Half-yearly report & report for the second quarter

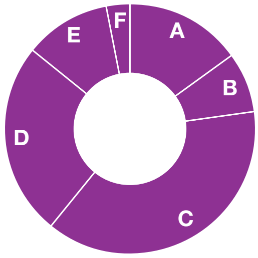
2014

AkzoNobel

AkzoNobel around the world
Revenue by destination
(44 percent in high growth markets)

	%
A North America	15
B Emerging Europe	8
C Mature Europe	38
D Asia Pacific	25
E Latin America	11
F Other regions	3
	100

(Based on the full year 2013)



Our results
at a glance

- In Q2, volumes were positive in all three Business Areas
- Revenue was down 4 percent, mainly due to 5 percent adverse currency effects
- Operating income €353 million (2013: €322 million) reflecting increased volumes and benefits from improvement actions
- Return on sales (ROS) improved from 8.3 percent to 9.5 percent. Restructuring costs were €45 million (2013: €40 million). Excluding these, ROS is 10.7 percent (2013: 9.3 percent)
- Net income attributable to shareholders was €205 million (2013: €184 million on a comparable basis), mainly due to higher operating income
- Adjusted EPS increased 23 percent to €0.95 (2013: €0.77 adjusted for an incidental tax gain)
- Net cash inflow from operating activities was €393 million (2013: €261 million)
- On track to deliver 2015 targets despite the strong euro and expected continued fragile economic environment

Summary of financial outcomes

2nd quarter				January-June		
2013	**2014**	Δ%	in € millions	2013	**2014**	Δ%
3,865	3,710	(4)	Revenue	7,330	7,093	(3)
322	353	10	Operating income	539	569	6
8.3	9.5		ROS%	7.4	8.0	
			Average invested capital	10,706	9,784	
			Moving average ROI (in %) *	7.7	10.1	
474	509	7	EBITDA	849	873	3
168	150		Capital expenditures	299	265	
261	393		Net cash from operating activities	(145)	(159)	
			Net debt	2,197	2,129	
308	206		Net income from continuing operations	404	332	(18)
121	(1)		Net income from discontinued operations	114	2	
429	205		Net income attributable to shareholders	518	334	(36)
1.78	0.84		Earnings per share from total operations (in €)	2.15	1.37	
1.37	0.95		Adjusted earnings per share (in €)	1.89	1.56	
			Number of employees	50,500	48,440	

* on a comparable basis: 2013: 7.8 percent and 2014: 9.5 percent.

Financial highlights

In Q2, volumes were positive in all three Business Areas. Revenue was down 4 percent, mainly due to 5 percent adverse currency effects. Operating income of €353 million was up 10 percent (2013: €322 million), reflecting increased volumes and improvement actions. Return on sales improved from 8.3 percent to 9.5 percent. Excluding restructuring costs, ROS was 10.7 percent (2013: 9.3 percent). Net cash inflow from operating activities was €393 million (2013: €261 million).

Revenue

- In Decorative Paints, volumes for the quarter were up in Asia and most European countries. Revenue declined 9 percent compared with 2013 due to the divestment of Building Adhesives, and a 5 percent adverse currency effect
- Volume in Q2 in Performance Coatings progressed 1 percent compared with 2013. Revenue declined 2 percent, with improvements in volume and price/mix being offset by adverse currencies
- Volume in Specialty Chemicals for the quarter was higher compared with 2013 as a result of better market conditions in most businesses. Revenue declined, mainly due to adverse currency developments

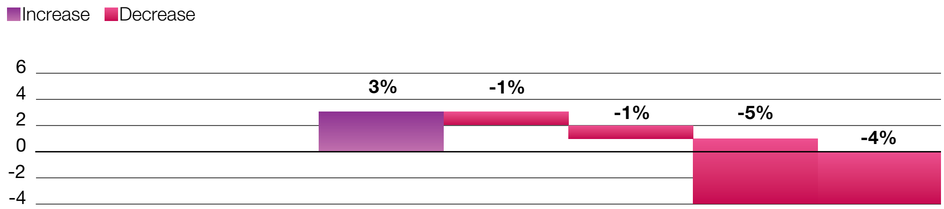
Acquisitions and divestments

- On October 1, 2013, the divestment of Building Adhesives was completed. Together with the divestment of the German stores in Q1, this accounts for the divestment impact in Decorative Paints
- The divestment of the Primary Amides and Purate businesses was completed in Q4, 2013, and accounts for the divestment impact in Specialty Chemicals
- Specialty Chemicals announced the intended sale of its Paper Chemicals portfolio for €153 million. The business is currently part of Pulp and Performance Chemicals. The transaction is expected to be completed in approximately six months, subject to regular consultation with employee representatives and satisfaction of closing conditions such as receipt of required regulatory clearance

Revenue

2nd quarter				January - June		
2013	2014	Δ%	in € millions	2013	2014	Δ%
1,179	1,074	(9)	Decorative Paints	2,104	1,939	(8)
1,458	1,434	(2)	Performance Coatings	2,789	2,753	(1)
1,253	1,228	(2)	Specialty Chemicals	2,497	2,450	(2)
(25)	(26)		Other activities/eliminations	(60)	(49)	
3,865	**3,710**	**(4)**	**Total**	**7,330**	**7,093**	**(3)**

Revenue development Q2 2014



in % versus Q2 2013	Volume	Price/mix	Divestments	Exchange rates	Total
Decorative Paints	3	(3)	(4)	(5)	(9)
Performance Coatings	1	2	–	(5)	(2)
Specialty Chemicals	4	(1)	(1)	(4)	(2)
Total	**3**	**(1)**	**(1)**	**(5)**	**(4)**

Volume development per quarter (year-on-year)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
Decorative Paints	4	5	5	1	3
Performance Coatings	–	2	2	3	1
Specialty Chemicals	(5)	–	3	2	4
Total	**–**	**2**	**4**	**2**	**3**

Price/mix development per quarter (year-on-year)	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14
Decorative Paints	(2)	2	–	3	(3)
Performance Coatings	–	–	1	2	2
Specialty Chemicals	(2)	–	(2)	1	(1)
Total	**(1)**	**1**	**(1)**	**2**	**(1)**

Operating income

- In Decorative Paints, operating income was at the same level as the previous year. Excluding the effect of divestments and adverse currency effects, operating income improved due to restructuring activities in Europe and improved margins
- In Performance Coatings, profitability improved due to operating effectiveness measures, which more than offset increased restructuring costs and adverse currency impact
- In Specialty Chemicals, profitability increased compared with 2013 due to benefits from restructuring activities and cost savings, supported by volume growth

Average raw material costs were slightly down on Q2 2013, and stable compared with 2013 exit prices. In some high growth markets, currency effects on imported raw materials have affected some businesses.

ROS for the quarter was 9.5 percent (2013: 8.3 percent). Excluding restructuring charges of €45 million (2013: €40 million), ROS was 10.7 percent (2013: 9.3 percent). The majority of the restructuring charges related to Decorative Paints in Europe and Performance Coatings.

Operating income in other activities

Operating income in other activities was better than prior year, mainly coming from lower insurance claims. Corporate costs declined as a result of cost control.

Net financing expenses

Net financing expenses increased €7 million to €40 million. While interest expenses on net debt were lower, the interest on provisions was a charge compared with a gain in 2013, due to a change of discount rates.

Tax

The year-to-date effective tax rate is 26 percent. Excluding the positive adjustment to previous years recorded in Q1 2014, the effective tax rate is 28 percent (2013: 29 percent excluding a deferred tax gain).

Operating income

2nd quarter 2013	2nd quarter 2014	Δ%	in € millions	January - June 2013	January - June 2014	Δ%
102	102	–	Decorative Paints	145	119	(18)
163	178	9	Performance Coatings	292	304	4
121	124	2	Specialty Chemicals	220	259	18
(64)	(51)		Other activities/eliminations	(118)	(113)	
322	**353**	10	**Total**	539	**569**	6

Operating income in other activities

2nd quarter 2013	2nd quarter 2014	in € millions	January - June 2013	January - June 2014
(43)	(41)	Corporate costs	(88)	(85)
(2)	(3)	Pensions	(5)	(9)
(3)	5	Insurances	3	8
(16)	(12)	Other	(28)	(27)
(64)	**(51)**	**Operating income in other activities**	(118)	**(113)**

Operating income to net income

2nd quarter 2013	2nd quarter 2014	in € millions	January - June 2013	January - June 2014
322	**353**	**Operating income**	539	**569**
(33)	(40)	Net financing expenses	(96)	(77)
6	6	Results from associates and joint ventures	9	12
295	**319**	**Profit before tax**	452	**504**
38	(89)	Income tax	(7)	(132)
333	**230**	**Profit from continuing operations**	445	**372**
121	(1)	Profit from discontinued operations	114	2
454	**229**	**Profit for the period**	559	**374**
(25)	(24)	Non-controlling interests	(41)	(40)
429	**205**	**Net income**	518	**334**

Decorative Paints

- In Q2, volumes were up 3 percent compared with the previous year
- Revenue down 9 percent due to divestments and adverse currency effects
- Price/mix effect largely driven by the sale of the German stores
- Operating income flat, ROS at 9.5 percent (2013: 8.7 percent)

Volumes for the quarter were up in Asia and most European countries. Revenue declined 9 percent compared with 2013, due to the divestment of Building Adhesives and a 5 percent adverse currency effect. Operating income was at the same level as the previous year. Excluding the effect of divestments and adverse currency developments, operating income improved due to restructuring activities in Europe and improved margins.

Europe, Middle East and Africa

In Europe, volumes were up year-on-year. Revenue adjusted for divestments was 4 percent down due to adverse currency effects and our focus on high margin sales. Revenue declined in continental Europe, while there were positive developments in the UK and Eastern Europe. Restructuring activities and various operational efficiency improvement programs led to a lower cost base.

Latin America

Revenue in the region declined due to lower volumes and adverse currency effects. These were mitigated by higher prices and positive mix effects. Restructuring activities contributed to the results.

Asia

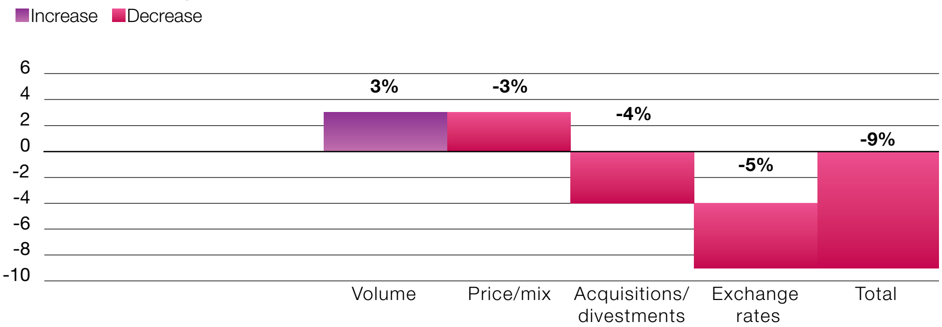
Volumes grew in Asia, while revenue for the region fell 5 percent due to adverse currency effects and price/mix effects.

Revenue

2nd quarter				January - June		
2013 *	2014	Δ%	in € millions	2013	2014	Δ%
736	662	(10)	Deco Europe, Middle East and Africa	1,314	1,194	(9)
140	124	(11)	Decorative Paints Latin America	274	240	(12)
303	287	(5)	Decorative Paints Asia	516	505	(2)
–	1		Other/intragroup eliminations	–	–	
1,179	**1,074**	(9)	**Total**	2,104	**1,939**	(8)
102	102	–	Operating income	145	119	(18)
8.7	9.5		ROS%	6.9	6.1	
			Average invested capital	3,489	2,776	
			Moving average ROI (in %) *	2.9	13.4	
141	141	–	EBITDA	229	197	(14)
40	38		Capital expenditures	70	66	
			Number of employees	16,940	15,560	

* on a comparable basis: 2013: 2.7 percent and 2014: 6.2 percent.

Revenue development Q2 2014



Performance Coatings

- In Q2, volumes increased 1 percent compared with the previous year
- Revenue down 2 percent, primarily due to adverse currency effects
- Operating income up 9 percent, ROS at 12.4 percent (2013: 11.2 percent)
- Operating efficiencies visible despite higher restructuring charges

Volume in Q2 in Performance Coatings progressed 1 percent compared with 2013. Revenue declined 2 percent, with improvements in volume and price/mix being offset by adverse currencies. Profitability improved due to operating effectiveness measures, which more than offset increased restructuring costs and adverse currency impact.

Marine and Protective Coatings
Revenue was down 2 percent on last year, mostly due to adverse currency effects. Marine saw increased volumes in deep sea maintenance and new construction over prior year. Protective Coatings volumes ended flat. Volumes in the Yacht business were ahead of 2013 with growth in Europe offsetting a slower North America. The closure of Union, a Marine and Protective production facility in North America, was announced in May.

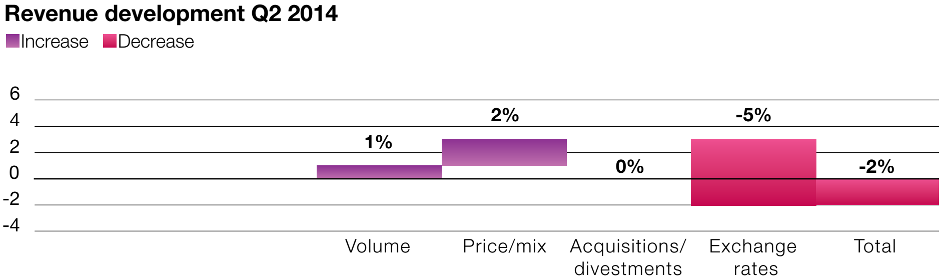
Automotive and Aerospace Coatings
Revenue was down 1 percent, due to an adverse currency impact. Vehicle Refinish showed strong volumes in China and North America, while South America declined due to weak demand. Specialty Finishes volumes were up on prior year, with higher demand in the consumer electronics segment. Aerospace volumes rose.

Powder Coatings
Revenue was up 4 percent, mainly due to higher volumes and favorable price/mix. All regions showed a positive volume trend over prior year. Restructuring initiatives continue.

Revenue

2nd quarter				January - June		
2013	2014	Δ%	in € millions	2013	2014	Δ%
400	393	(2)	Marine and Protective Coatings	751	750	–
339	334	(1)	Automotive and Aerospace Coatings	657	641	(2)
252	262	4	Powder Coatings	482	502	4
474	452	(5)	Industrial Coatings	914	873	(4)
(7)	(7)		Other/intragroup eliminations	(15)	(13)	
1,458	**1,434**	(2)	**Total**	2,789	**2,753**	(1)
163	178	9	Operating income	292	304	4
11.2	12.4		ROS%	10.5	11.0	
			Average invested capital	2,546	2,432	
			Moving average ROI (in %)	21.0	22.1	
197	212	8	EBITDA	360	375	4
26	37		Capital expenditures	52	63	
			Number of employees	21,420	21,210	

Revenue development Q2 2014



Industrial Coatings
Revenue was down 5 percent, as a result of lower volume and adverse currency effects, partly offset by a positive price/mix. The Asia Pacific region saw growth in all businesses, particularly the Coil business, while Wood and Packaging showed recovery in mature European markets.

Specialty Chemicals

- In Q2, volumes were up 4 percent compared with the previous year
- Revenue down 2 percent, mainly due to adverse currency effects
- Operating income up 2 percent at €124 million, due to cost control and operational efficiencies
- Continuous improvement measures ongoing in all businesses

Volume in Specialty Chemicals for the quarter was higher compared with 2013 as a result of better market conditions in most businesses. Revenue declined, mainly due to adverse currency developments. Profitability increased due to benefits from restructuring activities and cost savings, supported by volume growth.

Functional Chemicals

Volume increased significantly during the quarter. Revenue declined 2 percent due to currency effects and the divestment of the Primary Amides business. Demand in Europe was better than last year and general market conditions improved in North America. The Ethylene Amine market remains stable. The benefits of the restructuring program that was announced in 2013, are coming through.

Industrial Chemicals

Volume increased, reflecting improved business conditions, the expansion of the MCA plant in Taixing, China, and the impact of maintenance stops during 2013. Margins continued to be impacted by decreasing caustic prices, which we do not expect to significantly improve soon.

Surface Chemistry

Revenue decreased due to adverse currency effects and lower volumes, mainly in Europe. The business developments varied per segment, with road construction being strong.

Pulp and Performance Chemicals

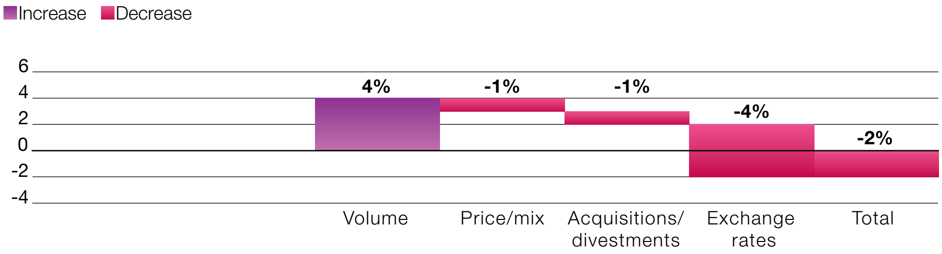
Volumes from bleaching chemicals in Asia Pacific and South America were strong. Growth areas performed well. Revenue was down 3 percent, mainly due to currency effects and the divestment of the Purate business.

Revenue

2nd quarter				January - June		
2013	2014	Δ%	in € millions	2013	2014	Δ%
488	479	(2)	Functional Chemicals	955	952	–
279	276	(1)	Industrial Chemicals	570	569	–
264	256	(3)	Surface Chemistry	522	506	(3)
258	250	(3)	Pulp and Performance Chemicals	520	493	(5)
(36)	(33)		Other/intragroup eliminations	(70)	(70)	
1,253	**1,228**	**(2)**	**Total**	**2,497**	**2,450**	**(2)**
121	124	2	Operating income	220	259	18
9.7	10.1		ROS%	8.8	10.6	
			Average invested capital	3,688	3,492	
			Moving average ROI (in %) *	11.5	9.6	
198	204	3	EBITDA	372	408	10
100	72		Capital expenditures	178	133	
			Number of employees	10,620	10,020	

* on a comparable basis: 2014: 13.6 percent.

Revenue development Q2 2014



Condensed financial statements

Consolidated statement of income

2nd quarter 2013	2nd quarter 2014	in € millions	January-June 2013	January-June 2014
		Continuing operations		
3,865	3,710	Revenue	7,330	7,093
(2,332)	(2,228)	Cost of sales	(4,457)	(4,304)
1,533	**1,482**	**Gross profit**	**2,873**	**2,789**
(1,208)	(1,129)	SG&A costs	(2,331)	(2,223)
(3)	–	Other operating income/(expenses)	(3)	3
322	**353**	**Operating income**	**539**	**569**
(33)	(40)	Net financing expenses	(96)	(77)
6	6	Results from associates and joint ventures	9	12
295	**319**	**Profit before tax**	**452**	**504**
38	(89)	Income tax	(7)	(132)
333	**230**	**Profit for the period from continuing operations**	**445**	**372**
		Discontinued operations		
121	(1)	Profit for the period from discontinued operations	114	2
454	**229**	**Profit for the period**	**559**	**374**
		Attributable to		
429	205	Shareholders of the company	518	334
25	24	Non-controlling interests	41	40
454	**229**	**Profit for the period**	**559**	**374**

Consolidated statement of comprehensive income

2nd quarter 2013	2nd quarter 2014	in € millions	January-June 2013	January-June 2014
454	**229**	**Profit for the period**	**559**	**374**
		Other comprehensive income		
(295)	97	Exchange differences arising on translation of foreign operations	(204)	83
(19)	12	Cash flow hedges	(16)	(8)
243	(112)	Post-retirement benefits	237	(851)
(14)	10	Tax relating to components of other comprehensive income	(34)	28
(85)	**7**	**Other comprehensive income for the period (net of tax)**	**(17)**	**(748)**
369	**236**	**Comprehensive income for the period**	**542**	**(374)**
		Comprehensive income for the period attributable to		
360	210	Shareholders of the company	508	(418)
9	26	Non-controlling interests	34	44
369	**236**	**Comprehensive income for the period**	**542**	**(374)**

Condensed consolidated balance sheet

in € millions	December 31, 2013	June 30, 2014
Assets		
Non-current assets		
Intangible assets	3,906	3,992
Property, plant and equipment	3,589	3,669
Other financial non-current assets	2,219	1,757
Total non-current assets	**9,714**	**9,418**
Current assets		
Inventories	1,426	1,541
Trade and other receivables	2,536	2,964
Cash and cash equivalents	2,098	1,030
Other current assets	86	70
Assets held for sale	203	81
Total current assets	**6,349**	**5,686**
Total assets	**16,063**	**15,104**
Equity and liabilities		
Total equity	**6,021**	**5,496**
Non-current liabilities		
Provisions and deferred tax liabilities	2,327	2,417
Long-term borrowings	2,666	2,040
Total non-current liabilities	**4,993**	**4,457**
Current liabilities		
Short-term borrowings	961	1,118
Trade and other payables	3,218	3,220
Other short-term liabilities	821	794
Liabilities held for sale	49	19
Total current liabilities	**5,049**	**5,151**
Total equity and liabilities	**16,063**	**15,104**

Shareholders' equity

Shareholders' equity decreased from €5.6 billion at year-end 2013 to €5.0 billion at the end of June 2014, mainly due to the net effect of:

- The de-risking of the pension liabilities in the UK, which had an effect on shareholders' equity of €0.8 billion
- Net income of €334 million
- Dividend payments of €163 million

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Cumulative translation reserves	Other reserves	Shareholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2013	**478**	**174**	**(17)**	**59**	**5,070**	**5,764**	**464**	**6,228**
Profit for the period	–	–	–	–	518	518	41	559
Other comprehensive income	–	–	(13)	(191)	194	(10)	(7)	(17)
Comprehensive income for the period	**–**	**–**	**(13)**	**(191)**	**712**	**508**	**34**	**542**
Dividend paid	4	106	–	–	(268)	(158)	(28)	(186)
Equity-settled transactions	–	–	–	–	24	24	–	24
Issue of common shares	2	11	–	–	–	13	–	13
Acquisitions and divestments	–	–	–	–	1	1	(1)	–
Balance at June 30, 2013	**484**	**291**	**(30)**	**(132)**	**5,539**	**6,152**	**469**	**6,621**
Balance at January 1, 2014	**485**	**319**	**(19)**	**(417)**	**5,226**	**5,594**	**427**	**6,021**
Profit for the period	–	–	–	–	334	334	40	374
Other comprehensive income	–	–	(6)	76	(822)	(752)	4	(748)
Comprehensive income for the period	**–**	**–**	**(6)**	**76**	**(488)**	**(418)**	**44**	**(374)**
Dividend paid	4	106	–	–	(273)	(163)	(14)	(177)
Equity-settled transactions	–	–	–	–	17	17	–	17
Issue of common shares	2	7	–	–	–	9	–	9
Acquisitions and divestments	–	–	–	–	–	–	–	–
Balance at June 30, 2014	**491**	**432**	**(25)**	**(341)**	**4,482**	**5,039**	**457**	**5,496**

Invested capital

Invested capital at the end of Q2 2014 totaled €9.9 billion, up €0.6 billion on year-end 2013. Invested capital was primarily impacted by the seasonal increase of operating working capital of €0.4 billion.

Pensions

The funded status of the pension plans at the end of Q2 2014 was a deficit of €1.1 billion (year-end 2013: €0.6 billion).

The movement compared with year-end 2013 is primarily due to:

- De-risking the pension liabilities in the UK in Q1
- Lower discount rates in all key countries

Offset by:

- Top-up payments of €298 million into certain defined benefit pension plans in the UK
- Better than assumed asset returns
- Lower inflation in the UK

Workforce

At June 30, 2014, we employed 48,440 staff (year-end 2013: 49,560 employees). The net decrease was mainly due to:

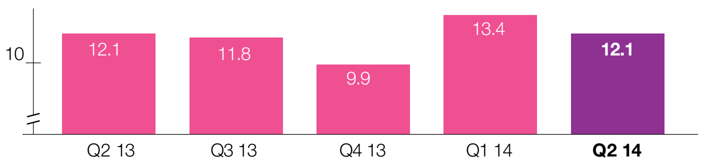
- A decrease of 430 employees due to divestments
- A decrease of 1,000 employees due to ongoing restructuring
- An increase of 310 employees, mainly due to seasonal activity

Invested capital

in € millions	June 30, 2013	December 31, 2013	June 30, 2014
Trade receivables	2,489	2,087	2,456
Inventories	1,559	1,426	1,541
Trade payables	(2,176)	(2,129)	(2,209)
Operating working capital	**1,872**	**1,384**	**1,788**
Other working capital items	(796)	(774)	(626)
Non-current assets	10,788	9,714	9,418
Less investments in associates and joint ventures	(186)	(183)	(179)
Less pension assets	(978)	(471)	(60)
Deferred tax liabilities	(461)	(389)	(402)
Invested capital	**10,239**	**9,281**	**9,939**

Operating working capital

In % of revenue



Operating working capital

in € millions, % of revenue	June 30, 2013		December 31, 2013		June 30, 2014	
Decorative Paints	447	9.5	228	6.1	373	8.7
Performance Coatings	860	14.7	693	12.7	843	14.7
Specialty Chemicals	645	12.9	553	11.5	655	13.3
Other activities	(80)		(90)		(83)	
Total	**1,872**	**12.1**	**1,384**	**9.9**	**1,788**	**12.1**

Condensed consolidated statement of cash flows

2nd quarter 2013	2nd quarter 2014	in € millions	January-June 2013	January-June 2014
1,112	879	**Cash and cash equivalents at beginning of period**	1,558	2,020
		Adjustments to reconcile earnings to cash generated from operating activities		
333	230	Profit for the period from continuing operations	445	372
152	156	Amortization and depreciation	310	304
(123)	(2)	Changes in working capital	(473)	(473)
(38)	(60)	Changes in provisions	(317)	(354)
(63)	69	Other changes	(110)	(8)
261	393	**Net cash from operating activities**	(145)	(159)
(168)	(150)	Capital expenditures	(299)	(265)
7	–	Acquisitions and divestments net of cash acquired	(6)	–
9	3	Other changes	22	21
(152)	(147)	**Net cash from investing activities**	(283)	(244)
(59)	(22)	Changes from borrowings	104	(514)
(178)	(175)	Dividends	(186)	(177)
2	–	Other changes	12	9
(235)	(197)	**Net cash from financing activities**	(70)	(682)
(126)	49	**Net cash from continuing operations**	(498)	(1,085)
779	(11)	Cash flows from discontinued operations	692	(14)
653	38	**Net change in cash and cash equivalents of total operations**	194	(1,099)
(38)	9	Effect of exchange rate changes on cash and cash equivalents	(25)	5
1,727	926	**Cash and cash equivalents at June 30**	1,727	926

Cash flows and net debt

Operating activities in Q2 2014 resulted in a cash inflow of €393 million (2013: €261 million). The change is mainly due to lower cash outflows for working capital. Last years' profit for the period from continuing operations of €333 million included a €124 million tax gain, which was non-cash and hence adjusted for in other changes.

Net cash from continuing operations for the quarter was €49 millon positive. Net debt in Q2 was stable at €2,129 million (Q1 2014: €2,186 million).

Outlook and 2015 targets

We are on track to deliver the 2015 targets despite the strong euro and the expected continued fragile economic environment. Please refer to our website for more information on our ambitions and the strategic focus areas.

Quarterly statistics

2013 Q1	2013 Q2	2013 Q3	2013 Q4	2013 year	in € millions	2014 Q1	2014 Q2	2014 year-to-date
					Revenue			
925	1,179	1,136	934	4,174	Decorative Paints	865	1,074	1,939
1,331	1,458	1,415	1,367	5,571	Performance Coatings	1,319	1,434	2,753
1,244	1,253	1,252	1,200	4,949	Specialty Chemicals	1,222	1,228	2,450
(35)	(25)	(25)	(19)	(104)	Other activities/eliminations	(23)	(26)	(49)
3,465	3,865	3,778	3,482	14,590	**Total**	**3,383**	**3,710**	**7,093**
					EBITDA			
88	141	146	(13)	362	Decorative Paints	56	141	197
163	197	193	110	663	Performance Coatings	163	212	375
174	198	185	169	726	Specialty Chemicals	204	204	408
(50)	(62)	(68)	(58)	(238)	Other activities/eliminations	(59)	(48)	(107)
375	474	456	208	1,513	**Total**	**364**	**509**	**873**
10.8	12.3	12.1	6.0	10.4	**EBITDA margin (in %)**	**10.8**	**13.7**	**12.3**
					Depreciation			
(28)	(28)	(24)	(26)	(106)	Decorative Paints	(27)	(26)	(53)
(25)	(25)	(24)	(28)	(102)	Performance Coatings	(27)	(24)	(51)
(62)	(64)	(66)	(65)	(257)	Specialty Chemicals	(60)	(64)	(124)
(4)	(2)	(3)	2	(7)	Other activities/eliminations	(3)	(3)	(6)
(119)	(119)	(117)	(117)	(472)	**Total**	**(117)**	**(117)**	**(234)**
					Amortization			
(17)	(11)	(15)	(13)	(56)	Decorative Paints	(12)	(13)	(25)
(9)	(9)	(9)	(9)	(36)	Performance Coatings	(10)	(10)	(20)
(13)	(13)	(12)	(13)	(51)	Specialty Chemicals	(9)	(16)	(25)
–	–	(1)	–	(1)	Other activities/eliminations	–	–	–
(39)	(33)	(37)	(35)	(144)	**Total**	**(31)**	**(39)**	**(70)**
					EBIT			
43	102	107	(52)	200	Decorative Paints	17	102	119
129	163	160	73	525	Performance Coatings	126	178	304
99	121	107	91	418	Specialty Chemicals	135	124	259
(54)	(64)	(71)	(57)	(246)	Other activities/eliminations	(62)	(51)	(113)
217	322	303	55	897	**Total**	**216**	**353**	**569**
6.3	8.3	8.0	1.6	6.1	**EBIT margin (in %)**	**6.4**	**9.5**	**8.0**
					Operating income			
43	102	107	146	398	Decorative Paints	17	102	119
129	163	160	73	525	Performance Coatings	126	178	304
99	121	107	(30)	297	Specialty Chemicals	135	124	259
(54)	(64)	(71)	(73)	(262)	Other activities/eliminations	(62)	(51)	(113)
217	322	303	116	958	**Total**	**216**	**353**	**569**
6.3	8.3	8.0	3.3	6.6	**ROS% before impairment**	**6.4**	**9.5**	**8.0**

Quarterly statistics

				2013				2014
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
Incidentals per Business Area								
–	–	–	198	198	Decorative Paints	–	–	–
–	–	–	–	–	Performance Coatings	–	–	–
–	–	–	(121)	(121)	Specialty Chemicals	–	–	–
–	–	–	(16)	(16)	Other activities/eliminations	–	–	–
–	**–**	**–**	**61**	**61**	**Total**	**–**	**–**	**–**
Incidentals included in operating income								
–	–	–	–	–	Restructuring costs	–	–	–
–	–	–	(139)	(139)	Impairment	–	–	–
–	–	–	–	–	Results related to major legal and environmental cases	–	–	–
–	–	–	216	216	Results on acquisitions and divestments	–	–	–
–	–	–	(16)	(16)	Other incidental results	–	–	–
–	**–**	**–**	**61**	**61**	**Total**	**–**	**–**	**–**
Reconciliation net financing expense								
9	8	6	9	32	Financing income	12	9	21
(56)	(57)	(54)	(54)	(221)	Financing expenses	(44)	(37)	(81)
(47)	**(49)**	**(48)**	**(45)**	**(189)**	**Net interest on net debt**	**(32)**	**(28)**	**(60)**
Other interest movements								
(5)	(5)	(5)	(6)	(21)	Financing expenses related to pensions	(5)	(4)	(9)
(12)	15	(8)	(3)	(8)	Interest on provisions	(4)	(11)	(15)
1	6	5	6	18	Other items	4	3	7
(16)	16	**(8)**	**(3)**	**(11)**	**Net other financing charges**	**(5)**	**(12)**	**(17)**
(63)	**(33)**	**(56)**	**(48)**	**(200)**	**Net financing expenses**	**(37)**	**(40)**	**(77)**
Quarterly net income analysis								
3	6	4	1	14	Results from associates and joint ventures	6	6	12
(16)	(25)	(14)	(13)	(68)	Profit attributable to non-controlling interests	(16)	(24)	(40)
157	295	251	69	772	Profit before tax	185	319	504
(45)	38	(83)	(21)	(111)	Income tax	(43)	(89)	(132)
112	333	168	48	661	Profit for the period from continuing operations	142	230	372
29	(13)	33	30	14	Effective tax rate (in %)	23	28	26

Quarterly statistics

				2013				2014
Q1	Q2	Q3	Q4	year		Q1	Q2	year-to-date
Earnings per share from continuing operations (in €)								
0.40	1.28	0.64	0.14	2.46	Basic	0.52	0.84	1.36
0.40	1.27	0.64	0.14	2.44	Diluted	0.52	0.83	1.35
Earnings per share from discontinued operations (in €)								
(0.03)	0.50	–	0.07	0.54	Basic	0.01	–	0.01
(0.03)	0.50	–	0.07	0.54	Diluted	0.01	–	0.01
Earnings per share from total operations (in €)								
0.37	1.78	0.64	0.21	3.00	Basic	0.53	0.84	1.37
0.37	1.77	0.64	0.21	2.98	Diluted	0.53	0.83	1.36
Number of shares (in millions)								
239.4	241.0	242.1	242.4	241.2	Weighted average number of shares	243.0	244.4	243.7
239.8	242.1	242.1	242.6	242.6	Number of shares at end of quarter	243.4	245.4	245.4
Adjusted earnings (in € millions)								
157	295	251	69	772	Profit before tax from continuing operations	185	319	504
–	–	–	(61)	(61)	Incidentals reported in operating income	–	–	–
39	33	36	36	144	Amortization of intangible assets	31	39	70
(57)	28	(93)	(34)	(156)	Adjusted income tax	(52)	(101)	(153)
(16)	(25)	(14)	(13)	(68)	Non-controlling interests	(16)	(24)	(40)
123	331	180	(3)	631	Adjusted net income for continuing operations	148	233	381
0.51	**1.37**	**0.74**	**(0.01)**	**2.62**	**Adjusted earnings per share (in €)**	**0.61**	**0.95**	**1.56**

Principal risks and uncertainties

In the Report 2013, we extensively described our risk management framework and the major risk factors that may prevent full achievement of our objectives over the next five years. In respect of the principal risks, we consider the top five risks as communicated in the Report 2013 to be still valid.

Risk	Risk description	Risk corrective actions
Attraction and retention of talent	Successfully executing our strategy is, to a large extent, dependent on having the right people.	Diverse and inclusive talent development was identified as a Strategic focus area in the 2013 Strategy review. Consequently, we have developed a new global process for integrated talent management. This focuses on the further professionalization of recruitment, a more rigorous approach to the identification and development of leadership potential and a more transparent approach to career development opportunities. In addition, as part of the overall performance improvement program, we have further developed the AkzoNobel Academy. This is focused on building functional capability across the company and developing a higher level of project and change management skills, as well as providing a platform for the sharing of best practices. We have also continued with the harmonization of key HR administration processes to provide efficient service and free up time for the business partnering that is crucial to helping us attract, develop and retain talented people.
Management of change	In order to implement our strategic agenda we are changing our operating model, which includes the setting up of a Global business services function. We are also undertaking various restructuring projects which require significant change, as well as stakeholder management and project management expertise. Failure to successfully execute these initiatives could lead to industrial action and, ultimately, to not achieving our strategic ambitions.	In 2013, we introduced new Core Principles and Values which will set in motion the behavioral changes that will help to accelerate the implementation of our strategy. Senior management is involved in all critical projects that have been prioritized and are supervised by the Executive Committee to ensure an aligned and integrated vision and thrust from the top for the company's change agenda. Project management and change management are both included in the curriculum of the AkzoNobel Academy.
Worsening of economic conditions	One of the principal uncertainties continues to be the development of the global economy, which remains fragile, and it is difficult to predict customer demand and raw material costs. Chronic fiscal imbalances may further adversely impact the global, regional or national economies in markets where we operate. AkzoNobel is susceptible to decreased growth rates within high growth markets and/or continued economic and market downturn in mature markets. The effects lead to a decline of demand and deteriorating financial results, thereby not realizing our financial targets.	As a key element of our strategy, we are committed to bringing down our operational cost base and reducing complexity. This will be done through introducing and implementing standardized core functional processes in each region across the organization, helping to reduce operational costs, as well as making the company more agile and competitive. We are also continuing with our performance improvement programs in the three Business Areas and began a structured program of commercial excellence to offset the effects of decreasing economic growth rates.
International operations	We are a global business with operations in more than 80 countries. We are therefore exposed to a variety of risks, many of them beyond our control. Unfavorable political, social or economic developments and developments in laws, regulations and standards could adversely affect our business and results of operations. Our aspirations to fuel growth in high growth markets will further expose us to these risks.	We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Political, economic and legislative conditions are carefully monitored by responsible functions at corporate, Business Area and business unit level. The Executive Committee decides on all significant investments and the countries and industry segments in which AkzoNobel conducts its business. Country organizations are in place in order to mitigate country specific, but business generic risks.
Cash flow	The potential for further deterioration of economic conditions may have an impact on the free cash flow generation of our businesses. Furthermore, we are potentially exposed to funding of pension schemes. This may lead to insufficient free cash flow generation which limits our strategic degrees of freedom.	Our balance sheet and debt profile are strong. We have a long-term senior unsecured debt rating of BBB+ by Standard & Poor's and Baa1 by Moody's. We are committed to maintaining a strong investment grade rating. Regular review meetings are held between rating agencies and AkzoNobel senior management. We will engage in restructuring of underperforming parts of our portfolio if deemed strategically appropriate. We have a prudent financing strategy and a strict cash management policy, which are governed by our centralized treasury function (see Note 23 of the Financial statements in the AkzoNobel Report 2013). Focus on cash management is stressed in our monthly Operational Control Cycle meetings and relevant metrics are included in our updated remuneration policies.

Board of Management's statement on the condensed half-yearly financial statements and the interim management report

We have prepared the half-yearly financial report 2014 of AkzoNobel and the undertakings included in the consolidation taken as a whole in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for half-yearly financial reports.

To the best of our knowledge:

1. The condensed financial statements in this half-yearly financial report 2014 give a true and fair view of our assets and liabilities, financial position at June 30, 2014, and of the result of our consolidated operations for the first half year of 2014.
2. The interim management report in this half-yearly financial report includes a fair review of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision.

Amsterdam, July 23, 2014
The Board of Management

Ton Büchner, Chief Executive Officer

Notes to the condensed financial statements

Accounting policies and restatements
This interim financial report is in compliance with IAS 34 "Interim Financial Reporting". This report is unaudited. As of January 2014, IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" have been implemented, which had no impact on our consolidated financial statements. Otherwise the accounting principles are as applied in the 2013 financial statements.

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

Other activities
In other activities, we report activities which are not allocated to a particular Business Area. Corporate costs are the unallocated costs of our head office and shared services center in the Netherlands. Pensions reflects pension costs after the elimination of interest cost (reported as financing expenses). Insurances are the results from our captive insurance companies. Other includes the cost of share-based compensation, the results of treasury and legacy operations as well as the unallocated cost of some country organizations.

Glossary
Adjusted earnings per share are the basic earnings per share from continuing operations excluding incidentals in operating income, amortization of intangible assets and tax on these adjustments.

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

EBIT is operating income before incidentals.

EBIT margin is EBIT as percentage of revenue.

EBITDA is EBIT before depreciation and amortization and refers to EBITDA before incidentals.

EBITDA margin is EBITDA as percentage of revenue.

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

Incidentals are special charges and benefits, results on acquisitions and divestments, restructuring and impairment charges, and charges related to major legal, anti-trust, and environmental cases.

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

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

Moving average ROI is calculated as operating income of the last twelve months divided by average invested capital.

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

Operating income is defined in accordance with IFRS and includes the relevant incidental results.

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

ROS% is operating income as percentage of revenue.

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

Brands and trademarks

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Financial calendar

Report for the 3rd quarter 2014	October 21, 2014
Report for the year 2014 and the 4th quarter	February 12, 2015
Report for the 1st quarter 2015	April 21, 2015
Annual General Meeting of shareholders	April 22, 2015
Report for the 2nd quarter 2015	July 21, 2015
Report for the 3rd quarter 2015	October 22, 2015

AkzoNobel

www.akzonobel.com

AkzoNobel is a leading global paints and coatings company and a major producer of specialty chemicals. We supply industries and consumers worldwide with innovative products and are passionate about developing sustainable answers for our customers. Our portfolio includes well-known brands such as Dulux, Sikkens, International and Eka. Headquartered in Amsterdam, the Netherlands, we are consistently ranked as one of the leaders in the area of sustainability. With operations in more than 80 countries, our 50,000 people around the world are committed to delivering leading products and technologies to meet the growing demands of our fast-changing world.

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