeting with only the external auditor present and sessions with only Audit Committee members in attendance.

In addition, there are regular executive sessions with only Audit Committee members and the CFO present. Other members of the Executive Committee attend as and when requested. The General Counsel reports to the Audit Committee on compliance matters at every regular Audit Committee meeting and provides a claim and liability report to the Audit Committee once a year.

The Chairman of the Audit Committee is primarily responsible for the proper functioning of the Audit Committee and reports the activities and findings of the committee to the Supervisory Board, which discusses these activities and findings when necessary. The Chairman also initiates the evaluation of the functioning of the Audit Committee and its individual members, without members of the Board of Management being present.

Nomination Committee

The Nomination Committee focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members. The Nomination Committee assesses the size and composition of both Boards, evaluates the functioning of the individual members, makes proposals for appointments and re-appointments and supervises the Board of Management on the selection of senior management. The Nomination Committee also considers appointments by the CEO of Executive Committee members who are not also a member of the Board of Management.

The company's Executive Committee, including General Counsel Isabelle Deschamps, attended a series of meetings throughout the year to discuss progress on our Winning together: 15 by 20 strategy. Also high on the agenda was further embedding the success factors we introduced in 2017: passion for paint, powerful performance, proud people and precise processes.

When selecting candidates for appointment to the Supervisory Board, account is taken of the Supervisory Board profile, the diversity requirements of the Dutch Civil Code and the Code, as well as the need for knowledge of the markets in which the company operates and insights from other markets and non-operational areas.

Remuneration Committee

The Remuneration Committee is responsible for making proposals to the Supervisory Board on the Remuneration Policy for the Board of Management, for overseeing the remuneration of the individual members of the Board of Management and other members of the Executive Committee, and for overseeing the remuneration schemes for AkzoNobel executives involving the company's shares.

The Remuneration Committee conducts periodic reviews of the performance of the members of the Board of Management and Executive Committee. The Remuneration Committee also reviews the remuneration of members of the Supervisory Board and prepares proposals for adjustments, if necessary.

SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders (AGM) is an integral part of the governance of the company and its system of checks and balances. The AGM reviews the annual report and decides on the adoption of the financial statements and the dividend proposal, as well as the discharge of members of the Supervisory Board and Board of Management.

The AGM is convened by public notice and the agenda, notes to the agenda and the procedure for attendance and voting at the meeting are published in advance and posted on our website. Matters proposed for consideration, approval or adoption are tabled as separate agenda items and explained in writing in advance of the meeting.

These proposals include, where relevant:
- Adoption of the financial statements
- Dividend proposal
- Discharge of members of the Supervisory Board and Board of Management
- (Re)election of members of the Board of Management and Supervisory Board
- Remuneration of members of the Supervisory Board
- Material changes to the Remuneration Policy of the Board of Management
- Other important matters, such as major acquisitions or the sale or demerger of a substantial part of the company, as required by law
- Authorization of the Board of Management to issue new shares
- Authorization of the Board of Management to repurchase shares
- Amendments to the Articles of Association

The company provides remote voting possibilities to its shareholders. Holding shares in the company on the record date determines the right to exercise voting rights and other rights relating to the AGM. All resolutions are made on the basis of the "one share, one vote" principle (assuming an equal par value for each class of shares). All resolutions are adopted by absolute majority, unless the law or the company's Articles of Association stipulate otherwise.

Holders of common shares in aggregate representing at least 1% of the total issued capital, or, according to the Official List of Euronext Amsterdam N.V., representing a value of at least €50 million, may submit proposals for the AGM agenda. Such proposals must be adequately substantiated and must be submitted in writing, or electronically, to the company at least 60 calendar days in advance of the meeting. Draft minutes of the AGM are made available on the company's website within three months of the meeting date. The final and duly signed minutes are made available on the website within six months after the meeting date.

Share classes

AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. Common shares are also traded over-the-counter on OTCQX in the US in the form of American Depositary Receipts (each American Depositary Receipt representing one-third of a common share). On December 31, 2018, a total of 256 million common shares and 48 priority shares had been issued. The company has been informed that by December 31, 2018, Capital Research and Management Company, Norges Bank, MFS Investment Management and Elliott Advisors (UK) Limited each held more than 5% of the company's share capital.

The priority shares are held by the Foundation Akzo Nobel (Stichting Akzo Nobel). The Foundation's Board consists of members of AkzoNobel's Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the nomination rights for the appointment of members of the Board of Management and the Supervisory Board, as well as the right to approve amendments to the Articles of Association of the company.

No cumulative preferred shares have been issued to date. Cumulative preferred shares merely have a financing function, which means if necessary, and possible, they will be issued at or near to the prevailing quoted price for common shares.

The AGM held on April 26, 2018, authorized the Board of Management for a period of 18 months after that date, or, if earlier, until the date on which the AGM again extends the authorization – subject to approval from the Supervisory Board – to issue shares in the capital of the company free from pre-emptive rights, up to a maximum of 10% of the issued share capital. The Board of Management was also given a mandate to acquire up to a maximum of 10% of the issued share capital of the company.

Anti-takeover provisions and control

According to the Code, the company is required to provide an overview of its actual or potential anti-takeover measures, and to indicate in what circumstances it is expected that they may be used.

The priority shares may be considered to constitute a form of anti-takeover measure, in relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board. The Foundation Akzo Nobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company's management and policies is at stake.

This may be the case if a public bid for the common shares of the company has been announced, or has been made, or the justified expectation exists that such a bid will be made, without any agreement having been reached in relation to such a bid with the company. The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued common shares of the company without making an offer. Or if, in the opinion of the Board of the Foundation Akzo Nobel, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases, the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders.

The Board of the Foundation Akzo Nobel has reserved the right to make use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances.

Although a deviation from provision 4.3.3 of the Code, the Supervisory Board and the Board of Management are of the opinion that these provisions will enhance the continuity of the company's management and policies.

In the event of a hostile takeover bid, or other action which the Board of Management and Supervisory Board consider adverse to the company's interests, the two Boards reserve the right to use all available powers (including the right to invoke a response time in accordance with provisions 4.1.6 and 4.1.7 of the Code), while taking into account the relevant interests of the company and its affiliate enterprise and stakeholders.

AUDITORS

The external auditor is appointed by the AGM on proposal of the Supervisory Board. The appointment is reviewed every four years and the results of this review and assessment are reported to the AGM. The external auditor attends all regular Audit Committee meetings, as well as the majority of the additional meetings, and the meeting of the Supervisory Board at which the financial statements are approved.

During these meetings, the auditor discusses the outcome of the audit procedures and the reflections thereof in the auditors' report and the management letter. In particular, the key audit matters are highlighted. The auditor receives the financial information and underlying reports of the quarterly figures and can comment on and respond to this information.

The lead external auditor is present at the AGM and may be questioned with regard to his statement on the fairness of the financial statements.

Auditor independence

The Audit Committee and Board of Management report their dealings with the external auditor to the Supervisory Board annually and discuss the auditor's independence.

As the current lead audit partner will retire in 2019, it was decided to appoint a new lead audit partner as per the start of the audit on the financial year 2019. In close cooperation with PricewaterhouseCoopers Accountants N.V. and after having interviews with potential candidates, the Audit Committee decided on the succession of the current lead audit partner.

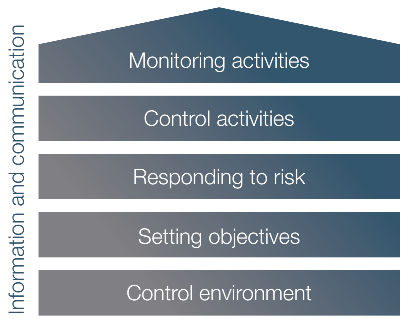
Other services
One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and monitoring of the auditors and the services they provide to the company. Pursuant to the Audit Profession Act, the auditors are prohibited from providing the company with services in the Netherlands other than “audit services aimed at providing reliability concerning the information supplied by the audited client for the benefit of external users of this information and also for the benefit of the Supervisory Board,” as referred to in the reports mentioned.

The company has taken the position that no additional services may be provided by the external auditor and its global network that do not meet these requirements, unless local statutory requirements so dictate. In order to anchor this in our procedures, the Supervisory Board adopted the AkzoNobel Rules on External Auditor Independence and Selection and the related AkzoNobel Guidelines on Auditor Independence. These documents are available on our website.

Internal Audit
The Internal Audit function is mandated to provide the Board of Management, Executive Committee and Audit Committee with independent, objective assurance on the adequacy of the design and operating effectiveness of the internal control framework described below.

The Corporate Director of Internal Audit reports to the Board of Management and has direct access to the Audit Committee and its Chairman. The function performs its mandate based on a risk-based audit plan, which is approved by the Board of Management and the Audit Committee. It reports a summary of the audit findings bi-annually to the Board of Management and Executive Committee, and the Audit Committee, which culminates in an annual assessment of the quality and effectiveness of the company’s internal control systems. (See Audit Committee earlier in this section).

The AkzoNobel internal control framework



The AkzoNobel internal control framework provides reasonable assurance in achieving business goals, including strategic, operational and reporting goals, in addition to those covering compliance. Internal control is not only about policies and procedures, but also relates strongly to people, culture and behaviors.

During 2018, the mandatory external evaluation of the performance and quality of the Internal Audit function by the Dutch Institute of Internal Auditors was conducted. The assessors were satisfied with the effectiveness of the function.

SHARE DEALING RULES AND RULES ON DISCLO-SURE CONTROL

In accordance with Dutch law and regulations (including the European Market Abuse Regulation), the company maintains insider lists and exercises controls around the dissemination and disclosure of potentially price sensitive information.

All employees and the members of the Board of Management, Executive Committee and Supervisory Board, are subject to the AkzoNobel Share Dealing Rules, which limit their opportunities to trade in AkzoNobel securities. Transactions in AkzoNobel shares carried out by Board of Management, Executive Committee and Supervisory Board members (including their closely associated persons) are, as and when required, notified to the Dutch Authority for the Financial Markets (AFM).

The Board of Management, Executive Committee and Supervisory Board members require authorization from the General Counsel prior to carrying out any transactions in respect of AkzoNobel securities, even in a so-called “open period”. In relevant cases, the General Counsel can prohibit carrying out transactions in respect of other companies’ securities. In addition, all employees are subject to the AkzoNobel Rules on Disclosure Control.

INTERNAL CONTROLS AND RISK MANAGEMENT

Internal controls
The company has strict procedures for internal controls. The Board of Management and Executive Committee have established an Internal Control Committee to assess the adequacy and effectiveness of the company’s internal control framework (see diagram on this page). As in previous years, we continued to work on system-embedded controls, standard role design and segregation of duty monitoring. The design of the annual internal control self-assessment process was adapted to the most recent changes in the company structure. An integrated Risk and Internal Control department (RIC) supports all businesses and functions in their work.

Risk management
Our risk management system is explained in more detail in the following section. Reference is made to the Statement of the Board of Management in the Leadership section for statements relating to internal risk management and control systems.

RAISING THE BAR WORLDWIDE

At AkzoNobel, we share the simple, deeply rooted belief that doing the right thing is a moral imperative – and can also be good for our business. That's why we operate from a foundation of core principles: sustainability, safety and integrity, including respect for human rights.

As an employer, manufacturer, business partner and member of communities globally, we understand that we have many significant roles to play in society. It's a big responsibility, and an even bigger opportunity to make the world a better place.

"Our focus on human rights in particular helps us to be a good corporate citizen," explains Siham Lotfi, our Global Head of Human Rights. "Being the reference in our industry doesn't just apply to our products and services. It also means being a leader in terms of respecting human rights when doing business – as well as meeting growing customer expectations on the issue."

Siham adds that in some cases, large international companies can have an even bigger impact on human rights than people may realize. "Our high standards on human rights can cross borders, and we can also influence partners to follow in our footsteps," she continues.

AkzoNobel is committed to having human rights respected across the entire value chain. Efforts are championed by senior leadership, with our Executive Committee directly overseeing the work of a dedicated Human Rights Committee.

"We want to lead our industry in all relevant areas, including sustainability and integrity," notes Siham. "That means we must respect human rights when doing business."

For more details on our approach to human rights, see page 171.

RISK MANAGEMENT

Doing business involves taking risks. By seeking to take balanced risks, we strive to be a successful and respected company and managing those risks is an essential element of our corporate governance and strategy development.

We continuously strive to foster a high awareness of business risks and internal control to provide transparency in our operations.

The Board of Management and the Executive Committee are responsible for managing the risks associated with our activities and, in turn, for the establishment and adequate functioning of appropriate risk management and control systems (see Statement of the Board of Management in the Leadership section).

RISK MANAGEMENT FRAMEWORK

Our risk management framework is in line with the Enterprise Risk Management – Integrated Framework of COSO and the Dutch Corporate Governance Code, and provides reasonable assurance that our business objectives can be achieved and our obligations to customers, shareholders, employees and society can be met.

For more information on our risk management framework, visit: www.akzonobel.com/en/risk-management-framework

MEDIUM-TERM RISKS

RISK MANAGEMENT IN 2018

Risk management is a company-wide activity, under the responsibility of the Board of Management and Executive Committee, which ensures we focus on the areas of major risk exposure.

During 2018, we held a significant number of enterprise risk workshops across the organization. The number reflects the maturity and complexity of the organization. The identified scenarios are prioritized by responsible management teams and functional experts, with adequate mitigating actions being defined.

We also launched several important initiatives, coordinated by a Transformation Office, to support our Winning together: 15 by 20 strategy. We recognize the inherent risks associated with the multiple changes in the organization resulting from these initiatives. We have therefore defined the necessary actions to mitigate these risks and are supported by our Risk and In Control department in our ongoing assessment.

Our initial focus is on risks that may impact achievement of our strategy in the next three-to-five years (medium-term risks). We also recognize relevant risks beyond this five-year horizon (long-term risks). Both risk categories feature in this chapter.

The table below summarizes the major risk factors for the company in the next three-to-five years. The symbols represent management's assessment of how these risks are expected to develop, compared with the previous year.

External – Strategic		**Internal – Strategic**	
• Global economy and the geo-political context	▲	• Innovation, identification and successful implementation of major transforming technologies	■
• Strategic moves in our value chain	■		
External – Operational		**Internal – Operational**	
• Raw materials and energy	■	• Attraction and retention of talent	▲
• Product liability	■	• Management of change	▲
• Information technology and cybersecurity	▲	• Analytics and big data	■
External – Financial			
• Post-retirement benefits	▼		
External – Compliance			
• Complying with laws and regulatory developments	■		

Risk has been assessed to increase. ▲
Risk has been assessed to decrease. ▼
Risk has been assessed to remain fairly stable. ■

The following changes have been made for 2018:
- International operations and Exchange rate fluctuations are now part of Global economy and the geo-political context
- Production process risks are included under Complying with laws and regulatory developments
- The mitigating actions defined for Environmental risks and liabilities are now spread across several risk areas
- Analytics and big data is a new category

External - Strategic

GLOBAL ECONOMY AND THE GEO-POLITICAL CONTEXT

The world's geo-political situation remains unpredictable and, as a company, we operate in highly competitive markets. Failure to carefully manage and develop a good understanding of end-user segments could have an immediate impact on financial performance, resulting in the company not realizing its financial guidance.

Mitigating actions
- Continue our strategy to reduce both our operational cost base and complexity
- Leverage our Global Business Services to further standardize core functional processes in all regions
- Further deploy our commercial excellence programs and more sustainable product solutions to capture organic growth
- Centralize management of foreign currency exposure and reduction of transactional exposure through natural hedges in our main currencies (see Note 25 of the Consolidated financial statements)
- Include political risk assessment in investment decisions and medium-term operational planning

External – Strategic

STRATEGIC MOVES IN OUR VALUE CHAIN

An accumulation of strategic moves (horizontally and/or vertically) could impact our competitive position and/or increase the vulnerability of operations. Further industry consolidation renders acquisitions more expensive, makes possible anti-trust implications larger and the required synergy targets more difficult to achieve.

Mitigating actions

- Competitive intelligence analysis of (new) competitors, customers and suppliers
- Strengthen mergers and acquisitions (M&A) and integration capabilities
- Further enhance pipeline of viable market and technology opportunities for M&A, focusing on strategic rationale
- Secure freedom to invest through strategic alignment with shareholders and other stakeholders

External - Operational

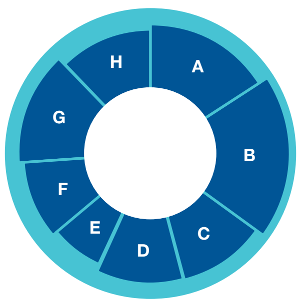
RAW MATERIALS AND ENERGY

Prices for key raw materials and energy can be volatile, are affected by economic conditions and regulations, as well as national policies and subsidies. The chart on the right shows our relative spend on key raw materials, excluding energy.

Mitigating actions

- Actively leverage the cost, quality and delivery of raw materials and energy, including the performance of suppliers
- Manage risks related to single sourced materials, demand forecasting and margin-impact assessment
- Increase our sourcing efficiency by introducing new forecasting tools in close cooperation with the business
- Created the role of Resins Business Director to optimize the design and management of a sustainable resin strategy

Breakdown of total raw material spend in %



A	Additives	16
B	Commodity resins	19
C	Latex and monomers	11
D	Packaging	11
E	Pigments and colorants	7
F	Solvents	10
G	Specialty resins	14
H	Titanium dioxides	12

External - Operational

PRODUCT LIABILITY

High impact product liability claims, while unlikely, could result from the use of former, current or new technologies and compounds.

Mitigating actions

- Quality improvement programs across the company
- Product stewardship and regulatory affairs integrated in R&D, HSE&S and sustainability agenda
- Tailored insurance coverage for product liability claims

External - Operational

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 exchanges of business transactions increasing, the non-availability of IT systems – or unauthorized access – could have a direct impact on our business processes, competitive position and reputation.

Mitigating actions

- Focus on measures such as redundant design, back-up processes, virus protection, anti-spoofing, advanced forensic scanning and mission critical infrastructure support
- Improve incident response and reporting by implementing a cyber Security Operations Center (SOC), providing improved coordination, monitoring and response to cybersecurity
- Centrally monitor access control processes and identity and access enhancements
- Roll-out of the new Information Management security standard for industrial control systems to all manufacturing locations
- Further test and improve IT security response and incident management process
- Further rationalize our application landscape to reduce complexity and enhance efficiency and effectiveness

External - Financial

POST-RETIREMENT BENEFITS

Our current policy is to contribute to defined contribution schemes wherever possible. A number of defined benefit pension and healthcare schemes from the past are generally funded through external trusts or foundations, where AkzoNobel faces the potential risk of funding shortfalls.

Mitigating actions

- Our policy is to offer defined contribution schemes to new employees and, where appropriate, to existing employees. The most significant defined benefit schemes are closed to new entrants and

are managed and controlled by independent trustees
- We practice proactive pension risk management and continuously review options to reduce the financial and demographic risks associated with all our defined benefit plans, for example through hedging interest rates, inflation and mortality risks via investment in longevity and bulk annuity policies. The most significant defined benefit schemes have been closed to new entrants for more than 15 years

External - Compliance

COMPLYING WITH LAWS AND REGULATORY DEVELOPMENT

Our global footprint exposes us to increasingly stringent laws and regulations covering an increasing range of subjects (such as safe use of hazardous compounds, environmental releases, soil contamination, human rights, competition law).

Mitigating actions

- Remain dedicated to minimizing AkzoNobel's compliance risk by fostering an open and transparent culture, continuously educating and training our employees worldwide and increasing awareness (for example, our Code of Conduct)
- Monitor overall compliance through our comprehensive annual Non-Financial Letter of Representation (NFLoR) process
- Implementation of Business Partner Compliance Framework
- Define leading technology standards in VOC/dust emission/energy control systems
- Conduct mandatory annual environmental liability reviews
- Integrate environmental standards and regulations in plant design
- Continuously innovate to remain at the forefront of new, sustainable product introductions
- ALPS is being implemented to drive continuous improvement and operational excellence
- Operate under state-of-the-art safety requirements for our manufacturing and R&D sites (for example, AkzoNobel People, Process and Product Safety Common Platform)
- Ongoing business continuity planning

Internal - Strategic

INNOVATION, IDENTIFICATION AND SUCCESSFUL IMPLEMENTATION OF MAJOR TRANSFORMING TECHNOLOGIES

Our success and leadership positions depend on the sustainable growth of our business through research and the adoption of major transforming technologies, social media and digital applications in general.

Mitigating actions

- Prioritize funding for technology road maps and innovation strategies
- Enhance our global open innovation capability
- Invest in promising venture funds
- Explore acquiring/partnering with innovative startups
- Dedicated IT team to support the business in new technology applications

Internal - Operational

ATTRACTION AND RETENTION OF TALENT

Ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce across the globe is an increasingly complex process. At the same time, it determines to a large extent the success of our organization.

Mitigating actions

- Strengthen AkzoNobel's employee value proposition
- Focus on talent development programs and succession planning (for example, Talent and Opportunity Review, Your AkzoNobel, nomination of Talent Managers)
- Fully embed values and behaviors in our Performance and Development Dialog annual appraisal

Internal - Operational

MANAGEMENT OF CHANGE

Our Winning together: 15 by 20 strategy will help transform AkzoNobel into a long-term leader. But we also recognize the risks associated with such profound changes. This means we need to invest in building an organization structure which encourages and embraces change, while balancing opportunity and risk.

Mitigating actions

- Focus on core principles and values and embed these in reward systems to set desired behavioral changes in motion
- Identify organizational health initiatives and track progress periodically
- Roll out principles of commercial excellence in all levels of the organization
- Support adoption of a new organization model through the creation of a Planning and Transformation Office, including a network of Regional Transformation Leads
- Implement standard solutions across the company under the responsibility of designated Global Process Owners
- Continue the journey of creating fit-for-purpose support functions to drive synergies and standardization at a company-wide level
- Roll-out R&D effectiveness program, including Innovation Team and startup challenge

Internal - Operational

ANALYTICS AND BIG DATA

In order to utilize data analytics and "big data" to support even better decision-making, we recognize the need to invest in an appropriate organization structure and governance framework with common standards, methods and tools to deliver insightful information across the company.

Mitigating actions

- Maintain strong process and data ownership
- Define and implement an IM platform to support advanced analytics and management of big data

LONG-TERM RISKS

Long-term risks are existing risks associated with current trends that are anticipated to increase, or risks currently not material, but that could develop into major areas of concern for the company, or for society as a whole. We monitor the development of these risks as part of our risk management process and include them in our overall strategic assessment.

The most significant long-term risks we observe are:

- Increasing public concern arising from environmental/safety properties of specific ingredients in products leading to legislation banning or restricting the use of products containing them and/or customers deselecting products in key markets
- Failing to listen to, and engage with, an ever-widening field of stakeholders – in particular customers, investors and regulators – in the area of sustainable development and the systematic changes needed for its achievement. This requires extra attention for:
  - Transparency on the economic, environmental and social impact of our strategy and activities
  - A comprehensive human rights framework following UN guiding principles
  - Concerns over tax avoidance by large corporations
  - A persistently negative perception of the role of global corporations in society, leading to reputational and financial damage
- Increasing short-termism among investors, which could cause businesses to:
  - De-prioritize investments required for long-term and sustainable growth
  - Miss out on future opportunities
  - Excessively focus on short-term financial results at the expense of long-term value creation and identification of long-term risks
- Impact on business of climate change and the shift towards a circular economy under various scenarios:
  - A carbon price leading to higher cost of raw materials
  - Increase in frequency and severity of extreme weather events, leading to supply chain disruption
  - Restrictions on emissions leading to increased demand for low carbon solutions or higher production costs
  - A global shift to a circular economy with major implications for businesses to be an enabler and deliver circular solutions in collaboration with others

COMPLIANCE AND INTEGRITY MANAGEMENT

Integrity is one of our core principles. We're committed to conducting business in a lawful, fair and honest way and expect the same from our business partners. We have a robust compliance program which is focused on the risks most material to the company and its stakeholders.

INTEGRITY WEEK

In June 2018, the company held an Integrity Week, which focused on reminding employees of our commitment to doing business with integrity. This program included the relaunch of an updated Code of Conduct and e-learning.

RISK IDENTIFICATION AND PRIORITIZATION

We identify compliance risks through several processes, including:

- Enterprise Risk Management (see page 71)
- Internal control self-assessments
- Non-Financial Letter of Representation (NFLoR)
- Monitoring of legal developments
- SpeakUp! investigations
- Compliance training
- Supplier self-assessments
- Internal audits
- Business partner audits
- Value chain due diligence

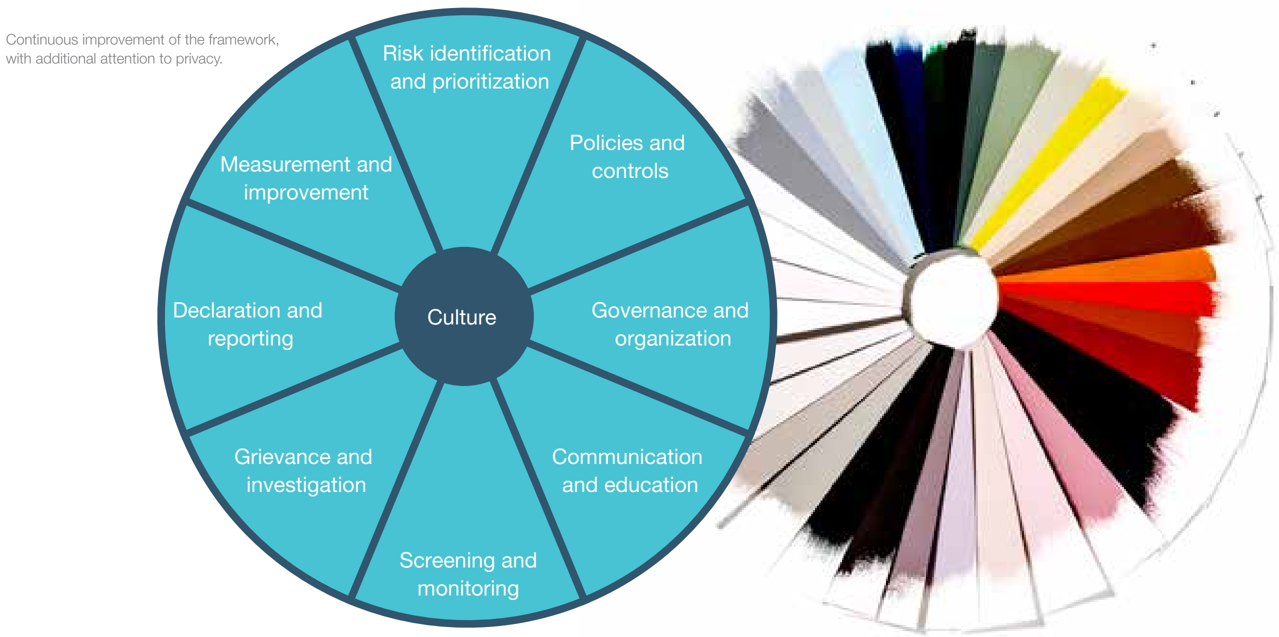
As part of the NFLoR process, every business and major function identifies its inherent and residual compliance risks and reports this in a Compliance Risk Overview to the relevant Executive Committee member as part of the newly introduced Risk Compliance and Control reporting process (see page 77). In turn, the Executive Committee members report the compliance risks to the CEO.

In 2018, the top five inherent compliance risks were in the field of competition law, environmental law, bribery, fraud and data protection. Action plans are in place to mitigate these risks.

POLICIES AND CONTROLS

Our Code of Conduct and Business Partner Code of Conduct explain our three core principles of safety, integrity and sustainability to our employees and business partners and outline what we

Compliance framework



expect from them. These codes, and our SpeakUp! procedure, are available in 32 languages. They are also supplemented by internal rules and procedures – which are available to employees in our Directives Portal – and by agreements with our business partners. For example, the section on Honest Business Conduct refers to the Directives and Rules on Anti-Bribery, Gifts and Entertainment, which also contains detailed rules on facilitation payments, political contributions, charitable donations and sponsorships. Employees are required to confirm compliance as part of the annual performance evaluation, while all business partners are required to sign our Business Partner Code of Conduct, or show that they apply similar business principles.

In 2018, we updated our Binding Corporate Rules on the protection of personal data to meet the requirements of the EU General Data Protection Regulation. With these Binding Corporate Rules, we apply the same high privacy standards across all our operations worldwide.

GOVERNANCE AND ORGANIZATION

The Board of Management and the Executive Committee are responsible for an effective compliance management framework across all AkzoNobel group entities, and for maintaining a culture of integrity which supports long-term value creation. The Audit Committee supervises this responsibility on behalf of the Supervisory Board.

Compliance committees

The Executive Committee has appointed a Corporate Compliance Committee (see page 64), Human Rights Committee, Privacy Committee and Life-Saving Rules Committee consisting of senior leaders from different disciplines, including business representatives that monitor and assess the frameworks for which they are responsible. Their composition and responsibilities are explained on our website. In 2018, the Sensitive Country Committee was integrated into the Corporate Compliance Committee.

Risk, Compliance and Control Committee

Introduced in 2018, every business unit and major function has a Risk, Compliance and Control Committee. This committee consists of the managing director, finance director, human resources director and representation from Compliance, Internal Control and Internal Audit. These committees meet four times per year and review the compliance and control risks, deficiencies and actions.

The introduction of this new process means that the Quarterly Attestation, Compliance Committee and Internal Audit meetings have been integrated. This enables business and functional leadership to get a better view of all compliance and control risks and actions, as well as enabling prioritization across Compliance, Internal Control and Audit findings and cross-fertilization between those functions.

Compliance function

The Compliance function:

- Hosts the Codes of Conduct and Directives Portal
- Develops and communicates rules and guidance
- Manages compliance training programs
- Facilitates risk assessments
- Performs compliance due diligence
- Manages investigations
- Facilitates compliance self-assessment
- Reports on compliance to senior leadership

Its legal experts in the field of competition law, export control, anti-bribery, privacy and human rights provide legal advice, training and support. Its Compliance Managers support the business and functional leaders in managing the day-to-day compliance operations.

In 2018, the compliance resources were streamlined to better suit our transformation into a more focused paints and coatings company.

Internal Audit

The effectiveness of the compliance framework is audited by the Internal Audit function. Following investigations, Internal Audit may also be engaged to conduct additional reviews to establish root cause analysis.

COMMUNICATION AND EDUCATION

Our core principles and directives are communicated to employees in several ways, including a comprehensive digital training program, classroom training and compliance communications. They serve to educate our employees and inspire them to apply high ethical standards.

Digital training

The Code of Conduct and Life-Saving Rules online training are mandatory for every employee. In the second half of 2018, we relaunched our Code of Conduct digital training as a refresher to all employees. Mandatory digital training is also provided to designated employees in the field of competition law, export control, bribery, privacy, fraud and information security.

In 2018, new online training was launched on bribery and privacy. The overall completion rate of online compliance training was at 71%, lower than previous years in light of the relaunch of the Code of Conduct, bribery and privacy training during the course of the year.

Classroom training

Classroom training is provided on a variety of topics, including general compliance awareness, the Code of Conduct, SpeakUp!, competition law, export control, privacy and discrimination and harassment.

Communication

The Compliance function issues compliance bulletins, spotlights and articles in company digital newsletters on a regular basis. For example, in 2018, we twice issued a company-wide alert on external fraud attempts, supported by a user-friendly animation which explained what to watch out for and what to do in case of attempted fraud. On several occasions, communications on competition law were also issued in support of our pricing acceleration actions, which informed employees about what they can and cannot do.

As with every year, in early December, a year-end integrity message was issued. Sent directly from the General Counsel, it reminded employees of our accounting rules and our rules on gifts and entertainment ahead of the holiday season.

Compliance portal

A comprehensive compliance web portal is available to employees containing guidance, templates and references on various compliance topics. In 2018, a new section was launched to help employees ensure privacy compliance when carrying out personal data processing activities. The portal contains step-by-step guidance and templates, including standard data processing agreements, terms and conditions for websites and cookie policies.

SCREENING AND MONITORING

We use several processes and tools to screen employees, business partners, activities and acquisition targets. For example, we have a business partner screening tool, which enables employees to perform a compliance check on potential new suppliers, agents and other high risk business partners.

We also have a sanctioned party and country screening tool, which is interfaced with ERP systems and automatically screens parties and transactions against sanctioned parties and country lists. In 2018, we embedded the personal data processing activity register in our information management processes (privacy by design) and registered and assessed numerous existing personal data processing activities.

Compliance of our operations is monitored in several ways. For example, as part of the annual internal control self-assessment and NFLoR process. Compliance of suppliers is monitored through the Together for Sustainability Ecovadis self-assessments and audits (see page 164).

SpeakUp! reports

	2016	2017	2018
Total reports registered	324	261	238
Reports received through SpeakUp!	187	129	104
Safety	23	23	6
Integrity	64	53	50
Sustainability	100	53	48
SpeakUp! Paints and Coatings/Specialty Chemicals[1]	162/25	104/25	104
SpeakUp! reports Category 1[2]/Category 2	13/174	14/115	21/83
SpeakUp! reports (partially) substantiated/unsubstantiated/referred[3]	38/84/16	17/80/2	14/42/5
Total number of dismissals resulting from SpeakUp! reports	16	4	5

[1] Corporate matters are included in Paints and Coatings.
[2] Matters with a financial impact >€0.5 million, or involving senior management, or relating to competition law, anti-bribery or export control.
[3] Referred means: allegation not related to a Code of Conduct violation; investigation referred to another department.

GRIEVANCE AND INVESTIGATIONS

Our SpeakUp! grievance mechanism offers employees, business partners and members of the general public a confidential environment in which they can raise concerns relating to compliance with our Code of Conduct. We offer anonymous reporting and apply strict principles of confidentiality and non-retaliation. As an example of our non-retaliation principle, in 2018, a manager was dismissed for inappropriate behavior towards one of his employees after she had filed a SpeakUp! report against him.

SpeakUp! reports are investigated on their merits, in accordance with investigation procedures that are available to everyone on our internal and external websites. The investigations are conducted or managed by dedicated resources supervised by the Head of Investigations.

Reports are categorized into: Category 1 (matters with a potential financial impact of >€0.5 million, or involving senior management or relating to competition law, export control or anti-bribery); and Category 2 (other matters). Category 1 SpeakUp! reports are decided by the

Corporate Compliance Committee. Category 2 reports are decided by the business or function's Risk, Compliance and Control Committee.

In 2018, we developed a comprehensive investigation protocol and reporting templates to further improve the quality, efficiency and consistency of investigations. In 2018, 104 SpeakUp! reports were received, 21 of which were Category 1 and 83 were Category 2. In total, 14 of the 104 SpeakUp! reports were substantiated, leading to five dismissals.

Potential Code of Conduct violations that are reported to the Compliance function, other than through the formal SpeakUp! channels, are also logged in the company's Code of Conduct violation report database and follow a similar investigation procedure. In 2018, 134 of these so-called non-SpeakUp! reports were logged and investigated.

Alongside the SpeakUp! grievance mechanism, we have a data breach reporting procedure. This procedure facilitates the reporting, assessment and follow-up of potential breaches of personal data. In 2018, we received 19 personal data breach reports. While relatively small in scale and without direct material impact to individuals, three reports were of such a nature that the authorities had to be notified. In relation to another report, a service provider had caused a breach and notified the authorities. In all instances, repair actions were taken immediately.

DECLARATION AND REPORTING

NFLoR

Every year, management verifies and confirms that they comply with laws and internal rules through the Non-Financial Letter of Representation (NFLoR). Exceptions must be reported and actions planned and documented. The process is positioned as an invitation to business and functional leadership to provide transparency, to better understand the company's compliance risks and to facilitate prioritization and coordinate actions.

In 2018, all management team members of business units and major functions completed the NFLoR for their area of responsibility. The results of the NFLoR process were rolled-up to the relevant Executive Committee members and subsequently discussed by them with the CEO. The final results are reported in the year-end Compliance Report, which is submitted to the Executive Committee and the Audit Committee of the Supervisory Board. The external auditor receives a copy of the Compliance Report.

Individual declarations

Annually, employees confirm compliance with the Code of Conduct as part of the year-end performance evaluation. Employees exposed to competition law restrictions are required to confirm their compliance with our competition rules in the annual Competition Law Compliance Declaration. The declaration serves to remind employees of the importance of compliance with competition laws, educate them on what the key restrictions are and request disclosure of any irregularities in this field.

In 2018, more than 10,000 employees signed the Competition Law Compliance Declaration. Designated employees of newly acquired businesses (Colourland, Fabryo, Xylazel) were invited to confirm competition law compliance, or to report any irregularities that they would be aware of, providing them internal amnesty for such a report.

Reporting

To ensure that management is well-informed, there are several compliance reporting procedures in the company.

Monthly, key compliance investigations are reported in the Business Review Meeting. Quarterly, compliance issues and concerns are reported in the Risk, Compliance and Control Committee meetings. The General Counsel provides an update on compliance matters in Audit Committee meetings. The final results are reported in the year-end Compliance Report, which is submitted to the Executive Committee and the Audit Committee of the Supervisory Board. The external auditor receives a copy of the Compliance Report.

INTEGRITY CULTURE

A culture of integrity forms the foundation of any compliance framework. Our Executive Committee and Supervisory Board continuously promote a culture of transparency and integrity in the company. 2018 examples include integrity messages in town hall meetings across the globe, a company-wide Integrity Week and continued emphasis on doing the right thing as part of our pricing acceleration and other strategic initiatives. The boards have clearly outlined our aspired company culture, which is supported by core principles and leadership behaviors.

MEASUREMENT AND IMPROVEMENT

We measure our integrity culture in several ways. For example, our company-wide Organizational Health Index survey includes several integrity-related questions. The findings feed into the Compliance plan and programs. Integrity dilemmas are included in our recruitment standards and contribute to recruitment decisions. The integrity culture is considered in SpeakUp! investigations and audits and contributes to defining any follow-up actions to repair irregularities or improve the environment.

Managers are incentivized to act with integrity as their performance is evaluated based on how they achieve objectives, according to nine leadership behaviors.

REMUNERATION REPORT

This report describes our Remuneration Policy and how it was implemented for members of the Board of Management in 2018.

The Supervisory Board determines the remuneration and individual service agreement terms for the Board of Management. The Remuneration Committee, comprising members of the Supervisory Board, has delegated authority to make these decisions within the framework of our Remuneration Policy, which is approved by our shareholders. Our Remuneration Policy – including all structures and policies related to the remuneration and contract terms of the Board of Management – references the Dutch Corporate Governance Code.

REMUNERATION POLICY

Our Remuneration Policy (the "Policy") was first adopted by shareholders at the Annual General Meeting (AGM) in 2005. It has undergone several amendments since then, most recently in 2018, and these changes are noted in this report.

As a major international company, it is essential that we can attract and retain high caliber executives to the Board of Management. Equally, their performance should be focused on achieving those strategic aims which promote AkzoNobel, safeguard it and create sustainable, long-term value. The Policy is designed to enable these objectives, while balancing the perspectives of shareholders and other key stakeholders. Consequently, there is alignment between our executive remuneration principles and those which apply more broadly in the company.

Total remuneration

Our Policy seeks to enable members of the Board of Management to receive market competitive levels of remuneration across all package elements. To this end, we use the median level of the external market as a reference point, which is taken from industry peers, plus a range of companies that are of a similar scale, complexity and geographic reach to AkzoNobel. When setting and reviewing remuneration levels, we also consider factors affecting our industry, alongside other relevant inputs.

Members of the Board of Management can receive a remuneration package consisting of:

- Base salary
- Performance-related short-term incentives, delivered in cash and with the ability to award matching shares
- Performance-related long-term incentive, awarded in the form of shares
- Post-contract benefits
- Other benefits

Base salary

Salaries are set by the Remuneration Committee. Salary levels are usually reviewed annually, without any commitment to increase them.

Short-term incentive (STI)

The STI is designed to give focus to a range of strategically important annual objectives, both financial and non-financial. Collectively, these objectives are targeted to deliver a level of performance which is in line with our operational plans. They do not incentivize undue risk taking or other behaviors which are contrary to the company's interests.

The target STI is 100% of base salary for the CEO and 65% of base salary for any other member of the Board of Management. Financial performance accounts for 70% of the STI, while the remaining 30% is linked to achieving individual and qualitative goals, including sustainability and people-related targets.

At the start of each financial year, the Remuneration Committee will consider the company's priorities and therefore how it intends to incentivize short-term performance. It will agree the metrics for inclusion in the STI, their relative weighting and targets for achievement. Up to four financial metrics can be selected from the following list:

- Revenue growth
- Adjusted EBITDA
- Adjusted operating income
- Return on sales (ROS)
- Return on investment (ROI)
- Operating income (OPI)
- Net income (to shareholders)
- Operational cash flow (OCF)

These metrics are as used or defined in our annual report, subject to minor adjustments if required, in order to provide an appropriate indicator of management's performance.

For each target, the Remuneration Committee sets performance ranges each year. These performance ranges determine: (i) The performance level below which no payouts are made; (ii) The performance level at which 100% payout is made; and (iii) The performance level at which the maximum payout of 150% is made. In aggregate, STI awards will not exceed 150% of base salary for the CEO, and 100% of base salary for any other member of the Board of Management.

Bonus awards are paid in cash, but Board of Management members who have yet to achieve their minimum shareholding level are required to invest one-third of their short-term incentive (net after tax and other deductions) in AkzoNobel shares. A Share Matching Plan is in place to enable them to more quickly accumulate shares in the company. However, this arrangement has been suspended for bonus awards arising from performance in 2018 to 2020, since it has been replaced by the 2020 Performance Incentive Plan (more details about this plan can be found on page 84).

Long-term incentive (LTI)

The company's LTI plan is designed to give focus to the strategic priorities that will contribute to building sustainable long-term value creation. By making awards in equity of the company, alignment is created between the Board of Management and AkzoNobel's shareholders.

The vehicle through which long-term performance is incentivized is the performance-related share plan. It was approved by shareholders at the AGM in 2004 and has been amended several times, most recently in 2018. Under the performance-related share plan, shares are conditionally granted to the members of the Board of Management on an annual basis, following approval from the Remuneration Committee. Since 2018, performance has been incentivized through two equally-weighted metrics, which are measured over a three-year period:

- Total shareholder return (TSR) measured relative to a competitor peer group
- Growth in return on investment (ROI)

Both of these metrics operate independently of each other and, therefore, each governs 50% of the conditional target grant. The Remuneration Committee determines the targets that comprise each metric and the peer group constituents.

A target level of performance will vest 100% of the target number of shares conditionally granted. Maximum vesting is 150% of the conditional share grant. No shares will vest if a minimum level of performance is not achieved.

Once the performance period has ended, the Remuneration Committee will assess the extent to which the targets have been met. The number of shares to vest is adjusted for dividends that were paid to shareholders over the three-year performance period. In total, the performance share plan covers five financial years, as any vested shares must be retained by the Board of Management member for a further two financial years.

Shareholding requirements

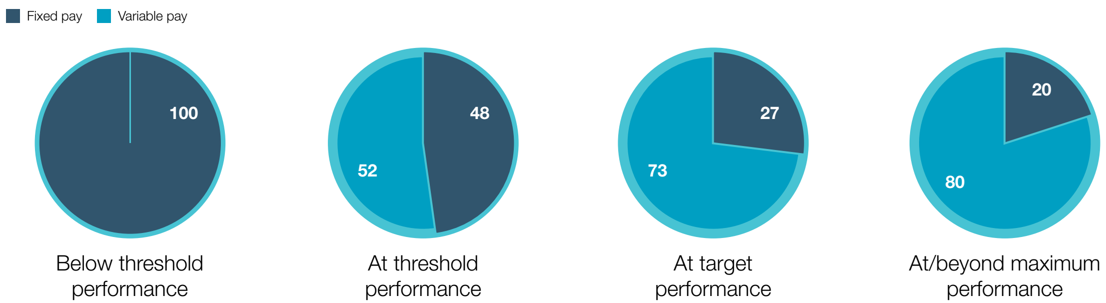
Members of the Board of Management are required to hold shares in the company for the duration of their tenure in that capacity. The shares must be accumulated over five years from the date of their appointment to the Board of Management. The holding requirements are expressed as a percentage of the executive's annual gross base salary as follows:

- CEO 3x
- CFO 1.5x
- Any other member of the Board of Management 1x

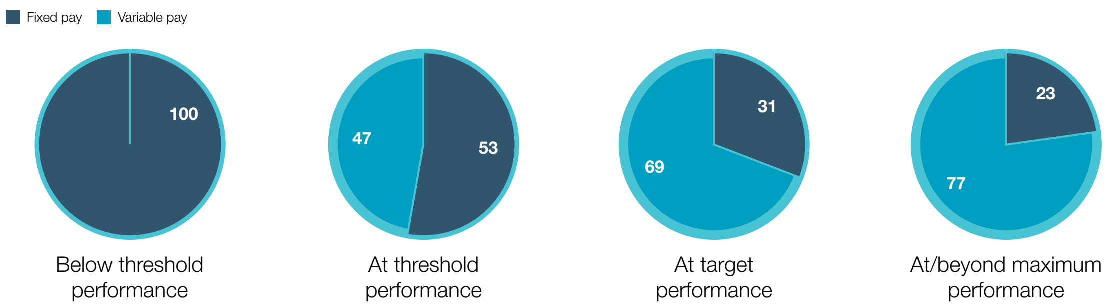
Pay mix

The Remuneration Policy is designed to put a higher proportion of the Board of Management's package "at risk" in the form of variable pay, i.e. derived through incentive plans. The total value

CEO target pay mix 2018 in %



CFO target pay mix 2018 in %



of remuneration that can be earned rises with the level of performance that is delivered, and consequently the relative proportion of the fixed pay package reduces.

The charts on page 81 show the ratio between fixed and variable pay – the pay mix – for the CEO and CFO under various performance scenarios. The fixed pay component only refers to base salary, excluding post-contract benefits and other benefits. The variable component includes the STI, LTI and the share matching plan, on the assumption that these are the normal policy components for the Board of Management. Share price developments are not taken into account.

Post-contract benefits

Members of the Board of Management receive a contribution towards pension and similar retirement benefits, as determined by the Supervisory Board.

Other benefits

Other benefits – such as a company car – are determined by the Supervisory Board and are given to provide members of the Board of Management with a market competitive package.

Claw back and value adjustment

All variable pay components are subject to the claw back and value adjustment provisions of the Dutch Civil Code.

Loans

The company does not grant loans, advance payments or guarantees to its Board members.

IMPLEMENTATION OF THE REMUNERATION POLICY IN 2018

The Supervisory Board, with delegated authority to the Remuneration Committee, is responsible for ensuring that the Remuneration Policy is appropriately applied and aligns with the company's objectives. The policy itself, alongside the checks and balances in its execution, are designed to avoid incidents where members of the Board of Management – and senior executives for whom similar incentive plans apply – could act in their own interest, take risks that are not in line with the company's strategy or risk appetite, or where remuneration levels cannot be justified in any reasonable circumstance.

To ensure remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on the short and long-term performance of the individual Board member and the company. Performance targets must be realistic and sufficiently stretching. In addition, and particularly with regard to the variable remuneration components, the Remuneration Committee ensures that the relationship between the chosen performance criteria and the strategic objectives applied – as well as the relationship between remuneration and performance – are properly reviewed and accounted for both ex-ante and ex-post.

Prior to agreeing incentives, the Remuneration Committee carried out scenario analyses of the possible financial outcomes of meeting different performance levels, and how they may affect the structure and value of the Board of Management's total remuneration. A pay ratio is also taken into account, comparing the total remuneration of the CEO and the average total remuneration for an AkzoNobel employee over the financial year.

The overall remuneration levels are aimed at the median level of the external market. For benchmarking purposes, a peer group has been defined by the Remuneration Committee. In 2018, the peer group consisted of the following companies:

- Ahold Delhaize
- Air Liquide
- ASML
- DSM
- Henkel
- Ferro Corporation
- KPN
- PPG Industries
- Randstad
- RELX Group
- RPM International
- Sherwin-Williams
- Sika
- The Linde Group
- LafargeHolcim
- Signify
- Vopak
- Wolters Kluwer

The Remuneration Committee consults with external remuneration professionals to obtain appropriate benchmark data and on other matters where it requires independent advice. When making pay changes for members of the Board of Management, it evaluates the impact on pay differentials with other executives in the company. When other benefits are granted, the Remuneration Committee does so understanding market practice, plus any relevant legal or tax considerations.

The Supervisory Board has determined that, in the event of a change in control in the company, the vesting of awards made under the performance share plan will be 100% of all shares conditionally granted. This does not affect the discretion it has to correct the variable remuneration of

Compensation Board of Management 2018

in €	Thierry Vanlancker Chief Executive Officer	Maarten de Vries Chief Financial Officer
Base salary	979,000	659,000
Short-term incentive	587,400	307,753
Share awards[1]	1,156,540	410,420
Other long-term incentive	356,593	240,036
Post-contract benefits[2]	163,500	129,200
Other emoluments[3]	13,443	9,443
Total remuneration	**3,256,476**	**1,755,852**

[1] Costs relating to share awards (performance-related share plan and share-matching plan) are non-cash and relate to the expenses following IFRS 2.
[2] Post-contract benefits refers to payments intended for building up retirement.
[3] Other emoluments include employer's charges (social contributions) and other compensations, such as car arrangements.

the Board of Management upwards or downwards in exceptional circumstances.

For communication purposes, the table opposite presents an overview of the remuneration of the members of the Board of Management who were in office in 2018. See Note 24 of the Consolidated financial statements for more details.

Base salary

The Remuneration Committee reviewed the salaries of members of the Board of Management in the year, having regard to market data, inflation data and the level of increases that were to be applied for AkzoNobel employees in the Netherlands, including those who are covered by a collective labor agreement. Increases to the value of 3% of base salary were agreed, to be effective from January 1, 2018:

- Mr. Vanlancker, CEO: €979,000
- Mr. de Vries, CFO: €659,000

Short-term incentive (STI)

In 2018, the objectives of the short-term incentive were to reward performance on ROS and OCF; to measure individual and collective performance; and to encourage progress towards the achievement of long-term strategic objectives, including sustainability.

The performance targets for achievement were determined by the Supervisory Board and were applied to the STI by the Remuneration Committee. Qualitative STI targets were set and assessed by the Supervisory Board in the context of the medium-term objectives of the company. AkzoNobel does not disclose all qualitative targets, as they are considered commercially sensitive information. However, the targets for 2018 included goals set in relation to delivering on the company's communicated strategy, including sustainability objectives.

ROS was calculated by determining the ratio of adjusted operating income over revenue. OCF was calculated as EBITDA minus the change in operating working capital and minus capital expenditures, all in constant currencies.

In determining the outcome of the short-term incentive elements (ROS, OCF and personal targets), the Remuneration Committee applied a reasonableness test in which the actual level of the performance was critically assessed in light of the assumptions made at the beginning of the year. The test also included an assessment of the progress made with the strategic objectives under prevailing market conditions. Taking into consideration the level of performance that the company had delivered during 2018, and achievement that had been made on a number of key strategic goals, the Remuneration Committee determined that bonus payments for the Board of Management would be:

- Mr. Vanlancker, CEO: €587,400 (60% of salary)
- Mr. de Vries, CFO: €307,753 (46.7% of salary)

A total of 1,936 matching shares were awarded to the CEO in 2018 to cover the 2017 financial year. The CFO did not earn a 2017 bonus due to his appointment date.

Long-term incentives (LTI)

The objectives of our long-term incentive plan are to encourage long-term sustainable economic and shareholder value creation – both absolute and relative to competitors – and to align Board of Management interests with those of shareholders, as well as ensuring retention of the members of the Board of Management. Performance-related shares are considered to provide a strong alignment with shareholders' interests.

Performance-related share plan 2018-2020

The Remuneration Committee determines the grant levels to be made in respect of members of the Board of Management, within the limits and plans that have been approved by shareholders. In 2018, the CEO and CFO received a conditional grant of shares equivalent to the face value of 150% of their annual base salaries. The grant price was set based on the market closing price of an AkzoNobel common share as of January 2, 2018.

The metrics applicable to the performance-related share plan for the 2018-2020 performance period are relative TSR and ROI, equally weighted. The target and ranges for the ROI metric will not be disclosed as they are considered to be commercially sensitive information. However, the relative TSR industry peer group consists of nine companies for 2018 to 2020:

- Asian Paints
- Kansai Paint
- Nippon Paint
- RPM International
- Axalta
- Masco Corp
- PPG
- Sherwin Williams
- Tikkurilla

The vesting schedule that will apply to the relative TSR metric, which applies to half of the conditional target grant, is noted in the next table. When making the performance assessment, the TSR result of AkzoNobel is included within the ranked peer group.

TSR vesting scheme for the conditional grants

Rank	Vesting (as % of 50% of conditional grant)
1	150
2	135
3	120
4	100
5	75
6	50
7	25
8–10	0

Replacement of the share matching plan

The Remuneration Committee determined that the share matching plan will be suspended for three years, i.e. in relation to performance in the years 2018 to 2020. The value of the share matching plan for these three years will be invested in the newly-created 2020 Performance Incentive Plan. This was approved by shareholders at the 2018 AGM. In 2021, the 2020 Performance Incentive Plan will cease to apply and it is anticipated that the share matching plan, as included in the Remuneration Policy, will recommence.

2020 Performance Incentive Plan
The 2020 Performance Incentive Plan is an exceptional, one-off incentive with a cash payout based on the achievement of 15% ROS by the end of 2020. Its key objective is to incentivize the achievement of the 2020 financial guidance as presented to shareholders and deliver upper quartile industry performance.

The 2020 Performance Incentive Plan could award a payment of two times annual base salary to members of the Board of Management provided that 15% ROS is achieved by the end of 2020. The performance ranges, as set out in the below table, determine: (i) The performance level below which no payouts are made; (ii) The performance level at which 100% of base salary payout is made (threshold); (iii) The performance level at which the target payout of 200% of base salary is made; and (iv) The performance level at which the maximum payout of 400% of base salary is made.

If a change of control event over AkzoNobel were to occur during the performance period, the Remuneration Committee can test the Plan's performance conditions and determine the terms and conditions of any payment arising from it, including the timing of it.

Performance range – 2020 Performance Incentive Plan

	Below Threshold	Threshold	Target	Maximum
2020 ROS target	<14%	14%	15%	≥17%
Award level	0% of base salary	100% of base salary	200% of base salary	400% of base salary

Pay ratio
The pay ratio compares the total compensation of the CEO against the total compensation of an AkzoNobel employee, calculated as an average of all employees as of December 31, 2018. In respect of 2018, the ratio is 56.4 (2017: 58.6).

Claw back and value adjustment
In 2018, there was no cause for a claw back or value adjustment by the Remuneration Committee.

Shareholding requirements and share matching
As of December 31, 2018, the CEO, Mr. Vanlancker, held 13,682 shares, of which 2,166 qualified for share matching under the Share Matching Plan on a ratio 1:1. The matching shares were conditionally granted during 2017 and 2018 and will be released in 2020 and 2021 respectively, subject to the terms of the Share Matching Plan. The shares acquired by Mr. Vanlancker during 2018 contribute towards his required shareholding in accordance with the Remuneration Policy (see also Note 24 of the Consolidated financial statements).

As of December 31, 2018, the CFO, Mr. de Vries, held 2,562 shares. Mr. de Vries did not have an opportunity to make a share deferral in 2018, or be granted matching shares, since he was not paid a bonus in relation to 2017 performance.

Shares obtained by members of the Board of Management under the performance-related share plan are taken into account for share ownership purposes (but not for matching purposes) as soon as they have become unconditional. This includes vested shares that are to be retained during the blocking period of two years after vesting.

Qualifying shares

Board members	Qualifying shares acquired in 2018
Thierry Vanlancker	1,936
Maarten de Vries	0

Post-contract compensation
The members of the Board of Management receive contributions towards post-contract benefits, which are defined as a percentage of income as determined by the Supervisory Board. Currently, they are based on age. The contributions are paid over the base salary in the current year. The contributions will therefore vary depending on the age of the Board member.

Board contracts
Agreements for members of the Board of Management are concluded for a period not exceeding four years. After the initial term, reappointments may take place for consecutive periods of up to four years each. The notice period by the Board member and by the company shall be subject to a six-month term. Members of the Board of Management normally retire in the year they reach the legal retirement age.

Remuneration Policy for the next financial year
The Supervisory Board closely monitors whether the policy and its implementation are in line with the objectives of the company. The metrics applied for the STI in 2018 were ROS and OCF, and are intended to continue for the 2019 financial year, as they remain relevant and align with the company's strategy.

The metrics applied for the LTIs (TSR and ROI) will continue to be applied in 2019. The vesting schemes for TSR performance will remain unchanged. The target and ranges for the ROI metric will not be disclosed as they are considered commercially sensitive information.

Our Cetol brand was used to coat the stunning Cava Erizo in Argentina. The product helps to protect the wooden interior and gives a soft, natural finish. The venue has various uses, such as storing wine and providing entertainment and workshop space.

AKZONOBEL AND THE CAPITAL MARKETS

AkzoNobel is a strong case for investment. A focused paints and coatings company with global brands, leading positions in large and attractive markets and a balanced geographic exposure, including 50% revenue from emerging markets. We're well positioned to accelerate growth and enhance profitability – with our Winning together: 15 by 20 strategy – and deliver significant returns to shareholders.

LISTINGS

AkzoNobel's common shares are listed on Euronext Amsterdam. The company is included in the AEX Index, which consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. During the year, 176 million AkzoNobel shares were traded on Euronext Amsterdam (2017: 232 million). AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the US. See the table on the right for stock codes and ticker symbols:

Euronext ticker symbol	AKZA
ISIN common share	NL0013267909
OTC ticker symbol	AKZOY
ISIN ADR	US0101995035

EXTERNAL BENCHMARKS

Following 2018 reviews, we are included in a number of leading sustainability indices: DJSI World, FTSE4Good, MSCI ACWI ESG Leaders Index and SRI Index, Vigeo ESG indices and the Ethibel Sustainability Index (ESI) Excellence Global. We retained our Gold rating at EcoVadis, our OEKOM prime status, remain an industry leader according to Sustainalytics and have been recognized as a leader by CDP. We were also included in the Global 100 Most Sustainable Corporations in the World by Corporate Knights. In 2019, we will focus on external benchmarks that help create the most value for us and our stakeholders (see Managing sustainability).

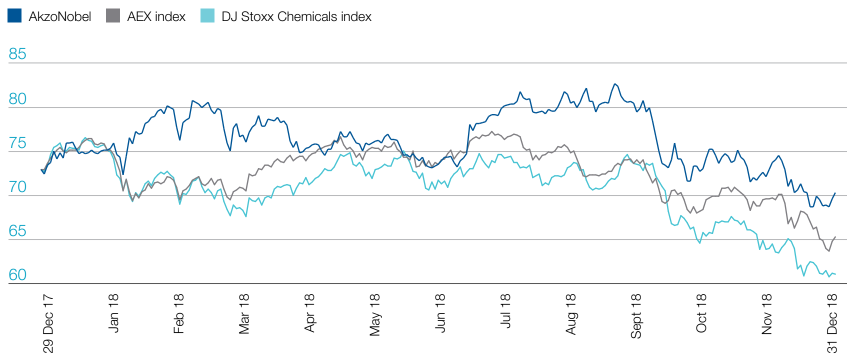
For further information please visit our website: akzonobel.com

Key share data

	2016	2017	**2018**
Year-end (share price in €)	59.39	73.02	70.40
Year-high (share price in €)[1]	64.74	82.64	82.7
Year-low (share price in €)[1]	50.17	59.11	68.82
Year-average (share price in €)	58.83	74.42	76.41
Average daily trade (in € millions)	38.8	67.4	52.6
Average daily trade (in millions of shares)	0.7	0.9	0.7
Number of shares outstanding at year-end (in millions)	252	253	256
Market capitalization at year-end (in € billions)	15.0	18.4	17.8
Net income per share (in €)	3.85	3.31	26.19
Dividend per share (in €)	1.65	2.50	1.80
Dividend yield (in %)[2]	2.8	3.4	2.6

[1] Based on close value.
[2] Based on year-end share price.

Share price performance 2018 AkzoNobel share price in €



SHARE PRICE PERFORMANCE 2018

Our share price was 3.2% lower at year-end 2018 compared with 2017, outperforming both the DJ Stoxx Chemicals and AEX indices (see graph above).

DIVIDEND

Our dividend policy is to pay a stable to rising dividend. In 2018, an interim dividend of €0.37 per share (2017: €0.56) was paid.

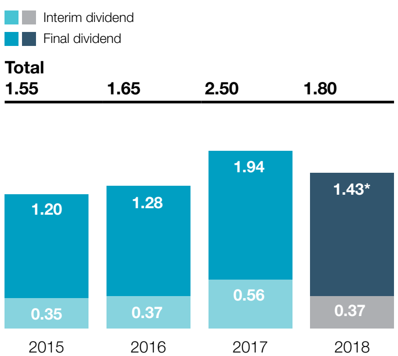
The Board of Management proposes a 2018 final dividend of €1.43 per share (post consolidation), which would equal a total 2018 dividend of €1.80 (2017: €2.50, including €0.85 related to the Specialty Chemicals business) per share.

The dividend proposed to the 2019 Annual General Meeting of shareholders, following adoption, will be payable as of May 6, 2019. AkzoNobel's shares will be trading ex-dividend as of April 29, 2019. In compliance with the listing requirements of Euronext Amsterdam, the record date for the final dividend will be April 30, 2019.

ANALYST RECOMMENDATIONS

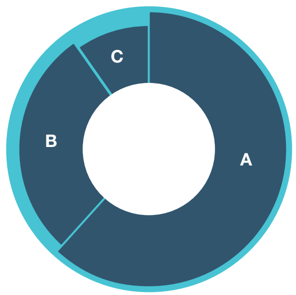
At year-end 2018, AkzoNobel was covered by 21 equity brokers. An overview of analyst recommendations is shown on the right.

Dividend paid in € per share



* Proposed.

Analyst recommendations in %



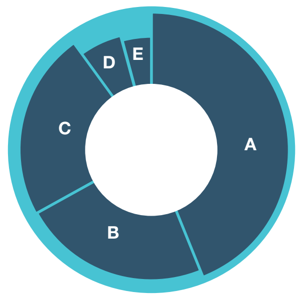
A Buy	13
B Hold	6
C Sell	2

BROAD SHAREHOLDER BASE

AkzoNobel has 100% free float, and a broad base of international shareholders. Based on an independent shareholder analysis, the chart on the right shows the geographical spread of AkzoNobel shareholders. Around 2% of the company's share capital is held by private investors, many of whom are resident in the Netherlands. Approximately 14.5% of the company's share capital is held by sustainable and responsible investors.*

* As calculated by Nasdaq, according to their methodology which is to include the sum of:
- Core sustainable and responsible investor firms where 100% of equity assets are managed with an ESG approach
- Sustainable and responsible investor themed funds managed by broad sustainable and responsible investors

Distribution of shares 2018



A US	44
B UK	23
C Rest of Europe	23
D Rest of world	6
E Undisclosed	4

CREDIT RATING AND BONDS

AkzoNobel is committed to maintaining a strong investment grade credit rating. Regular review meetings are held between rating agencies and AkzoNobel senior management. See the table below for the current credit ratings and outlook.

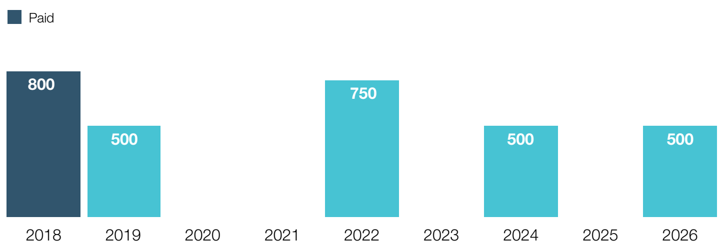
BONDS

On December 17, 2018, a 4% €800 million bond reached maturity and was repaid. The maturity schedule of outstanding bonds can be seen on this page.

Rating agency	Long-term rating	Outlook
Moody's[1]	Baa1	Stable
Standard & Poor's[2]	BBB+	Stable

[1] Rating affirmed January 2019.
[2] Rating affirmed October 2018.

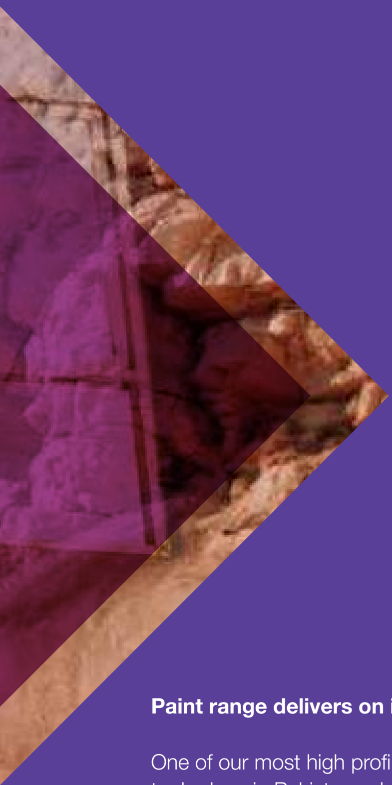
Debt maturity[1] in € millions (nominal amounts)



[1] At the end of 2018.


Dulux
PROMISE
EXTERIOR

FINANCIAL INFORMATION



Paint range delivers on its promise

One of our most high profile product launches during 2018 took place in Pakistan, where we introduced our Dulux Promise interior and exterior range to the country's mass market segment.

The response was instant, as we enjoyed the most successful launch month for any of our products in recent history.

As well as offering interior and exterior emulsions, the Dulux Promise range includes primer and putty, providing customers with a complete deco and pre-deco solution.

Financial statements

Notes to the Consolidated financial statements

Company financial statements

Other information

CONSOLIDATED STATEMENT OF INCOME

In € millions	Note		2017		2018
Continuing operations					
Revenue	4	9,612		9,256	
Cost of sales	5	(5,378)		(5,329)	
Gross profit			**4,234**		**3,927**
Selling expenses	5	(2,319)		(2,182)	
General and administrative expenses	5	(781)		(872)	
Research and development expenses	5	(270)		(264)	
Other results	5	(39)		(4)	
			(3,409)		**(3,322)**
Operating income			**825**		**605**
Financing income and expenses	7	(78)		(52)	
Results from associates and joint ventures	12	17		20	
Profit before tax			**764**		**573**
Income tax	8		(253)		(118)
Profit for the period from continuing operations			**511**		**455**
Discontinued operations					
Profit for the period from discontinued operations	2		393		6,274
Profit for the period			**904**		**6,729**
Attributable to					
Shareholders of the company			832		6,674
Non-controlling interests			72		55
Profit for the period			**904**		**6,729**
Earnings per share, in €					
Continuing operations					
Basic	9		1.76		1.61
Diluted	9		1.75		1.60
Discontinued operations					
Basic	9		1.55		24.58
Diluted	9		1.54		24.47
Total operations					
Basic	9		3.31		26.19
Diluted	9		3.29		26.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In € millions	2017	2018
Profit for the period	**904**	**6,729**
Other comprehensive income / (expense)		
Items that will not be reclassified to the statement of income:		
Post-retirement benefits	479	(23)
Income tax	(99)	24
Net effect	**380**	**1**
Items that may be reclassified subsequently to the statement of income:		
Exchange differences arising on translation of foreign operations	(535)	(110)
Cash flow hedges	16	(20)
Income tax	(9)	22
Net effect	**(528)**	**(108)**
Other comprehensive expense for the period	**(148)**	**(107)**
Comprehensive income for the period	**756**	**6,622**
Comprehensive income attributable to		
Shareholders of the company	722	6,578
Non-controlling interests	34	44
Comprehensive income for the period	**756**	**6,622**

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, BEFORE ALLOCATION OF PROFIT

In € millions	Note		2017		2018
Assets					
Non-current assets					
Intangible assets	10	3,409		3,458	
Property, plant and equipment	11	1,832		1,748	
Deferred tax assets	8	575		559	
Investments in associates and joint ventures	12	118		137	
Other financial non-current assets	13	1,201		1,269	
Total non-current assets			**7,135**		**7,171**
Current assets					
Inventories	14	1,094		1,139	
Current tax assets	8	62		74	
Trade and other receivables	15	1,964		2,141	
Short-term investments	19	–		5,460	
Cash and cash equivalents	19	1,322		2,799	
Assets held for sale	2	4,601		–	
Total current assets			**9,043**		**11,613**
Total assets			**16,178**		**18,784**
Equity and liabilities					
Equity					
Shareholders' equity	16	5,865		11,834	
Non-controlling interests	16	442		204	
Group equity			**6,307**		**12,038**
Non-current liabilities					
Post-retirement benefit provisions	17	643		603	
Other provisions	18	321		296	
Deferred tax liabilities	8	285		368	
Long-term borrowings	19	2,300		1,799	
Total non-current liabilities			**3,549**		**3,066**
Current liabilities					
Short-term borrowings	19	973		599	
Current tax liabilities	8	118		225	
Trade and other payables	20	2,794		2,645	
Current portion of provisions	17, 18	241		211	
Liabilities held for sale	2	2,196		–	
Total current liabilities			**6,322**		**3,680**
Total equity and liabilities			**16,178**		**18,784**

CONSOLIDATED STATEMENT OF CASH FLOWS

In € millions	Note		2017*		2018
Profit for the period from continuing operations		**511**		**455**	
Adjustments to reconcile earnings to cash generated from operating activities					
Amortization and depreciation	10, 11	276		239	
Impairment losses	10, 11	(4)		1	
Financing income and expenses	7	78		52	
Results from associates and joint ventures	12	(17)		(20)	
Pre-tax result on acquisitions and divestments	2	(27)		(42)	
Income tax	8	253		118	
Changes in working capital	21	(105)		(177)	
Changes in provisions	21	(338)		(203)	
Interest paid		(81)		(89)	
Income tax paid		(266)		(164)	
Other changes		(2)		(8)	
Net cash from operating activities			**278**		**162**
Capital expenditures	11	(250)		(160)	
Interest received		12		47	
Dividends from associates and joint ventures		7		7	
Acquisition of consolidated companies	2	(80)		(128)	
Investments in short-term investments	19	–		(5,541)	
Repayments of short-term investments	19	–		80	
Proceeds from divestments		41		54	
Other changes		(14)		(27)	
Net cash used for investing activities			**(284)**		**(5,668)**
Proceeds from borrowings	19	922		607	
Borrowings repaid	19	(337)		(1,529)	
Repurchase of shares		(160)		–	
Dividends paid		(1,184)		(636)	
Buy-out of non-controlling interests		–		(437)	
Other changes		–		5	
Net cash used for financing activities			**(759)**		**(1,990)**
Net cash used for continuing operations			**(765)**		**(7,496)**
Net cash from discontinued operations	2		660		8,958
Net change in cash and cash equivalents of continued and discontinued operations			**(105)**		**1,462**
Net Cash and cash equivalents at January 1	19		1,441		1,278
Effect of exchange rate changes on cash and cash equivalents			(58)		(8)
Net cash and cash equivalents at December 31			**1,278**		**2,732**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In € millions	Subscribed share capital	Additional paid-in capital	Cash flow hedge reserve[2]	Cumulative translation reserve[3]	Other (legal) reserves and undistributed profit	Shareholders' equity	Non-controlling interests	Group equity
	Attributable to shareholders of the company							
Balance at January 1, 2017	**504**	**746**	**3**	**(47)**	**5,347**	**6,553**	**481**	**7,034**
Profit for the period	–	–	–	–	832	832	72	904
Reclassification into the statement of income	–	–	(3)	–	–	(3)	–	(3)
Other comprehensive income	–	–	19	(497)	479	1	(38)	(37)
Tax on reclassification and other comprehensive income	–	–	(4)	(5)	(99)	(108)	–	(108)
Comprehensive income for the period	**–**	**–**	**12**	**(502)**	**1,212**	**722**	**34**	**756**
Dividend	4	180	–	–	(1,471)	(1,287)	(73)	(1,360)
Equity-settled transactions [1]	–	–	–	–	37	37	–	37
Issue of common shares	2	(2)	–	–	–	–	–	–
Share repurchase	(5)	(155)	–	–	–	(160)	–	(160)
Balance at December 31, 2017	**505**	**769**	**15**	**(549)**	**5,125**	**5,865**	**442**	**6,307**
Impact adoption IFRS 9	–	–	–	–	(3)	(3)	–	(3)
Impact adoption IFRS 15	–	–	–	–	(48)	(48)	(5)	(53)
Impact application IAS 29	–	–	–	23	–	23	–	23
Balance at January 1, 2018	**505**	**769**	**15**	**(526)**	**5,074**	**5,837**	**437**	**6,274**
Profit for the period	–	–	–	–	6,674	6,674	55	6,729
Reclassification into the statement of income	–	–	(83)	52	–	(31)	–	(31)
Other comprehensive income	–	–	63	(151)	(23)	(111)	(11)	(122)
Tax on reclassification and other comprehensive income	–	–	5	17	24	46	–	46
Comprehensive income for the period	**–**	**–**	**(15)**	**(82)**	**6,675**	**6,578**	**44**	**6,622**
Dividend	5	191	–	–	(586)	(390)	(57)	(447)
Equity-settled transactions[1]	–	–	–	–	32	32	–	32
Issue of common shares	2	(2)	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	(223)	(223)	(220)	(443)
Balance at December 31, 2018	**512**	**958**	**–**	**(608)**	**10,972**	**11,834**	**204**	**12,038**

[1] Includes a tax charge of €1 million (2017: €3 million credit).
[2] Fully concerns discontinued operations.
[3] The cumulative translation reserve related to Discontinued operations amounts to €169 million as per December 31, 2017.

SEGMENT INFORMATION

Decorative Paints

Whether our customers are professionals or DIY-ers, they want great paint that gives a great finish. We supply a variety of quality products for every situation and surface, including paints, lacquers and varnishes. We also offer a range of mixing machines and color concepts for the building and renovation industry. Our specialty coatings for metal, wood and other building materials lead the market.

Performance Coatings

We are a leading supplier of performance coatings with strong brands and technologies. Our high quality products are used to protect and enhance everything from ships, cars, aircraft, yachts and architectural components (structural steel, building products, flooring) to consumer goods (mobile devices, appliances, beverage cans, furniture) and oil and gas facilities.

Information per segment

In € millions	Revenue from third parties 2017	Revenue from third parties 2018	Group revenue 2017	Group revenue 2018	Amortization and depreciation 2017	Amortization and depreciation 2018	Identified items 2017	Identified items 2018	Operating income 2017	Operating income 2018	ROS%* 2017	ROS%* 2018
Decorative Paints	3,859	3,667	3,898	3,699	(121)	(92)	(17)	(38)	334	308	9.0	9.4
Performance Coatings	5,751	5,563	5,775	5,587	(148)	(138)	(1)	(52)	668	577	11.6	11.3
Corporate and other	2	26	(61)	(30)	(7)	(9)	(62)	(103)	(177)	(280)		
Total	**9,612**	**9,256**	**9,612**	**9,256**	**(276)**	**(239)**	**(80)**	**(193)**	**825**	**605**	**9.4**	**8.6**

* ROS% is calculated as adjusted operating income (operating income excluding identified items) as percentage of group revenue.

Information per segment

In € millions	Invested capital 2017	Invested capital 2018	Total assets 2017	Total assets 2018	Total liabilities 2017	Total liabilities 2018	Capital expenditures 2017	Capital expenditures 2018	ROI%* 2017	ROI%* 2018
Decorative Paints	2,705	2,759	4,318	4,357	1,513	1,511	112	50	12.5	12.4
Performance Coatings	2,869	2,963	4,691	4,766	1,638	1,563	129	106	23.4	20.5
Corporate and Other	471	481	2,568	9,661	4,524	3,672	9	4	–	–
Total	**6,045**	**6,203**	**11,577**	**18,784**	**7,675**	**6,746**	**250**	**160**	**13.9**	**12.6**

* ROI% is calculated as adjusted operating income (operating income excluding identified items) of the last 12 months as percentage of average invested capital of the last 12 months. Invested capital is calculated as total assets (excluding cash and cash equivalents, short-term investments, investments in associates, the receivable from pension funds in an asset position and assets held for sale) less current tax liabilities, deferred tax liabilities and trade and other payables.

Regional information

In € millions	Revenue by region of destination 2017	Revenue by region of destination 2018	Intangible assets and property, plant and equipment 2017	Intangible assets and property, plant and equipment 2018	Invested capital 2017	Invested capital 2018	Capital expenditures 2017	Capital expenditures 2018
The Netherlands	282	318	1,189	1,198	1,374	1,639	17	9
Other European countries	3,731	3,726	1,435	1,469	2,144	2,023	105	76
North America	1,189	1,134	474	485	714	636	23	18
South America	900	815	268	255	348	332	23	13
Asia	2,937	2,704	1,772	1,698	1,296	1,386	73	34
Other regions	573	559	103	101	169	187	9	10
Total	**9,612**	**9,256**	**5,241**	**5,206**	**6,045**	**6,203**	**250**	**160**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Summary of significant accounting policies

GENERAL INFORMATION

Akzo Nobel N.V. is a company headquartered in the Netherlands. The address of our registered office is Christian Neefestraat 2, Amsterdam. We have filed a list of subsidiaries, associated companies and joint ventures, drawn up in conformity with Article 379 and 414 of Book 2 of the Dutch Civil Code, with the Trade Registry of Amsterdam.

We have prepared the Consolidated financial statements of Akzo Nobel N.V. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. They also comply with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code, as far as applicable. The Consolidated financial statements have been prepared on a going concern basis.

The Management report within the meaning of Article 391 of Book 2 of the Dutch Civil Code consists of the following parts of the annual report:

- 2018 facts and figures
- How AkzoNobel performed in 2018
- How AkzoNobel created value in 2018
- CEO statement
- Strategic performance
- Leadership: Statement of the Board of Management
- Governance and compliance: Corporate governance statement
- Governance and compliance: Remuneration report
- Financial information: Note 5 Operating income
- Financial information: Note 25 Financial risk management

The section Strategic performance provides information on the developments during 2018 and the results. This section also provides information on cash flow and net debt, capital expenditures, innovation activities and employees.

On February 12, 2019, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to adoption by the Annual General Meeting of shareholders.

CONSOLIDATION

The Consolidated financial statements include the accounts of Akzo Nobel N.V. and its subsidiaries. Subsidiaries are companies over which Akzo Nobel N.V. has control, because it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect returns through its power over the subsidiary. Non-controlling interests in equity and in results are presented separately.

CHANGE IN ACCOUNTING POLICIES AND FIRST TIME APPLICATION

In 2018 the most significant changes in accounting policies relate to adoption of two new standards IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial instruments”. Furthermore, AkzoNobel applied IAS 29 “Financial reporting in hyperinflationary economies” for Argentina.

Accounting pronouncements, which became effective for 2018, such as amendments to IFRS 2 “Share-based Payment”, Annual improvements 2014-2016 cycle (IFRS 1 and IAS 28), IAS 40 “Investment property“ and IFRIC 22 “Foreign Currency Transactions and Advance Consideration”, either were not applicable or had no material impact on our Consolidated financial statements.

The table on the next page shows the adjustments recognized for each individual line item. The restatements are explained in more detail per standard below.

Impact of adoption of IFRS 9 and IFRS 15 and application of IAS 29

In € millions	As reported at December 31, 2017	Restatement due to adoption of IFRS 9	Restatement due to adoption of IFRS 15	Restatement due to application of IAS 29	Restated opening balance at January 1, 2018
Intangible assets	3,409	–	–	9	3,418
Property, plant and equipment	1,832	–	(66)	14	1,780
Deferred tax assets	575	1	12	–	588
Investments in associates and joint ventures	118	–	–	–	118
Other financial non-current assets	1,201	–	–	–	1,201
Inventories	1,094	–	–	1	1,095
Current tax assets	62	–	–	–	62
Trade and other receivables	1,964	(4)	–	–	1,960
Cash and cash equivalents	1,322	–	–	–	1,322
Assets held for sale	4,601	–	–	6	4,607
Total assets	**16,178**	**(3)**	**(54)**	**30**	**16,151**
Shareholder's equity	5,865	(3)	(48)	23	5,837
Non-controlling interest	442	–	(5)	–	437
Deferred tax liabilities	285	–	(4)	6	287
Other non-current liabilities	3,264	–	–	–	3,264
Trade and other payables	2,794	–	3	–	2,797
Other current liabilities	1,332	–	–	–	1,332
Liabilities held for sale	2,196	–	–	1	2,197
Total equity and liabilities	**16,178**	**(3)**	**(54)**	**30**	**16,151**

IFRS 9 "Financial Instruments"

IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, new requirements for impairment of financial assets and for hedge accounting. AkzoNobel adopted the new standard as per January 1, 2018, and did not restate its 2017 comparative figures.

Classification and measurement

The impact on the classification and measurement of financial assets is not significant. The vast majority of Other financial non-current assets as well as the Trade and other receivables were measured at amortized cost, using the effective interest method, less any impairment losses. In accordance with IFRS 9, these Other financial non-current assets and Trade and other receivables will continue to be measured at amortized cost because the criteria of the Solely Payments of Principal and Interest test have been met.

An amount of €32 million of the Other financial non-current assets and Trade and other receivables was recognized at fair value through profit and loss as at December 31, 2017 and relates to derivative financial instruments and securities. The classification and measurement of these financial assets remained unchanged under IFRS 9.

AkzoNobel had certain not significant equity investments, which were measured at their historic cost price. In accordance with IFRS 9, these equity investments are now measured at fair value through profit and loss. The impact of this change is not significant.

Impairment model

IFRS 9 introduces a new impairment model, whereby recognition of an allowance for expected credit losses on financial assets is required, which deviates from the recognition of incurred credit losses under IAS 39. The new impairment model is applicable for debt instrument financial assets measured at amortized cost, for debt instrument financial assets measured at fair value through Other comprehensive income, for lease receivables, contract assets, loan commitments and certain financial guarantee contracts.

As the IFRS 9 impairment model accelerates the timing of recognizing impairment losses, the implementation of IFRS 9 led to recognition of an additional impairment loss of €4 million as per January 1, 2018, mainly relating to trade receivables. The after tax-effect was a charge of €3 million. The part of the restatement related to discontinued operations was not significant.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 replaces existing revenue recognition guidance in IFRS. It introduces a five-step model to determine when to recognize revenue and at what amount, based on transfer of control over goods or services to the customer. New qualitative and quantitative disclosures are also required.

AkzoNobel adopted this new standard as from January 1, 2018, applying the modified retrospective approach only to contracts that were not completed on January 1, 2018, without restatement of its 2017 comparative figures.

Sale of goods

In accordance with IFRS 15, revenue should be recognized when the customer obtains control of the goods. The application of IFRS 15 did not result in a significant impact on our consolidated financial statements, including the accounting treatment of variable consideration, inclusive among others rebates, bonuses, discounts and payments to customers.

Equipment provided to customers
AkzoNobel regularly provides mixing machines, store interior and other assets to its customers in Decorative Paints and Performance Coatings at the start of a paint delivery contract. Previously, such assets were not treated as a separate performance obligation and their costs were expensed during the contract period.

Under IFRS 15, the delivery of such assets qualifies as a separate performance obligation. However, in most cases no revenue can be recognized at the moment of transfer of such assets.

The book value at December 31, 2017, of such assets amounted to €66 million and was written-off in the January 1, 2018, opening balance sheet, which had an after-tax effect of €53 million, of which €5 million related to non-controlling interest.

The impact of application of IFRS 15 on the revenue and the Consolidated statement of income throughout 2018 is not significant.

Services
AkzoNobel provides certain technical services to its customers in Performance Coatings relating to coatings sold, after these products have been delivered. In addition, in certain instances AkzoNobel provides shipping and handling services after control over the products has transferred to the customer. So far, no revenue was attributed to such services and deferred until the services were provided to the customer.

In accordance with IFRS 15, such services are a separate performance obligation to which revenue should be allocated. Such revenue is to be recognized over time when the relating services are being provided. Therefore, an amount of €3 million (€2 million after tax) was recognized as deferred revenue and contract liability for services provided after December 31, 2017.

Application of IAS 29 "Financial reporting in hyperinflationary economies"
Since July 1, 2018, Argentina qualifies as a so-called hyperinflationary country under IFRS. Therefore, special accounting procedures have been applied to eliminate hyperinflation effects from the accounts of the Argentinian operations, starting on January 1, 2018. The revaluation effect on the non-monetary assets at January 1, 2018, was a positive impact of €23 million after taxes, recorded as a restatement to opening shareholders' equity. Effects during the year were not significant.

DISCONTINUED OPERATIONS (NOTE 2)

A discontinued operation is a component of our business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale/held for distribution, or is a subsidiary acquired exclusively with a view to resale. Assets and liabilities are classified as held for sale if it is highly probable that the carrying value will be recovered through a sale transaction within one year rather than through continuing use. Assets and liabilities are classified as held for distribution if it is highly probable that the carrying value will be recovered through a legal demerger transaction within one year rather than through continuing use. When reclassifying assets and liabilities as held for sale/held for distribution, we recognize the assets and liabilities at the lower of their carrying value or fair value less selling costs. Assets held for sale/held for distribution are not depreciated and amortized but tested for impairment.

In case of discontinued operations, the comparative figures in the Consolidated statement of income and Consolidated statement of cash flows are represented. The balance sheet comparative figures are not represented.

ALTERNATIVE PERFORMANCE MEASURES (NOTE 3)

The Identified items (Alternative Performance Measures (APM) adjustments) 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, and are generated outside the normal cause of business.

USE OF ESTIMATES

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation and for which changes in the assumptions and estimates could result in significantly different results than those recorded in the financial statements are the following:
- Scope of consolidation (Note 2)
- Discontinued operations and held for sale (Note 2)
- Income tax and deferred tax assets (Note 8)
- Impairment of intangible assets and property, plant and equipment (Note 10, 11)
- Post-retirement benefit provisions (Note 17)
- Provisions and contingent liabilities (Note 18)

STATEMENT OF CASH FLOWS

We have used the indirect method to prepare the statement of cash flows. Cash flows in foreign currencies have been translated at transaction rates. Acquisitions or divestments of subsidiaries are presented net of cash and cash equivalents acquired or disposed of, respectively. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged items.

OPERATING SEGMENTS

We determine and present operating segments based on the information that is provided to the Executive Committee, our chief operating decision-maker during 2018, to make decisions about resources to be allocated to the segments and assess its performance. Segment results reported to the Executive Committee include items directly attributable to a segment as well as those items that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and corporate costs and are reported in "Corporate and other".

FOREIGN CURRENCIES

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate at transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the balance sheet date. Resulting foreign currency differences are included in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at acquisition date.

The assets and liabilities of entities with other functional currencies are translated into euros, the functional currency of the parent entity, using the exchange rates at the balance sheet date. The income and expenses of entities with other functional currencies are translated into the functional currency, using the exchange rates at transaction date.

When a subsidiary is operating in a hyper-inflationary country, the financial statements of this entity are restated into the current purchasing power at the end of the reporting period.

Foreign exchange differences resulting from translation into the functional currency of investments in subsidiaries and of intercompany loans of a permanent nature with other functional currencies are recorded as a separate component (cumulative translation reserve) within Other comprehensive income. These cumulative translation adjustments are reclassified (either fully or partly) to the statement of income upon disposal (either fully or partly) or liquidation of the foreign subsidiary to which the investment or the intercompany loan with a permanent nature relates to.

Foreign currency differences arising on the re-translation of a financial liability designated as an effective hedge of a net investment in a foreign operation are recognized in the cumulative translation reserve (in Other comprehensive income).

EXCHANGE RATES OF KEY CURRENCIES

The principal exchange rates against the euro used in preparing the balance sheet and the statement of income are:

	Balance sheet			Statement of income		
	2017	2018	%	2017	2018	%
US dollar	1.197	1.143	4.7	1.129	1.182	(4.5)
Pound sterling	0.887	0.898	(1.2)	0.877	0.885	(0.9)
Swedish krona	9.850	10.245	(3.9)	9.629	10.257	(6.1)
Chinese yuan	7.801	7.863	(0.8)	7.621	7.812	(2.4)
Brazilian Real	3.964	4.438	(10.7)	3.603	4.307	(16.3)

REVENUE RECOGNITION (NOTE 4)

2018

As indicated above IFRS 15 replaced revenue recognition guidance in IFRS. In 2018, revenue is recognized for the major business activities using the methods outlined below.

Sale of goods

AkzoNobel's main business consists of straightforward selling of goods (paints and coatings) to customers at contractually determined prices and conditions without any additional services. Although the transfer of risks and rewards is not the only criterion to be considered to determine whether control over the goods has transferred, it is in most situations considered to be the main indicator of the customer's ability to direct the use of and obtain the benefits from the asset and largely also coincides with the physical transfer of the goods and the obligation of the customer to pay.

Variable considerations, including among others rebates, bonuses, discounts and payments to customers, are accrued for as performance obligations are satisfied and revenue is recognized. Variable considerations are only recognized when it is highly probable that it is not subject to significant reversal.

In case of expected returns, no revenue is recognized for such products, but a refund liability and an asset for the right to recover the to be returned products are recorded.

A provision for warranties is recognized when the underlying products or services are sold, generally based on historical warranty data.

Revenue is recognized net of rebates, discounts and similar allowances, and net of sales tax.

Equipment provided to customers

AkzoNobel regularly provides mixing machines, store interior and other assets to its customers in Decorative Paints and Performance Coatings at the start of a paint delivery contract. Under IFRS 15, the delivery of such assets qualifies as a separate performance obligation. Revenue can only be recognized at the moment of transfer of such assets, when there is an agreed sales price or when there is a binding take-or-pay commitment for a minimum quantity of paint to be acquired by the customer.

Services

AkzoNobel provides certain training, technical or support services to customers as well as shipping and handling activities for its customers. Service revenue is recognized over time when the relating services are being provided. When not separately invoiced, part of the sales price of paints or coatings is allocated to such services.

2017

The revenue recognition policy below was applied for the comparative figures in relation to 2017.

Revenue is defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts and similar allowances, and net of sales tax. Revenue is recognized when the significant risks and rewards have been transferred to a third party, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. For revenue from sales of goods these conditions are generally met at the time the product is shipped and delivered to the customer, depending on the delivery conditions. Service revenue is generally recognized as services are rendered.

POST-RETIREMENT BENEFITS (NOTE 6, 17)

Contributions to defined contribution plans are recognized in the statement of income as incurred.

Most of our defined benefit pension plans are funded with plan assets that have been segregated in a trust or foundation. We also provide post-retirement benefits other than pensions to certain employees, which are generally not funded. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Post-retirement costs primarily represent the increase in the actuarial present value of the obligation for projected benefits based on employee service during the year and net interest on the net defined benefit liability/asset. When the calculation results in a benefit to AkzoNobel, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available if it is realizable during the life of the plan, or on the settlement of the plan liabilities. The effect of these so-called asset ceiling restrictions and any changes therein is recognized in Other comprehensive income. Remeasurement gains and losses, which arise in calculating our obligations, are recognized in Other comprehensive income. When the benefits of a plan improve, the portion of the increased benefits related to past service by employees is recognized as an expense in the statement of income immediately. We recognize gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

Net interest on the net defined benefit liability is included in financing expenses related to post-retirement benefits. Other charges and benefits recognized are reported in Operating income, unless recorded in Other comprehensive income.

OTHER EMPLOYEE BENEFITS (NOTE 6, 18)

Provisions for other long-term employee benefits are measured at present value, using actuarial assumptions and methods. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

SHARE-BASED COMPENSATION (NOTE 6)

We have a performance-related and restricted share plan as well as a share-matching plan, under which shares are conditionally granted to certain employees. The fair value is measured at grant date and amortized over the three-year period during which the employees normally become unconditionally entitled to the shares with a corresponding increase in shareholders' equity. Amortization is accelerated in the event of earlier vesting or settlement. In case of a plan modification, the fair value is increased when the change is beneficial to the employee.

INCOME TAX (NOTE 8)

Income tax expense comprises both current and deferred tax, including effects of changes in tax rates. In determining the amount of current and deferred tax we also take into account the impact of uncertain tax positions and whether additional taxes and interest may be due. Income tax is recognized in the statement of income, unless it relates to items recognized in Other comprehensive income or equity.

Current tax includes the expected tax payable and receivable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, as well as (any adjustments to) tax payables and receivables with respect to previous years.

Deferred tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated financial statements. We do not recognize deferred tax for the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be reversed. Non-refundable income tax is taken into account in the determination of deferred tax liabilities to the extent earnings are expected to be distributed by subsidiaries in the foreseeable future and AkzoNobel has control over dividend distribution. Deferred tax positions are not discounted.

EARNINGS PER SHARE (NOTE 9)

Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the company by the weighted average number of common shares outstanding during the year adjusted for the repurchased shares. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding during the year for the diluting effect of the shares of the performance-related share plan and for the share-matching plan.

Adjusted earnings per share represents the basic earnings per share from continuing operations excluding identified items, after taxes.

GOVERNMENT GRANTS

Government grants related to costs are deducted from the relevant costs to be compensated in the same period. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset. Emission rights granted by the government are recorded at cost. A provision is recorded if the actual emission is higher than the emission rights granted.

INTANGIBLE ASSETS (NOTE 10)

Intangible assets are valued at cost less accumulated amortization and impairment charges. Intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually using the value in use method. Goodwill in a business combination represents the excess of the consideration paid over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income. The effects of all transactions with non-controlling interest shareholders are recorded in equity if there is no change in control.

Intangible assets with a finite useful life, such as licenses, know-how, brands, customer relationships, intellectual property rights, emission rights and capitalized development and software costs, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life of the assets, which generally ranges from five to 40 years for brands with finite useful lives, five to 25 years for customer lists and three to 15 years for other intangibles. Amortization methods, useful lives and residual values are reassessed annually. Research expenditures are recognized as an expense as incurred.

PROPERTY, PLANT AND EQUIPMENT (NOTE 11)

Property, plant and equipment are valued at cost less accumulated depreciation and impairment charges. Costs include expenditures that are directly attributable to the acquisition of the asset, including borrowing cost of capital investment projects under construction.

Depreciation is calculated using the straight-line method, based on the estimated useful life of the asset components. The useful life of plant equipment and machinery generally ranges from ten to 25 years, and for buildings ranges from 20 to 50 years. Land is not depreciated. In the majority of cases residual value is assumed to be not significant. Depreciation methods, useful lives and residual values are reassessed annually.

Costs of major maintenance activities are capitalized and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant and equipment are expensed in the period in which they occur.

We recognize conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

IMPAIRMENTS (NOTE 10, 11)

We assess the carrying value of intangible assets and property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. In addition, for goodwill and other intangible assets with an indefinite useful life, the carrying value is at least reviewed annually in the fourth quarter. If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The assessment for impairment is performed at the lowest level of assets generating largely independent cash inflows. For goodwill and other intangible assets with an indefinite life, we have determined this to be at business unit level (one level below segment).

Except for goodwill, we reverse impairment losses in the statement of income if and to the extent we have identified a change in estimates used to determine the recoverable amount.

LEASES (NOTE 11, 19, 22)

Lease contracts in which we have substantially all the risks and rewards of ownership are classified as financial leases. Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is depreciated using a straight-line method, based on the lower of the estimated useful life or the lease term. The interest expenses are recognized as other financing expenses over the lease term.

Payments made under operational leases are recognized in the statement of income on a straight-line basis over the term of the lease.

ASSOCIATES AND JOINT VENTURES (NOTE 12)

Associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The Consolidated financial statements include our share of the income and expenses of the associates and joint ventures, whereby the result is determined using our accounting principles. When the share of losses exceeds the interest in the investee, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless we have incurred legal or constructive obligations on behalf of the investee.

INVENTORIES (NOTE 14)

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of inventories are determined using weighted average cost.

PROVISIONS (NOTE 18)

We recognize provisions when a present legal or constructive obligation as a result of a past event exists, it is probable that an outflow of economic benefits is required to settle the obligation and the amount can be reliably estimated. Provisions are measured at net present value. The increase of provisions as a result of the passage of time is recognized in the statement of income under Financing income and expenses.

Provisions for restructuring of activities are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. We do not provide for future operating costs.

FINANCIAL INSTRUMENTS

As indicated in Change in accounting policies, IFRS 9 “Financial instruments” replaced existing standard IAS 39 and had a very limited effect.

Classification

All assets are measured at amortized cost, fair value through profit or loss or fair value through other comprehensive income.

Financial assets are classified according to a model based on:
- A contractual cash flow characteristics test
- A business model dictating how the reporting entity manages its financial assets in order to generate cash flows as either:
  1. hold to collect contractual cash flows;
  2. collect contractual cash flows and sell; or
  3. neither 1 or 2.
- Election of the fair value option in some specific cases in order to eliminate an accounting mismatch

The classification of a financial asset is determined at initial recognition, but if certain conditions are met, an asset might be subject to reclassification.

Valuation and impairment

Financial assets are assessed for impairment either according to the general approach or a simplified approach.

The calculation of impairment under the general approach uses following stages:
- 12-month expected credit losses; taking in account possible default events within one year
- Lifetime expected credit losses in case of an increase in credit risk; through recognition of expected credit losses over the remaining life of the exposure
- Lifetime expected credit losses, where interest is calculated on the net amount of the receivables less impairment loss

In all above stages, the impairment calculation used at AkzoNobel is based on external credit ratings of involved parties or default rates published by well-known credit risk agencies.

The financial assets included in the general impairment approach are long-term loans and other long-term receivables.

The calculation of impairment under the simplified approach requires recognition of lifetime expected credit loss (no tracking of changes in credit risk). The financial assets included in the simplified impairment approach are trade receivables and the remaining financial assets.

Measurement

Since the adoption of IFRS 9 did not have an impact on the measurement of financial instruments, these following policies also were applied for the prior year financial reporting under IAS 39.

Regular purchases and sales of financial assets and liabilities are recognized on trade date. The initial measurement of all financial instruments is at fair value. Except for derivatives, the initial measurement of financial instruments is adjusted for directly attributable transaction costs.

Derivative financial instruments (Note 25)
Derivative financial instruments are recognized at fair value on the balance sheet. Fair values are derived from market prices and quotes from dealers and brokers, or are estimated using observable market inputs. When determining fair values, credit risk for our contract party, as well as for AkzoNobel, is taken into account.

Changes in the fair value are recognized in the statement of income, unless cash flow hedge accounting or net investment hedge accounting is applied. In those cases, the effective part of the fair value changes is deferred in Other comprehensive income and released to the related specific lines in the statement of income or balance sheet at the same time as the hedged item.

Other financial non-current assets (Note 13) and Trade and other receivables (Note 15)
Loans and receivables are measured at amortized cost, using the effective interest method, less any impairment losses.

Cash and cash equivalents and short-term investments (Note 19)
Cash and cash equivalents and short-term investments are measured at fair value. Cash and cash equivalents include all cash balances and other investments that are directly convertible into cash. Changes in fair values are included in Financing income and expenses.

Long-term and short-term borrowings (Note 19, 25) and Trade and other payables (Note 20)
Long-term and short-term borrowings, as well as Trade and other payables, are measured at amortized cost, using the effective interest rate method. The interest expense on borrowings is included in Financing income and expenses. The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the interest rate at the reporting date, taking into account AkzoNobel's credit risk.

NEW IFRS ACCOUNTING STANDARDS

IFRS standards and interpretations thereof not yet in force which may apply to our Consolidated financial statements for 2019 and beyond have been assessed for their potential impact. The most important upcoming change relates to IFRS 16 "Leases" which will be implemented as per January 1, 2019.

IFRS 16 "Leases"
IFRS 16 replaces existing guidance on lessee accounting for leases. It requires lessees to bring most leases on balance sheet in a single lease accounting model, recognizing a right-of-use asset and a lease liability. Compared with the existing accounting for operating leases, it will also impact the classification and timing of expenses and consequently the classification between cash flow from operating activities and cash flow from financing activities.

Transition method
AkzoNobel will adopt IFRS 16 as per January 1, 2019, and will apply the modified retrospective approach. All right-of-use assets will be measured at the amount of the lease liability at transition, adjusted for any prepaid or accrued lease expenses. Short-term and low-value leases will be exempted. AkzoNobel will not restate its 2018 comparative figures.

Impact
IFRS 16 requires the right-of-use asset and the lease liability to be recognized at discounted value and assumptions with regards to termination and renewal options should be taken into consideration.

We expect that adoption of the standard as per January 1, 2019, will result in the recognition of Right-of-use assets of approximately €350 million, a financial lease receivable of €20 million and additional lease liabilities of approximately €370 million. In addition, assets with a book value of €59 million will be reclassified to Right-of-use assets, including among others current finance leases.

In the Consolidated statement of income, the operating lease expenses, previously recorded in operating income, will be replaced by the depreciation charge of the right-of-use assets. The interest charge on the lease liability will be recorded in Financing income and expenses. The net effect of these changes will be not significant.

The company is finalizing the review of all input and assumptions for the calculation of the opening balance sheet adjustments, including among others lease contracts concluded in late 2018, discount rates and the assessment whether contracts contain a lease. Finalization of this review may still result in changes to these opening entries in the course of 2019.

AkzoNobel's activities as a lessor are not truly material and hence the impact on the financial statements is not significant. Additional disclosures will be required as from next year.

Other changes
Several other new accounting standards were issued. These include among others IFRIC 23 "Uncertainty over income tax treatments" and "Plan Amendment, Curtailment and Settlement" (Amendments to IAS 19), both effective as from January 1, 2019. These changes are not expected to have a material effect on AkzoNobel's Consolidated financial statements, as to a large extent we already comply with these clarifications on IFRS.

Material subsidiaries

The Consolidated financial statements comprise the assets, liabilities, income and expenses of approximately 283 legal entities (including the entities reported as held for sale). We consider legal entities material when they represent, for at least two subsequent years, more than 5% of either revenue or operating income (before identified items) or based on qualitative aspects. Material subsidiaries included in the table below are 100% owned at year-end 2018.

Material subsidiaries related to continuing operations

Legal entity	Principal place of business/country of corporation
Akzo Nobel Coatings Inc.	United States
Akzo Nobel Swire Paints (Shanghai) Ltd.	China
Imperial Chemical Industries Limited	United Kingdom
International Paint LLC	United States
Akzo Nobel Coatings SPA	Italy

Acquisitions

On October 1, 2018, we acquired Fabryo Corporation S.R.L. (Fabryo) in Romania. The transaction includes two production facilities and six distribution centers for decorative paints, adhesives and mortars, including one of the largest decorative paints factories in the region, with capacity for further expansion. The business generated revenue of around €45 million in 2017 and is the only player with both a leading product portfolio for consumers as well as professional segments in the Romanian market, including brands Savana, APLA and InnenWeiss. In 2018, we performed a preliminary purchase price allocation. The goodwill is fully allocated to business unit Decorative Paints Europe, Middle East and Africa.

In 2018, other smaller acquisitions included Doves Decorating Supplies in the United Kingdom, Xylazel S.A. in Spain and Colourland Paints Sdn Bhd and Colourland Paints (Marketing) Sdn Bhd in Malaysia.

Recognized fair values at acquisition

In € millions	Acquisitions 2018
Other intangibles	59
Property, plant and equipment	27
Associates and joint ventures	3
Inventories	21
Trade and other receivables	47
Cash and cash equivalents	5
Long-term debt	(20)
Provisions	(1)
Deferred tax assets/(liabilities)	(9)
Trade and other payables	(37)
Net identifiable assets and liabilities	**95**
Goodwill	42
Purchase consideration	**137**
Cash and cash equivalents acquired	(5)
To be paid in 2019 and later years	(4)
Net cash outflow	**128**

The aggregated outcome of the preliminary purchase price allocations performed in 2018 is represented in the table above.

In December 2018, we also acquired the non-controlling interests from Swire Industrial Limited in several Akzo Nobel Swire Paints subsidiaries for €407 million. The goodwill on this transaction of €208 million was charged directly to shareholders' equity.

In 2017, the acquisitions included Disa Technology (Disatech), Flexcrete Technologies Ltd and the business of V.Powdertech Co., Ltd.

Divestments

In April 2017, AkzoNobel announced its decision to separate the Specialty Chemicals business, thereby creating two focused, high performing businesses – Paints and Coatings, and Specialty Chemicals. At the Extraordinary General Meeting on November 30, 2017, the shareholders approved the proposed separation of the Specialty Chemicals business from AkzoNobel through a private sale or a legal demerger.

As from December 22, 2017, the Specialty Chemicals business is classified as held for sale and discontinued operations, therefore the Consolidated statement of income and the Consolidated statement of cash flows show the results of the Specialty Chemicals business as discontinued. The Specialty Chemicals business presented as held for sale and discontinued operations consists of the former Business Area Specialty Chemicals and assets, liabilities, income and expenses which are directly attributed to the Specialty Chemicals business, previously included in Corporate and Other, which are not recognized on an ongoing basis by AkzoNobel. The sale of the Specialty Chemicals business to the Carlyle Group and GIC for an enterprise value of €10.1 billion was completed on October 1, 2018. The difference of €8.3 billion with the consideration for the shares of €10.1 billion consists of settlement of net debt, provisions and working capital as included in the closing balance sheet. The Specialty Chemicals business is now called Nouryon.

At year end 2018, AkzoNobel made a best estimate of the expected deal proceeds for the sale of the Specialty Chemicals business, including the net debt/working capital settlement that will be finalized in 2019.

In 2017 and 2018, otherwise no other significant divestments occurred.

Discontinued operations and held for sale

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

The income and expenses included in Held for sale effects and other mainly relate to the impact of ceasing of depreciation and amortization, partly offset by the related impact on inventory valuation, following IFRS 5 Assets held for sale accounting, as well as seperation costs.

Cash and cash equivalents as well as debt positions of Specialty Chemicals were excluded from held for sale classification unless such items were specifically designated as held for sale, e.g. in the case of specific local financing and debt related to finance leases held in relation to the Specialty Chemicals assets. The assets and liabilities of the Specialty Chemicals business are recognized at their carrying value.

Employees

The average number of employees of the Specialty Chemicals business up to September 30, 2018 was 9,600 (full year 2017: 9,700). At September 30, 2018, the Specialty Chemicals business employed 9,900 people (December 31, 2017: 9,900).

Discontinued operations

In € millions	2017	2018*
Revenue	4,963	3,791
Expenses	(4,402)	(3,158)
Profit before tax	**561**	**633**
Income tax	(168)	(168)
Profit for the period after tax	**393**	**465**
Results related to discontinued operations in previous years	1	(2)
Tax related to discontinued operations in previous years	(1)	–
Profit for the period	**393**	**463**
Gain on the sale of the Specialty Chemicals business	–	6,074
Income tax on the sale	–	(263)
Total profit for the period from discontinued operations	**393**	**6,274**

* 2018 represents 9 months

Deal result

In € millions	2018
Consideration for shares sold	8,284
Net assets and liabilities	(2,112)
Liabilities assumed and cost* allocated to the deal, realization of cumulative translation and cash flow hedge reserves	(98)
Income tax on the sale	(263)
Deal result after tax	**5,811**

* Excluding deal cost incurred in 2017.

Cash flows from discontinued operations

In € millions	2017	2018
Net cash from operating activities	691	351
Net cash from investing activities	(354)	8,723*
Results from financing activities	323	(116)
Cashflows from discontinued operations	**660**	**8,958**

* Including the cash inflow from the divestment of €9,321 million.

Cash inflow from divestment

In € millions	2018
Consideration for shares sold	8,284
Repayment of intercompany loan indebtedness	1,037
Total cash inflow	**9,321**

Balance sheet at divestment date

In € millions	2018
Intangible assets	796
Property, plant and equipment	2,490
Financial non-current assets	253
Inventories	540
Other current assets	283
Non-current liabilities	(792)
Short-term borrowings	(232)
Other current liabilities	(1,226)
Net assets and liabilities	**2,112**

Assets and liabilities held for sale

In € millions	2017	2018
Intangible assets	787	–
Property, plant and equipment	2,266	–
Financial non-current assets	205	–
Inventories	503	–
Receivables	840	–
Assets held for sale	**4,601**	**–**
Non-current liabilities	765	–
Short-term borrowings	341	–
Current payables	1,090	–
Liabilities held for sale	**2,196**	**–**

Discontinued operations

	Revenue from third parties		Group revenue		Amortization and depreciation		Identified items		Operating income		ROS%	
In € millions	2017	2018[1]	2017	2018[1]	2017	2018[1]	2017	2018[1]	2017	2018[1]	2017	2018[1]
Specialty Chemicals	4,961	3,791	4,985	3,809	(340)	(250)	18	–	625	470	12.2	12.3
Held for sale effects and other[2]	2	–	(22)	(18)	9	250	(67)	(29)	(54)	178	–	–
Total	**4,963**	**3,791**	**4,963**	**3,791**	**(331)**	**–**	**(49)**	**(29)**	**571**	**648**	**12.5**	**17.1**

[1] The Specialty Chemicals business was sold per October 1, 2018.
[2] Held for sale effects and other include the impact of ceasing depreciation and amortization and the related impact on inventory evaluation following IFRS 5 Assets held for sale and separation costs.

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 clear reporting on the underlying developments of the business. These APM adjustments may affect the IFRS measures operating income, net profit and the earnings per share. A reconciliation of the alternative performance measures to the most directly comparable IFRS measures can be found in the table.

Alternative performance measures (APM)

In € millions	2017 Continuing operations	2017 Discontinued operations	2017 Total	2018 Continuing operations	2018 Discontinued operations	2018 Total
Operating income	**825**	**571**	**1,396**	**605**	**656**	**1,261**
APM adjustments to operating income						
- Realignment of strategy*	42	67	109	130	29	159
- UK guaranteed minimum pension equalization	–	–	–	57	–	57
- Legal	38	(18)	20	6	–	6
Total APM adjustments (identified items)	**80**	**49**	**129**	**193**	**29**	**222**
Adjusted operating income	**905**	**620**	**1,525**	**798**	**685**	**1,483**
Profit for the period attributable to shareholders of the company	**443**	**389**	**832**	**410**	**6,264**	**6,674**
APM adjustments to operating income (identified items)	80	49	129	193	29	222
APM adjustment Interest on tax settlement	–	–	–	(30)	–	(30)
APM adjustments to income tax	68	(5)	63	(86)	(6)	(92)
APM adjustment deal result on sale Specialty Chemicals, net of tax	–	–	–	–	(5,811)	(5,811)
Total APM adjustments	**148**	**44**	**192**	**77**	**(5,788)**	**(5,711)**
Adjusted profit for the period attributable to shareholders of the company	**591**	**433**	**1,024**	**487**	**476**	**963**

*Includes costs related to the strategy to create a focused high performing Paints and Coatings business as well as costs of separation of the Specialty Chemicals business.

4 Revenue

AkzoNobel derives revenue from the transfer of goods and services over time and at a point in time in the major product lines and geographical regions as disclosed in the table below:

Revenue disaggregation

2018

In € millions	Decorative Paints	Performance Coatings	Other	Total
Primary geographical markets - revenue from third parties				
The Netherlands	202	91	25	318
Other European countries	1,684	2,042	–	3,726
North America	–	1,134	–	1,134
South America	461	353	1	815
Asia	1,136	1,568	–	2,704
Other regions	184	375	–	559
Total	**3,667**	**5,563**	**26**	**9,256**
Major goods/service lines - group revenue				
Decorative Paints Europe, Middle East and Africa	2,093	–	–	2,093
Decorative Paints South America	468	–	–	468
Decorative Paints Asia	1,144	–	–	1,144
Powder Coatings	–	1,218	–	1,218
Marine and Protective Coatings	–	1,291	–	1,291
Automotive and Specialty Coatings	–	1,392	–	1,392
Industrial Coatings	–	1,738	–	1,738
Other	(6)	(52)	(30)	(88)
Total	**3,699**	**5,587**	**(30)**	**9,256**
Timing of revenue recognition				
Goods transferred at a point in time	3,638	5,374	–	9,012
Services transferred over time	29	189	26	244
Total	**3,667**	**5,563**	**26**	**9,256**

For the receivables, which are included in Trade and other receivables, reference is made to Note 15. For the receivables, which are included in Assets held for sale, reference is made to Note 2.

As at December 31, 2018, no contract assets were recognized.

As at December 31, 2018, the amount of contract liabilities deferred to be recognized over time in 2019 is €3 million.

These contract liabilities primarily relate to shipping, training and certain technical services, for which revenue is recognized over time.

The amount of €3 million included in contract liabilities at the beginning of the period has been recognized as revenue during the year 2018.

5 Operating income

Adjusted operating income

Adjusted operating income at €798 million (2017: €905 million), was impacted by adverse currencies, higher raw material costs and lower volumes, partly compensated by pricing initiatives. Savings from continuous improvement more than offset fixed cost inflation.
Creating a fit-for-purpose organization fully delivered on the €110 million planned savings for 2018.

- Decorative Paints was impacted by higher raw material costs and adverse currency effects, partly compensated by higher selling prices and cost savings. ROS was 9.4% (2017: 9.0%)
- Performance Coatings was also impacted by foreign currencies, higher raw material costs as well as lower volumes. ROS was 11.3% (2017: 11.6%)
- Other activities/eliminations decreased by €62 million. 2017 was impacted by one-off items, as well as lower pension and insurance related costs.

Operating income

Operating income was negatively impacted by identified items totalling €193 million, mainly related to restructuring costs for the transformation (€130 million) and a one-off non-cash pension cost (€57 million) based on a UK legal precedent set in October 2018 for the Guaranteed Minimum Pensions (GMP) equalization regulations.

In 2017, operating income was negatively impacted by identified items totalling €80 million, mainly related to the transformation of the Paints and Coatings organization and legal items.

Costs by nature 2018

In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(505)	(2)	(117)	(4,705)	(5,329)
Selling expenses	(883)	(46)	(22)	(1,231)	(2,182)
General and administrative expenses	(396)	(8)	(30)	(438)	(872)
Research and development expenses	(192)	(2)	(12)	(58)	(264)
Other results	–	–	–	(4)	(4)
Total	**(1,976)**	**(58)**	**(181)**	**(6,436)**	**(8,651)**

Costs by nature 2017

In € millions	Employee benefits	Amortization	Depreciation	Purchases and other costs	Total
Cost of sales	(506)	(2)	(113)	(4,757)	(5,378)
Selling expenses	(885)	(53)	(48)	(1,333)	(2,319)
General and administrative expenses	(358)	(12)	(29)	(382)	(781)
Research and development expenses	(186)	(7)	(12)	(65)	(270)
Other results	–	–	–	(39)	(39)
Total	**(1,935)**	**(74)**	**(202)**	**(6,576)**	**(8,787)**

Salaries, wages and other employee benefits in operating income

In € millions	2017	2018
Salaries and wages	(1,515)	(1,497)
Post-retirement cost	(126)	(201)
Other social charges	(294)	(278)
Total	**(1,935)**	**(1,976)**

Average number of employees

Average number during the year	2017	2018
Decorative Paints	14,700	14,100
Performance Coatings	19,800	19,200
Corporate and other	1,700	1,600
Total	**36,200**	**34,900**

The average number of employees working outside the Netherlands was 32,500 (2017: 33,600).

Employees

At year-end	2017	2018
Decorative Paints	14,400	14,300
Performance Coatings	19,900	18,600
Corporate and other	1,400	1,600
Total	**35,700**	**34,500**

At year-end 2018, the number of employees decreased by 3% to 34,500 people (year-end 2017: 35,700 people). Acquisitions of 2018 added around 850 people.

SHARE-BASED COMPENSATION

Share-based compensation relates to the equity-settled performance-related and the restricted share plan, as well as the share-matching plan. Charges recognized in the 2018 statement of income for share-based compensation amounted to €19 million and are included in salaries and wages (2017: €22 million). The share-based compensation expenses for the executives of Specialty Chemicals, included in discontinued operations, amounted to €14 million (2017: €12 million).

Performance-related and restricted share plan

Under the performance-related share and the restricted share plans, a number of conditional shares are granted to the members of the Board of Management, members of the Executive Committee and executives each year. The number of participants of the performance-related and the restricted share plan at year-end 2018 was 326 (2017: 348).

The shares of the performance-related series 2015-2017 have vested and were delivered to the participants in 2018.

The 2016 and 2017 conditional grants of performance-related shares originally were linked to AkzoNobel's return on investment (ROI), the company's ranking in the RobecoSAM benchmark and its relative TSR performance when compared to the peer group. These targets were set by the Supervisory Board for AkzoNobel prior to the divestment of the Specialty Chemicals business. However, these performance targets have become not relevant or applicable anymore after the sale of the Specialty Chemicals business. Therefore, the Supervisory Board decided to instead apply the average historic performance of 85% for the 2016-2018 and the 2017-2019 series. For the 2018-2020 plan of the members of the Board of Management and the Executive Committee, the conditional grant of shares is linked for 50% to the relative TSR performance of the company compared with the peer group and 50% to the ROI performance of the company, after which a two-year holding restriction will apply. The 2018-2020 plan for the executives is a restricted share plan without any performance conditions, whereby the conditional grant of shares will only vest when the executives remain in service with the company during the three-year vesting period, after which a one-year holding restriction will apply.

The conditional shares of the 2016-2018 series for the AkzoNobel participants vested for 85% (series 2015-2017: 81.80%), including extraordinary dividend shares of 5.48%, the final vesting percentage amounted to 89.66% (series 2015-2017: 92.65%).

The conditional shares of the executives of the Specialty Chemicals business (part of discontinued operations), granted under the 2016-2018, 2017-2019 and 2018-2020 plans have vested on October 1, 2018, taking into account the 85% vesting percentages for the 2016-2018 and 2017-2019 plans and pro-rated for the time passed since the grant date when compared to the 3-year vesting period. Thus the vested shares have been delivered early October 2018.

The share price of a common AkzoNobel share at year-end amounted to €70.40 (2017: €73.02).

Fair value of performance-related shares

The fair value of the restricted shares of the 2018-2020 grant, amounting to €67.64, is based on the share price on January 2, 2019, of €72.76 and the expected dividend yield of 2.41%.

The fair value of the performance-related shares of the 2018-2020 grant is for 50% based on a market condition (TSR) and for 50% based on non-market-based performance condition (ROI).

The original fair value of the performance-related shares of the 2016-2018 and 2017-2019 grants was for 35% based on a market condition (TSR) and for 65% based on non-market based performance conditions (ROI and RobecoSAM). Due to the plan modification, for the 2016-2018 plan there was a step-up in fair value for the TSR component as the change was beneficial to the participants. This step-up for the TSR component (which weigh for 35% in the vesting) amounted to €14.66 for the participants who knew about the Supervisory Board decision on the modification on March 7, 2018, and €35.27 for all other participants who were informed on July 3, 2018 through the general announcement of the plan modification. For the 2017-2019 plan, the fair value was not amended as this change was not beneficial on either date.

The TSR part of the award is valued applying a Monte Carlo simulation model and the other part is valued based on the share price at grant date.

The parameters applied for the fair value calculations are: share price at grant date (opening of first trading date from grant date), expected volatility (based on the share price development over the past three years of AkzoNobel), and risk-free interest rate (based on a Dutch zero-coupon government bond).

Share-matching plan

The members of the Board of Management and the members of the Executive Committee are eligible to participate in the share-matching plan in 2018; they will not be eligible for the years 2019, 2020 and 2021.

Under certain conditions, members who invest part of their short-term incentive in AkzoNobel shares may have such shares matched by the company. The investment in Akzo Nobel N.V. shares in 2018 resulted in a total of 5,233 granted potential matching shares. During 2018, 7,817 potential matching shares were matched and 2,512 were forfeited, leading to a total of 7,729 potential matching shares at December 31, 2018.

Fair value of matching shares

The fair value of the matching shares (€69.05) was based on the share price on the investment date, discounted for expected dividends over the holding period (2017: €72.56).

The parameters applied for the fair value calculations are: share price at purchase date of voluntary investment (April 24, 2018): €76.20; expected dividend yield: 3.23%.

For an overview of the matching shares outstanding for the members of the Board of Management as of December 31, 2018, we refer to Note 24.

Fair value performance-related shares in €

Series	Opening share price per:	Fair Value	Market condition (TSR)[6]	Non-market based performance conditions[7]	Share price	Expected volatility	Risk free interest rate
2016 - 2018	January 4, 2016	53.69	40.20	60.69	60.96	23.82%	-0.09%
2016 - 2018[1]	March 7, 2018	5.13	62.02	Not applicable	78.22	22.74%	-0.25%
2016 - 2018[2]	July 3, 2018	12.34	37.10	Not applicable	73.56	22.12%	-0.26%
2017 - 2019	January 2, 2017	52.42	40.14	59.03	59.03	23.94%	-0.12%
2017 - 2019[3]	May 9, 2017	76.34	75.63	76.72	76.72	24.13%	-0.09%
2017 - 2019[4]	July 28, 2017	77.16	78.88	76.23	76.23	23.77%	-0.08%
2018 - 2020[5]	April 26, 2018	71.65	67.51	75.78	75.78	22.66%	-0.04%

[1] Concerns the fair value step-up for the plan modification on the date of the Supervisory Board decision.
[2] Concerns the fair value step-up for the plan modification on the general announecement date.
[3] Concerns an additional share grant.
[4] Concerns an additional share grant.
[5] Date of the AGM at which the new LTI performance criteria for the Board of Management were approved.
[6] 35% for the 2016-2018 and 2017-2019 grants and 50% for the 2018-2020 grant.
[7] 65% for the 2016-2018 and 2017-2019 grants and 50% for the 2018-2020 grant.

Performance-related shares of AkzoNobel executives

Series	Balance per January 1, 2018	Transferred in 2018	Granted in 2018	Vested in 2018	Forfeited in 2018	Dividend in 2018	Balance at December 31, 2018	Vested on January 1, 2019
2015 - 2017	328,119	–	–	(328,119)	–	–	–	–
2016 - 2018	414,927	29,158	2,167	(45,796)	(123,091)	4,293	281,658	281,658
2017 - 2019	446,145	10,621	4,577	(40,983)	(69,673)	2,760	353,447	–
2018 - 2020	–	419	309,688	(8,300)	(27,745)	–	274,062	–
Total	**1,189,191**	**40,198**	**316,432**	**(423,198)**	**(220,509)**	**7,053**	**909,167**	**281,658**

7 Financing income and expenses

Financing income and expenses

In € millions	2017	2018
Financing income	23	16
Financing expenses	(90)	(92)
Net interest on net debt	**(67)**	**(76)**
Other interest		
Financing expenses related to post-retirement benefits	(7)	10
Interest on provisions	(16)	(3)
Other items	12	17
Net other financing charges	**(11)**	**24**
Total financing income and expenses	**(78)**	**(52)**

Net financing expenses for the year were €52 million (2017: €78 million). Significant variances are:

- Net interest on net debt increased by €9 million to €76 million (2017: €67 million), mainly due to lower return on investments
- Financing expenses related to post-retirement benefits changed from a charge of €7 million in 2017 to an income of €10 million due to improved funding positions
- Interest charges on provisions came down from €16 million in 2017 to €3 million due to changes in discount rates
- Other items include a net benefit on tax settlements of €20 million in 2018, partially offset by lower foreign currency hedging results

The average interest rate used for capitalized interest was 2.2% (2017: 2.6%) and amounted to nil (2017: €2 million).

The average interest rate on total debt was 2.6% (2017: 3.1%).

8 Income tax

Pre-tax income from continuing operations amounted to a profit of €573 million (2017: €764 million). The net tax charges related to continuing operations are included in the statement of income as follows:

Classification of current and deferred tax result

In € millions	2017	2018
Current tax expense for		
The year	(158)	(121)
Adjustments for previous years	56	23
Separation of Specialty Chemicals business	(1)	(4)
Total current tax expense	**(103)**	**(102)**
Deferred tax expense for		
US tax reform	(56)	–
Separation of Specialty Chemicals business	(32)	44
Origination and reversal of temporary differences and tax losses	(44)	(48)
(De)recognition of deferred tax assets	(12)	(9)
Changes in tax rates	(6)	(3)
Total deferred tax expense	**(150)**	**(16)**
Total	**(253)**	**(118)**

The total deferred tax charge, including discontinued operations was €143 million (2017: €182 million). The total tax charge, including discontinued operations, was €549 million (2017: €422 million).

Effective tax rate reconciliation

The effective income tax rate based on the statement of income is 20.6%.

Effective tax rate

in %	2017	2018
Corporate tax rate in the Netherlands	25.0	25.0
Effect of tax rates in other countries	(1.0)	(0.1)
Weighted average statutory income tax rate	**24.0**	**24.9**
US tax reform	7.3	0.0
Separation of Specialty Chemicals business	4.2	(7.0)
Non-taxable (income)/expenses	0.7	2.4
(De)recognition of deferred tax assets	1.6	1.6
Non-refundable withholding taxes	1.8	2.3
Adjustment for prior years	(7.3)	(4.0)
Other	0.8	0.4
Effective tax rate	**33.1**	**20.6**

For comparison reasons, the above table presents the effective consolidated tax rate excluding the impact of results on discontinued operations. Including these results, the effective consolidated tax rate is 7.5%, as the deal result is largely tax exempted, refer to Note 2.

The benefits arising from previously unrecognized tax losses, tax credit or temporary differences of a prior period that are used to reduce the current tax expense in 2018 amounted to €25 million and to reduce the deferred tax expense to €20 million. These mainly related to the separation of the Specialty Chemicals business.

The impact of non-refundable withholding tax on the tax rate is dependent on our relative share in the profit of subsidiaries in countries that levy withholding tax on dividends and on the timing of the remittance of such dividends. Based on the Dutch tax system there is a limited credit for such taxes.

The adjustments for prior years are mainly related to the outcome of several tax audits.

Deferred tax assets and liabilities

From the total amount of recognized net deferred tax assets, €393 million (2017: €280 million) is related to entities that have suffered a loss in either 2018 or 2017 and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences. This assessment is based on management's long-term projections and tax planning strategies.

A deferred tax liability is recognized for taxable temporary differences related to investments in subsidiaries, branches and associates and interests in joint arrangements, to the extent that it is probable that these will reverse in the foreseeable future. The expected net tax impact of the remaining differences for which no deferred tax liabilities have been recognized is €30 million.

Deferred tax assets and liabilities

In € millions	2017	2018
Deferred tax assets	1,017	575
Deferred tax liabilities	(367)	(285)
Balance at December 31 prior year	**650**	**290**
Impact of adoption IFRS 15	–	16
Impact of adoption IFRS 9	–	1
Impact of application IAS 29*	–	(6)
Balance at January 1	**650**	**301**
Movement in deferred tax:		
Changes in exchange rates	(19)	9
Recognized in income	(182)	(143)
Recognized in equity/ Other comprehensive income	(105)	40
Classified as held for sale	(52)	(6)
Other	(2)	(10)
Balance at December 31	**290**	**191**
Deferred tax assets	575	559
Deferred tax liabilities	(285)	(368)

* Excluding discontinued operations charge of €1 million.

Expiration year of loss carryforwards

In € millions	2019	2020	2021	2022	2023	Later	Unlimited	Total
Total loss carryforwards	1	1	1	33	155	267	2,674	3,132
Loss carryforwards not recognized in deferred tax assets	–	–	–	–	–	(31)	(74)	(105)
Total recognized	**1**	**1**	**1**	**33**	**155**	**236**	**2,600**	**3,027**

Deferred tax assets and liabilities per balance sheet item

		December 31, 2017			December 31, 2018	
In € millions	Net balance	Assets	Liabilities	Net balance	Assets	Liabilities
Intangible assets	(368)	17	385	(363)	28	391
Property, plant and equipment	43	69	26	47	75	28
Post-retirement benefit provisions	177	179	2	121	124	3
Other provisions	47	59	12	37	49	12
Other items and tax credits	162	248	86	71	261	190
Tax loss carryforwards	593	593	–	582	582	–
Deferred tax assets not recognized	(364)	(364)	–	(304)	(304)	–
Tax assets/liabilities	**290**	**801**	**511**	**191**	**815**	**624**
Set-off of tax	–	(226)	(226)	–	(256)	(256)
Net deferred taxes	**290**	**575**	**285**	**191**	**559**	**368**

The income tax recognized in equity in 2017 includes the impact of a derecognition and in 2018 of a rerecognition of certain post-retirement benefits related deferred tax assets.

Unrecognized deferred tax assets

In € millions	2017	2018
Tax losses and tax credits	193	167
Deductible temporary differences	171	137
Total	**364**	**304**

Income tax recognized in equity

In € millions	2017	2018
Currency exchange differences on intercompany loans of a permanent nature	(5)	17
Cash flow hedges	(4)	5
Share-based compensation	3	(1)
Post-retirement benefits	(99)	24
Impact of adoption IFRS 15	–	16
Impact of adoption IFRS 9	–	1
Impact of application IAS 29	–	(7)
Total	**(105)**	**55**
Current tax	–	5
Deferred tax	(105)	50
Total	**(105)**	**55**

Profit for the period

In € millions	2017	2018
Profit before tax from continuing operations	764	573
Income tax	(253)	(118)
Profit from continuing operations	**511**	**455**
Profit for the period attributable to non-controlling interests	(68)	(45)
Profit for the period from continuing operations attributable to shareholders of the company	**443**	**410**
Profit for the period from discontinued operations	393	6,274
Discontinued operations attributable to non-controlling interest	(4)	(10)
Profit for the period attributable to shareholders of the company	**832**	**6,674**

Weighted average number of shares

Number of shares	2017	2018
Issued common shares at January 1	**252,176,412**	**252,620,585**
Effect of issued common shares during the year	1,513,199	2,252,713
Effect of share repurchase program	(2,054,481)	–
Shares for basic earnings per share for the year	**251,635,130**	**254,873,298**
Effect of dilutive shares		
For performance-related shares	1,626,796	1,087,173
For share-matching plan	12,825	9,813
Shares for diluted earnings per share	**253,274,751**	**255,970,284**

Earnings per share

in €	2017	2018
Continuing operations		
Basic	1.76	1.61
Diluted	1.75	1.60
Discontinued operations		
Basic	1.55	24.58
Diluted	1.54	24.47
Total operations		
Basic	3.31	26.19
Diluted	3.29	26.07

Adjusted earnings per share

Profit for the period from continuing operations

In € millions	2017	2018
Profit before tax from continuing operations	764	573
Identified items reported in operating income	80	193
Interest on tax settlement	–	(30)
Adjusted income tax	(185)	(204)
Non-controlling interests	(68)	(45)
Adjusted profit from continuing operations attributable to share-holders of the company	**591**	**487**
Adjusted earnings per share (in €)	**2.35**	**1.91**

Profit for the period from total operations

In € millions	2017	2018
Profit before tax from total operations	1,324	7,278
Identified items	129	(5,852)
Interest on tax settlement	–	(30)
Adjusted income tax	(359)	(378)
Non-controlling interests	(72)	(55)
Adjusted profit from total operations attributable to shareholders of the company	**1,022**	**963**
Adjusted earnings per share (in €)	**4.06**	**3.78**

Intangible assets

In € millions	Goodwill	Brands	Customer lists	Other intangibles	Total
Balance at January 1, 2017					
Cost of acquisition	1,652	2,290	1,204	399	5,545
Cost of internally developed intangibles	–	–	–	221	221
Accumulated amortization/impairment	(99)	(165)	(748)	(341)	(1,353)
Carrying value	**1,553**	**2,125**	**456**	**279**	**4,413**
Movements in 2017					
Acquisitions through business combinations	(3)	2	89	10	98
Investments – including internally developed intangibles	–	–	–	22	22
Divestments	–	–	–	(4)	(4)
Amortization	–	(12)	(67)	(42)	(121)
Classified as held for sale	(517)	–	(141)	(129)	(787)
Changes in exchange rates	(88)	(90)	(22)	(12)	(212)
Total movements	**(608)**	**(100)**	**(141)**	**(155)**	**(1,004)**
Balance at December 31, 2017					
Cost of acquisition	991	2,189	754	192	4,126
Cost of internally developed intangibles	–	–	–	160	160
Accumulated amortization/impairment	(46)	(164)	(439)	(228)	(877)
Carrying value at December 31, 2017	**945**	**2,025**	**315**	**124**	**3,409**
Impact application of IAS 29	1	8	–	–	9
Balance at January 1, 2018	**946**	**2,033**	**315**	**124**	**3,418**
Movements in 2018					
Acquisitions through business combinations	42	38	19	2	101
Investments – including internally developed intangibles	–	–	2	22	24
Amortization	–	(11)	(32)	(15)	(58)
Classified as held for sale	–	–	–	(4)	(4)
Changes in exchange rates	2	(21)	–	(4)	(23)
Total movements	**44**	**6**	**(11)**	**1**	**40**
Balance at December 31, 2018					
Cost of acquisition	1,013	2,216	810	221	4,260
Cost of internally developed intangibles	–	–	–	158	158
Accumulated amortization/impairment	(23)	(177)	(506)	(254)	(960)
Carrying value at December 31, 2018	**990**	**2,039**	**304**	**125**	**3,458**

Brands with indefinite useful lives are almost fully related to Dulux, which is the major brand, due to its global presence, high recognition and strategic nature. Other intangibles include licenses, know-how, intellectual property rights, emission rights and development cost. Both at year-end 2018 and 2017, there were no purchase commitments for individual intangible assets. No intangible assets were registered as security for bank loans.

Impairment testing

Goodwill and other intangibles with indefinite useful lives are tested for impairment per business unit (one level below segment level) in the fourth quarter or whenever an impairment trigger exists. The impairment test is in principle based on cash flow projections of the five-year plan. Elements considered to determine if a different approach would be more appropriate are, among others, high growth/emerging economies, geo expansion opportunities, introduction of new product ranges and opportunities from market consolidation. In 2018, the above exception was applied for Decorative Paints Asia and Decorative Paints South America, for which the revenue growth and adjusted EBITDA-margin development projections were extrapolated beyond the five-year explicit forecast period for another five years, applying reduced average growth rates.

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 business units, a terminal value was calculated based on the long-term inflation expectations of 1.2%. The estimated pre-tax cash flows are discounted to their present value using a pre-tax weighted average cost of capital. The discount rates are determined for each business unit and range from 8.6% to 12.0%, with a weighted average of 9.3%.

Goodwill and other intangibles per segment

	Goodwill		Brands with indefinite useful lives		Other intangibles with finite useful lives		Total intangibles	
In € millions	2017	2018	2017	2018	2017	2018	2017	2018
Decorative Paints	40	75	1,845	1,830	194	239	2,079	2,144
Performance Coatings	905	915	–	–	425	399	1,330	1,314
Total	**945**	**990**	**1,845**	**1,830**	**619**	**638**	**3,409**	**3,458**

Sensitivity tests were performed for growth assumptions (a 50 percent reduction of the growth rate), Adjusted EBITDA margin development assumptions (a one percentage point decrease) and for the weighted average cost of capital (a one percentage point increase). All sensitivity tests individually confirm sufficient headroom in all businesses.

No impairment charges were recognized in relation to the annual impairment test, both in 2017 and 2018.

Average revenue growth rates

In % per year	2019-2023
Decorative Paints	3.6%
Performance Coatings	3.7%

Capital expenditures

In 2018, we have slightly underspent our CAPEX initial plan due to increased CAPEX governance and rigor, whilst we also re-evaluated all CAPEX submissions to ensure full alignment with our 15% ROS by 2020 strategy.

During the year we have primarily invested in incremental capacity to support growth (an example is the Powder Coatings site in India) as well as in further the optimization of our asset footprint (for both production consolidation and insourcing from past acquisitions such as BASF Industrial Coatings). We also continued our investment strategy to support our resource productivity ambition with VOC abatement systems, on-site solvent recovery systems and waste water minimization systems as examples.

Impairments

In 2018, no significant impairments were recognized. In 2017, several small impairments and reversals of impairments were recognized, spread over all businesses.

Financial lease

The carrying value of the property, plant and equipment financed by hire purchase and leasing and not legally owned by the company was €30 million (2017: €33 million) of which €29 million is relating to buildings.

In 2018, we did not enter into new financial leases.

Property, plant and equipment

In € millions	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used	Total
Balance at January 1, 2017						
Cost of acquisition	2,529	6,987	1,052	976	57	11,601
Accumulated depreciation/impairment	(1,344)	(5,109)	(819)	(88)	(51)	(7,411)
Carrying value	**1,185**	**1,878**	**233**	**888**	**6**	**4,190**
Movements in 2017						
Acquisitions	9	2	–	–	–	11
Divestments	(11)	(4)	(2)	–	(3)	(20)
Capital expenditures	39	215	51	307	1	613
Transfer between categories	147	446	76	(669)	–	–
Depreciation	(75)	(335)	(75)	–	(1)	(486)
Impairments, including reversals	3	(1)	2	(4)	–	–
Classified as held for sale	(434)	(1,472)	(64)	(295)	(1)	(2,266)
Other	2	1	1	–	–	4
Changes in exchange rates	(66)	(102)	(10)	(36)	–	(214)
Total movements	**(386)**	**(1,250)**	**(21)**	**(697)**	**(4)**	**(2,358)**
Balance at December 31, 2017						
Cost of acquisition	1,488	1,901	925	193	7	4,514
Accumulated depreciation/impairment	(689)	(1,273)	(713)	(2)	(5)	(2,682)
Carrying value at December 31, 2017	**799**	**628**	**212**	**191**	**2**	**1,832**
Impact adoption IFRS 15	–	–	(56)	(10)	–	(66)
Impact application IAS 29	11	2	–	1	–	14
Balance at January 1, 2018	**810**	**630**	**156**	**182**	**2**	**1,780**
Movements in 2018						
Acquisitions	18	4	2	1	2	27
Divestments	(7)	(1)	(2)	(1)	–	(11)
Capital expenditures	6	31	13	111	(1)	160
Transfer between categories	22	48	46	(116)	–	–
Depreciation	(44)	(93)	(44)	–	–	(181)
Impairments, including reversals	(1)	–	–	–	–	(1)
Changes in exchange rates	(10)	(8)	(5)	(3)	–	(26)
Total movements	**(16)**	**(19)**	**10**	**(8)**	**1**	**(32)**
Balance at December 31, 2018						
Cost of acquisition	1,505	1,894	888	178	10	4,475
Accumulated depreciation/impairment	(711)	(1,283)	(722)	(4)	(7)	(2,727)
Carrying value at December 31, 2018	**794**	**611**	**166**	**174**	**3**	**1,748**

12 Investments in associates and joint ventures

At year-end 2018, the carrying value of equity investments in associates amounted to €133 million (2017: €118 million) and in joint ventures amounted to €nil (2017 €nil). In 2018, the results from associates amounted to a profit of €20 million (2017: €17 million). In addition, AkzoNobel has granted loans of €4 million in total to certain associates (2017: €nil).

No significant contingent liabilities exist related to associates.

The largest associate of AkzoNobel is Metlac S.p.a.. None of the associates are considered individually material to the group.

Balance sheet information of our share in associates

In € millions	2017	Associates 2018
Condensed balance sheet		
Non-current assets	63	66
Current assets	104	120
Total assets	**167**	**186**
Shareholders' equity	118	133
Non-current liabilities	2	5
Current liabilities	47	48
Total liabilities and equity	**167**	**186**

Profit and loss of our share in associates

In € millions	2017	Associates 2018
Condensed statement of income		
Revenue	114	135
Profit before tax	24	27
Profit from continuing operations	17	20
Other comprehensive income	–	–
Total comprehensive income	**17**	**20**

13 Other financial non-current assets

Other financial non-current assets

In € millions	2017	2018
Loans and receivables	131	130
Other than financial instruments	1,070	1,139
Total	**1,201**	**1,269**

Financial assets include the subordinated loan of €89 million (2017: €91 million) granted to the Pension Fund APF in the Netherlands.

Other than financial instruments include an amount of €947 million related to pension plans in an asset position (2017: €895 million) and excluded from the impairment review under IFRS 9. For more information on post-retirement benefit provisions, see Note 17.

All of these financial assets are considered to have low credit risk, and thus the impairment provision recognized during the period was limited to 12 months expected losses.

14 Inventories

Inventories

In € millions	2017	2018
Raw materials and supplies	331	353
Work in progress	62	66
Finished products and goods for resale	701	720
Total	**1,094**	**1,139**

Of the total carrying value of inventories at year-end 2018, €45 million is measured at net realizable value (2017: €35 million). In 2018, €79 million was recognized in the statement of income for the write-down of inventories (2017: €46 million), while €18 million of write-downs were reversed (2017: €14 million). There are no inventories subject to retention of title clauses.

15 Trade and other receivables

Trade and other receivables

In € millions	2017	2018
Trade receivables	1,700	1,843
Prepaid expenses	29	50
Tax receivables other than income tax	112	92
FX and commodity contracts	11	6
Other receivables	112	150
Total	**1,964**	**2,141**

Trade receivables are presented net of an allowance for impairment of €69 million (2017: €84 million).

In 2018, €38 million of impairment losses were recognized in the statement of income (2017: €45 million). An amount of €35 million was reversed (2017: €37 million).

Ageing of trade receivables

In € millions	2017	2018
Performing trade receivables	1,505	1,638
Past due trade receivables and not impaired		
< 3 months	140	161
> 3 months	31	29
Impaired trade receivables	108	84
Allowance for impairment	(84)	(69)
Total trade receivables	**1,700**	**1,843**

Allowance for impairment of trade receivables

In € millions	2017	2018
Balance at January 1 under IAS 39	**107**	**84**
Impact adoption IFRS 9	–	4
Opening balance at January 1, 2018 under IFRS 9	**107**	**88**
Additions charged to income	45	38
Release of unused amounts	(37)	(35)
Utilization	(19)	(22)
Acquisitions	–	3
Classified as assets held for sale	(6)	–
Currency exchange differences	(6)	(3)
Balance at December 31	**84**	**69**

Since the total amount of impairment losses under IFRS 9 is not significant no separate disclosure was made in the statement of income.

In 2018, the addition to and release of the allowance for impairment have been included in the statement of income under Selling expenses. In 2017, they have been reported there also for the continuing operations and under Profit for the period from discontinued operations for the Specialty Chemicals business.

In 2018, the impairment of trade receivables is based on the expected credit losses model following the simplified approach. In 2017, it was based on the incurred loss model.

16 Group equity

Composition of share capital at year-end 2017

In €	Authorized share capital	Subscribed share capital
Priority shares (48 with nominal value of €400)	19,200	19,200
Cumulative preferred shares (200 million with nominal value of €2)	400,000,000	–
Common shares (600 million with nominal value of €2)	1,200,000,000	505,241,170
Total	**1,600,019,200**	**505,260,370**

Composition of share capital at year-end 2018

In €	Authorized share capital	Subscribed share capital
Priority shares (48 with nominal value of €400)	19,200	19,200
Cumulative preferred shares (200 million with nominal value of €2)	400,000,000	–
Common shares (600 million with nominal value of €2)	1,200,000,000	512,438,602
Total	**1,600,019,200**	**512,457,802**

Outstanding common shares

Number of shares	2017	2018
Outstanding at January 1	**252,176,412**	**252,620,585**
Issued in connection to performance-related share plan and share-matching plan	405,231	991,928
Stock dividend	2,418,168	2,606,788
Share repurchase	(2,379,226)	–
Balance at December 31	**252,620,585**	**256,219,301**

Weighted average number of shares

Number of shares	2017	2018
Weighted average number of shares	**251,635,130**	**254,873,298**

For further details on weighted average number of shares, refer to Note 9.

Non-controlling interests

Group entity	Partner at year-end 2018	2017 %	2017 Equity stake in € millions	2018 %	2018 Equity stake in € millions
Akzo Nobel India Limited, Kolkata, India	Privately held, India	27.04	52	25.24	49
Akzo Nobel Paints (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	Privately held, Malaysia	40.05	25	40.05	24
PT ICI Paints Indonesia, Jakarta, Indonesia	PT DWI Satrya Utama, Indonesia	45.00	28	45.00	22
International Paint (Korea) Ltd, Busan, South-Korea	Noroo Holdings, South Korea	40.00	17	40.00	16
Akzo Nobel Kemipol A.S., Izmir, Turkey	Privately held, Turkey	49.00	17	49.00	16
International Paints Saudi Arabia, Saudi Arabia	Yousuf Bin Ahmed Kanoo Co. Ltd, Saudi Arabia	40.00	13	40.00	15
Akzo Nobel Oman SAOC, Muscat, Oman	Omar Zawawi establishment LLC, Oman	50.00	11	50.00	11
Akzo Nobel Pakistan Limited, Karachi, Pakistan	Privately held, Pakistan	24.19	12	24.19	10
Akzo Nobel UAE Paints LLC, United Arab Emirates	Kanoo Group, United Arab Emirates	40.00	10	40.00	9
International Paints of Shanghai Co. Ltd, Shanghai, China	Huayi Fine Chemical Co. Ltd, China; China National Shipbuilding Equipment & Materials Corp.	49.00	5	49.00	6
Akzo Nobel Swire Paints (Guanzhou) Limited, Guangzhou, China	Industrial Development Co. Ltd of Guanzhou, China	46.00	33	10.00	6
Akzo Nobel Swire Paints (Shanghai) Ltd, Shanghai, China	–	30.00	170	–	–
Others			252		20
Total			**442**		**204**

Subscribed share capital
For further details on subscribed share capital, refer to Note F in the Company financial statements.

Other components of Shareholders' equity
Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cumulative translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of intercompany loans with a permanent nature and liabilities and derivatives that hedge the net investments in a foreign subsidiary.

Equity-settled transactions consist of the performance-related share plan and share-matching plan, whereby shares are granted to the Board of Management, Executive Committee and other executives. For details of the share-based compensation, refer to Note 6.

Non-controlling interests
None of the non-controlling interests are considered individually material to the group.

Dividend
Our dividend policy is to pay a stable to rising dividend. In 2018, an interim dividend of €0.37 per share (2017: €0.56) was paid.

In line with our announcement on April 19, 2017, we intend to return the vast majority of the net proceeds from the separation of the Specialty Chemicals business to our shareholders.

The Extraordinary General Meeting of November 13, 2018, approved to return an amount 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 will distribute €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 is due to be completed at the end of 2019. We intend to cancel these shares after repurchase.

We propose a 2018 final dividend of €1.43 per share (post consolidation), which would equal a total 2018 dividend of €1.80 (2017: €2.50, including €0.85 related to the Specialty Chemicals business) per share.

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

Post-retirement benefit provisions relate to defined benefit pension and other post-retirement benefit plans, including healthcare or welfare plans. The largest defined benefit pension plans are the ICI Pension Fund (ICIPF) and the Akzo Nobel (CPS) Pension Scheme in the UK which together account for 87 percent of defined benefit obligations (DBO) and 91 percent of plan assets. Other pension plans include among others the largely unfunded plans in Germany, the plans in the US and certain other smaller plans in the UK. The benefits of these pension plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment. We also provide certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands.

Valuations of the obligations under the plans are carried out regularly by independent qualified actuaries. We accrue for the expected costs of providing such post-retirement benefits during the service years of the employees. Governance of the benefit plans is the responsibility of the Executive Committee Pensions. This committee provides oversight of the costs and risks of the plans including oversight of the impact of the plans on the company in terms of cash flow, pension expenses and the balance sheet. The committee develops and maintains policies on benefit design, funding, asset allocation and assumption setting.

Pension plans

Almost all of the defined benefit plans have been closed to new members since the early to mid-2000s, although in many plans long-serving employees continue to accrue benefits. For plans in the US, benefit accrual is frozen and employees participate in defined contribution plans for future service. In countries where plans are closed, new employees are eligible to join a defined contribution arrangement. In countries in high growth markets, pension schemes currently are not material. Unless mandated by law, it is our policy that any new plans are established as defined contribution plans.

The most significant risks that we run in relation to defined benefit plans are that investment returns fall short of expectations, low discount rates, that inflation exceeds expectations, and that retirees live longer than expected. The assets and liabilities of each of the funded plans are held outside of the company in a trust or a foundation, which is governed by a board of fiduciaries or trustees, depending on the legal arrangements in the country concerned. The primary objective with regard to the investment of pension plan assets is to ensure that each individual plan has sufficient funds available to satisfy future benefit obligations in accordance with local legal and legislative requirements. For this purpose, we work closely with plan trustees or fiduciaries to develop investment strategies. Studies are carried out periodically to analyze and understand the trade-off between expected investment returns, volatility of outcomes and the impact on cash contributions. We aim to strike a cautious balance between these factors in order to agree affordable contribution schedules with plan fiduciaries.

Plan assets principally consist of insurance (annuity) policies, long-term interest-earning investments and (investment funds with holdings primarily in) quoted equity securities. Our largest plans use derivatives (such as index futures, currency forward contracts and swaps) to reduce volatility of underlying variables, for efficient portfolio management and to improve the liability matching characteristics of the assets. Limits have been set on the use of derivatives which are periodically subject to review for compliance with the pension fund's investment strategy.

In line with our proactive pension risk management strategy, we seek to reduce risk in our pension plans over time. We continue to evaluate different potential de-risking strategies and opportunities on an ongoing basis. Some future de-risking transactions may have both cash flow and balance sheet impacts which may be substantial, as have some of the de-risking actions already taken. The cost of fully removing risk would exceed estimated funding deficits.

Between 2014 and 2018, ICIPF and a smaller UK plan, the ICI Specialty Chemicals Pension Fund (ISCPF), have invested in annuity buy-in contracts that aim to hedge all key risks related to their pensioner populations. CPS has an insurance contract to hedge longevity risk in respect of a portion of its pensioners. In 2018, the Trustee of the ICIPF entered into a further annuity buy-in agreement with Legal and General Assurance Society Limited and the Trustee of the ISCPF entered into a further annuity buy-in agreement with Pension Insurance Corporation PLC. Together they cover, in aggregate, £138 million (€154 million) of pensioner liabilities (local plan value). The buy-ins involved the purchase of bulk annuity policies under which the insurers will pay to ICIPF and ISCPF amounts equivalent to the benefits payable to members who have recently become pensioners. The pension liabilities remain with, and the matching annuity policies are held within, ICIPF and ISCPF. The accounting impact of the transactions is a lower valuation of the plan assets giving a reduction in Other comprehensive income of £28 million (€31 million).

By purchasing bulk annuities, the ICIPF and ISCPF Trustees have both taken significant steps in actively de-risking liabilities and reducing the risk that AkzoNobel will be required to contribute additional cash in the future.

In October 2018, the UK High Court provided clarity for trustees and employers on providing equal pension benefits for men and women where they are in receipt of Guaranteed Minimum Pensions (GMPs) as a result of the Lloyds Banking Group judgment. According to this judgment, pension schemes must retrospectively equalize GMPs by uplifting pensions to the same level, as far as needed, for men and women. As a result, a past service cost of £51 million (€57 million) has been charged across the AkzoNobel pension schemes in the UK in 2018.

Of the costs recognized in the statement of income in the table on the next page, €90 million concerned continuing operations (2017: €38 million) and €nil related to discontinued operations (2017: €22 million).

Remeasurement effects recognized in Other comprehensive income for continuing operations amounted to a €45 million loss (2017: €462 million gain) and for discontinued operations to a €27 million gain, however not included in this table (2017: €24 million gain). Of the net cash flow €257 million was for continuing operations (2017: €340 million) and €nil for discontinued operations (2017: €47 million).

The remaining pension plans primarily represent defined contribution plans. This includes, among others, the Pension Fund APF in the Netherlands and the 401k Plan in the US. The ITP2 plan in Sweden is financed through insurance with the Alecta insurance company and is classified as a multi-employer defined benefit plan. As AkzoNobel does not have access to sufficient information from Alecta to enable a defined benefit accounting treatment, it is accounted for as a defined contribution plan.

Contributions in 2018 were €2 million (2017: €2 million). Alecta's funding ratio in 2018 is normally allowed to vary between 125% and 175%. The most recently quoted ratio at September 2018 stood at 159 percent. The expenses of all plans accounted for as defined contribution plans in AkzoNobel totaled €87 million in 2018 (2017: €88 million).

Other post-retirement benefit plans

AkzoNobel provides certain healthcare and life insurance benefits to retired employees, mainly in the US and the Netherlands. The risks to which the US healthcare plans expose AkzoNobel include the risk of future increases in the cost of healthcare which would increase the cost of maintaining the plans. The benefit payments to retirees under the Dutch plan are frozen. Both plans expose AkzoNobel to the risk of a further decline in discount rates, which increases the plan obligations, and longevity risk as the plans generally pay lifetime benefits.

Reconciliation balance sheet

The adjacent table details the annual movements for the total post-retirement benefit provisions. The closing net

Reconciliation balance sheet

			2017			2018
In € millions	DBO	Plan assets	Total	DBO	Plan assets	Total
Balance at the beginning of the period	**(16,935)**	**15,671**	**(1,264)**	**(14,444)**	**14,643**	**199**
Statement of income						
Current service cost	(53)	–	(53)	(36)	–	(36)
Past service cost	12	–	12	(64)	–	(64)
Settlements	–	–	–	–	–	–
Net interest (charge)/income on net defined benefit (liability)/asset	(394)	375	(19)	(345)	355	10
Cost recognized in statement of income	**(435)**	**375**	**(60)**	**(445)**	**355**	**(90)**
Remeasurements						
Actuarial gain/(loss) due to liability experience	213	–	213	(39)	–	(39)
Actuarial gain/(loss) due to liability financial assumption changes	33	–	33	430	–	430
Actuarial gain/(loss) due to liability demographic assumption changes	223	–	223	74	–	74
Actuarial loss due to buy-in	–	(77)	(77)	–	(31)	(31)
Return on plan assets greater/(less) than discount rate	–	94	94	–	(479)	(479)
Remeasurement effects recognized in Other comprehensive income	**469**	**17**	**486**	**465**	**(510)**	**(45)**
Cash flow						
Employer contributions	–	387	387	–	257	257
Employee contributions	(2)	2	–	(2)	2	–
Benefits and administration costs paid from plan assets	982	(982)	–	927	(927)	–
Net cash flow	**980**	**(593)**	**387**	**925**	**(668)**	**257**
Other						
Acquisitions/divestments/transfers	(5)	7	2	2	(2)	–
Changes in exchange rates	599	(556)	43	143	(164)	(21)
Total other	**594**	**(549)**	**45**	**145**	**(166)**	**(21)**
Classified as held for sale	883	(278)	605	–	–	–
Balance at the end of the period	**(14,444)**	**14,643**	**199**	**(13,354)**	**13,654**	**300**
Asset restriction			(3)			(3)
Net balance sheet provision			**196**			**297**
In the balance sheet under						
Other financial non-current assets			895			947
Post-retirement benefit provisions			(643)			(603)
Current portion of provisions			(56)			(47)
Net balance sheet provision			**196**			**297**

balance sheet provision comprises: Pension plans €442 million net asset (2017: €361 million net asset) and Other post-retirement benefit plans €145 million liability (2017: €165 million).

Administrative expenses

In addition to the expenses borne by the funds themselves, some expenses are borne directly by AkzoNobel. Administrative expenses are incurred, especially for the UK pension funds, of €14 million (2017: €12 million), which are included in Operating income. In addition, we directly incurred asset management expenses of €5 million (2017: €6 million), which have been included in Other comprehensive income.

Interest costs

Interest costs on DBO for both pensions and other post-retirement benefits together with the interest income on plan assets comprise the net financing expenses related to post-retirement benefits of €10 million credit for continuing operations (2017: €19 million charge; €7 million charge continuing operations, €12 million charge discontinued operations), see Note 7.

Pension plans in asset position

Pension balances recorded under Other financial non-current assets totaled €947 million (2017: €895 million). The increase in 2018 was primarily due to €172 million of top-up pension contributions offset by €78 million of net actuarial losses and €57 million of past service costs for GMPs in the relevant plans. These assets could be recognized under IFRIC 14 because economic benefits are available in the form of future refunds from the plan or reductions in future contributions to the plan, either during the life of the plan or on the (final) settlement of the plan liabilities.

Plan assets

The equities and government bond debt assets in the table below have quoted prices in active markets, although most are held through funds comprised of such instruments which are not actively traded themselves. The UK buy-in annuity policies are unquoted plan assets.

The other categories of plan assets include certain assets that are not quoted in active markets. Such unquoted securities totaled €1,038 million (2017: €1,045 million) and include investments in real estate, totaling €362 million (2017: €340 million) and other investments in infrastructure, catastrophe bonds, insurance policies and high-yield credit strategies. Plan assets did not directly include any of AkzoNobel's own transferable financial instruments, nor any property occupied by or assets used by the company.

Cash flows

In 2019, we expect to contribute €552 million (2018: €243 million) to our defined benefit pension plans. We expect to pay a further €13 million (2018: €14 million) for other post-retirement benefit plans. No allowance is made for any special one-off contributions that may arise in relation to new de-risking opportunities. The increase in expected contributions in 2019 is mainly the result of the recently concluded agreement on the ICIPF triennial funding valuation at March 31, 2017 and the resulting recovery plan.

Plan assets

		2017		2018
In € millions	Total	Percentage of total	Total	Percentage of total
Equities	925	6	552	4
Debt - fixed interest government bonds	996	7	784	6
Debt - index-linked government bonds	2,183	15	2,390	18
Debt - corporate and other bonds	932	6	888	7
UK buy-in annuity policies	8,030	55	7,496	55
Cash and cash equivalents	155	1	212	2
Other	1,422	10	1,332	8
Total	**14,643**	**100**	**13,654**	**100**

Cash flows

		Pensions		Other post-retirement benefits
In € millions	2018	2019	2018	2019
Regular contributions	56	52	14	13
Top-ups	187	500	–	–
Total	**243**	**552**	**14**	**13**

Future benefit payments

The figures in the table below are the estimated future benefit payments to be paid from the plans to beneficiaries over the next ten years.

Future benefit payments

In € millions	Pensions	Other post-retirement benefits
2019	912	13
2020	911	12
2021	918	12
2022	925	11
2023	935	11
2024-2028	4,786	49

DBO at funded and unfunded pension plans*

In € millions	2017	2018
Wholly or partly funded plans	14,092	13,032
Unfunded plans	187	177
Total	**14,279**	**13,209**

* Excludes other post-retirement benefit plans.

Sensitivity of DBO to change in assumptions

In € millions	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total
Discount rate: 0.5% decrease	528	251	126	7	912
Price inflation: 0.5% increase*	292	140	66	–	498
Life expectancy: one year increase from age 60	568	105	60	7	740
Maturity information					
Weighted average duration of DBO (years)	12.4	16.0	15.3	9.4	13.5

* The sensitivity to price inflation assumption includes corresponding changes to all inflation-related compensation increases, pensions in payment and pensions in deferment.

The sensitivity effect on DBO shown allows for an alternative value for each assumption while the other actuarial assumptions remain unchanged. While this table illustrates the overall impact on DBO of the changes shown, the significance of the impact and the range of reasonably possible alternative assumptions may differ between the different plans that comprise the total DBO. In particular, the plans differ in benefit design, currency and average term, meaning that different assumptions have different levels of significance for each plan. The sensitivity analysis is intended to illustrate the inherent uncertainty in the valuation of the DBO under market conditions at the measurement date. Its results cannot be extrapolated due to non-linear effects that changes in the key actuarial assumptions may have on the total DBO. Furthermore, the analysis does not indicate a probability of such changes occurring and it does not necessarily represent our view of expected future changes in DBO. Any management actions that may be taken to mitigate the inherent risks in the post-retirement defined benefit plans are not reflected in this analysis, as they would normally be reflected in plan asset changes rather than DBO changes.

The sensitivities in the table only apply to the DBO and not to the net amounts recognized in the balance sheet. Movements in the fair value of plan assets (which include the de-risking instruments) would, to a significant extent, be expected to offset movements in the DBO resulting from changes in the given assumptions. The annuity buy-in contracts cover 99% of pensioner liabilities (2017: 99%) and 84% of total liabilities at ICIPF (2017: 82%). The longevity hedge contract covers 57% of pensioner liabilities (2017: 58%) and 35% of total liabilities at CPS (2017: 36%).

Key figures and assumptions by plan

In € millions or %	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total 2017	ICIPF UK	CPS UK	Other pension plans	Other post-retirement benefits	Total 2018
Percentage of total DBO	61%	21%	16%	2%		64%	23%	12%	1%	
Defined Benefit Obligation at year-end	(9,298)	(3,283)	(1,698)	(165)	(14,444)	(8,508)	(3,083)	(1,618)	(145)	(13,354)
Fair value of plan assets at year-end	9,609	3,810	1,224	–	14,643	8,876	3,601	1,177	–	13,654
Plan funded status	311	527	(474)	(165)	199	368	518	(441)	(145)	300
Restriction on asset recognition	–	–	(3)	–	(3)	–	–	(3)	–	(3)
Amounts recognized on the balance sheet	**311**	**527**	**(477)**	**(165)**	**196**	**368**	**518**	**(444)**	**(145)**	**297**
Percentage of total current service cost	16%	23%	59%	2%		12%	26%	62%	0%	
Current service cost	7	10	26	1	44	4	9	23	–	36
Employer contributions	184	91	51	15	341	154	34	55	14	257
Discount rate	2.4%	2.5%	2.4%	3.4%	2.5%	2.7%	2.8%	2.8%	3.9%	2.7%
Rate of compensation increase	1.4%	1.4%	2.2%	–	1.8%	1.5%	1.4%	2.6%	–	2.0%
Inflation	3.2%	3.2%	1.9%	–	3.0%	3.2%	3.2%	2.2%	–	3.1%
Pension increases	3.0%	2.2%	1.9%	–	2.6%	3.0%	2.3%	2.1%	–	2.7%
Life expectancy (in years)										
Currently aged 60										
Males	26.8	26.4	25.6	26.1	26.5	26.7	26.4	26.1	26.1	26.5
Females	28.3	28.7	28.6	28.2	28.4	28.2	28.7	28.5	28.0	28.4
Currently aged 45, from age 60										
Males	28.0	27.6	27.2	27.3	27.8	27.8	27.5	27.5	27.3	27.7
Females	29.5	29.9	30.1	29.4	29.7	29.5	29.9	29.8	29.3	29.6

Key plan details for the two largest pension plans[1]

	ICI Pension Fund, UK	Akzo Nobel (CPS) Pension Scheme, UK
Type of plan	Defined benefit, based upon years of service and final salary	Defined benefit, based upon years of service and final salary
Benefits	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement	Retirement pension for employee Dependents' pensions on death of employee/pensioner Options for ill health early retirement
Pension increases (main benefit section)	Annually linked to UK RPI with a maximum of 5 percent	Annually linked to UK CPI with a maximum of 5 percent
Plan structure	Plans are set up under a trust and are tax approved	Plans are set up under a trust and are tax approved
Governance	Trustee directors: Five member-nominated trustees Five appointed with the agreement of Law Debenture One independent (Law Debenture)	Trustee directors: Four member-nominated trustees Four company-nominated trustees One independent (Law Debenture)
Regulatory framework	The plans are tax approved and assets are held in trust for the benefit of participants. The trustees have a legal duty to manage the trust in the best interests of participants. Investment strategy is controlled by the trustees in consultation with the company	
Funding basis	A plan specific basis must be agreed with each trustee board in accordance with UK regulations. The basis is not the same as the IFRS calculation as it uses more prudent assumptions about life expectancy and the discount rates reflect prudent estimates of the expected return on assets actually held, thus the trustees' investment strategies will impact the discounted value of liabilities	
Frequency of funding reviews	Normally every three years	Normally every three years
Latest completed valuation	March 31, 2017	March 31, 2017
Funding deficit[2] at latest completed valuation	£604 million (€673 million)	£123 million (€137 million)
Recovery plan	£125 million (€139 million) in January 2019 and £290 million (€323 million) in March 2019, following experience gains since the March 31, 2017 valuation date	£26 million (€29 million) per annum in 2019 to 2022, paid in March each year from an escrow account pre-funded with £142 million (€158 million) in February 2019
Next funding review	March 31, 2020	March 31, 2020
Asset allocation at March 31, 2018		
Matching:	96%	66%
Return seeking:	4%	34%
	Buy-in annuity contracts cover 99% of pensioner liabilities and 82% of total liabilities	The longevity hedge contract covers 57% of pensioner liabilities and 35% of total liabilities
Membership at March 31, 2018		
Active	200	420
Deferred	7,481	7,365
Pensioner	41,323	18,197
Total	49,004	25,982

[1] Amounts in euro are a convenience translation using the December 31, 2018, exchange rate.
[2] Based on local valuation regulations.

Provisions for restructuring of activities

Provisions for restructuring of activities comprise of accruals for certain employee benefits and for costs which are directly associated with plans to exit or cease specific activities and closing down of facilities. For all restructuring provisions a detailed formal plan exists and the implementation of the plan has started or the plan has been announced before the balance sheet date. Most restructuring plans are expected to be completed within one year from the balance sheet date.

Environmental liabilities

We are confronted with substantial costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against us in various countries. In some cases, this concerns sites divested in prior years or derelict sites belonging to companies acquired in the past.

Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the geological circumstances, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors.

The provisions for environmental costs amounted to €91 million at year-end 2018 (2017: €103 million). The provision has been discounted using an average pre-tax discount rate of 1.9% (2017: 1.8%). While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion, based on information currently available, would not have a material effect on the company's financial position but could be material to the company's results of operations in any one accounting period.

Movements in other provisions

In € millions	Restructuring of activities	Environmental costs	Sundry	Total
Balance at January 1, 2018	**91**	**103**	**312**	**506**
Additions made during the year	98	7	45	150
Utilization	(93)	(12)	(52)	(157)
Amounts reversed during the year	(9)	(8)	(22)	(39)
Unwind of discount	–	1	1	2
Acquisitions	–	–	1	1
Changes in exchange rates	(1)	–	(2)	(3)
Balance at December 31, 2018	**86**	**91**	**283**	**460**
Non-current portion of provisions	12	79	205	296
Current portion of provisions	74	12	78	164
Balance at December 31, 2018	**86**	**91**	**283**	**460**

Sundry provisions and other contingent liabilities

Sundry provisions relate to a variety of provisions, including provisions for claims, antitrust cases and other long-term employee benefits, such as long-service leave and jubilee payments. The majority of the cash outflows related to sundry provisions are expected to be within one to five years. In calculating the sundry provisions, a pre-tax discount rate of on average 1.3% (2017: 1.2%) has been used.

A number of claims against AkzoNobel are pending, all of which are contested. We are also involved in legal disputes and disputes with tax authorities in several jurisdictions. AkzoNobel has provided various indemnities and guarantees in respect of past divestments to the relevant purchasers and their permitted assigns (if applicable), which in general are capped in time and/or amount (in proportion to the value received). The provided guarantees and indemnities have varying maturity periods. AkzoNobel has received various claims under such indemnities and guarantees. In some instances, AkzoNobel has been named as a direct defendant despite the divestments.

Akzo Nobel N.V. has withdrawn its declarations of joint and several liability under Article 403 of Book 2 of the Dutch Civil Code for certain Dutch former Specialty Chemicals subsidiaries divested as per October 1, 2018 and is following the procedures to terminate its residual liability under those declarations under Article 404 of Book 2 of the Dutch Civil Code. Several objections against the termination of residual liability are pending and Akzo Nobel N.V. and Nouryon are cooperating to get these resolved.

Provisions are recognized when an outflow of economic benefits for settlement is probable and the amount can be reliably estimated. It should be understood that, in light of possible future developments, such as: (a) potential additional lawsuits; (b) possible future settlements; and (c) rulings or judgments in pending lawsuits, certain cases may result in additional liabilities and related costs.

At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. While the outcome of said cases, claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our results of operations or cash flows in any one accounting period.

Current portion of provisions

Current portion of post-retirement benefit provisions (€47 million) and other provisions (€164 million) adds up to €211 million (2017: €241 million), as reflected in the balance sheet.

Discount rates

The discount rates used in calculating the provisions recognized at December 31, 2018 are mentioned in the paragraphs on environmental and sundry provisions. Changes in the discount rate will affect our consolidated financial position. A sensitivity test showed that a one percentage point increase or decrease of discount rates will have an impact down or up, respectively, of €11 million on the provisions recognized at December 31, 2018.

Analysis of net debt by category

In € millions	2017	2018
Bonds issued	2,237	1,739
Other borrowings	63	60
Long-term borrowings	**2,300**	**1,799**
Current portion of long-term borrowings	805	516
Debt to credit institutions	156	67
Other	12	16
Short-term borrowings	**973**	**599**
Total borrowings	**3,273**	**2,398**
Cash and cash equivalents	(1,322)	(2,799)
Short-term investments	–	(5,460)
Net debt	**1,951**	**(5,861)**

AkzoNobel's net debt is mainly denominated in euro.

The part of long-term borrowings that is due within one year is presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see Note 25.

Bonds issued

In € millions	2017	2018
2 5/8% 2012/22 (€750 million)	745	746
1 3/4% 2014/24 (€500 million)	497	498
1 1/8% 2016/26 (€500 million)	494	495
3mE + 2/10% 2017/19 (€500 million)*	501	–
Total	**2,237**	**1,739**

*3-months Euribor plus 2/10% floored at zero percent.

The average effective interest rate of the bonds outstanding at year-end 2018 was 1.9 percent (year-end 2017: 2.1 percent).

Aggregated maturities of long-term borrowings

In € millions	2020 – 2023	After 2023
Bonds issued	746	993
Other borrowings	27	33
Total	**773**	**1,026**

Long-term borrowings

We have a €1.8 billion multi-currency revolving credit facility which runs until 2022. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or material adverse change. At year-end 2018 and 2017, this facility has not been drawn.

At year-end 2018 and 2017, none of the borrowings was secured by collateral.

Financial lease liabilities are included in Other borrowings and aggregated €37 million (2017: €40 million). An amount of €5 million (2017: €5 million) will mature within one year, €18 million will mature in the period 2020 through 2023 and €14 million after 2023.

Net debt

in € millions	Long-term borrowings	Short-term borrowings	Short-term investments	Cash and cash equivalents	Net debt
Net debt equivalents at January 1, 2017	**2,644**	**87**	**–**	**(1,479)**	**1,252**
Net cash from operating activities	–	–	–	(278)	(278)
Net cash from investing activities	–	–	–	284	284
Proceeds from borrowings	501	755	–	(1,256)	–
Borrowings repaid	–	(345)	–	345	–
Transfers from long-term to short-term	(812)	812	–	–	–
Dividends	–	–	–	1,187	1,187
Movements bankoverdrafts and short term bank loans	–	11	–	(11)	–
Buyback of shares	–	–	–	160	160
Net cash from operating and investing activities of discontinued operations	–	–	–	(337)	(337)
Held for sale	(45)	(341)	–	–	(386)
Changes in exchange rates	(5)	(6)	–	62	51
Other changes	17	–	–	1	18
Net debt at year-end 2017	**2,300**	**973**	**–**	**(1,322)**	**1,951**
Net cash from operating activities	–	–	–	(162)	(162)
Net cash from investing activities	–	–		207	207
Proceeds from borrowings	7	600	–	(607)	–
Borrowings repaid	–	(1,529)	–	1,529	–
Transfers from long-term to short-term	(526)	526	–	–	–
Investments in short-term investments	–	–	(5,541)	5,541	–
Repayments of short-term investments	–	–	80	(80)	–
Dividends	–	–	–	636	636
Movements bankoverdrafts and short term bank loans	–	33	–	(33)	–
Net cash from discontinued operations	–	–	–	(8,958)	(8,958)
Buy out of non-controlling interests	–	–	–	437	437
Changes in exchange rates	–	(9)	–	17	8
Other changes	18	5	1	(4)	20
Net debt at year-end 2018	**1,799**	**599**	**(5,460)**	**(2,799)**	**(5,861)**

Short-term borrowings

In December 2018, a bond of €800 million matured. In November 2019, a bond of €500 million will mature. This bond is classified as a short-term borrowing.

We have US dollar and euro commercial paper programs in place, which can be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2018 (2017: €112 million).

Cash and cash equivalents

In € millions	2017	2018
Cash on hand in banks	815	896
Deposits and money market funds with a life up to 3 months	507	1,903
Included under cash and cash equivalents in the balance sheet	**1,322**	**2,799**
Debt to credit institutions	(44)	(67)
Total per cash flow statement	**1,278**	**2,732**

Cash and cash equivalents

Deposits and money market funds within cash and cash equivalents almost entirely consist of time deposits immediately convertible into cash and with a maturity of three months or less from the date of purchase and marketable securities that can be redeemed immediately when called.

At December 31, 2018, an amount of €8 million in cash and cash equivalents was restricted (2017: €11 million). Restricted cash is defined as cash that cannot be accessed centrally due to regulatory or contractual restrictions.

Short-term investments

Short-term investments almost entirely consist of time deposits, money market funds and other marketable securities with a life time at investment date longer than three months but shorter than twelve months. For more information on credit risk management, see Note 25.

Short-term investments

In € millions	2017	2018
Short-term investments with life between 3 and 12 months	–	5,460
Total	**–**	**5,460**

20 Trade and other payables

Trade and other payables

In € millions	2017	2018
Suppliers	1,624	1,574
Amounts payable to employees	269	225
FX and commodity contracts	8	8
Taxes and social security contributions	181	175
Customer-related payables	252	269
Dividends	201	5
Other liabilities	259	389
Total	**2,794**	**2,645**

21 Cash flow

Operating activities in 2018 resulted in a cash inflow of €162 million (2017: cash inflow of €278 million).

Changes in working capital per cash flow statement

In € millions	2017	2018
Trade and other receivables	(179)	(199)
Inventories	(139)	(49)
Trade and other payables	213	71
Total	**(105)**	**(177)**

Changes in provisions per cash flow statement

In € millions	2017	2018
Post-retirement provisions	(255)	(157)
Restructuring provisions	8	(4)
Environmental and sundry provisions	(91)	(42)
Total	**(338)**	**(203)**

The above amounts cannot be reconciled directly to the respective balance sheet positions. They reflect changes in balance sheet positions only to the extent they have a cash flow impact, such as utilization, or they reverse the non-cash impact as included in Profit for the period. These amounts exclude non-cash movements such as unwind of discount, movements through Other comprehensive income, acquisitions and divestments, and changes in exchange rates.

22 Commitments

Purchase commitments for property, plant and equipment aggregated €8 million (2017: €7 million).

Lease payments during 2018 amounted to €124 million (2017: €211 million). Our operational lease portfolio mainly consists of leases related to land, property and employee cars.

Maturity operational lease contracts

In € millions	2017*	2018
Payments due within one year	166	110
Payments between one and five years	306	214
Payments due after more than five years	210	96
Total	**682**	**420**

* An amount of €307 million of the total commitments concerned discontinued operations.

23 Related party transactions

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.

During 2018, we considered the members of the Executive Committee and the Supervisory Board to be the key management personnel as defined in IAS 24 "Related parties". For details on their remuneration, as well as on shares held by members of the Supervisory Board or Board of Management, refer to Note 24. In the ordinary course of business, we also have transactions with various organizations with which certain members of the Supervisory Board or Executive Committee are associated. All related party transactions were conducted at arm's length. No loans, advance payments or guarantees have been extended to members of the Supervisory Board or Executive Committee, or any family member of such persons. For related party transactions with pension funds, refer to Note 13, 15 and 17. For receivables from and payables to other related parties, refer to Note 15 and 20.

Total compensation to key management personnel amounted to €15.7 million (2017: €21.1 million). An amount of €7.3 million relates to short-term employee benefits (2017: €10.1 million); €0.7 million to post-contract benefits and other post-contract compensation (2017: €1.2 million); €6.0 million to share-based compensation (2017: €7.9 million); €1.2 million to other long-term incentives (2017: €nil); and €0.5 million related to payments upon termination of employment (2017: €1.9 million). The members of the Executive Committee that are not a member of the Board of Management are included in key management personnel.

SUPERVISORY BOARD

Members of the Supervisory Board receive a fixed remuneration: €130,000 for the Chairman, €78,000 for the Deputy Chairman and €65,000 for the other members. Members of committees receive an extra compensation. Members living outside the Netherlands receive an attendance fee dependent on the country of residence. Members who are resident in the Netherlands do not receive an attendance fee except for meetings held outside of the Netherlands.

In accordance with the Articles of Association and good corporate governance practice, the remuneration of Supervisory Board members is not dependent on the results of the company.

We do not grant share-based compensation to our Supervisory Board members. Travel expenses and facilities for members of the Supervisory Board are borne by the company and reviewed by the Audit Committee.

Shares held by the members of the Supervisory Board

Number of shares at year-end	2017	2018
Nils Smedegaard Andersen, Chairman	–	3,300
Peggy Bruzelius	500	500
Byron Grote *	2,000	4,833
Pamela Kirby	–	–
Dick Sluimers	–	–
Ben Verwaayen	–	–
Sue Clark	–	–
Patrick Thomas	–	–
Michiel Jaski	–	500

* In the form of ADRs.

BOARD OF MANAGEMENT

The individual contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adopted by the Annual General Meeting of shareholders. For more detailed information on the decisions of the Supervisory Board with respect to the individual contracts of the members of the Board of Management, see the Remuneration report.

2017 performance on STI metrics

Metric	Payout as percentage of target
ROI	121%
Adjusted operating income	110%
OCF	77%
Revenue growth	121%

Short-term incentive

The short-term incentives for 2018 are linked to ROS (35%), Operational Cash Flow (OCF) (35%) and the individual and qualitative targets of the members of the Board of Management (30%).

In determining the outcome of the short-term incentive elements (ROS, OCF and personal targets), the Remuneration Committee applied a reasonableness test in which the actual level of the performance was critically assessed in

Supervisory Board

In €	Total remuneration 2017	Remuneration	Attendance fee	Committee allowance fees	Employer's charges	Total remuneration 2018
Nils Smedegaard Andersen, Chairman[1]	–	88,214	12,500	10,659	–	111,373
Antony Burgmans[2]	169,400	41,786	5,000	6,429	–	53,215
Peggy Bruzelius	116,200	65,000	17,500	20,000	16,818	119,318
Byron Grote, Deputy Chairman	134,300	78,000	17,500	40,000	–	135,500
Louis Hughes[2]	120,000	20,893	5,000	6,429	–	32,322
Pamela Kirby	100,000	65,000	12,500	15,000	–	92,500
Dick Sluimers	95,000	65,000	2,500	40,000	–	107,500
Ben Verwaayen	95,000	65,000	15,000	15,000	–	95,000
Sue Clark	7,900	65,000	15,000	7,995	–	87,995
Patrick Thomas	10,400	65,000	15,000	10,659	–	90,659
Michiel Jaski	5,400	65,000	2,500	10,659	–	78,159
Sari Baldauf[3]	100,000	–	–	–	–	–
Total	**953,600**	**683,893**	**120,000**	**182,830**	**16,818**	**1,003,541**

[1] As of May 1, 2018.
[2] Until April 30, 2018.
[3] Until December 1, 2017.

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

light of the assumptions made at the beginning of the year. The test also included an assessment of the progress made with the strategic objectives under prevailing market conditions. Taking into consideration the level of performance that the company had delivered during 2018, and achievement that had been made on a number of key strategic goals, the Remuneration Committee determined that bonus payments for the Board of Management would be €587,400 (60% of salary) for Mr. Vanlancker, CEO and €307,753 (46.7% of salary) for Mr. de Vries, CFO. On the qualitative targets, the CEO and CFO performed outstanding.

Other short-term benefits

Other short-term benefits include employer's charges (social contributions) and other compensations, such as insurances, car arrangements and housing expenses.

Share-based compensation

The costs for share-based compensation are non-cash and relate to the performance-related share plan and the share-matching plan following IFRS 2. Further details on the fair value of the performance-related share plan and the share-matching plan are provided in Note 6.

Performance-related shares

There are no performance-related shares granted to the members of the Board of Management in 2016.

The members of the Board of Management will retain the shares for a minimum period of two years after vesting or (if shorter) for the duration of their tenure as member of the Board of Management.

Post-contract compensation

This refers to compensation intended for building up retirement benefits instead of pension contributions.

Shares held by the Board of Management

Number of shares at year-end	2017	2018
Thierry Vanlancker	460	13,682
Maarten de Vries	–	2,562

Board remuneration 2017

In €	Salary	Short-term incentives[4]	Other short-term benefits	Post-contract compensation	Share-based compensation	Termination and other benefits	Total remuneration
Thierry Vanlancker[1]	429,300	471,300	13,700	71,700	282,600	–	1,268,600
Ton Büchner[2,5,6]	950,500	986,500	39,400	435,800	2,148,900	925,000	5,486,100
Maëlys Castella[3]	440,900	282,200	78,600	66,100	626,600	–	1,494,400
Total	**1,820,700**	**1,740,000**	**131,700**	**573,600**	**3,058,100**	**925,000**	**8,249,100**

[1] As from July 19, 2017.
[2] Stepped down from Board of Management on July 19, 2017.
[3] Until September 8, 2017. Compensation as Executive Committee member is reflected in Note 23.
[4] This concerns the short-term incentive amounts over 2017, be paid in 2018.
[5] The €925,000 relates to severance payment, salary for first two months of 2018, allowances for advice and relocation.
[6] Additional charges of €1,120,000 are accrued which relate to taxation on excessive pay ('Belastingheffing excessieve beloningsbestanddelen').

Board remuneration 2018

In €	Salary	Short-term incentives	Other short-term benefits	Share-based compensation	Long-term incentives	Post-contract compensation	Total remuneration
Thierry Vanlancker	979,000	587,400	13,443	1,156,540	356,593	163,500	3,256,476
Maarten de Vries	659,000	307,753	9,443	410,420	240,036	129,200	1,755,852
Total	**1,638,000**	**895,153**	**22,886**	**1,566,960**	**596,629**	**292,700**	**5,012,328**

Number of performance-related shares

	Series	Balance at January 1, 2018	Granted in 2018	Vested in 2018	Forfeited in 2018	Dividend in 2018	Balance at December 31, 2018	Vested on January 1, 2019
Thierry Vanlancker	2017 – 2019	29,489		–	–	894	30,383	–
	2018 – 2020		20,200	–	–	613	20,813	–
Maarten de Vries	2018 – 2020		17,200	–	–	522	17,722	–

The compensation is based on age and is calculated over the 2018 remuneration. These contributions are paid on base salary only.

Share-matching plan

The share-matching plan will be suspended for three years, i.e. in relation to performance in the years 2018 – 2020. The value of the share-matching plan for these three years will be invested in the newly-created 2020 Performance incentive plan. Please refer to the remuneration report for the details of the plan.

Number of potential matching shares

	Year of share investment	Potential match	Matched in 2018	Forfeited in 2018	Balance at year-end 2018
Thierry Vanlancker	2017	230	–	–	230
	2018	1,936	–	–	1,936

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

FINANCIAL RISK MANAGEMENT FRAMEWORK

Our activities expose us to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk. These risks are inherent to the way we operate as a multinational with a large number of locally operating subsidiaries. Our overall risk management program seeks to identify, assess, and – if necessary – mitigate these financial risks in order to minimize potential adverse effects on our financial performance.

Our risk mitigating activities include the use of derivative financial instruments to hedge certain risk exposures. The Board of Management is ultimately responsible for risk management. We centrally identify, evaluate and hedge financial risks, and monitor compliance with the corporate policies approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation, hedging and monitoring in the businesses. We have treasury hubs located in Brazil and China that are primarily responsible for regional cash management and short-term financing. We do not allow for extensive treasury operations at subsidiary level directly with external parties.

LIQUIDITY RISK MANAGEMENT

The primary objective of liquidity management is to provide for sufficient cash and cash equivalents at all times and any place in the world to enable us to meet our payment obligations. We aim for a well-spread maturity schedule of our long-term borrowings and a strong liquidity position. At year-end 2018, we had €2.8 billion available as cash and cash equivalents (2017: €1.3 billion) and €5.5 billion available as short-term investments (2017: €nil), see Note 19.

In addition, we have a €1.8 billion multi-currency revolving credit facility, which runs to 2022. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or on other material adverse changes. At year-end 2018 and 2017, this facility had not been drawn. We have US dollar and euro commercial paper programs in place, which can be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2018 (2017: €112 million). The table above shows our cash outflows per maturity group. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity of liabilities and cash outflows

In € millions	Less than 1 year	Between 1 and 5 years	Over 5 years
At December 31, 2017			
Borrowings	968	1,250	1,015
Interest on borrowings	70	147	38
Finance lease liabilities	5	18	17
Trade and other payables	2,786	–	–
FX contracts (hedges)			
Outflow	1,996	–	–
Inflow	(1,996)	–	–
Total	**3,829**	**1,415**	**1,070**
At December 31, 2018			
Borrowings	594	755	1,012
Interest on borrowings	43	124	22
Finance lease liabilities	5	18	14
Trade and other payables	2,637	–	–
FX contracts (hedges)			
Outflow	1,655	–	–
Inflow	(1,653)	–	–
Total	**3,281**	**897**	**1,048**

CREDIT RISK MANAGEMENT

Credit risk arises from financial assets such as cash and cash equivalents, deposits with financial institutions, money market funds, trade receivables and derivative financial instruments with a positive fair value. We have a credit risk management policy in place to limit credit losses due to non-performance of financial counterparties and customers. We monitor our exposure to credit risk on an ongoing basis at various levels. We only deal with financial counterparties that have a sufficiently high credit rating. Generally, we do not require collateral in respect of financial assets. Investments in cash and cash equivalents, short-term investments and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and a good reputation.

Derivative transactions are concluded mostly with parties with whom we have contractual netting agreements and ISDA agreements in place. We set limits per counterparty's for the different types of financial instruments we use. We closely monitor the acceptable financial counterparty credit ratings and credit limits and revise where required in line with the market circumstances. We do not expect non-performance by the counterparties for these financial instruments. Due to our geographical spread and the diversity of our customers, we were not subject to any significant concentration of credit risks at balance sheet date. The credit risk from trade receivables is measured and analyzed at a local operating entity level, mainly by means of ageing analysis, see Note 15. Additionally, trade receivables and financial assets measured at amortized cost are subject to the expected credit loss impairment model either using the general or the simplified approach. For more information on the applied impairment approaches per financial asset type, see Note 1. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets in the balance sheet.

At year-end 2018, the credit risk on consolidated level was €10.5 billion (2017: €3.4 billion) for cash and cash equivalents, short-term investments, loans, trade and other receivables. Our credit risk is well spread among both global and local counterparties. Our largest counterparty risk amounted to €999 million at year-end 2018 (2017: €366 million).

FOREIGN EXCHANGE RISK MANAGEMENT

Trade and financing transactions

We operate in a large number of countries, where we have clients and suppliers, many of whom are outside of the local functional currency environment. This creates currency exposure which is partly netted out on group level. The purpose of our foreign currency hedging activities is to protect us from the risk that the functional currency net cash flows resulting from trade or financing transactions are adversely affected by changes in exchange rates.

Our policy is to hedge our transactional foreign exchange rate exposures above predefined thresholds from recognized assets and liabilities. Cash flow hedge accounting on forecasted transactions is applied by exception. Derivative transactions with external parties are bound by limits per currency.

In general, our forward exchange contracts have a maturity of less than one year. When necessary, forward exchange contracts are rolled over at maturity. Currency derivatives are not used for speculative purposes.

Investments in foreign subsidiaries, associates and joint ventures

During 2017 and 2018, net investment hedge accounting was applied on hedges of certain net investments in foreign operations which were partly hedged. The main net investments included were related to Chinese yuan (2017 and 2018), Vietnamese dong (2017 and 2018), Indonesian rupiah (2018) and US dollar (2017) which were hedged with forward exchange contracts for the same currencies. The spot results related to these hedges were recognized in other comprehensive income and accumulated in the foreign currency translation reserves. During 2017 and 2018, these hedges were fully effective. At year-end 2017 and 2018, no hedges of net investments in foreign operations were outstanding.

Hedged notional amounts at year-end

In € millions	Buy 2017	Sell 2017	Buy 2018	Sell 2018
US dollar	94	455	556	138
Pound sterling	186	48	181	112
Swedish krona	420	27	42	31
Chinese yuan	6	163	39	26
Other	286	471	186	469
Total	**992**	**1,164**	**1,004**	**776**

INTEREST RATE RISK MANAGEMENT

We are partly financed with debt in order to obtain more efficient leverage. Fixed rate debt results in fair value interest rate risk. Floating rate debt results in cash flow interest rate risk. We treat fixed rate debt maturing within one year as floating rate debt for debt portfolio purposes. At the end of 2018, the fixed/floating rate of our outstanding bonds shifted from 55% fixed at year-end 2017 to 78% fixed at year-end 2018. During 2017 and 2018, we have not used any interest rate derivatives.

CAPITAL RISK MANAGEMENT

Our objectives when managing capital are to safeguard our ability to satisfy our capital providers and to maintain a capital structure that optimizes our cost of capital. For this we maintain a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Moody's and Standard & Poor's. The capital structure can be altered, among others, by adjusting the amount of dividends paid to shareholders, return capital to capital providers, or issue new debt or shares. In December 2018, a bond of €800 million matured. Consistent with other companies in the industry, we monitor capital headroom on the basis of funds from operations in relation to our net borrowings level (FFO/NB-ratio). The FFO/NB-ratio at year-end 2018 was not meaningful given the proceeds from the divestment of Specialty Chemicals, of which a large portion will only be distributed in 2019 and thereafter (2017: 0.40). Funds from operations are based on net cash from operating activities after tax, which is adjusted, among others, for the elimination of changes in working capital, top-up payments for pensions and for the effects of the underfunding of postretirement benefit obligations. Net borrowings are calculated as the total of long and short-term borrowings less cash and cash equivalents and short-term investments, adding an after-tax amount for the underfunding of postretirement benefit obligations and lease commitments.

FAIR VALUE OF FINANCIAL INSTRUMENTS AND IFRS 9 CATEGORIES

In the table "Fair value per financial instrument category" insight is provided in the recognition of the respective financial instruments per IFRS 9 category. The total carrying value is based on the accounting principles as outlined in Note 1. Financial instruments are recognized at fair value and subsequently recognized either at fair value or at amortized cost, using the effective interest method.

The financial instruments accounted for at fair value through profit or loss are derivative financial instruments and securities included in Other financial non-current assets, Cash and cash equivalents and Short-term investments. The remaining financial instruments are accounted for at amortized cost.

The following valuation methods for financial instruments carried at fair value through profit or loss are distinguished:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable)

For the purpose of determining the fair value per financial instrument category, shown in the column "fair value", the following valuation methods were used:

A level 1 valuation method was used to estimate the fair value of the bonds issued included in our long-term and short-term borrowings. The estimate is based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with similar maturities.

A level 2 valuation method was used to determine the fair value of marketable securities included in cash and cash equivalents and short-term investments by obtaining the market price at reporting date. The fair value of foreign currency contracts and swap contracts was determined by level 2 valuation techniques using market observable input (such as foreign currency interest rates based on Reuters) and by obtaining quotes from dealers and brokers. A level 2 valuation method was used to determine the fair value of time deposits included in cash and cash equivalents and short-term investments using the market interest rate. The carrying amounts of cash and banks, trade receivables less allowance for impairment, other short-term borrowings and other current liabilities approximate fair value due to the short maturity period of those instruments and were determined using level 2 fair value methods. For €110 million of Other financial non-current assets a level 3 fair valuation method (discounted cash flow) was used resulting in a deviation between the fair value and the carrying value.

Fair value per financial instrument category

			Carrying value per IFRS 9 category			
In € millions	Carrying amount	Out of scope of IFRS 7	Measured at amortized cost	Measured at fair value through profit or loss	Total carrying value	Fair value
2017 year-end						
Other financial non-current assets	1,201	991	190	20	210	228
Trade and other receivables	1,965	141	1,813	11	1,824	1,824
Cash and cash equivalents	1,322	–	–	1,322	1,322	1,322
Total financial assets	**4,488**	**1,132**	**2,003**	**1,353**	**3,356**	**3,374**
Long-term borrowings	2,300	35	2,265	–	2,265	2,387
Short-term borrowings	973	5	968	–	968	1,001
Trade and other payables	2,794	599	2,187	8	2,195	2,195
Total financial liabilities	**6,067**	**639**	**5,420**	**8**	**5,428**	**5,583**
2018 year-end						
Other financial non-current assets	1,269	1,093	158	18	176	197
Trade and other receivables	2,141	142	1,993	6	1,999	1,999
Short term investments	5,460	–	–	5,460	5,460	5,460
Cash and cash equivalents	2,799	–	–	2,799	2,799	2,799
Total financial assets	**11,669**	**1,235**	**2,151**	**8,283**	**10,434**	**10,455**
Long-term borrowings	1,799	–	1,799	–	1,799	1,880
Short-term borrowings	599	–	599	–	599	600
Trade and other payables	2,645	400	2,237	8	2,245	2,245
Total financial liabilities	**5,043**	**400**	**4,635**	**8**	**4,643**	**4,725**

Sensitivities on financial instruments at year-end 2018

Sensitivity object	Sensitivity	Hypothetical impact
Foreign currencies: We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end.	A 10% (2017: 15%) strengthening of the euro versus US dollar	Profit: €7 million (2017: profit €15 million), Other comprehensive income €nil (2017: profit €4 million)
	A 10% (2017: 10%) strengthening of the euro versus the pound sterling	€nil (2017: profit €1 million)
	A 10% (2017: 10%) strengthening of the euro versus Chinese yuan	Loss: €1 million (2017: loss €4 million)
Interest rate: We perform interest rate sensitivity analysis by applying an adjustment to the interest rate curve prevailing at year-end. This adjustment is based on observed changes in the interest rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all interest bearing assets and liabilities.	A 100 basis points increase of EURIBOR interest rates	Profit: €27 million (2017: Loss €13 million)
	A 100 basis points increase of US LIBOR interest rates	Profit: €1 million (2017: profit €1 million)
	A 100 basis points increase of GBP LIBOR interest rates	€nil (2017: €nil)

MASTER NETTING AGREEMENTS

We enter into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of transactions outstanding in the same currency may be aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement may be terminated, the termination value is assessed and a net amount is payable in settlement of the transactions. We have evaluated the potential effect of netting agreements, including the effect of rights of set-off and concluded the impact is immaterial. We did not offset any amounts regarding derivative transactions.

26 Subsequent events

The Extraordinary General Meeting of November 13, 2018, approved to return an amount 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 will distribute €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 is due to be completed at the end of 2019. We intend to cancel these shares after repurchase. Reference is made to Note 16.

In February 2019, negotiations on the triennial review of the main UK defined benefit pension schemes were concluded. A total of £432 million (€481 million) of cash payments has been agreed in relation to deficit recovery plans for the ICIPF and CPS, including £142 million (€158 million) of pre-funding into an escrow account for the CPS. This is in addition to a top-up payment of £125 million (€139 million) which was paid in January 2019, in accordance with the previously agreed recovery plan. Reference is made to Note 17.

COMPANY FINANCIAL STATEMENTS

Statement of income

In € millions	Note		2017		2018
Other income		109		108	
Gross profit			**109**		**108**
General and administrative expenses		(91)		(77)	
Other results	B	–		5,126	
			(91)		5,049
Operating income			**18**		**5,157**
Financing income and expenses	C	(32)		(75)	
Net income from subsidiaries		839		1,599	
Profit before tax			**825**		**6,681**
Income tax			7		(7)
Net income			**832**		**6,674**

Balance sheet as of December 31, before allocation of profit

In € millions	Note		2017		2018
Assets					
Non-current assets					
Financial non-current assets	D	11,496		11,299	
Total non-current assets			**11,496**		**11,299**
Current assets					
Short-term receivables	E	80		373	
Short-term investments	G	–		5,460	
Cash and cash equivalents	G	111		1,996	
Total current assets			**191**		**7,829**
Total assets			**11,687**		**19,128**
Equity and liabilities					
Equity					
Subscribed share capital		505		512	
Additional paid-in capital		769		958	
Cash flow hedge reserve		15		–	
Other legal reserves		232		248	
Cumulative translation reserves		(549)		(608)	
Actuarial gains and losses		(2,460)		(2,459)	
Other reserves		6,655		6,604	
Undistributed results		698		6,579	
Shareholders' equity	F		**5,865**		**11,834**
Non-current liabilities					
Long-term borrowings	G	4,389		6,471	
Total non-current liabilities			**4,389**		**6,471**
Current liabilities					
Short-term borrowings	G	929		526	
Other current liabilities	H	504		297	
Total current liabilities			**1,433**		**823**
Total equity and liabilities			**11,687**		**19,128**

Movements in shareholders' equity

In € millions	Subscribed share capital	Additional paid-in capital	Legal reserves: Cash flow hedge reserve	Legal reserves: Other legal reserves	Legal reserves: Cumulative translation reserves	Actuarial gains & losses	Other reserves	Undistributed results	Shareholders' equity
Balance at January 1, 2017	**504**	**746**	**3**	**272**	**(47)**	**(2,840)**	**7,032**	**883**	**6,553**
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	(502)	–	–	–	(502)
Changes in fair value of derivatives	–	–	12	–	–	–	–	–	12
Post-retirement benefits	–	–	–	–	–	380	–	–	380
Net income	–	–	–	–	–	–	–	832	832
Comprehensive income	**–**	**–**	**12**	**–**	**(502)**	**380**	**–**	**832**	**722**
Dividend	4	180	–	–	–	–	(1,011)	(460)	(1,287)
Equity-settled transactions	–	–	–	–	–	–	37	–	37
Issue of common shares	2	(2)	–	–	–	–	–	–	–
Share repurchase	(5)	(155)	–	–	–	–	–	–	(160)
Addition to other reserves	–	–	–	(40)	–	–	597	(557)	–
Balance at December 31, 2017	**505**	**769**	**15**	**232**	**(549)**	**(2,460)**	**6,655**	**698**	**5,865**
Impact adoption IFRS 9	–	–	–	–	–	–	(3)	–	(3)
Impact adoption IFRS 15	–	–	–	–	–	–	(48)	–	(48)
Impact application IAS 29	–	–	–	–	23	–	–	–	23
Balance at January 1, 2018	**505**	**769**	**15**	**232**	**(526)**	**(2,460)**	**6,604**	**698**	**5,837**
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	(82)	–	–	–	(82)
Changes in fair value of derivatives	–	–	(15)	–	–	–	–	–	(15)
Post-retirement benefits	–	–	–	–	–	1	–	–	1
Net income	–	–	–	–	–	–	–	6,674	6,674
Comprehensive income	**–**	**–**	**(15)**	**–**	**(82)**	**1**	**–**	**6,674**	**6,578**
Dividend	5	191	–	–	–	–	–	(586)	(390)
Equity-settled transactions	–	–	–	–	–	–	32	–	32
Issue of common shares	2	(2)	–	–	–	–	–	–	–
Acquisitions and divestments	–	–	–	–	–	–	(223)	–	(223)
Addition to other reserves	–	–	–	16	–	–	191	(207)	–
Balance at December 31, 2018	**512**	**958**	**–**	**248**	**(608)**	**(2,459)**	**6,604**	**6,579**	**11,834**

A General information

The financial statements of Akzo Nobel N.V. have been prepared using the option of Article 362 of Book 2 of the Dutch Civil Code, meaning that the accounting principles used are the same as for the Consolidated financial statements. Foreign currency amounts have been translated, assets and liabilities have been valued, and net income has been determined in accordance with the principles of valuation and determination of income presented in Note 1 of the Consolidated financial statements. For the Company financial statements, Other income mainly concerns intercompany royalty income. Subsidiaries of Akzo Nobel N.V. are accounted for using the equity method, based on the pronouncements of the Dutch Accounting Standards Board.

The remuneration paragraph is included in Note 24 of the Consolidated financial statements.

B Other results

In 2018 other results contain the part of the deal result on sale of the Specialty Chemicals business directly attributable to Akzo Nobel N.V.. For details on the sale refer to Note 2 of the Consolidated financial statements.

C Financing income and expenses

Financing income and expenses

In € millions	2017	2018
Financing income	21	1
Financing expenses	(53)	(76)
Total	**(32)**	**(75)**

D Financial non-current assets

Movements in financial non-current assets

	Subsidiaries			
In € millions	Share in capital	Loans*	Other financial non-current assets	Total
Balance at January 1, 2017	**8,277**	**2,994**	**95**	**11,366**
Acquisitions/capital contributions	1,555	–	5	1,560
Divestments/capital repayments	–	–	(2)	(2)
Net income from subsidiaries	839	–	–	839
Post-retirement benefits	379	–	–	379
Equity-settled transactions	29	–	–	29
Loans granted	–	611	–	611
Repayment of loans	–	(2,361)	–	(2,361)
Changes in exchange rates	(510)	(16)	–	(526)
Dividends received	(399)	–	–	(399)
Other changes	(1)	–	1	–
Balance at December 31, 2017	**10,169**	**1,228**	**99**	**11,496**
Impact adoption IFRS 9	(3)	–	–	(3)
Impact adoption IFRS 15	(48)	–	–	(48)
Impact application IAS 29	23	–	–	23
Balance at January 1, 2018	**10,141**	**1,228**	**99**	**11,468**
Acquisitions/capital contributions	–	–	11	11
Divestments/capital repayments	(1,177)	–	(4)	(1,181)
Net income from subsidiaries	1,599	–	–	1,599
Post-retirement benefits	–	–	–	–
Equity-settled transactions	26	–	–	26
Transactions with non-controlling interests	(223)	–	–	(223)
Loans granted	–	1,003	–	1,003
Repayment of loans	–	(279)	–	(279)
Changes in exchange rates	(84)	(3)	–	(87)
Dividends received	(1,070)	–	–	(1,070)
Other changes	34	–	(2)	32
Balance at December 31, 2018	**9,246**	**1,949**	**104**	**11,299**

* Loans to these companies have no fixed repayment schedule.

E Short-term receivables

Short-term receivables

In € millions	2017	2018
Receivables from subsidiaries	50	309
FX contracts	11	6
Other receivables	19	58
Total	**80**	**373**

F Shareholders' equity

Subscribed share capital

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Annual General Meeting of shareholders. The holders of the priority shares are entitled to a dividend of 6% per share or the statutory interest in the Netherlands, whichever is lower, plus any accrued and unpaid dividends. They are entitled to 200 votes per share (in accordance with the 200 times higher nominal value per share) at the Annual General Meeting of shareholders. In addition, the holders of priority shares have the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management; amendments to the Articles of Association are subject to the approval of the Meeting of Holders of Priority Shares.

Priority shares may only be transferred to a transferee designated by a Meeting of Holders of Priority Shares and against payment of the par value of the shares, plus interest at the rate of 6% per annum or the statutory interest in the Netherlands, whichever is lower, for the period between the beginning of the year and the date of transfer. There are no restrictions on voting rights of holders of common or priority shares. The Articles of Association set out procedures for exercising voting rights. The Annual General Meeting of shareholders has resolved in 2018 to authorize the Board of Management for a period of 18 months (i) To issue shares (or grant rights to shares) in the capital of the company up to a maximum of 10%, which in case of mergers or acquisitions can be increased by up to a maximum of 10%, of the total number of shares outstanding (and to restrict or exclude the pre-emptive rights to those shares) and (ii) To acquire shares in the capital of the company, provided that the shares that will at any time be held will not exceed 10% of the issued share capital. The issue or repurchase of shares requires the approval of the Supervisory Board.

We held no common shares at year-end 2018 or 2017.

Of the Shareholders' equity of €11.8 billion, an amount of €11.1 billion (2017: €5.1 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law. The cash flow hedge reserve is individually considered to be restricted if leading to an increase of Shareholders' equity at year-end.

Statutory reserves have been recognized following Article 373 paragraph 4 of Book 2 of the Dutch Civil Code. At the Annual General Meeting of shareholders of April 26, 2001, an amendment to the Articles of Association was approved whereby the par value of the priority shares was decreased to €400 and of the common shares and the cumulative preferred shares to €2. As the revised nominal values are lower than the original par values, in accordance with Article 67a of Book 2 of the Dutch Civil Code, we recognize a statutory reserve of €61 million for this reduction in subscribed share capital. Statutory reserves also include €42 million for capitalized development costs, as well as the reserves of €145 million relating to earnings retained by subsidiaries, associates and joint ventures after 1983, to the extent that there are limitations for AkzoNobel to arrange profit distributions.

Unrestricted reserves at year-end

In € millions	2017	2018
Shareholders' equity at year-end	5,865	11,834
Subscribed share capital	(505)	(512)
Subsidiaries' restrictions to transfer funds	(147)	(145)
Statutory reserve due to capital reduction	(61)	(61)
Reserve for development costs	(24)	(42)
Cash flow hedge reserve	(15)	–
Unrestricted reserves	**5,113**	**11,074**

Dividend

In line with our announcement on April 19, 2017, we intend to return the vast majority of the net proceeds from the separation of the Specialty Chemicals business to our shareholders.The Extraordinary General Meeting of November 13, 2018, approved to return an amount 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 will distribute €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 is due to be completed at the end of 2019. We intend to cancel these shares after repurchase.

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €6,254 million is carried to the other reserves. Furthermrore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €420 million (to be increased by dividend on shares issued in 2019 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.80 per share, of which €0.37 was paid earlier as an interim dividend. The final dividend of €1.43 per share will be made available from May 6, 2019.

Long-term borrowings

For the fair value of the bonds issued, refer to Note 25 of the Consolidated financial statements.

We estimated the fair value of the bonds issued based on the quoted market prices (level 1) for the same or similar issues or on the current rates offered to us for debt with similar maturities. The fair value of the bonds included in long-term and short-term borrowings was €2.320 million. For information on valuation methods, see Note 25 of the Consolidated financial statements.

In December 2018, Akzo Nobel Sweden Finance AB publ. was substituted by Akzo Nobel N.V. as issuer under the €750 million 2 5/8% 2012/22 bond.

We have a €1.8 billion multi-currency revolving credit facility which runs until 2022. This facility does not contain financial covenants or acceleration provisions that are based on adverse changes in ratings or material adverse change. At year-end 2018 and 2017, this facility has not been drawn.

At year-end 2018 and 2017, none of the borrowings was secured by collateral.

Short-term borrowings

In December 2018 a bond of €800 million matured. In November 2019, a bond of €500 million will mature. This bond is classified as a short-term borrowing.

We have US dollar and euro commercial paper programs in place, which can be used to the extent that the equivalent portion of the €1.8 billion multi-currency revolving credit facility is not used. We had no commercial paper outstanding at year-end 2018 (2017: €112 million).

Analysis of net debt by category

In € millions	2017	2018
Bonds issued	1,492	1,739
Debt from subsidiaries	2,897	4,732
Long-term borrowings	4,389	**6,471**
Current portion of debenture loans	799	500
Short-term loans	130	26
Short-term borrowings	929	**526**
Total borrowings	5,318	**6,997**
Short-term investments	–	(5,460)
Cash and cash equivalents	(111)	(1,996)
Net debt	**5,207**	**(459)**

Bonds issued

In € millions	2017	2018
1 3/4% 2014/24 (€500 million)	497	498
1 1/8% 2016/26 (€500 million)	494	495
3-months EURIBOR+0.2%2017/19 (€500 million)	501	–
2 5/8% 2012/22 (€750 million)	–	746
Total	**1,492**	**1,739**

Cash and cash equivalents

Deposits and money market funds within cash and cash equivalents almost entirely consist of time deposits immediately convertible into cash and with a maturity of three months or less from the date of purchase and marketable securities that can be redeemed immediately when called.

Cash and cash equivalents

In € millions	2017	2018
Cash on hand and in banks	111	296
Short-term investments with life up to 3 months	–	1,700
Included under cash and cash equivalents in the balance sheet	**111**	**1,996**

Short-term investments

Short-term investments of €5,460 million almost entirely consist of time deposits, money market funds and marketable securities with a life time at investment date longer than three months but shorter than twelve months.

H Other current liabilities

Other current liabilities

In € millions	2017	2018
Payables to subsidiaries	134	26
Payables to associates and joint ventures	3	–
FX contracts	8	8
Debt related to pensions	6	3
Other suppliers	68	54
Other liabilities	285	206
Total	**504**	**297**

I Financial instruments

At year-end 2018, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.0 billion (year-end 2017: €1.0 billion), while contracts to sell currencies totaled €0.8 billion (year-end 2017: €1.2 billion). The contracts mainly related to US dollars, Swedish krona, pound sterling and Chinese yuan and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidiaries, and the fair value changes are recognized in the statement of income to offset the fair value changes on the contracts with the subsidiaries. For information on risk exposure and risk management, see Note 25 of the Consolidated financial statements.

J Contingent liabilities

Akzo Nobel N.V. is parent of the group's fiscal unity in the Netherlands, and is therefore liable for the liabilities of said fiscal unity as a whole.

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Dutch consolidated companies (Article 403 of Book 2 of the Dutch Civil Code). These debts, at year-end 2018, aggregating €0.4 billion (2017: €0.7 billion), are included in the Consolidated balance sheet.

Akzo Nobel N.V. has withdrawn its declarations of joint and several liability under Article 403 of Book 2 of the Dutch Civil Code for certain Dutch former Specialty Chemicals subsidiaries divested as per October 1, 2018 and is following the procedures to terminate its residual liability under those declarations under Article 404 of Book 2 of the Dutch Civil Code. Several objections against the termination of residual liability are pending and Akzo Nobel N.V. and Nouryon are cooperating to get these resolved.

Additionally, at year-end 2018, guarantees were issued on behalf of consolidated companies for an amount of €0.2 billion (2017: €1.6 billion). The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated balance sheet or in the amount of commitments in respect of operational lease contracts as disclosed in Note 22 of the Consolidated financial statements.

K Auditor's fees

Our independent auditor, PwC the Netherlands, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements, mainly the following other audit services to the company and its controlled entities: statutory audit of a controlled entity, audits in relation to the planned sales of the Specialty Chemicals business and audits in relation to the legal demerger.

Fees PricewaterhouseCoopers

			2017
In € millions	In the Netherlands	Network outside the Netherlands	Total
Audit of the financial statements	3.6	6.1	9.7
Other audit services	7.6	2.6	10.2
Tax services	–	–	–
Other non-audit services	–	–	–
Total	**11.2**	**8.7**	**19.9**

Fees PricewaterhouseCoopers

			2018
In € millions	In the Netherlands	Network outside the Netherlands	Total
Audit of the financial statements	3.9	5.3	9.2
Other audit services	2.0	0.1	2.1
Tax services	–	–	–
Other non-audit services	–	–	–
Total	**5.9**	**5.4**	**11.3**

OTHER INFORMATION

PROPOSAL FOR PROFIT ALLOCATION

With due observance of Dutch law and the Articles of Association, it is proposed that net income of €6,254 million is carried to the other reserves. Furthermrore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €420 million (to be increased by dividend on shares issued in 2019 before the ex-dividend date) will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.80 per share, of which €0.37 was paid earlier as an interim dividend. The final dividend of €1.43 per share will be made available from May 6, 2019.

Amsterdam, February 12, 2019

The Board of Management
Thierry Vanlancker
Maarten de Vries

The Supervisory Board
Nils Smedegaard Andersen
Peggy Bruzelius
Sue Clark
Byron Grote
Michiel Jaski
Pamela Kirby
Dick Sluimers
Patrick Thomas
Ben Verwaayen

INDEPENDENT AUDITOR'S REPORT

To: the Annual General Meeting of shareholders and the Supervisory Board of Akzo Nobel N.V.

Report on the Financial statements 2018

Our opinion

In our opinion:

- Akzo Nobel N.V.'s consolidated financial statements give a true and fair view of the financial position of the the Group as at December 31, 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code; and
- Akzo Nobel N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code

What we have audited

We have audited the accompanying financial statements 2018 of Akzo Nobel N.V., Amsterdam ('the Company'). The financial statements include the consolidated financial statements of Akzo Nobel N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2018;
- the following statements for 2018: the consolidated statement of income, the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The Company financial statements comprise:

- the balance sheet as at December 31, 2018;
- the statement of income for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Akzo Nobel N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Akzo Nobel N.V. is a global paints and coatings company headquartered in the Netherlands. Prior to and until the completion of the sale of the Specialty Chemicals business per October 1, 2018, the Group was also a major producer of specialty chemicals products. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

The sale and separation of the Specialty Chemicals business, completed on October 1, 2018, characterised the financial year 2018. This affected the scope of the group audit and our audit procedures. Further details of the implications of the sale of the Specialty Chemicals business are described in the section on 'Key audit matters'.

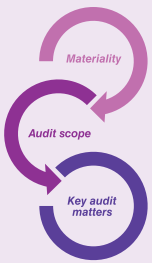
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Management made important judgments, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In Note 1 of the consolidated financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of goodwill and other intangible assets with indefinite useful lives, the valuation of the post-retirement benefit provisions and the accounting for and valuation of deferred tax assets and uncertain tax positions, we considered these to be key audit matters as set out in the 'Key audit matters' section of this report.

In addition, we identified the accounting for the completed sale of the Specialty Chemicals business and the transition from the accounting standard 'IAS 17 – Leases' to 'IFRS 16 – Leases' as new key audit matters, as this accounting treatment is complex, non-recurring and materially impacts the financial statements. The accounting for the completed sale of the Specialty Chemicals business replaces the key audit matter from last year "Specialty Chemicals Business recorded as Held for Sale and Discontinued Operations (IFRS 5)".

Other areas of focus, that were not considered as key audit matters were related to the environmental, sundry, and legal provisions, and information technology general controls ('ITGCs'). The ITGC's are the policies and procedures used by the Company to ensure information technology ('IT') operates as intended and provides reliable data for financial reporting purposes. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board of Management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a paints and performance coatings company and a producer of specialty chemicals. We also included specialists in the areas of tax, IT, treasury and experts in the areas of pensions, share based payments and valuations in our team.

The outlines of our audit approach were as follows:



Materiality

- Overall materiality: €45 million

Audit scope

- We conducted audit work at 37 components in 18 countries
- Site visits by the group team were conducted in 7 countries – China, Germany, France, Italy, the Netherlands, Sweden, and the United States.
- Audit coverage: 67% of consolidated revenue, 82% of consolidated total assets and 75% of consolidated profit before tax

Key audit matters

- Accounting for the completed sale of the Specialty Chemicals Business
- Annual impairment testing of goodwill and other intangibles with indefinite useful lives
- Valuation of post-retirement benefit provisions
- Valuation of deferred tax assets and uncertain tax positions
- Transition from the accounting standard 'IAS 17 – Leases' to 'IFRS 16 – Leases'

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Materiality

Overall group materiality	€45 million (2017: €70 million).
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 5% of total profit before tax from the continued operations and nine-month period result of the Specialty Chemicals discontinued operations combined, excluding the deal result and excluding separation related identified items.
Rationale for benchmark applied	We used profit before tax from the continued operations and nine-month period result of the Specialty Chemicals discontinued operations combined, excluding the deal result (€6,074 million) and excluding separation related identified items as the primary benchmark based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that profit before tax is an important metric for the financial performance of the company. We excluded the deal result and separation related identified items as these are non-recurring and are not representative of normal operating results.
Component materiality	To each component in our audit scope, we, based on our judgment, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €6 million and €21 million.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons. We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above €2.25 million (2017: €3.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Akzo Nobel N.V. is the parent company of a global group of entities managed by the Board of Management and Executive Committee. The financial information of this group is included in the consolidated financial statements of Akzo Nobel N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

The group audit included 26 components which were subjected to audits of the complete financial information as those components are material to the group. Nine components were subjected to specific risk-focused audit procedures as they include higher risk areas. Additionally, twelve components were selected for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. The group team also audited the Specialty Chemicals business for the nine-month results reported as discontinued operations. In total, in performing these procedures, we achieved the following coverage on the financial line items (which include both continued and discontinued operations):

	2018
Revenue	67%
Total assets	82%
Profit before tax*	75%

* Excluding the deal result which is audited in aggregate on group level.

None of the remaining components represented more than 1% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group consolidation, financial statement disclosures and a number of complex items and processes controlled and monitored centrally by Akzo Nobel N.V. are audited by the group engagement team at the head office. These include impairment testing of goodwill and other intangibles with indefinite useful lives, valuation of post-retirement benefit provisions, valuation of deferred tax assets and uncertain tax positions, accounting for the completed sale of the Specialty Chemicals Business, environmental, sundry, and legal provisions, share based payments, treasury, IT and the Akzo Nobel N.V. standalone entity.

The group engagement team also performed central procedures over the controls performed by the business units and other central functions, where relevant for our audit. This included: Business performance review controls and indirect entity level controls (e.g. to prevent and detect fraud), including the code of conduct, corporate directives, whistle blower policy, internal representations, business partnering program and internal audits.

For all components, we used component auditors who are familiar with the local laws and regulations to perform the audit work. We performed hard close audit procedures with the components on the interim October balance sheet positions and results. These hard close audit procedures include substantive audit work on material balances and transactions at group level as well as components in scope for our group audit. For the Specialty Chemicals business we performed a full scope audit on the balance sheet and results for the nine-months period ended September 30, 2018, reported as discontinued operations.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated statements as a whole. We issued instructions to the component audit teams in our audit scope. These instructions included amongst others our risk analysis, materiality and scope of the work. We explained to the component audit teams the structure of the group, the main developments that are relevant for the component auditors, the risks identified, the materiality levels to be applied and our global audit approach. We had individual calls with each of the in-scope component audit teams during the year including upon the conclusion of their work. During these calls, we discussed the significant accounting and audit issues identified by the component auditors, the reports of the component auditors, the findings of their procedures and other matters, which could be of relevance for the consolidated financial statements.

The group engagement team visits the component teams and local management on a rotational basis. The most significant components are visited every year and other components are visited depending on specific considerations which include amongst other audit observations, specific risks identified or other major events. In the current year, the group audit team visited the component teams and local management in the United States, China, Germany, France, Italy, Sweden and the Netherlands. Furthermore, we reviewed selected working papers of the component teams and performed any further work considered necessary by the group audit team.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context. Unless noted otherwise, we concur with the positions taken by the Company in the context of our audit of the financial statements as a whole.

Key audit matters

Key audit matter	How our audit addressed the matter
Accounting for the completed sale of the Specialty Chemicals Business **Note 2** On 27 March 2018, AkzoNobel announced the sale of the Specialty Chemicals business to the Carlyle Group and GIC and the sale was completed on 1 October 2018 with a deal result of €6.1 billion before taxation and consideration received for shares sold of €8.3 billion. Management reported the Specialty Chemicals Business in accordance with IFRS 5 – 'Non-Current Assets Held for Sale and discontinued operations', consistent with the 2017 consolidated financial statements.The accounting for the completed sale of the Specialty Chemicals business is significant to our audit because the transaction and its accounting is complex, non-routine and involves management judgments. These include, amongst others, the identification of the disposal group and presentation of the disposal groups' results as discontinued operations consistent with prior year, the actual legal separation of the Specialty Chemicals business from the company, the interpretation and application of the Share Purchase Agreement (SPA) and calculation of the final net debt/working capital adjustments with the buyers to estimate the deal result and consideration (to be) received for shares sold.	Our audit procedures included, among others, an evaluation of the assumptions used by the company to identify the disposal group, to account for the legal separation and to estimate the deal result and consideration to be received for shares sold of the Specialty Chemicals Business. We have reviewed the identification of the disposal group and presentation of the results of the Specialty Chemicals Business as discontinued operation. We reviewed the Share Purchase Agreement (SPA), confirmed the effective date of the sale, tested the calculation of the net debt/working capital adjustments to estimate the expected deal proceeds to be in line with the SPA, vouched the cash proceeds received and checked managements calculations used for mathematical accuracy. We tested the accounting for the legal separation and disentanglement of the Specialty Chemicals business from the company's consolidation (e.g. update consolidation structure, recycling currency translation adjustments) by reconciling the transactions to legal contracts, invoices and financial information. In addition, we tested the calculation of the result. We have challenged management, primarily on the assumptions to determine the deal result and consideration (to be) received, in particular on the calculation of the final working capital settlement with the buyers, third party indebtedness and other SPA adjustments. We have made use of technical accounting specialists as part of our audit. We also assessed the adequacy of the company's disclosure in note 2 to the consolidated financial statements.
Impairment testing of goodwill and other intangibles with indefinite useful lives **Note 10** As at 31 December 2018, the Company's goodwill and other intangibles with indefinite useful lives are valued at €2.8 billion. The key assumptions and sensitivities are disclosed in note 10 to the consolidated financial statements. The annual impairment test for goodwill and indefinite life intangibles assets is significant to our audit because the assessment process is complex, involves significant management judgments and is based on assumptions regarding expected future market and economic conditions, revenue growth, margin developments, the discount rates and terminal growth rates. This is consistent with prior year. Based on the annual goodwill impairment test, including sensitivity tests, the Board of Management concluded that no impairment of goodwill and other intangibles with indefinite useful lives was necessary.	We evaluated the assumptions and methodologies used in the annual impairment test prepared by the company. We verified the mathematical accuracy of the calculations and a reconciliation to the 2019 five year outlook as approved by the Board of Management. We have challenged management, primarily on their assumptions applied to which the outcome of the impairment test is the most sensitive, in particular, the projected revenue growth, margin developments, discount rates and terminal growth rates. We performed independent testing and analysis of the basic peer group composition, amongst others, and challenged management by comparing the assumptions to historic performance of the company and local economic developments, taking into account the sensitivity test of the goodwill balances for any changes in the respective assumptions. We have made use of valuation experts as part of our audit. We assessed the adequacy of the Company's disclosures in note 10 to the consolidated financial statements and in particular the key assumptions to which the outcome of the impairment test is most sensitive.
Valuation of post-retirement benefit provisions **Note 17** The post-retirement benefit provisions consist of defined benefit obligations (€13.4 billion) offset by plan assets (€13.7 billion). The largest pension plans are the ICI Pension Fund (ICIPF) and the AkzoNobel (CPS) Pension Scheme in the UK which together account for 87 percent of the defined benefit obligation (DBO) and 91 percent of plan assets. The procedures over the post-retirement benefit provisions, specifically the procedures on the DBO, the de-risking transactions during the year, and updates to the assumptions were significant to our audit because the assessment process is complex, involves significant management judgment and is based on actuarial assumptions. The actuarial assumption includes discount rates, compensation increase, expected inflation rates, mortality tables and indexation percentages, as disclosed in note 17 of the consolidated financial statements. This is consistent with prior year. Technical expertise is required to determine the amounts and significant de-risking transactions that have occurred.	We evaluated the Board of Management's actuarial assumptions, specifically the assumptions applied in the UK, the valuation methodologies used and we assessed the objectivity and competence of the company's external pension expert used for the calculation of the post-retirement benefit positions. We have challenged management, primarily on their assumptions applied to which the post-retirement benefit provisions are the most sensitive, by performing independent testing and comparing to the published actuarial tables, amongst others, with support of internal actuarial experts. We also tested the participant census data and the valuation of the plan assets through independent price testing (e.g. by reconciling to independently published market prices). Further, we tested the de-risking transactions to the UK plans, the gender equalization impact calculation after the court ruling in the UK and we verified the appropriate accounting. We also assessed the adequacy of the company's disclosure in note 17 to the consolidated financial statements.
Valuation of deferred tax assets and uncertain tax positions **Note 8** The Group operates in various counties and is subject to income taxes in various tax jurisdictions. The assessment of the valuation of deferred tax assets, resulting from net operating losses and temporary differences, and provisions for uncertain tax positions is significant to our audit as the calculations are complex and depend on sensitive and judgmental assumptions. These include, amongst others, long-term future profitability, local fiscal regulations and new developments. The company's disclosures concerning income taxes are included in note 8 to the consolidated financial statements.	Our procedures included, amongst others, procedures on the completeness and accuracy of the deferred tax assets and uncertain tax positions recognized. We challenged and tested the Board of Management's assessment of the recoverability of the deferred tax assets, including the projected revenue growth and margin development based on the 2019 five year outlook as approved by the Board of Management, the probability of future cash outflows related to the uncertain tax positions identified by the company and the impact of the separation of the Specialty Chemicals business on the projections. We also assessed the applicable local fiscal regulations and developments, in particular those related to changes in the statutory income tax rate and the of the statues of limitation since these are key assumptions underlying the valuation of the deferred tax assets and uncertain tax positions. We analysed the tax positions and evaluated the assumptions and methodologies used. In addition, we also focused on the adequacy of the company's disclosures on deferred tax assets and uncertain tax positions and assumptions used. We have made use of tax specialists as part of our audit.

Key audit matters

Key audit matter	How our audit addressed the matter
Transition from the accounting standard 'IAS 17 – Leases' to 'IFRS 16 – Leases' **Note 1** 'IFRS 16 – Leases' becomes effective for annual reporting beginning on or after 1 January 2019. The application of the new standard gives rise to a right of use asset of €350 million, a financial lease receivable of €20 million and a corresponding increase in lease liabilities of €370 million. The Company decided to apply the modified retrospective approach for the transition accounting. The assessment of the impact of the new standard is significant to our audit, as the balances recorded are material, the update of the accounting policy requires policy elections, the implementation process to identify and process all relevant data associated with the leases (including IT software and controls) is complex and the measurement of the right-of-use asset and lease liability is based on assumptions such as discount rates and the lease terms, including termination and renewal options.	Our audit procedures included an evaluation of management implementation process, including the review of the updated accounting policy and policy elections, the completeness and accuracy of the lease contracts identified and recorded in the lease accounting system and calculation of the right of assets and lease liability. We reviewed the updated accounting policy and policy elections to be in accordance with IFRS 16. We performed independent testing on a sample basis of the accuracy of the lease contracts input in the lease accounting system and completeness of the identified lease contracts, with the support of the local component teams. We challenged management assumptions, specifically on the assumptions used to determine the discount rates, the application of a single discount rate for a portfolio of leases and the assessment of renewal options. We recalculated the right-of-use asset and lease liability calculated by the system for each material type lease contract. We have made use of technical accounting specialists and valuation experts as part of our audit. We assessed the adequacy of the Company's disclosures of the impact of the new standard in note 1 to the consolidated financial statements and challenged management on the disclosure of the remaining uncertainty of the completeness and accuracy review of the input and assumptions for the opening balance.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The report of the Board of Management, as defined in note 1 to the financial statements
- The other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- Other parts of the annual report: Business Performance, Leadership, Governance and compliance, Sustainability statements, Index, Financial calendar and Glossary

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Akzo Nobel N.V. starting 2016, on 19 April 2014 by the Supervisory Board following the passing of a resolution by the shareholders at the annual meeting held on 29 April 2014. Our appointment has been renewed by shareholders representing a total period of uninterrupted engagement period of 3 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The non-audit services that we have provided to the company and its controlled entities in addition to the audit, for the period to which our statutory audit relates, are disclosed in note J to the financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Management should prepare the financial statements using the going-concern basis of accounting unless the Board of Management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements
Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, February 12, 2019
PricewaterhouseCoopers Accountants N.V.

Original has been signed by R. Dekkers RA

Appendix to our auditor's report on the financial statements 2018 of Akzo Nobel N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements
We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.
- Concluding on the appropriateness of the Board of Management's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

PROFIT ALLOCATION AND DISTRIBUTIONS

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

PROFIT ALLOCATION AND DISTRIBUTIONS

Article 43

43.6

The Board of Management shall be authorized to determine, with the approval of the Supervisory Board, what share of profit remaining after application of the provisions of the foregoing paragraphs shall be carried to reserves. The remaining profit shall be placed at the disposal of the Annual General Meeting of shareholders, with due observance of the provisions of paragraph 7, it being provided that no further dividends shall be paid on the preferred shares.

43.7

From the remaining profit, the following distributions shall, to the extent possible, be made as follows:

(a) To the holders of priority shares: 6% per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends
(b) To the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the Annual General Meeting of shareholders may decide to carry to reserves, shall permit

43.8

Without prejudice to the provisions of paragraph 4 of this article and of paragraph 4 of article 20, the holders of common shares shall, to the exclusion of everyone else, be entitled to distributions made from reserves accrued by virtue of the provision of paragraph 7b of this article.

43.9

Without prejudice to the provisions of article 42 and paragraph 8 of this article, the Annual General Meeting of shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

Article 44

44.7

Cash dividends by virtue of paragraph 4 of article 20, article 42, or article 43 that have not been collected within five years of the commencement of the second day on which they became due and payable shall revert to the company.

SPECIAL RIGHTS TO HOLDERS OF PRIORITY SHARES

The priority shares are held by "Stichting Akzo Nobel" (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation.

The Meeting of Holders of Priority Shares has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments to the Articles of Association are subject to the approval of this meeting.

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

FINANCIAL SUMMARY

Consolidated statement of income

In € millions	2009	2010[1]	2011	2012	2013	2014	2015	2016[7 8]	2017[8]	2018
Revenue	13,028	13,605	14,604	15,390	14,590	14,296	14,859	9,434	9,612	9,256
Adjusted operating income[5]	1,131	1,325	1,154	972	897	1,072	1,462	928	905	798
Operating income	855	1,293	1,157	(1,198)	958	987	1,573	923	825	605
Financing income and expenses	(405)	(329)	(311)	(205)	(200)	(156)	(114)	(91)	(78)	(52)
Income tax	(141)	(176)	(241)	(203)	(111)	(252)	(416)	(234)	(253)	(118)
Results from associates and joint ventures	21	25	24	13	14	21	17	18	17	20
Profit for the period from continuing operations	**330**	**813**	**629**	**(1,593)**	**661**	**600**	**1,060**	**616**	**511**	**455**
Discontinued operations	32	58	(59)	(436)	131	18	6	436	393	6,274
Non-controlling interests	(77)	(83)	(64)	(63)	(68)	(72)	(87)	(82)	(72)	(55)
Net income, attributable to shareholders	**285**	**788**	**506**	**(2,092)**	**724**	**546**	**979**	**970**	**832**	**6,674**
Common shares, in millions at year-end	232.3	233.5	234.7	239.0	242.6	246.0	249.0	252.2	252.6	256.2
Dividend[3]	325	320	304	214	210	212	222	239	1,287	390
Number of employees at year-end	54,700	55,600	52,020	50,610	49,600	47,200	45,600	36,300	35,700	34,500
Average number of employees	56,300	55,100	51,100	52,200	50,200	48,200	46,100	36,200	36,200	34,900
Employee benefits	2,955	2,980	2,765	3,018	2,950	2,824	2,728	1,794	1,935	1,976
Average revenue per employee (in €1,000)	231	247	286	295	291	297	322	261	266	265
Average Operating income per employee (in €1,000)	15	23	23	(23)	19	20	34	25	23	17
Ratios										
ROS[6]	8.7	9.7	7.9	6.3	6.1	7.5	9.8	9.8	9.4	8.6
ROI[6]	9.0	11.6	10.0	8.2	9.0	10.9	14.0	14.4	13.9	12.6
Net income in % of shareholders' equity	3.7	8.8	5.6	–[2]	12.9	9.5	15.1	14.8	14.2	56.4
Employee benefits in % of revenue	22.7	21.9	18.9	19.6	20.2	19.8	18.4	19.0	20.1	21.3
Interest coverage[4]	2.1	6.8	4.7	–[2]	5.1	8.6	16.2	13.2	12.3	8.0
Per share information										
Net income	1.23	3.23	2.04	(8.82)	3.00	2.23	3.95	3.87	3.31	26.19
Adjusted earnings per share	2.06	3.71	3.10	2.55	2.62	2.81	4.02	3.80	4.40	3.78
Shareholders' equity	33.47	38.48	39.25	24.12	23.06	23.53	26.04	25.99	23.22	46.19
Highest share price during the year	46.52	47.70	53.74	49.75	56.08	60.77	74.81	64.74	82.64	82.70
Lowest share price during the year	26.01	37.18	29.25	35.16	42.65	47.63	55.65	50.17	59.11	68.82
Year-end share price	46.40	46.49	37.36	49.75	55.71	57.65	61.68	59.39	73.02	70.40

[1] Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.
[2] Not meaningful as operating income and net income were losses.
[3] Cash dividend paid to shareholders of AkzoNobel.
[4] Until 2009: operating income divided by net financing expenses, as from 2010: operating income divided by net interest on net debt.
[5] Adjusted operating income = operating income excluding identified items.
[6] ROS and ROI have been restated and are based on adjusted operating income.
[7] Represented to present the Specialty Chemicals business as discontinued operations.
[8] Represented to the new adjusted earnings per share definition, which no longer excludes post-tax amortization charges.

Consolidated balance sheet

In € millions	2009	2010[1]	2011	2012	2013	2014	2015	2016	2017	2018
Intangible assets	7,388	6,568	7,392	4,454	3,906	4,142	4,156	4,413	3,409	3,458
Property, plant and equipment	3,474	3,191	3,705	3,739	3,589	3,835	4,003	4,190	1,832	1,748
Other financial non-current assets	1,783	2,105	2,664	2,628	2,219	2,148	2,125	1,736	1,894	1,965
Total non-current assets	**12,645**	**11,864**	**13,761**	**10,821**	**9,714**	**10,125**	**10,284**	**10,339**	**7,135**	**7,171**
Inventories	1,441	1,482	1,924	1,545	1,426	1,545	1,504	1,532	1,094	1,139
Receivables	2,666	2,740	3,035	2,789	2,622	2,831	2,810	2,846	2,026	2,215
Short-term investments	–	–	–	–	–	–	–	–	–	5,460
Cash and cash equivalents	2,128	3,133	1,635	1,752	2,098	1,732	1,365	1,479	1,322	2,799
Assets held for sale	–	–	–	921	203	66	–	–	4,601	–
Total current assets	**6,235**	**7,355**	**6,594**	**7,007**	**6,349**	**6,174**	**5,679**	**5,857**	**9,043**	**11,613**
Shareholders' equity	7,775	8,397	9,031	5,764	5,594	5,790	6,484	6,553	5,865	11,834
Non-controlling interests	470	525	529	464	427	477	496	481	442	204
Total equity	**8,245**	**8,922**	**9,560**	**6,228**	**6,021**	**6,267**	**6,980**	**7,034**	**6,307**	**12,038**
Provisions	1,919	1,958	2,392	2,677	1,938	2,143	1,865	1,938	964	899
Long-term borrowings	3,641	2,727	3,035	3,388	2,666	2,527	2,161	2,644	2,300	1,799
Other non-current liabilities	674	556	541	434	389	412	360	367	285	368
Total non-current liabilities	**6,234**	**5,241**	**5,968**	**6,499**	**4,993**	**5,082**	**4,386**	**4,949**	**3,549**	**3,066**
Short-term borrowings	384	904	494	662	961	811	430	87	973	599
Current liabilities	3,220	3,575	3,782	3,632	3,438	3,634	3,716	3,704	2,912	2,870
Current portion of provisions	797	577	551	455	601	494	451	422	241	211
Liabilities held for sale	–	–	–	352	49	11	–	–	2,196	–
Total current liabilities	**4,401**	**5,056**	**4,827**	**5,101**	**5,049**	**4,950**	**4,597**	**4,213**	**6,322**	**3,680**
Average Invested capital[2,4]	12,578	11,467	11,537	11,817	10,007	9,871	10,475	6,422	6,494	6,340
Capital expenditures	513	534	658	826	666	588	651	634	613	160
Depreciation[4]	424	435	419	463	472	477	487	206	202	181
Operating Working Capital	1,691	2,016	1,891	1,572	1,384	1,418	1,385	1,405	927	1,139
Net debt	1,897	500	1,894	2,298	1,529	1,606	1,226	1,252	1,951	(5,861)
Ratios										
Equity/non-current assets	0.65	0.75	0.69	0.58	0.62	0.62	0.68	0.68	0.88	1.68
Inventories and receivables/current liabilities	1.28	1.18	1.31	1.19	1.18	1.20	1.16	1.18	1.07	1.17
Operating working capital as % of revenue[3]	13.7	13.9	13.2	10.7	9.9	10.1	9.7	10.2	10.2	12.3

[1] Restated to present Decorative Paints North America as a discontinued operation and for the revised IAS19.
[2] Restated to current definition as from 2010.
[3] Operating working capital is measured against four times fourth quarter revenue.
[4] 2016 is represented to present the Specialty Chemicals business as discontinued operations.

Segment statistics

In € millions	2009[1]	2010	2011[2]	2012	2013	2014	2015	2016	2017	2018
Decorative Paints										
Revenue	4,573	4,968	4,201	4,297	4,174	3,909	4,007	3,835	3,898	3,699
Adjusted operating income	298	336	237	108	199	248	345	357	351	346
Operating income	133	275	235	(2,012)	398	248	345	366	334	308
ROS[4]	6.5	6.8	5.6	2.5	4.8	6.3	8.6	9.3	9.0	9.4
Average invested capital[3]	6,169	4,908	5,032	4,701	2,896	2,824	2,959	2,783	2,803	2,798
ROI[4]	4.8	6.8	4.7	2.3	6.9	8.8	11.7	12.8	12.5	12.4
Capital expenditures	112	154	155	206	171	143	158	107	112	50
Average number of employees	22,900	21,800	17,100	17,200	16,800	15,500	15,100	14,800	14,700	14,100
Average revenue per employee (in €1,000)	200	228	246	250	248	252	265	259	265	262
Average Operating income per employee (in €1,000)	6	13	14	(117)	24	16	23	25	23	22
Performance Coatings										
Revenue	4,112	4,786	5,170	5,702	5,571	5,589	5,955	5,665	5,775	5,587
Adjusted operating income	492	503	456	542	525	545	792	759	669	629
Operating income	433	487	458	542	525	545	792	735	668	577
ROS[4]	12.0	10.5	8.8	9.5	9.4	9.8	13.3	13.4	11.6	11.3
Average invested capital[3]	1,868	2,063	2,267	2,499	2,463	2,480	2,692	2,586	2,860	3,066
ROI[4]	26.3	24.4	20.1	21.7	21.3	22.0	29.4	29.4	23.4	20.5
Capital expenditures	61	87	116	123	143	143	147	159	129	106
Average number of employees	20,200	20,600	21,300	21,700	21,300	21,000	19,700	19,300	19,800	19,200
Average revenue per employee (in €1,000)	204	232	243	263	262	266	302	294	292	291
Average Operating income per employee (in €1,000)	21	24	22	25	25	26	40	38	34	30

[1] Excluding National Starch, divested in 2010.
[2] Restated to present Decorative Paints North America as a discontinued operation.
[3] From 2010 restated to current definition.
[4] ROS and ROI have been restated and are based on adjusted operating income.

Regional statistics

In € millions	2014	2015	2016[1]	2017	2018
The Netherlands					
Revenue by destination	762	693	267	282	318
Revenue by origin	1,662	1,563	404	423	458
Capital expenditures	72	102	15	17	9
Average invested capital	1,631	2,154	1,497	1,528	1,560
Number of employees[2]	5,000	4,900	2,600	2,500	2,400
Germany					
Revenue by destination	986	1,036	399	460	443
Revenue by origin	920	903	470	598	561
Capital expenditures	106	52	12	10	12
Average invested capital	764	854	468	662	573
Number of employees[2]	2,300	2,100	1,400	1,500	1,500
Sweden					
Revenue by destination	436	414	164	162	146
Revenue by origin	1,289	1,329	389	408	372
Capital expenditures	40	55	9	9	7
Average invested capital	428	542	60	104	94
Number of employees[2]	2,900	2,700	1,200	1,100	1,000
UK					
Revenue by destination	947	1,011	808	777	818
Revenue by origin	950	1,109	972	891	918
Capital expenditures	74	91	43	39	26
Average invested capital	1,008	833	755	746	758
Number of employees[2]	3,600	3,500	3,300	3,200	3,200

In € millions	2014	2015	2016[1]	2017	2018
Other European countries					
Revenue by destination	3,341	3,226	2,225	2,332	2,319
Revenue by origin	2,246	2,062	1,739	1,823	1,846
Capital expenditures	57	60	39	47	31
Average invested capital	1,117	1,024	675	700	732
Number of employees[2]	7,700	7,300	6,700	6,600	6,900
North America					
Revenue by destination	2,193	2,494	1,213	1,189	1,134
Revenue by origin	2,306	2,644	1,298	1,257	1,200
Capital expenditures	68	100	27	23	18
Average invested capital	1,778	1,949	1,037	864	699
Number of employees[2]	4,800	4,600	3,000	2,900	2,800
South America					
Revenue by destination	1,485	1,483	850	900	815
Revenue by origin	1,252	1,210	791	840	781
Capital expenditures	45	34	20	23	13
Average invested capital	707	679	378	391	352
Number of employees[2]	4,400	4,100	3,100	2,900	2,800
China					
Revenue by destination	1,730	1,828	1,435	1,494	1,329
Revenue by origin	1,814	1,960	1,456	1,493	1,321
Capital expenditures	75	115	53	32	13
Average invested capital	1,380	1,683	897	787	732
Number of employees[2]	7,400	7,500	6,200	6,000	5,300

In € millions	2014	2015	2016[1]	2017	2018
Other Asian countries					
Revenue by destination	1,739	1,968	1,521	1,443	1,375
Revenue by origin	1,438	1,613	1,442	1,392	1,323
Capital expenditures	34	31	53	41	21
Average invested capital	600	671	561	625	656
Number of employees[2]	6,900	6,700	6,600	6,800	6,600
Other regions					
Revenue by destination	677	706	552	573	559
Revenue by origin	419	466	473	487	476
Capital expenditures	17	11	7	9	10
Average invested capital	159	87	94	87	184
Number of employees[2]	2,200	2,200	2,200	2,200	2,000

[1] Represented to present the Specialty Chemicals business as discontinued operations.
[2] At year-end.

SUSTAINABILITY STATEMENTS

This section explains our sustainability performance in more detail. It outlines our approach to creating shared value and shows our performance on key economic, environmental and social indicators.

For additional information, visit:

www.akzonobel.com/sustainability

This Sustainability statements section of the Report 2018 is separate from, and does not in any way form part of, the company's annual financial reporting as defined in article 5:25c of the Dutch Financial Markets Supervision Act. This section contains summarized key performance indicators (KPIs) relating to sustainability performance.

Creating the right bond with customers

Wood adhesives just got smarter. It's all down to a new way of helping customers become more efficient, which has been developed by our Industrial Coatings business.

Known as intelliCURE, the novel system involves bundling actual products, software and machinery into a single solution for manufacturers of glued wooden parts. So as well as supplying the adhesives, we can also provide the machinery – which dispenses the product onto the wooden parts being bonded – and the software – which dynamically optimizes the amount being applied.

It's a flexible solution, which helps customers to run their lines as efficiently as possible. They can use it all, or just parts of it, depending on their individual needs.

woodadhesives.akzonobel.com

OUR APPROACH TO SUSTAINABILITY

For AkzoNobel, sustainability means creating shared value for all our stakeholders. It underpins our core principles and our employee value proposition, and is our driver for growth, innovation and productivity.

We continue to develop business opportunities in alignment with the UN Sustainable Development Goals that are most relevant for us. We're focused on creating more shared value from fewer resources and turning societal concerns and environmental challenges into product innovations for our customers.

The separation of Specialty Chemicals has allowed us to create a clearer sustainability agenda for a focused paints and coatings company. We reviewed our sustainability agenda to assess where we can have the biggest impact on accelerating our strategy while delivering the biggest social and environmental benefits. All data reported excludes Specialty Chemicals, unless otherwise stated.

We equip our employees to ensure they can contribute to making us more sustainable. This responsibility is included in the personal objectives and incentives of all employees, and is linked to our business imperatives:

- **Value selling** – we're innovating to give our customers choice and competitive advantage through product portfolios designed to bring tangible benefits and deliver positive social and environmental impact
- **Resource productivity** – we're creating a culture of care for all materials used, eliminating waste and reducing variable cost. Increased resource productivity in our operations and supply chain makes us more competitive and sustainable

Our high performance aerospace coatings have been used to help deliver a global message to save the world's coral reefs. We supplied products for a Mirpuri Foundation initiative which involved painting a Hi Fly aircraft with striking coral-themed livery. One side represents a pristine ocean with healthy marine life, the other shows a destroyed coral environment. We created 19 custom-made colors for the design, which helps drive home the global message that our coral ecosystems will disappear by 2050 if no action is taken.

Delivery priorities have been set for 2020, with explicit value objectives:

2020 performance delivery priorities

Resource productivity	**> €100 million** annually recurring benefit potential
Value selling	**20%** eco-premium solutions

We aim to maintain eco-premium solutions at a sustainable 20% of revenue through 2020 by constantly innovating. Looking beyond 2020, we are creating long-term value with our startup challenge, known as Paint the Future. It's focused on finding new solutions that will help to make our operations, products and entire value chain even more sustainable.

VALUE SELLING

We have significant potential to deliver sustainability benefits in our marketing, sales, technology and innovation activities. We use this to get the best out of our existing value proposition through our eco-premium and eco-performer solutions. 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. They accelerate our business agenda by meeting societal needs and consistently demonstrate higher growth than more traditional products.

We take great pride in the fact that innovation in our company results in effective and sustainable product solutions that create value for our customers and society.

VALUE FOR CUSTOMERS

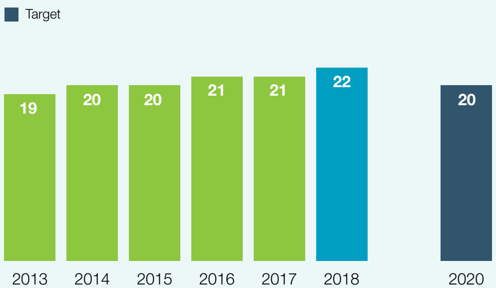
Our passion for paint means we strive to be the reference for innovation and quality, and that requires investment. Our value selling agenda is strengthened continuously, and is one of the main drivers for further improving the sustainability of our portfolio. This helps to accelerate market penetration and margin growth and drive progress towards our Winning together: 15 by 20 strategy.

SUSTAINABLE PORTFOLIOS

Our portfolio approach promotes the use of safer and more sustainable products in all stages of the value chain. We translate societal developments into product offers. We take action to manage harmful substances in advance of legislation, future-proofing our products against changes in regulations. We constantly review our existing offer in close alignment with our strategic focus. This ensures the delivery of products and solutions that are fit-for-purpose in the markets we want to lead.

Since 2012, we have measured the eco-premium part of our product portfolio – those solutions with clear sustainability benefits that outperform the market.

Eco-premium solutions with customer benefits
in % of revenue



In 2018, sales for this segment totaled 22% of our revenue. Eco-premium solutions present a moving target because we measure our performance against the market reference, which is continuously evolving. By constantly innovating, our aim is to maintain eco-premium solutions at a sustainable 20% of revenue through 2020, which will help to drive margin improvement and revenue growth.

Another significant portion of our portfolio fits into the eco-performer category. These are solutions offering clear sustainability benefits, but are overall on a par with other offers. Initial assessments indicate that eco-performers are 20% of sales, making total sales of sustainable solutions 42%.

Products classed in the performer category meet the needs of our customers and are comparable to mainstream alternatives.

The transitioner and priority categories contain substances highlighted as being of concern by some stakeholders, such as governments, NGOs, customers and public groups. We manage hazardous substances through our priority substance program, which promotes the use of more sustainable and safer products.

Portfolio assessment

Eco-premium	Better than mainstream solutions
Eco-performer	Mainstream with sustainable features
Performer	Equivalent to mainstream
Transitioner	Potential future risks are anticipated
Priority	Current risks are known and managed

Our priority substance program takes a systematic approach to the identification, expert review and management of all hazardous substances used in our products. Only when safe use of a priority substance is demonstrated can it remain in use for AkzoNobel products. The process includes reduction, restriction and phase-out (when they can be substituted with safer and sustainable alternatives). The priority category includes products containing hazardous substances with phase-out dates (see Priority substance management in Note 7).

VOC IN PRODUCTS

Our ambition to move towards zero VOC (volatile organic compounds) in products is ongoing. We continue to focus on developing products with significantly reduced VOC content. This transformation has both environmental and health benefits and allows us to remain ahead of legislation.

Our Decorative Paints organization is running a multi-year strategic program called "Waterway". It's designed to lead the market to water-based trim and woodcare product ranges. In 2018, this switch gained further momentum. The distinctive benefits of water-based products have been included in several marketing campaigns. The sales volume and value of water-based woodcare and trim paints increased in line with the ambitious targets for 2018. Our innovation plans form a solid foundation to improve year on year towards lower VOC emissions.

In Performance Coatings, we also strive to develop and offer lower VOC products to meet changing market requirements and stay ahead of upcoming legislation. Over the years, we have developed lower VOC products in all our business units and are focused on linking this to our sustainable portfolio via the eco-premium and eco-performer solutions.

SHORT-TERM INCENTIVES (STI)

We want to strengthen the link between our people, our strategic priorities and the various initiatives across our businesses. We therefore cascaded the relevant metrics into the sales, marketing and technical teams.

From 2018 onwards, specific targets on value selling have been included in the personal objectives and incentives of all employees. This will help us to deliver more sustainable portfolios, reflecting not only our current product offers, but also ensuring a well-stocked technology and innovation pipeline.

CUSTOMER VALUE

We pay close attention to the service we deliver to our customers and their perception of it. Having established a clear focus on our Winning together: 15 by 20 strategy, we began to develop and deploy several initiatives to enable our teams to deliver on this. As a focused paints and coatings company, we can target our efforts on bringing the commercial teams onto common platforms in terms of systems, processes and capability development.

This has already been set in motion with the introduction of Integrated Business Planning (IBP), designed to create more clarity across the organization. It's a company-wide initiative which aims to achieve optimized processes by 2020.

In the future, the implementation of IBP will enable us to unleash even more of our potential and achieve higher customer satisfaction through improved service levels.

A company-wide sales force excellence program is focused on strengthening our sales teams and driving stronger engagement with our customers.

The program – based on a detailed understanding of AkzoNobel's different ways to go to market – consists of multiple modules. The first core module is focused on increasing the effectiveness of our sales people, helping them to free up time from their daily routines and devote this to customer centric activities. A second key element is targeted at improving the structure of our sales organization so that decision-making becomes faster, the capability of our teams is strengthened and processes run more smoothly. To enable this change, we are further harmonizing our sales incentives, linking them directly to sales activity.

Finally, the program also includes a significant investment in order to deliver a single Customer Relationship Management (CRM) system. Ultimately, the overall program aims to achieve more customer intimacy and stronger customer relationships.

To help us measure the impact of the program and fully understand how our customers value us, we are designing a single customer satisfaction survey, configured through the go-to-market models we have in place. The initiative will also deliver a better understanding of customer needs to help build improved product offers and solutions to our customers.

DELIVERY

We monitor our service reliability in terms of timely delivery to customer premises, aiming to be consistently higher than 95%. In 2018, service performance was 97%.

Delivery Efficiency Index
in %

It's a feast for the eyes – and the ears. This is Moscow's new Zaryadye Concert Hall near Red Square. It features 11,200 liters of our paints and coatings, including our Dulux, Sikkens and Interpon brands.

A MORE SUSTAINABLE FUTURE FOR ALL

Introduced in 2015, the Sustainable Development Goals (SDGs) developed by the United Nations are a blueprint for achieving a better and more sustainable future. They're a universal call to action to end poverty, protect the planet and address global challenges, so that all people can enjoy peace and prosperity.

Around 40,000 kilograms of our superdurable (and highly sustainable) Interpon powder coatings have been used during the ongoing construction of Istanbul's impressive new Atatürk Airport in Turkey. Our powder coatings continue to make a major contribution to the increasing demand for more sustainable buildings all over the world. Photo: İGA

We believe the SDGs set a clear direction for a more sustainable society – and they have our full support. They provide a clear compass for business growth and development and are in line with our own agenda of creating shared value.

Strongly embraced by the business world, the SDGs are now an integral part of the global development agenda and form the accepted framework for public and private collaboration. And while they're universal, we recognize that different countries have different priorities in terms of development needs. So we base our marketing and innovation decisions on our understanding of the development needs of the markets where we operate – using local insight to tailor the solutions we offer.

For example, the SDGs help guide the innovation roadmaps we develop. Because in order to understand and identify technology requirements, we must know more about future societal development needs. It's all about making informed innovation choices – and the SDGs provide a unique perspective on the future.

As a company, we continue to focus on those SDGs where we can have the biggest positive impact. This approach builds on our core principles of sustainability, safety and integrity, including respect for human rights. We're convinced that our sustainability agenda – which is now focused purely on our paints and coatings activities – is a key driver for business development, innovation and growth. The SDGs will therefore continue to help us take our industry forward and ensure that sustainability remains firmly at the heart of all we do.

We can have the biggest positive impact on the following SDGs:

11 Sustainable cities and communities:
The majority of our products are used in the buildings and infrastructure sector. Our focus on helping to create green buildings means we can have a major positive impact on cities and communities. This includes improving the energy efficiency of buildings through the use of heat-reflective coatings, as well as interior wall paint which can improve the health and well-being of residents.

12 Responsible consumption and production:
There are huge opportunities in applying the principle of circularity across our entire value chain. For example, when sourcing raw materials, we can join forces with our suppliers to increase the share of bio-based materials and recycled content. We must learn to make better use of these materials.

We could also offer technologies and solutions to our customers that enable them to reduce their own emissions and material use. For example, by lowering curing temperatures and supplying more products with low or zero solvents.

But above all, it's about better performance, durability and long-term protection of the underlying substrate, be it wood or metal. This can include coatings that reflect heat, lower fuel use, lessen friction or create insulating capacity. It's also about solutions being non-hazardous, enabling furniture, transport or building materials to be reused and recyclable. Coatings should be an enabler to preventing products becoming waste.

17 Partnerships for the goals:
We must collaborate to scale up action across the SDGs. With other leading companies and the World Business Council for Sustainable Development (WBCSD), we developed a roadmap for the chemical sector's contribution to the SDGs. Other partnership examples include our collaboration with The Ocean Cleanup; Black Bear to generate carbon black from old tires; and joint research with Dutch universities as part of the Chemical Building Block Consortium to develop bio-based resins from crustaceans and wood.

RESOURCE PRODUCTIVITY

We launched the Resource Productivity program as a key accelerator to deliver on our sustainability objectives and contribute to the company's Winning together: 15 by 20 strategy.

The program aims to maximize raw material and process efficiency, eliminate waste and drive energy, carbon footprint and VOC reduction across the whole integrated supply chain (ISC).

As well as reducing the environmental footprint of our activities, resource productivity contributes to business performance by driving continuous improvement and reducing operating costs.

We use our company-wide continuous improvement program ALPS (AkzoNobel Leading Performance System) to drive the environmental agenda. We continuously measure and report our performance on a range of environmental and financial indicators. The three key indicators are: waste, energy use and VOC emissions, for which targets are set. We deliver on our targets thanks to a wide range of improvement projects introduced as part of the Resource Productivity program. These projects (currently more than 500) are monitored monthly to assess progress with regard to environmental impact and financial benefits. Savings achieved total more than €20 million.

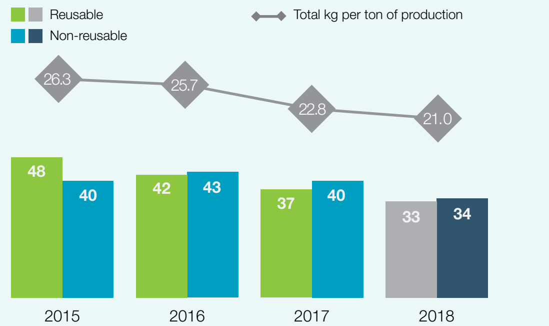
We've increased our focus on material efficiency and are maximizing the conversion of raw materials into final product by optimizing raw material use and solving the root cause of material losses, reducing the amount of waste and waste water generated, as well as reducing the carbon footprint. It also contributes to reduced manufacturing costs.

WASTE

Total waste volume and waste per ton of production generated were down by 12% and 8% respectively in 2018, which meets the reduction target of 5% per ton of production from 2017. Waste reduction is one of our main environmental indicators. Zero waste to landfill is one of our company ambitions. Our first priority is to eliminate hazardous waste to landfill.

Hazardous waste per ton of production decreased by 6%. A large number of sites around the world contributed to the significant reduction in waste generation during the year. Examples of our waste reduction projects include solvent recovery, reducing packaging waste by moving

Total waste in kilotons

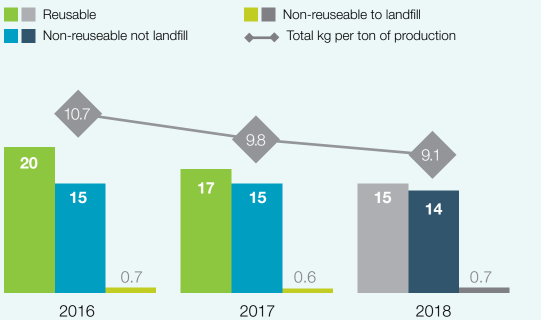


Waste means any substance or object arising from our routine operations which we discard or intend to discard, or we are required to discard.

Raw material flow in kilotons

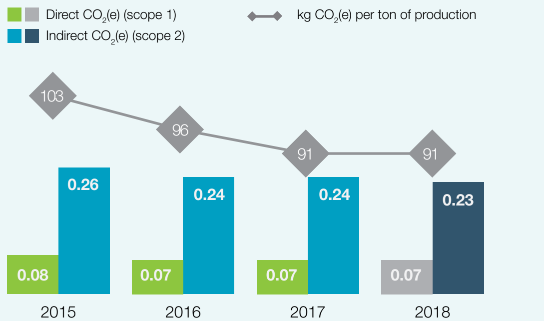
Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

Hazardous waste in kilotons



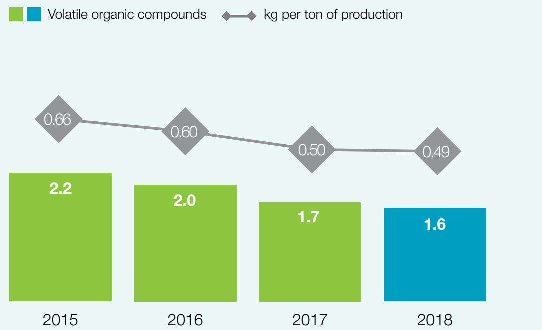
Hazardous waste is waste that is classified and regulated as such, according to the national, state or local legislation in place.

Greenhouse gas emissions in million tons



Total greenhouse gas emissions made up of direct emissions from processes and combustion at our facilities and indirect emissions from purchased energy.

Volatile organic compounds in kilotons



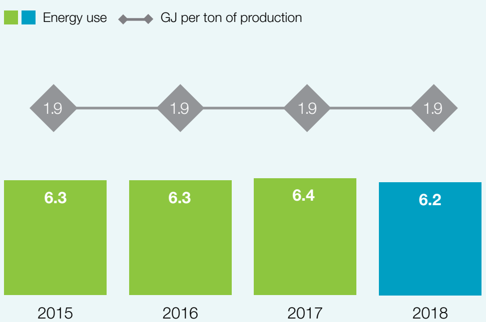
We measure halogenated and non-halogenated organic compounds discharged to air.

from smaller paper bags or metal drums to bulk deliveries of raw materials and reworking obsolete finished goods.

ENERGY AND GREENHOUSE GAS EMISSIONS

Energy use is another key environmental indicator included in our Resource Productivity program.

Energy use in 1000 TJ



Energy use per ton of production flattened, while absolute energy consumption in 2018 was down 3% compared with 2017, in line with a change in product mix and volume changes. Our reduction target was 3% (per ton, from 2017). In 2018, 51% (62 out of 122) of our sites improved their relative footprint with regard to energy use compared with 2017. In total, 17 sites use 100% renewable electricity. Our total share of renewable energy use is 31%.

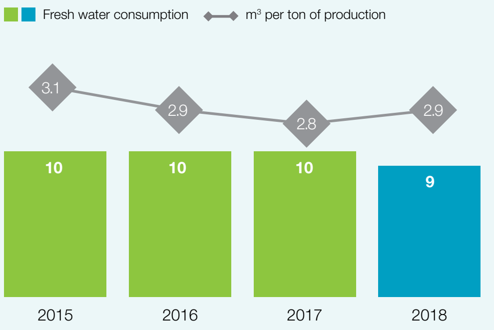
Greenhouse gas (GHG) emissions from our facilities are primarily related to electricity consumption and fuel used for heating. The total GHG emissions per ton of product increased by 1%, with absolute GHG emissions decreasing 4%.

VOLATILE ORGANIC COMPOUNDS (VOC)

Air emissions generated from our operations are primarily volatile organic compounds (VOC). The reduction target for VOC emissions was 10% per ton of production in 2018 (compared with 2017). The reduction was delivered via product design, driven by R&D (see Note 1), good management practices and environmental controls at our manufacturing sites. In 2018, VOC emissions per ton of product and our total VOC emissions decreased by 4% and 8% respectively.

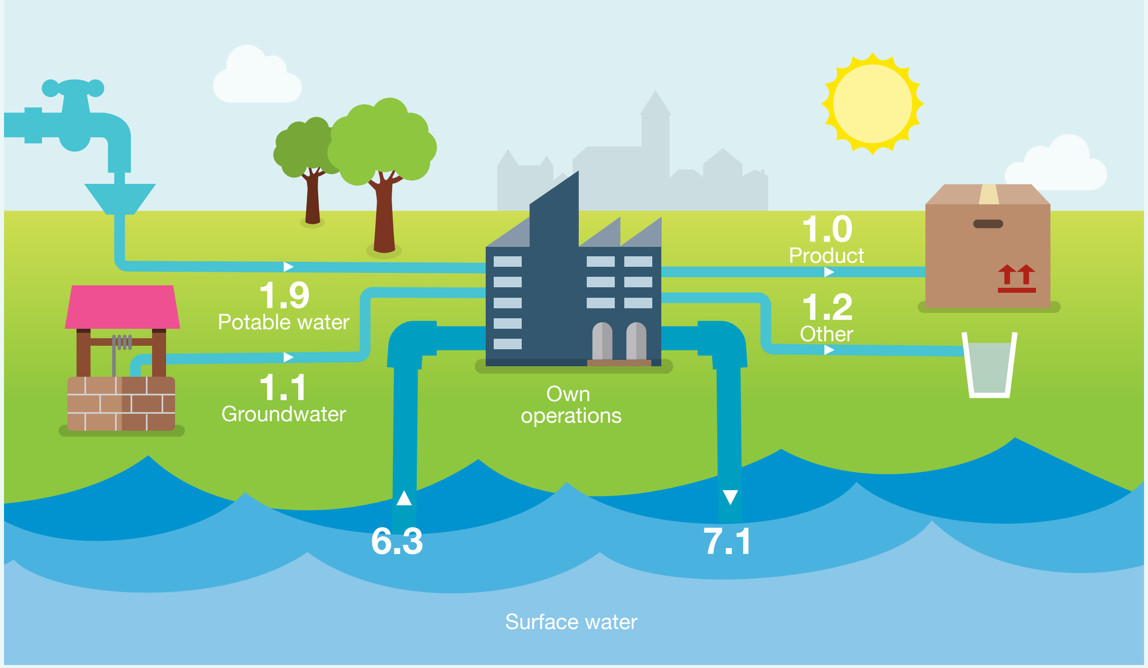
Some of our employees joined in a series of beach clean-ups around the world as part of the company's involvement in the Volvo Ocean Race. AkzoNobel was one of the main partners of the race's sustainability program.

Fresh water use in million m^3



Fresh water use is the sum of the intake of groundwater, surface water and potable water.

Water flow in million m^3



WATER AND WASTE WATER

Sustainable water supply is essential to life and the sustainability of our business. We rely on water for, among others, raw material production, product formulation and manufacturing, power generation, cooling, cleaning and transportation. Currently, 68% of our fresh water intake is from surface water, from which 76% is used for cooling purposes. Our net water use decreased by 4% in 2018.

Our locations process their waste water in an on-site waste water treatment plant, or via third party waste water treatment. The total amount of chemical oxygen demand (COD) emissions in 2018 was 27 tons (2017: 27 tons).

SOIL AND GROUNDWATER REMEDIATION

We periodically review sites with historic contamination, taking remedial action when required, and have procedures to prevent new contamination.

Mandatory annual environmental liability reviews are conducted to evaluate risks associated with historical soil and groundwater contamination. We monitor progress in resolving liabilities and assess changes in company exposure.

A group of legal and environmental experts assess, manage and resolve environmental liabilities. In line with IFRS accounting rules, we make provisions for environmental remediation costs when it's probable that a liability will materialize and the cost can be reasonably estimated. We have set aside €91 million, which we believe is sufficient for the sites where we have ownership or responsibility. (See Note 18 of the Consolidated financial statements).

Our sustainability agenda is integral to our employee value proposition. By focusing on the success and sustainability of our business, we attract, retain and motivate our employees. Sustainability is one of our core principles, defining who we are and what we stand for.

Our talent and development programs are a vital investment in our human capital – the skills and knowledge of employees – to ensure that we're equipped to drive the company's growth and profitability. In 2018, our human capital return on investment was 1.33 (1.43 in 2017), meaning that for every euro invested in AkzoNobel's workforce, €1.33 was returned. Improving our human capital return on investment is achieved through a combined effort in improving revenue, efficiencies in non-employee costs, controlling our FTE numbers and aligning our employee cost and remuneration structure to our business performance goals.

PEOPLE AGENDA AND HR ANNUAL OPERATING PLAN

In 2018, we launched a new people agenda and HR annual operating plan process across all our businesses and functions. This process is based on external best practices, as well as internal practices and business needs. It translates business strategy into a people agenda covering a three-year timeframe, which is in turn translated into an annual operating plan implemented by different parts of the HR organization. As part of this process, staffing planning is also conducted to set the basis for our budgeting, talent acquisition, talent management and learning and development processes.

ATTRACTING, DEVELOPING AND RETAINING TALENT

We're proud of our continued recognition as a leading employer in many of our key countries, including Brazil, China, the UK and Sweden.

During 2018, there were concentrated efforts in defining career paths and building capabilities in functions such as marketing and manufacturing that directly benefit the company strategy. We also put significant effort into creating a sustainable pipeline of future leaders, particularly in our business units and corporate functions. As part of the process, we identified critical roles and focused on the succession planning of these roles to ensure business continuity. This resulted in a balanced approach to promote our future senior leaders from within the organization, while continuously enriching our pipeline from external markets. The outcome was that we filled 54% of our executive roles internally.

In 2018, overall employee turnover was 14% (2017: 12%), while the voluntary turnover was 8% (2017: 6%). Although increasing from 2017, both are still in line with the top of the industry benchmark. High potential employee turnover totaled 8%, an increase from previous years as a result of continuous organizational transformation. This trend is expected to slow down in 2019 based on the closure of many transformation programs. At the same time, changes will be made to our performance, talent and career management processes to better service the changing needs of our employees.

CAPABILITY BUILDING

We're focused on building the capabilities of our people in order to meet our strategic ambitions and ensure we drive a performance culture where our people learn quickly, grow and proudly deliver on their commitments. During 2018, we focused on providing learning and development programs that particularly support the company's strategy. Key focus areas included sales and marketing, integrated business planning (IBP) and leadership development that enables a high performance culture. To support our strategy with relevant learning offerings, we continued to update our competency frameworks in sales and marketing, as well as various supporting areas of the business, to reflect the changes in our organization needs.

Human capital ambitions

	2015	2016	2017	2018	Ambition 2020
Organizational health score				58	(77)[3]
Female executives (in %)[1]	19	19	19	20	25
Female executive potential pool (in %)[1]	25	30	28	31	30
Executive vacancies filled internally (in %)[1]	58	61	74	54	60[2]
High potential turnover (in %)[1]	6	4	5	8	<5

[1] 2015-2017 data includes discontinued operations.
[2] Previously communicated 70.
[3] Top quartile.

DIVERSITY AND INCLUSION

AkzoNobel is developing an increasingly engaged, diverse and capable workforce to deliver our strategy. We believe it's also important that our management teams reflect the diversity of our overall workforce, because inclusive and diverse teams are better able to understand customer needs and innovate to meet their requirements.

In 2018, we launched an informal women leader network to further promote our gender diversity at all levels in the organization, and to provide peer support to our female leaders in advancing their career ambitions at AkzoNobel.

ENGAGED EMPLOYEES

We've embarked on an ambitious transformation journey to become the reference in our industry. The cultural shift we aspire to achieve is substantial. A good balance between performance and organizational health will be required to ensure our transformation creates sustainable impact. We therefore decided to launch a new internal survey which goes beyond measuring people engagement and focuses more on measuring our wider organizational health. This measurement is achieved by surveying the effectiveness of our organization in combination with the actions and behaviors that take place. In 2018, the survey was conducted three times for all AkzoNobel employees, resulting in a current score of 58.

The results show that we have an engaged workforce. In total, 86% of our employees indicated they really care about the company, while 84% are willing to put in a great deal of effort – beyond what's normally expected – in order to help AkzoNobel be successful.

The insights from the survey also show that the company needs a continued focus on four specific areas: employee involvement, inspirational leaders, rewards and recognition, and talent development.

As part of our transformation journey, we need to be able to check our progress on a regular basis. It is therefore an absolute necessity that we carry out quarterly health checks. The outcomes are reflected in action plans (overall, per business and per function), as well as helping to steer our culture and organizational change management agenda. The culture and transformation teams, as well as initiatives such as the AkzoNobel Network (a network of colleagues who can be a sounding board for senior leadership) will help to drive the roll-out of the agenda.

As a focused paints and coatings company, the priorities of our sustainability agenda have shifted to reflect the strategic direction of AkzoNobel and focus on those areas where we can have the biggest impact.

Following the separation of Specialty Chemicals, carbon emissions from our operations dropped 90% to 300 kilotons worldwide. We continue to set targets on emissions under our resource productivity agenda (see Note 3).

More than 98% of our carbon footprint stems from our suppliers (upstream) and our customers (downstream). In 2018, our value chain emissions were 5% lower than in 2017.

Upstream, our biggest impact is from emissions of the raw materials we buy, such as pigments, resins and solvents. In our raw material sourcing, we need to join forces with our suppliers to greatly increase the share of bio-based materials, recycled content or raw materials produced with renewable energy. In addition, we must learn to make better use of raw materials (see Note 6).

Downstream, the applications we provide to consumers also generate emissions when used, for example from solvents and curing temperatures. We continue to offer our customers technologies and solutions that enable them to reduce their own emissions and material use, for example through lower curing temperatures, low or zero solvents, water-based solutions and using fewer layers of paint.

Following the principles of the circular economy – the use of bio-based and recycled raw materials combined with improved solutions for our customers – has the potential to be our biggest contributor to the Paris agreement. Building on our track record of renewable energy, we will now also focus on reducing carbon emissions through renewable raw materials. Currently, approximately 5% of organic raw materials are from renewable sources.

The paints and coatings industry is at an early stage, but as a leading company we are at the forefront and working with partners, big suppliers and universities to develop more innovative products. Examples include high quality coatings with 25% recycled content, creating pigments from the carbon black harvested from used tires in a collaboration with Black Bear, and joint research with Dutch universities as part of the Chemical Building Block Consortium, which aims to develop bio-based resins from crustaceans and wood. We have gone through trials and pilot testing and are now at the stage where we will accelerate our pathway to resource productivity and circular economy. One of our Paint the Future startup challenge areas (see page 14) focuses on identifying circular solutions, allowing us to benefit from technologies and innovations to further our ambitions towards a circular economy.

We continue to support the recommendations of the Financial Stability Board (FSB) Task Force on Climate related Financial Disclosures (TCFD). Risks and opportunities related to climate change and the transition towards a circular economy are assessed via our risk management process. We manage those risks and opportunities by working with suppliers and customers. Governance is integrated into our management cycle as described later in this section under Managing sustainability. We are partnering with industry peers and the World Business Council for Sustainable Development (WBCSD) to further implement the TCFD recommendations as they apply to our company.

In line with both our sustainabilty agenda, and the supplier management process which forms part of the company's ALPS continuous improvement program, we aim to use resources as effectively as possible. To make the most productive use of resources – specifically raw materials – we work closely with our suppliers. Together, we strive to identify and minimize supply chain risks, create value through continuous improvement and seek out collaboration and joint development opportunities in order to ensure a secure and sustainable supply of our products.

SUPPLIER SUSTAINABILITY FRAMEWORK

Our supplier sustainability framework (see diagram) drives continuous improvement and supports the delivery of our sustainability objectives. The foundation of the framework is the company's Business Partner Code of Conduct and includes processes for risk management and supplier performance.

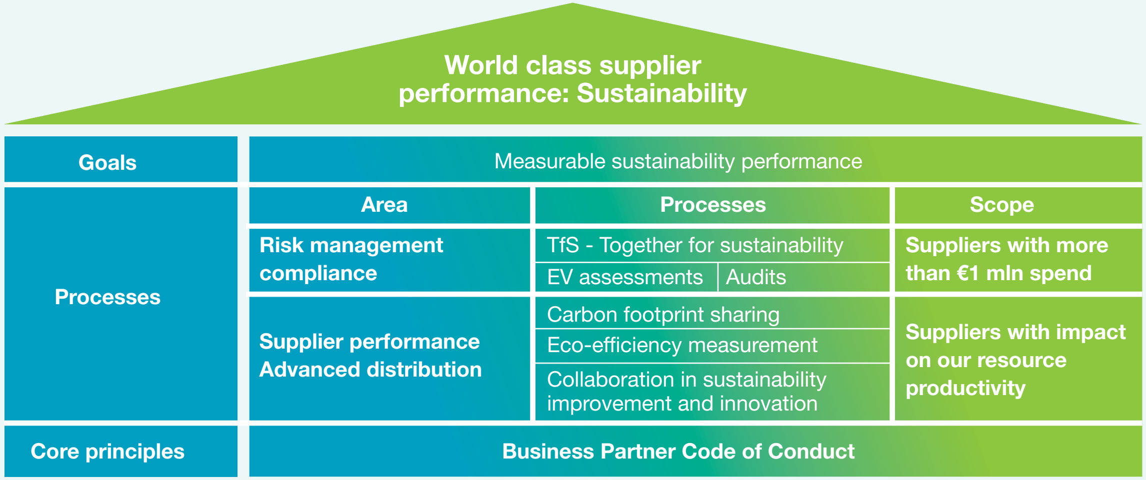
Business Partner Code of Conduct

Our business partners are expected to follow the company's core principles of safety, integrity and sustainability. The Business Partner Code of Conduct explains these core principles and specifies what we expect from our business partners. The code is available in 32 languages.

Suppliers sign the code to confirm their compliance with environmental, social, human rights and governance requirements. Signatories cover 98% of the product related (PR) spend and 83% of the non-product related (NPR) spend.

Together for Sustainability (TfS)

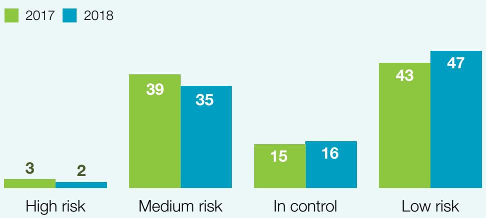
TfS online assessments (conducted by EcoVadis, a partner of TfS) and TfS on-site audits facilitate proactive supplier risk management in the chemical industry. AkzoNobel verifies its own activities against industry best practice



and (for the fourth time overall) achieved the EcoVadis Gold recognition level in 2018.

TfS assessments of our suppliers covered 65% of spend in 2018. We use the EcoVadis score to determine the risk levels of our suppliers. In 2018, we included the EcoVadis sub-theme score on labor and human rights. Despite this stricter consideration of our risks, we have managed to increase the number of low risk suppliers, as shown in the diagram below.

Risk developments in % of suppliers



While suppliers for the TfS online assessment are selected on global spend of more than €1 million, the selection criteria for the on-site audits includes the location of our supplier's site (risk region) and the type of product (risk material) they are delivering to AkzoNobel. In 2018, we initiated 37 TfS audits.

The results of our TfS assessments and audits allow us to identify improvement activities with our suppliers. Out of 761 suppliers re-assessed by 2018 (cumulative), 489 improved their EcoVadis scores.

The TfS program is used for existing suppliers. New suppliers with an expected spend value greater than €100,000 are required to take part in an evaluation program, as described in our Supplier Selection process as part of ALPS. This program includes elements on sustainability (labor and human rights, environment, compliance and responsible procurement).

Supplier performance management

Our supplier performance management process includes suppliers who have a contractual relationship with us and/or have an impact on our value selling and resource productivity. The sustainability performance of suppliers in this group is measured using our Supplier Sustainability Balanced Scorecard (SSBS).

In 2018, we strengthened the compliance element of the SSBS by adding the EcoVadis sub-score on labor and human rights, and by monitoring the human rights controversies reported by the EcoVadis 360° report. In addition, our updated SSBS now includes specific measures on our suppliers' eco-efficiency performance, including water and waste, greenhouse gases (GHG), energy use and circular economy.

From 2018 onwards, since we have reached our objectives in terms of SSBS deployed (100 suppliers), we report on supplier improvements. The SSBS score is used in the supplier management process which forms part of our ALPS continuous improvement program, in addition to measuring quality, delivery, cost and innovation performance.

High risk raw materials

In 2017, we initiated a due diligence program of several raw materials in our supply chain identified as high risk raw materials impacting human rights, more specifically in terms of health and safety, working conditions and modern slavery. The raw materials in scope (which we mostly procure indirectly) are barite, cobalt, copper, cotton linters, mica minerals, palm oil, talc and tin. These raw materials have been identified using information provided by NGOs. In 2018, we prioritized cobalt, copper, mica minerals and tin (contained in our raw materials) and have started to request that suppliers delivering these materials (directly or indirectly) provide traceability/transparency of the raw materials back to the origin – smelter, refinery or mine. In 2019, we will pursue our due diligence program and continue to assess whether our materials are sourced in a sustainable manner.

Every year, millions of liters of perfectly good paint are thrown away. Our Community RePaint initiative works across the Netherlands, Belgium and the UK, collecting left-over reusable paint and re-distributing it to communities, charities and people in need. In 2018, our Dulux brand celebrated 25 years of sponsoring Community RePaint schemes across the UK – benefiting more than five million people.

Key performance indicators – supplier management

	2014	2015	2016	2017	**2018**
PR[1] suppliers signed Business Partner CoC[2,7] (% of spend)	98	98	99	97	98
NPR[3] suppliers signed Business Partner CoC[2,7] (% of spend)	80	81	86	86	83
Third party online sustainability assessments (TfS)[4]	534	722	875	950	953
Third party on-site sustainability audits (TfS)[5]	15	54	131	219	270
SSBS[6] improvement in % against baseline	–	–	–	–	11

[1] PR = Product related (raw materials and packaging).
[2] CoC = Code of Conduct.
[3] NPR = Non-product related.
[4] Includes TfS shared assessments, cumulative.
[5] Includes TfS shared audits, cumulative.
[6] SSBS = Supplier Sustainability Balanced Scorecard. Baseline is 2018 (new KPI).
[7] 2014-2017 data include discontinued operations.

A RECORD-BREAKING JOURNEY TO BE PROUD OF

When we became the first team to enter the 2017-18 Volvo Ocean Race, we knew we were in for an incredible ride. In the end, our campaign was more remarkable than we could have ever imagined.

We finished fourth overall, while also helping to increase global understanding of ocean health. But that hardly tells the full story. On the way, we achieved five podium finishes in the space of six legs (including a leg win), as well as making Volvo Ocean Race history by setting a new 24-hour distance record. As the official supplier of coatings for the seven teams, our products also made a huge contribution during every thrilling maneuver of the 83,000-kilometer race around the world.

Given our long association with the sea, it was fitting that AkzoNobel not only took part, but also became one of the main partners of the race's sustainability program. We supplied more than 7,000 liters of our International and Awlgrip products during the course of the competition, having developed custom colors for all the competing teams. We even launched a new Awlgrip product during the stopover in Itajaí, Brazil. On a company level, we welcomed 2,000 guests (including 1,500 customers) to the race villages and generated over €74 million of media value.

Team AkzoNobel was also one of two boats (along with Turn the Tide on Plastic) to be fitted with additional specialist equipment designed to measure the state of the world's oceans. It was all part of a dedicated science program which has since gone on to win several awards. Between them, the two boats took 86 samples, and scientists found that 93% contained levels of microplastics. The aim of the research was to further our understanding of the extent to which microplastic pollution has now touched even our remotest oceans.

Unsurprisingly, our sailors were in big demand when they weren't out on the water. They took part in two beach clean-ups with our employees, visited some of our sites and took part in a number of community projects. And, as the race progressed, they became a genuine source of inspiration as they showed the true value of teamwork and winning together.

"It's very special to compete at this level and it was a privilege to have been part of team AkzoNobel," said watch captain and now six-time Volvo Ocean Race veteran, Chris Nicholson. "One of the most rewarding aspects of the race is to see people challenged and work together as a team to overcome those obstacles and achieve amazing things. We showed the ability to learn and improve and not allow setbacks to check our progress. Everyone involved has a lot to be proud of."

> "One of the most rewarding aspects of the race is to see people challenged and work together as a team to overcome those obstacles and achieve amazing things"

Top three finishes
6

Total amount of International and Awlgrip paint used during the race
7,000+ liters

Number of custom made colors developed for the race by AkzoNobel
26

Leg wins
1

RECORD **BREAKERS!**

602.51 nautical miles in 24 hours

Volvo Ocean Race leg nine,
May 28, 2018

watch
video

Strategic performance
Business performance
Leadership
Governance and compliance
Financial information
Sustainability statements

AkzoNobel strives to deliver leading performance in health, safety, environment and security (HSE&S) with a vision to deliver zero injuries, waste and harm through operational excellence.

Our strategic HSE&S priorities are aligned with the company's Winning together: 15 by 20 strategy and are focused on driving:

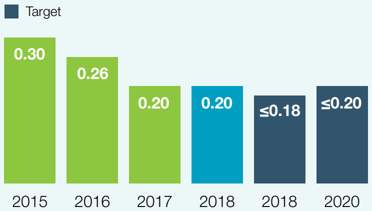
- Continuous improvement of HSE&S processes to achieve leading maturity levels
- The implementation of an integrated HSE&S management system to drive continuous improvement and maintain best-in-class performance
- A commitment-based HSE&S culture and embedding operational excellence to achieve our vision of zero injuries, waste and harm

PEOPLE SAFETY

In 2018, the number of reportable injuries reduced by 5% compared with 2017, while the injury rate is already at the target level set for 2020 (0.20). In total, 66% of our manufacturing locations have been reportable injury-free for more than a year. The overall downward trend in reportable injuries is in line with the increased maturity level in the implementation of our company safety programs, including the Life-Saving Rules, the continued implementation of the AkzoNobel HSE&S Common Platform programs and the drive for a commitment-based safety culture, promoting employee engagement and recognition.

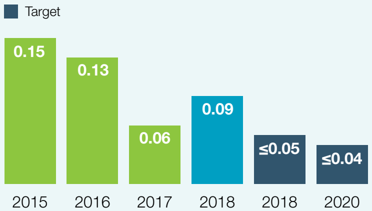
However, the lost time injury rate increased versus the 2017 performance. So although the total number of reportable injuries decreased in 2018, there was an increase in the severity of this year's cases compared with 2017. Incident analysis of recent years has indicated that in 70% of all injuries, one of the root causes appeared to be people positioning themselves in the so-called line of fire (LoF), where either energy or substances

Employee total reportable injuries injury rate



The total reportable injury rate (TRR) is the number of injuries resulting in a medical treatment case, restricted work case, lost time case or fatality, per 200,000 hours worked. In line with OSHA guidelines, temporary workers are reported with employees, since day-to-day management is by AkzoNobel.

Employee lost time injuries injury rate

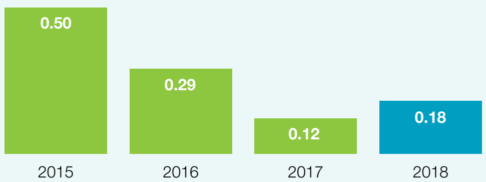


The lost time injury rate (LTIR) is the number of injuries resulting in a lost time injury per 200,000 hours worked. Temporary workers are reported together with employees, since day-to-day management is by AkzoNobel.

were unexpectedly released. In response to this, a LoF awareness program was held for all employees in April. LoF was also the theme of our annual global Safety Day, when we introduced a LoF awareness game and, for the first time, used virtual reality for HSE&S training purposes.

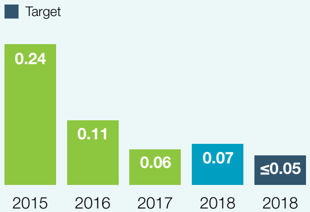
Additional initiatives designed to further prevent injuries and reduce their severity include the implementation of Life Critical Procedures, a forklift safety "call to action" and a continued focus on embedding injury and illness case management. The objective of the latter is to proactively manage injury cases at an early stage, contribute to reducing the impact for the injured employee, promote return to work programs and, as a result, further reduce the lost time injury rate.

Contractors total reportable injuries injury rate



The contractors total reportable rate (TRR) is the number of contractor injuries, resulting in medical treatment cases, restricted work cases, lost time injuries or fatalities, per 200,000 hours worked.

Contractors lost time injuries injury rate



The contractors lost time injury rate (LTIR) is the number of contractor injuries resulting in a lost time case, per 200,000 hours worked.

The focus on contractor safety was further increased in 2018 with the introduction of standardized practices for safe working throughout the company, as well as standardized contractor management and evaluation procedures. Although the reportable injuries for contractors remained at the same level and lost time injuries decreased by 25%, the rates did not improve due to fewer hours being worked by contractors in 2018, compared with 2017 (-36%).

PROCESS SAFETY

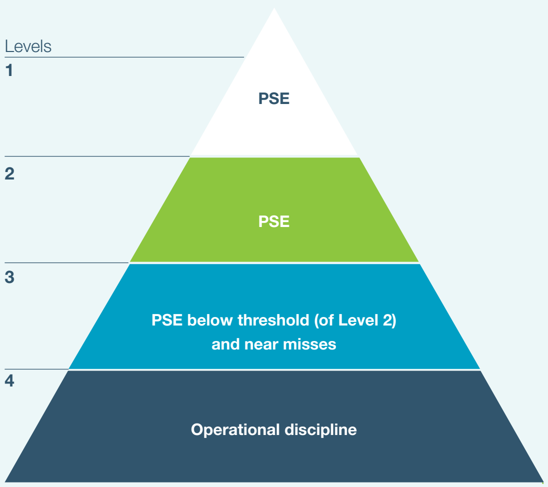
We have developed a process safety management (PSM) framework for all our operations, following industry standards and best practices.

The PSM framework implementation was phased according to inherent risk, with the introduction at site level starting in 2014. In 2018, the remaining 48 sites completed their PSM improvement plans according to schedule and were validated.

A new management of change (MOC) procedure was introduced at our company globally. This process has now been digitized to allow an efficient, comprehensive approach.

Process safety performance indicators are aligned with international best practice. Loss of primary containment (LoPC) is the main process safety indicator at manufacturing sites, distinguishing between two levels of severity. As a leading indicator, sites also measure process safety events (PSEs), which are minor leaks or occurrences that could lead to more severe events.

Process safety events (PSE) pyramid



Process safety events

	2017	2018
Loss of primary containment Level 1	5	6
Loss of primary containment Level 2	43	63
Process safety event Level 3	1,200	1,583

In 2018, we raised awareness and improved reporting of the process safety indicators. The total number of LoPC Level 1 and 2 increased by 44% in 2018, compared with 2017. The increase was partly due to increased awareness and improved reporting. During 2018, initiatives intended to improve working practices were introduced, such as a LoPC pocket card. This is also part of the Process Confirmation in the ALPS Leader Standard Work (LSW) process.

The number of LoPCs classified as Level 1 (highest severity) in 2018 slightly increased to six (2017: five). The number of PSE Level 3 (minor spills and leaks, which are readily controlled on site and have no regulatory notification requirement) increased, which demonstrates improved reporting discipline. All incidents are investigated to determine potential trends and to implement preventive controls.

PRODUCT STEWARDSHIP

Product stewardship is our approach to ensure that product safety and sustainability are considered throughout the value chain – from raw material extraction, R&D, manufacturing, transport, marketing and application all the way through to end-of-life. We aim to deliver value to AkzoNobel and our customers by ensuring regulatory compliance in every region where we operate, and to continually develop safer and more sustainable solutions for the market through our pro-active approach.

Continuous improvement

Our Product Stewardship Continuous Improvement Tool (PSCIT) is used to drive continuous improvement in product stewardship through collaboration at all levels. During 2018, we realigned the PSCIT to fit the new organization. The 2018 assessment will form the benchmark going forward for measuring the maturity of our business units on the eight key elements of product stewardship, following the principles of Coatings Care®.

Priority substance management

Our industry-leading and multiple award-winning priority substance program is a proactive approach to the review and management of hazardous substances in our products and processes. The program reached a key milestone in 2018 when we completed our review of all substances identified in the final project phase for risk assessment. We screened thousands of raw materials for review as part of the program, resulting in detailed analysis of 269 substances – 97 of which are now prohibited, while 172 have restricted use within our products.

The program is now considered to be fully embedded in the company, forming part of normal operational activities in the key functions that control raw materials used in our formulations. This was highlighted during 2018 when a prohibited substance was identified in products from a newly acquired business. In such cases, the program demands that a replacement is put in place within 12 months. Thanks to strong collaboration between our R&D and procurement teams, this was successfully achieved and the use of the prohibited substance has now ceased.

HEALTH

As well as ensuring a safe working environment, healthy working conditions and managing illness-related absenteeism, we also foster employee health and well-being as part of our health strategy and occupational

Employee health

	2015	2016	2017	2018
Occupational illness rate	0.06	0.06	0.05	0.05
New Wellness Check-point participants	800	795	465	446

Occupational illness frequency rate (OIFR) is the total number of reportable occupational illness cases for the reporting period, per 1,000,000 hours worked. This parameter is reportable for employees and temporary workers.

health program. Examples include industrial hygiene (IH) programs and training at site level. During 2018, more than 130 site and regional HSE&S managers were trained on IH awareness.

The Wellness Checkpoint, our online health risk appraisal tool, is being used by an increasing number of employees and their families.

SECURITY

Security at AkzoNobel is focused on securing people, information, assets and critical business processes against willful security risks on-site and while traveling. The level of standardization of procedures, processes and training for employees dealing with security at all of our facilities will continue to increase.

A central security committee with functional representatives coordinates the main pillars of security: personnel security, facilities, information management (IM) security, travel security and intellectual property. The readiness of our security processes is assured via internal assessments, internal audits and security drills. In 2017, the definitions of security incidents were improved and communicated throughout the organization. In 2018, 168 security incidents were reported globally, an increase of more than 100% compared with 2017 (69). Theft and vandalism at AkzoNobel stores represented the highest event sub-type (similar to normal society).

HSE&S MANAGEMENT

AkzoNobel has a leading HSE&S management system driving continuous improvement through operational excellence in all aspects of HSE&S management. This includes procedures, regular performance reviews, training, self-assessments, annual improvement planning, independent internal audit and root cause analyses of incidents, as well as promoting learning across the organization, including best practice sharing. Our common processes require each site and business unit to develop their own safety improvement plan annually. Sites that are lagging in performance receive additional support from the central HSE&S organization.

During 2018, new supporting software for the AkzoNobel HSE&S management system was implemented: the HSE&S suite. This has been designed as an intuitive and user-friendly platform where the core HSE&S processes are digitized and through which available data can be analyzed and utilized for learning. The HSE&S suite will drive operational HSE&S excellence and will be further expanded during the coming years.

We helped airBaltic fly the flag to celebrate Latvia's 100th anniversary after one of its new A220-300 aircraft was given a unique livery using our aerospace coatings. The special project was carried out in Magnetic MRO's paint hangar in Tallinn, Estonia, before the eye-catching artwork was gifted to the nation during an official ceremony at Riga Airport. It took 15 professional painters 1,000 hours to create the one-off livery, which honors Latvia's red and white flag.

At AkzoNobel, we understand that through our roles as employer, manufacturer, business partner and member of many communities, we can potentially both directly and indirectly impact the lives of millions of people. While we're committed to making a positive impact through our products and programs, we are also aware of the potential negative impact we may cause, contribute to or be linked to. We recognize our responsibility to respect the human rights of all stakeholders across our value chain and are committed to actively and systematically assessing (potential) human rights impacts, taking action where needed to ensure that any impact on people's lives is as positive as possible.

COMMITMENT

As part of our core principles of safety, integrity and sustainability – and in line with the United Nations Guiding Principles on Business and Human Rights (UNGPs) – we are committed in our operations and across our value chains to respecting all internationally recognized human rights, as set out in the International Bill of Human Rights (consisting of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights) and in the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.

We support the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises and we are a member of the UN Global Compact. We expect all our business partners to respect human rights and apply equivalent principles, seeking to support them actively in their implementation where needed.

For full details and progress information on our human rights framework, please visit: www.akzonobel.com/humanrights

GOVERNANCE

Our commitment is led from the top. The Executive Committee is responsible for ensuring that the company operates in line with our core principles of safety, integrity and sustainability. Since 2016, a cross-functional Human Rights Committee (reporting directly to the Executive Committee) has been in place, with responsibility for implementing and maintaining the company's human rights framework. The Compliance function oversees day-to-day human rights compliance and due diligence.

SALIENT HUMAN RIGHTS ISSUES

While we respect all human rights equally and take all human rights impacts seriously, we have prioritized (potential) human rights impacts in accordance with the UNGPs. These are the so-called salient human rights issues; the human rights that are potentially at risk of the most severe negative impact through our activities or business relationships. After an internal and external stakeholder consultation process, we identified four salient issues on which our human rights due diligence is focused (listed below). Our salient human rights issues have not changed following the sale of our Specialty Chemicals business.

In 2017, we developed a "human rights indicator dashboard", which reflects multiple indicators – based on data available internally – that are relevant to our salient human rights issues. This dashboard helps us monitor whether we are achieving our targets, or if we need to make interventions.

1. **Health and safety in our value chain and connected communities**
   Being a manufacturing company, we have made the health and safety of people one of our core principles. We strive to deliver leading performance in health, safety, environment and security (HSE&S) with a vision to deliver zero injuries, waste and harm through operational excellence.

   Based on our human rights risk assessment, we were aware that we needed to conduct further due diligence into our products. Due to the nature of our products, we acknowledge there is an inherent risk of impacting the human rights of end-users. In 2018, we reached a milestone with our Priority Substance Program by completing 100% of priority substances identified (269 substances), screening thousands of raw materials in the process. Our Priority Substance Program has kept us ahead of chemical legislation and helped us make our portfolios safer and more sustainable (see Note 7). For example, we were the first major paint company to stop adding lead-based pigments and drying agents to paint.

   We've also conducted due diligence into the possible impact on communities surrounding our production sites, as part of the audits and self-assessments used in our HSE&S management system. We've analyzed the results on community engagement of our production sites and interviewed our regional manufacturing directors. This information helped us identify locations where we could run a higher risk in terms of impacting surrounding communities. We will continue this due diligence in 2019 and conduct in-depth reviews of these locations.

2. **Working conditions for our employees**
   As an employer, we believe that people are crucial to the success of our company. We won't achieve leading performance unless employees believe AkzoNobel is a great place to work, are engaged and feel valued (see Note 4). We must therefore offer decent working conditions, including fair working hours, reasonable salaries and appropriate bathroom and restaurant facilities.

Our annual Safety Day was a big success once again in 2018. An important event in our calendar, it's an opportunity to celebrate our achievements while reminding us to stay focused and vigilant. The theme this year was "Beware the line of fire". Our sites around the world marked the event in various ways. In the Netherlands, for example, the AkzoNobel Center in Amsterdam offered free bicycle safety checks to all employees.

To emphasize our commitment, we've signed the Safe Water, Sanitation and Hygiene Pledge (WASH) of the World Business Council for Sustainable Development (WBCSD).

In 2018, we continued due diligence into the sanitary conditions of our locations, using the WASH Pledge implementation material. The results of our 2018 assessments showed an average satisfactory score of 1.8 out of a possible score of 2.0 – meaning that 90% of the sites scored satisfactory. The 2018 assessment results reflect the same score as 2017. This assessment is now integrated into our processes and will be monitored and acted upon accordingly.

With respect to working hours, we conducted an International Labour Organization (ILO) gap analysis of working hours in the countries where we're active. ILO statistics on countries with long working hours was included in this assessment. It identified several countries where we run a higher risk of excessive working hours, possibly impacting the health or safety of our workforce. We also assessed the working hours of our locations in those countries against the ILO standards on working hours. Based on these results, the Human Rights Committee has decided that global guidance and rules on working hours are necessary to ensure proper working hours at our sites. In 2019, these will be developed.

We've conducted due diligence into fair wages in our own operations. First, we assessed the legal minimum wages – if in place – of the countries where we're active against the three international poverty lines of the World Bank. We also took into account national poverty lines and the percentage of the populations under the poverty lines. This analysis has provided us a list of countries we should take a closer look at. Human Resources colleagues in those countries provided (anonymized) salary information on the lowest paid employees and assessed those against public available living wages. We carried this out as an initial analysis. In parallel, we engaged with two organizations that are experts in the field of living wages, to learn more about the methodology behind the comparison between salaries and living wages. This work will continue in 2019.

3. **Discrimination and harassment in our operations**
   At AkzoNobel, we strive to foster a culture of dignity and respect, free of any kind of harassment or discrimination. Currently, 26.5% of the reports received through our grievance mechanism (SpeakUp!) relate to some form of discrimination and/or harassment. While this category of case is typically large for other companies, it is also a reason for us to do more. In 2018, we took multiple actions, including the improvement of our current anti-discrimination and anti-harassment directive; development of new rules that clarify what's expected from employees and managers; development and testing of a dilemma-based training; and optimizing a coaching framework. This work will continue in 2019.

4. **Modern slavery in our supply chain**
   We believe that modern slavery should be eradicated from a moral, political, logical and economic point of view. We therefore have zero tolerance for modern slavery of any kind and feel highly motivated to combat it. As an outcome of the human rights risk assessment which resulted in our salient issues, we recognize there is an inherent risk of modern slavery in global supply chains, including our own, particularly in the case of indirect suppliers. Definitions of modern slavery often vary, but at AkzoNobel, we have defined modern slavery as child labor, debt bondage, forced labor, human trafficking, servitude, slavery and slavery-like practices.

   In 2017, we initiated a due diligence program for several raw materials in our supply chain identified as high risk materials impacting human rights, and forms of modern slavery in particular. These materials are prioritized and brought in scope using information provided by NGOs. We continue to work on this due diligence program. In addition, we carried out awareness training on sustainability including human rights for 60% of our buyers, which will be completed in early 2019.

   We also strengthened our Supplier Sustainability Framework in terms of human rights due diligence by including the EcoVadis sub-theme score on labor and human rights in the determination of the risk levels of our current suppliers. In addition, during 2018, we improved the compliance element of the Supplier Sustainability Balanced Scorecard by adding the EcoVadis sub-score on labor and human rights, and by monitoring the human rights controversies reported by the EcoVadis 360° report. New suppliers also now have to take part in an evaluation program, as described in our Supplier Selection process under ALPS. This program includes elements on labor and human rights (see Note 6).

STAKEHOLDER ENGAGEMENT

We understand that identifying salient human rights issues is an ongoing process. While undertaking due diligence – and providing remedies where needed – on the salient human rights issues, we continue to analyze and monitor our potential impact on human rights across our

Twelve artists volunteered their talent to create a series of 3D frescoes in Vietnam as part of an event organized through our global "Let's Colour" initiative. We teamed up with the International Union for Conservation of Nature and the Ly Son Marine Reserve to stage the project on tiny Ly Son Island. The project – designed to highlight the importance of preserving the marine environment around the island – used more than 7,000 liters of our Dulux Weathershield exterior paint.

value chain, paying extra attention to vulnerable groups. We continuously engage with both internal and external stakeholders, such as employees, human rights experts, NGOs and society at large, and use feedback to align our initiatives. Frank and open dialog with all our stakeholders enables us to go further and faster than we could alone.

GRIEVANCE MECHANISM

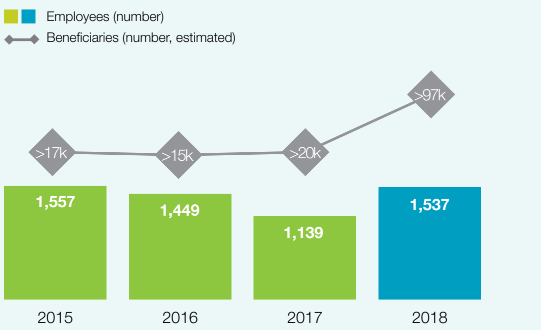
We promote a feedback culture through communication and training. An open atmosphere helps to identify issues, including concerns relating to respect for human rights. The SpeakUp! grievance mechanism offers our employees, business partners and the general public a confidential environment in which they can raise concerns relating to breaches of our Code of Conduct, including the human rights reflected therein. The results are reported annually (see Compliance and integrity management).

COMMUNITY PROGRAM

Connecting with the communities close to our locations and supporting their development is an essential part of the identity of our company. We revitalized our Community Program during 2018 to better reflect our passion for paint and proud people. The new-look program works with common global criteria and guidance to make it easier to set up and run projects, which bring combined benefits to our communities, our employees and our brands.

In 2018, 49 Community Program projects took place in 29 locations across 16 countries, with a 35% increase in employee participation and almost five times higher community outreach than in 2017.

Community Program



LET'S COLOUR

We believe in the power of paint to transform lives by uplifting communities and making spaces more fun, liveable and enjoyable. Our global "Let's Colour" program continues to develop and support projects which add color to people's lives. In 2018, we carried out 65 "Let's Colour" projects across 23 countries, which involved nearly 1,500 AkzoNobel volunteers. We donated 192,000 liters of paint for the renovation of community living spaces, benefiting millions of people.

We continued to be a strategic partner of SOS Children's Villages and, as part of their YouthCan! platform, we helped to create more employment opportunities for young people at risk around the world. Through our "Let's Colour" programs and professional painter academies, we gave training to almost 1,000 young people in various aspects of painting, entrepreneurship and soft skills. We also activated "Let's Colour" SOS Children's Villages programs across ten countries, and expect to include up to 15 countries in 2019.

Our Coral brand in Brazil helped revitalize the lives of 100 families in Recife by painting their local neighborhood as part of the Mais Vida nos Morros project. It was just one of the many community activities we completed in 2018 through our global "Let's Colour" program.

A MEMORABLE YEAR FOR OUR ART FOUNDATION

In 2018, the AkzoNobel Art Foundation and its Art Space in Amsterdam became part of the company's heartbeat more than ever before. Located at the AkzoNobel Center, the Art Space has welcomed over 120,000 visitors, celebrating its diversity both internally and externally.

The year's main highlight was the launch of the current Common Ground exhibition, which was officially opened by the Dutch Minister of Education, Culture and Science, Ingrid van Engelshoven. The event was hosted by AkzoNobel CEO and Chairman of the Art Foundation, Thierry Vanlancker.

Other memorable moments this year included the Oso Couture Fashion Show, the premiere of the Common Ground documentary and various sustainability and educational programs for national and international schools and universities – including the Gerrit Rietveld Academie and the Barlaeus Gymnasium.

"We're looking forward to 2019," says Hester Alberdingk Thijm, Director of the AkzoNobel Art Foundation. "We plan to continue setting up exhibitions, contributing to worthwhile multidisciplinary projects and, above all, remaining a visible and inspiring presence for AkzoNobel and the outside world. We are grateful for the opportunity to let the art speak its universal language and show the genuine passion for paint we've had at the Art Foundation since 1995!"

Robert Zandvliet, Untitled, 2007, tempera on canvas

Guido van der Werve, Nummer acht – Everything is going to be alright, 2007, 16mm film transferred to video (color, sound). Courtesy Rabobank Art Collection

Photo: Martin van Welzen

Hans Op de Beeck, Tatiana (Butterfly), 2017, polyester, polyamide, copper, coating, wood

Damien Hirst, Untitled, 1992, eight-color silk screen, matte varnish
Isaac Julien, Stones Against Diamonds, 2016, premier photograph

Photo: Martin van Welzen

MANAGING SUSTAINABILITY

MANAGEMENT ACCOUNTABILITY

The Executive Committee has responsibility for incorporating the sustainability agenda in the company strategy and monitoring the performance of each business through the Operational Control Cycle.

The Sustainability Council advises the Executive Committee on new developments, performance and the integration of sustainability into management processes.

The council, which meets quarterly, is chaired by the CEO and includes the Chief Corporate Development Officer, Chief Operating Officer, Chief Supply Chain Officer, Chief Human Resources Officer and representative business and functional directors. The Corporate Director of Sustainability reports to the Executive Committee.

MONITORING PROGRESS

We use key indicators to track our progress in delivering on the sustainable business imperatives and drive continuous improvement processes in every function, supported by external benchmarks.

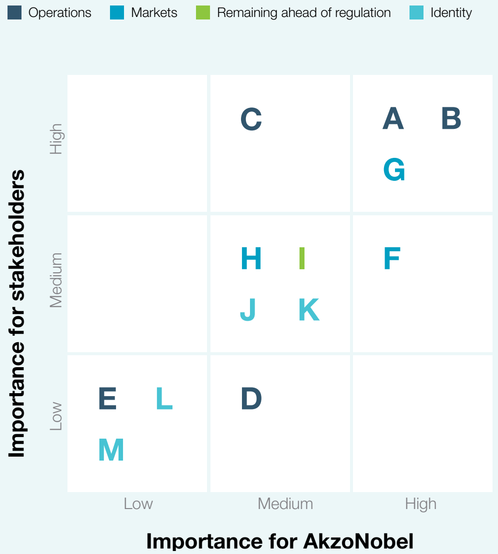
We included sustainability in the personal objectives and incentives of all employees from 2018 onwards, tailored to each employee's role in the organization and linked to our sustainability value drivers. For employees in operations and supply chain management, objectives are linked to resource productivity. For those in innovation, marketing and sales, they are linked to value selling.

MATERIALITY ASSESSMENT

Significant sustainability aspects material to the company are reviewed annually, with input from internal and external stakeholders. We focus on those topics that have the biggest impact in terms of accelerating our strategy of creating shared value, building on our core principles of sustainability, safety and integrity, including respect for human rights. The assessment focuses on four key areas of risk and opportunity: operations, markets, remaining ahead of legislation and identity.

The materiality assessment is based on key risks and opportunities for the company as they relate to the acceleration of our business strategy and the role of the sustainability agenda. This leads to the key topics and non-financial indicators that are most material for the company. Results of the assessment are validated with internal and external stakeholders.

Materiality matrix



Topic	Section of the report
A Resource productivity	Resource productivity (p159) Note 3: Operational excellence
B Employee development	Note 4: Employees
C Safety	Note 7: Safety
D Circular economy	Note 5: Circular economy and climate
E Supplier engagement	Note 6: Supplier engagement
F Customer satisfaction	Note 2: Customer value
G Innovation & sustainable portfolios	Value selling (p155) Note 1: Sustainable products
H Climate strategy	Note 5: Circular economy and climate
I Product safety	Note 7: Safety
J Integrity	Compliance and integrity management
K Human rights	Note 8: Human rights
L Community involvement	Note 9: Programs
M Fair taxes	Financial information Note 8: Income tax

STAKEHOLDER ENGAGEMENT

We engage proactively with our stakeholders to identify opportunities to create shared value and collaborate. The focus of the key external stakeholder groups assessed is as follows.

Signatories and memberships

We have been a signatory of the UN Global Compact since 2004 and annually disclose our "communication of progress". We subscribe to the UN Universal Declaration of Human Rights, the key conventions of the International Labour Organization and the OECD Guidelines for Multinational Enterprises, and we adhere to Coatings Care® Global and the CEO Water Mandate. We are a member of organizations such as the World Business Council for Sustainable Development (WBCSD) and the World Green Building Council.

The UN Sustainable Development Goals (SDGs)

We contribute to the global development agenda by focusing on those SDGs where we can have the biggest impact, in line with the SDG Compass guide for business. After the divestment of Specialty Chemicals, we reassessed our impact. We focus mainly on SDGs 11, 12 and 17 (see page 158). Our sustainability agenda remains built on our core principles of sustainability, safety and integrity, including respect for human rights. Within the WBCSD, we co-led the development of a road map for the chemicals sector to contribute to the realization of the SDGs.

Investors and benchmarks

Our sustainability performance is recognized by external benchmarks, rating agencies and indices (see AkzoNobel and the capital markets). We recognize that there's an increasing variety of indices, so we need to focus on those that fit our type of business best and create the most value for us and our stakeholders. We reviewed which benchmarks are best suited for AkzoNobel as a focused paints and coatings company.

United Nations Sustainable Development Goals

Assessment of AkzoNobel contribution

● Main ● Intermediate ● Minor

		Operations	Markets	Remain ahead of legislation	Identity
1	No poverty				Minor
2	Zero hunger				Minor
3	Good health and well-being	Minor	Intermediate		
4	Quality education	Intermediate			Minor
5	Gender equality	Intermediate			
6	Clean water and sanitation	Minor			
7	Affordable and clean energy	Minor	Minor		
8	Decent work and economic growth	Intermediate			Minor
9	Industry, innovation and infrastructure	Intermediate	Intermediate		
10	Reduced inequalities				Minor
11	Sustainable cities and communities		Main		Intermediate
12	Responsible consumption and production	Main	Main	Main	
13	Climate action	Intermediate	Intermediate		
14	Life below water		Minor		
15	Life on land	Minor	Minor		
16	Peace, justice and strong institutions				Minor
17	Partnerships for the goals	Intermediate	Main		Intermediate

After more than a decade of top ten rankings on the Dow Jones Sustainability Index (DJSI), we are now focusing fully on further real-life sustainability performance improvements. Going forward, we'll prioritize our active participation in benchmarks that help us drive continuous improvement and rely mostly on publicly available information. This means we will no longer actively participate in benchmarks that put a significant additional reporting need on the organization, above and beyond what we already disclose externally, such as the DJSI.

We'll continue to set our own ambitious targets on topics material to our company, embed those targets into the relevant functions and businesses, and report transparently on progress. This approach will allow us to focus on driving improvement, rather than additional reporting.

Reporting principles

Our reporting principles are based on the Global Reporting Initiative (GRI) standards, complemented by internally developed guidelines. Our complete reporting principles can be found on our website, as well as an index of the GRI indicators.

ASSURANCE REPORT OF THE INDEPENDENT AUDITOR

To: Supervisory Board and Board of Management of Akzo Nobel N.V.
Assurance report on the sustainability information included in the Annual Report 2018

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe the sustainability information included in the Report 2018 of Akzo Nobel N.V. does not present, in all material respects, a reliable and adequate view of:

- The policy and business operations with regard to corporate social responsibility
- The thereto related events and achievements for the year ended December 31, 2018, in accordance with the Reporting Principles 2018, developed by the company as included in the section "Reporting criteria"

Our opinion

In our opinion, the paragraphs "Monitoring progress" and "Management accountability" in the section "Managing sustainability" are prepared, in all material respects, in accordance with the applied reporting criteria developed by AkzoNobel.

What we are assuring

We have reviewed the sustainability information included in the annual report for the year ended 2018, as included in the following sections in the Report 2018 (hereafter: "the sustainability information"):

- Compliance and integrity management
- Sustainability statements

This review is aimed at obtaining a limited level of assurance. Additionally, we have audited the paragraphs "Monitoring progress" and "Management accountability" in the section "Managing sustainability". The sustainability information comprises a representation of the policy and business operations of Akzo Nobel N.V. Amsterdam (hereafter: "AkzoNobel") with regard to corporate social responsibility and the thereto related business operations, events and achievements for the year ended December 31, 2018.

The basis for our conclusion and opinion

We conducted our assurance engagement in accordance with Dutch law, which includes the Dutch Standard 3810N "Assurance-opdrachten inzake maatschappelijke verslagen" (Assurance engagements on corporate social responsibility reports), which is a specified Dutch Standard based on the International Standard on Assurance Engagements (ISAE) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information. This assurance engagement is aimed at providing a combination of limited assurance on the sustainability information and reasonable assurance on the "Monitoring progress" and "Management accountability" paragraphs in the "Managing sustainability" section. Our responsibilities under this standard are further described in the section "Our responsibilities for the review of the sustainability information" of this assurance report. We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

Independence and quality control

We are independent of AkzoNobel in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the ("Verordening gedrags- en beroepsregels accountants"(VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

We apply the "Nadere voorschriften kwaliteitsystemen" (NVKS – Detailed rules for quality systems) and accordingly maintain a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

Reporting criteria

The sustainability information in scope needs to be read and understood in conjunction with the reporting criteria. The Board of Management of AkzoNobel is responsible for selecting and applying these reporting criteria, taking into account applicable laws and regulations related to reporting. The reporting criteria used for the preparation of the sustainability information are the applied reporting criteria developed by the company, as disclosed in the Reporting Principles 2018. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

Inherent limitations

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the sustainability information. The links to external sources or websites in the sustainability information are not part of the sustainability information reviewed by us. We do not provide assurance over information outside of this Report 2018.

Responsibilities for the sustainability information and the assurance engagement

Responsibilities of the Board of Management and Supervisory Board

The Board of Management of AkzoNobel is responsible for the preparation of the sustainability information in accordance with the reporting criteria as included in the section "Reporting criteria", including the identification of stakeholders and the definition of material matters. The choices made by the Board of Management regarding the scope of the sustainability information and the reporting policy are summarized in the section "Managing sustainability". The Board of Directors is responsible for determining that the applicable reporting criteria are acceptable in the circumstances. The Board of Management is also responsible for such internal control as the Board of Management determines is necessary to enable the preparation of the sustainability information that is is free from material misstatement, whether due to fraud or errors.

Our responsibilities for the review of the sustainability information
Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance information to provide a basis for our conclusion and opinion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements. The procedures to support our opinion on the "Monitoring progress" and "Management accountability" paragraphs in the "Managing sustainability" section of the sustainability information have been performed with a high, but not absolute level, of assurance. This means we may not have detected all material misstatements.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the sustainability information. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion and opinion.

Procedures performed
We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included among others:
- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues and the characteristics of the company
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialog and the reasonableness of estimates made by the Board of Management
- Obtaining and understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review
- Obtaining an understanding of the procedures performed by the Internal Audit department
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or error. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted, among others, of:
  - Interviewing management (and/or relevant staff) at corporate (and business/division/cluster/local) level responsible for the sustainability strategy, policy and results
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in, the sustainability information
  - Determining the nature and extent of the review procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the components and locations to visit. The visit to sites is aimed at, on a local level, validating source data and evaluating the design and implementation of internal controls and validation procedures
  - Obtaining assurance information that the sustainability information reconciles with underlying records of the company
  - Reviewing, on a limited test basis, relevant internal and external documentation
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level
- Reconciling the relevant financial information with the financial statements
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review
- Evaluating the presentation, structure and content of the sustainability information
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used
- Joining internal audit of Health, Safety and Environment management at the production site in Stowmarket, UK
- Reviewing relevant work of the Internal Audit function

In addition to the above, we performed the following assurance procedures on the paragraphs "Monitoring progress" and "Management accountability in the section "Managing sustainability" of the sustainability information:
- Corroborating information disclosed in this note through multiple interviews with selected staff from the company
- Testing operating effectiveness of key controls related to how AkzoNobel manages its sustainability agenda
- Corroborating supporting documentation to determine whether the information in this note is substantiated adequately, such as management meeting agendas and minutes and internal management information

Amsterdam, February 12, 2019

PricewaterhouseCoopers Accountants N.V.
Original has been signed by R. Dekkers RA

SUSTAINABILITY PERFORMANCE SUMMARY

Economic

Area	Unit	2014	2015	2016	2017	2018	Ambition 2020
Product/service							
Eco-premium solutions with customer benefits	% of revenue	20	20	21	21	22	20
Customer delivery efficiency index	% service performance	93	94	96	97	97	>95 (2018)
Supplier management							
PR[6] suppliers signed Business Partner CoC[1,7]	% of spend	98	98	99	97	98	–
NPR[8] suppliers signed Business Partner CoC[1,7]	% of spend	80	81	86	86	83	–
Third party online sustainability assessments (TfS)[5]	number	534	722	875	950	953	–
Third party on-site sustainability audits (TfS)[6]	number	15	54	131	219	270	–
SSBS[3] improvement against baseline	%	–	–	–	–	11	–

Social

Social		2014	2015	2016	2017	2018	Ambition 2020
Employees							
Organizational health score	score					58	Top quartile (77)
Female executives[1]	%	17	19	19	19	20	25
Female executive potential pool[1]	%	24	25	30	28	31	30
Executive vacancies filled internally[1]	%	68	58	61	74	54	60[2]
High potential turnover[1]	%	–	6	4	5	8	<5
People, process and product safety							
Fatalities employees	number	0	0	0	0	0	0
Total reportable injury rate employees/temporary workers	/200,000 hours	0.34	0.30	0.26	0.20	0.20	≤0.20
Lost time injury rate employees/temporary workers	/200,000 hours	0.18	0.15	0.13	0.06	0.09	–
Occupational illness rate employees	/1,000,000 hours	0.22	0.07	0.07	0.06	0.06	–
Total illness absence rate employees	%	1.07	1.90	1.84	1.92	1.98	–
Fatalities contractors (temporary workers plus independent)	number	0	0	0	1	0	0
Total reportable injury rate contractors	/200,000 hours	0.47	0.50	0.29	0.12	0.18	–
Distribution incidents	number	33	25	23	16	21	–
Loss of primary containment (Level 1)[4]	number	2	1	5	5	6	–
Regulatory actions (Level 4)	number	0	0	0	0	1	0
Priority substances with management plan	%	82	100	33	67	100	100
HSE management							
Safety incidents (Level 3)	number	0	0	0	1	0	–
Safety incidents (Level 1, 2, 3)	number	11	8	0	2	3	–
Management audits plus reassurance audits	number	41	27	34	32	25	–
Social progams							
Community Program, employees	number	–	1,577	1,449	1,139	1,537	–
Community Program, beneficiaries	number (estimated)	–	>17,000	>15,000	>20,000	>97,000	–

Environmental

Area	Unit	2014	2015	2016	2017	**2018**	Ambition 2020
Maintain natural resources/fresh air							
Total energy consumption	1000TJ	6.37	6.29	6.32	6.39	6.20	–
per ton of production	GJ/ton	1.86	1.91	1.91	1.88	1.91	1.81
Renewable energy (own operations)	%	22	22	27	30	31	–
Direct CO_2(e) emissions (scope 1)	kiloton	83.99	80.45	72.72	69.66	70.16	–
per ton of production	kg/ton	24.51	24.47	21.96	20.53	21.66	–
Indirect CO_2(e) emissions (scope 2)	kiloton	269.1	258.9	244.3	237.8	226.0	–
per ton of production	kg/ton	78.54	78.73	73.78	70.11	69.77	–
VOC emissions	kiloton	2.14	2.18	2.00	1.71	1.57	–
per ton of production	kg/ton	0.63	0.66	0.60	0.50	0.49	0.45
NOx emissions	kiloton	0.07	0.07	0.07	0.07	0.06	–
per ton of production	kg/ton	0.02	0.02	0.02	0.02	0.02	–
SOx emissions	kiloton	0.03	0.04	0.03	0.03	0.02	–
per ton of production	kg/ton	0.01	0.01	0.01	0.01	0.01	–
Fresh water use	million m^3	10.69	10.09	9.61	9.62	9.27	–
per ton of production	m^3/ton	3.12	3.07	2.90	2.84	2.86	–
COD emissions	kiloton	0.20	0.20	0.04	0.03	0.03	–
per ton of production	kg/ton	0.06	0.06	0.01	0.01	0.01	–
Raw material efficiency							
Total waste	kiloton	89	87	85	77	67	–
per ton of production	kg/ton	25.89	26.38	25.65	22.77	20.97	21.50
Total non-reusable waste	kiloton	39	39	43	40	34	–
per ton of production	kg/ton	11.52	11.88	12.92	11.90	10.63	–
Hazardous waste total	kiloton	37	35	35	33	30	–
per ton of production	kg/ton	10.72	10.74	10.72	9.76	9.13	–
Hazardous waste non-reusable	kiloton	11	12	15	16	15	–
per ton of production	kg/ton	3.29	3.68	4.62	4.64	4.59	–
Hazardous waste to landfill	kiloton	1.3	1.5	0.7	0.6	0.69	–
per ton of production	kg/ton	0.39	0.46	0.20	0.17	0.21	–
Value chain							
Total CO_2(e) emissions (cradle-to-grave)	million tons	17.5	15.9	15.3	16.3	15.5	–
Renewable raw materials	% organic RM	7	6	6	5	5	–

[1] 2014-2017 data includes discontinued operations.
[2] Previously communicated 70.
[3] SSBS = Supplier Sustainability Balanced Scorecard. Baseline is 2018 (new KPI).
[4] Definition change 2016.
[5] Includes TfS shared assessments, cumulative.
[6] Includes TfS shared audits, cumulative.
[7] CoC = Code of Conduct.
[8] NPR = Non-product related.
[9] PR = Product related (raw materials and packaging).

INDEX

FINANCIAL CALENDAR

2019

April 24	**Report for Q1 2019**
April 25	Annual General Meeting of shareholders
April 29	Ex-dividend date of 2018 final dividend
April 30	Record date of 2018 final dividend
May 6	Payment date of 2018 final dividend
July 24	**Report for Q2 2019**
October 23	**Report for Q3 2019**

We welcome feedback on our Report 2018. You can contact us as follows:

Akzo Nobel N.V.
Christian Neefestraat 2
P.O. Box 75730
1070 AS Amsterdam, the Netherlands
T +31 88 969 7555
www.akzonobel.com

AkzoNobel Media Relations
T +31 88 969 7833
E media.relations@akzonobel.com

AkzoNobel Investor Relations
T +31 88 969 7856
E investor.relations@akzonobel.com

Editor
David Lichtneker

Art Director
Claire Jean Engelmann

Design and artwork
Annette Toeter

Photography
Rick Mandoeng
Joris Lugtigheid
Marije Kuipers

Printing
Drukkerij Tesink B.V.

Online report
nexxar gmbh

Disclaimer

In this Report 2018, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units. In this publication the terms “AkzoNobel” and “the company” refer to Akzo Nobel N.V. and its consolidated companies in general. The company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Business performance”, they mainly refer to the business concerned.

Safe harbor statement

This Report 2018 contains statements which address such key issues as AkzoNobel’s growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecast and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures, as well as the divestment of Specialty Chemicals. Stated competitive positions are based on management estimates, supported by information provided by specialized external agencies.

Integrated Report 2018

AkzoNobel’s annual financial report has been combined with the sustainability report into one Report 2018. The Report 2018 includes elements of the reporting guidelines issued by the International Integrated Reporting Council (IIRC). The sustainability sections, however, in no way form part of the company’s annual report as the company is required to publish pursuant to Dutch law.

Brands and trademarks

In this Report 2018, reference is made to brands and trademarks owned by, or licensed to, AkzoNobel. Unauthorized use of these is strictly prohibited.

HEART WOOD

Color of the Year 2018

SPICED HONEY
Color of the Year 2019

AkzoNobel

www.akzonobel.com

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

For more information please visit www.akzonobel.com.

AN_000000_000000