Half-yearly report & report for the second quarter

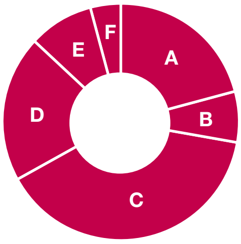
2011

AkzoNobel
Tomorrow's Answers Today

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

		%
A	North America	20
B	Emerging Europe	6
C	Mature Europe	39
D	Asia Pacific	21
E	Latin America	10
F	Other regions	4
		100

(Based on the full year 2010)

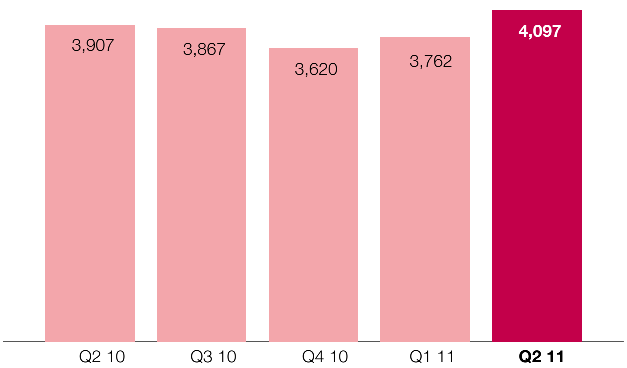


Our results at a glance

- Revenue up 8 percent driven by volume and pricing, before currency headwind of 3 percent
- Raw material inflation, challenging trading conditions and one-off factors lowered the quarter's EBITDA to €551 million (2010: €614 million)
- Net income at €268 million (2010: €273 million)
- Adjusted EPS (earnings per share) at €1.09 (2010: €1.18)
- Investments in growth and RD&I initiatives underpinning medium-term growth ambitions
- Additional performance improvement measures underway
- Full-year 2011 EBITDA to be at least in line with the prior year, assuming no further deterioration in economic conditions

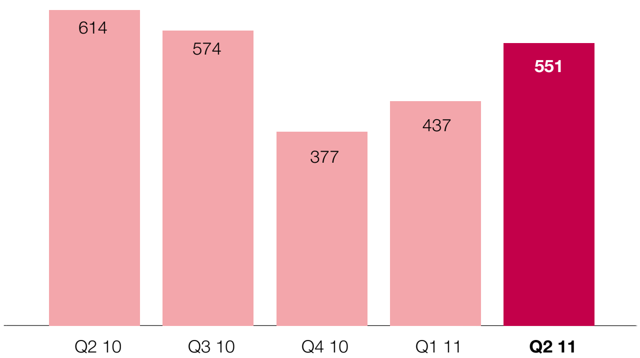
Revenue

In € millions



EBITDA

In € millions



Financial highlights

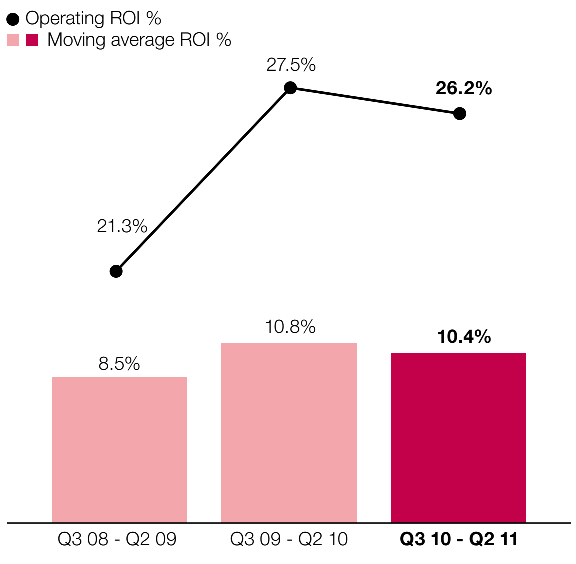
Continuing operations before incidentals

2nd quarter 2010	2011	Δ%	in € millions	January - June 2010	2011	Δ%
3,907	4,097	5	Revenue	7,153	7,859	10
614	551	(10)	EBITDA	1,013	988	(2)
15.7	13.4		EBITDA margin (in %)	14.2	12.6	
466	401	(14)	EBIT	724	690	(5)
11.9	9.8		EBIT margin (in %)	10.1	8.8	
			Moving average ROI (in %)	10.8	10.4	
			Operating ROI (in %)	27.5	26.2	
1.18	1.09		Adjusted earnings per share (in €)	1.70	1.82	

After incidentals

2nd quarter 2010	2011	Δ%	in € millions	January - June 2010	2011	Δ%
455	428	(6)	Operating income	679	705	4
247	251		Net income from continuing operations	317	383	
26	17		Net income from discontinued operations	37	13	
273	268		Net income total operations	354	396	
1.06	1.07		Earnings per share from continuing operations (in €)	1.36	1.64	
1.17	1.14		Earnings per share from total operations (in €)	1.52	1.69	
130	164		Capital expenditures	227	294	
391	165		Net cash from operating activities	(134)	(354)	
			Interest coverage	5.9	7.6	
			Invested capital	13,285	13,115	
			Net debt	2,339	1,808	
			Number of employees	55,480	56,410	

Returns on invested capital



Financial highlights

Revenue was up 5 percent, due to volume growth of 3 percent and pricing of 5 percent (before a 1 percent adverse mix effect). Demand has been volatile during the quarter in the mature markets of Decorative Paints. Utilization rates in Specialty Chemicals have continued to be high.

EBITDA has been impacted by further raw material price inflation, demand volatility and continually soft demand (particularly in mature markets), as well as prolonged maintenance stops within Specialty Chemicals and the strong euro. We are implementing additional improvement measures and functional and operational excellence initiatives to sustainably underpin our performance. These will ensure that our growth ambitions are delivered at or above the mid-point of our 13-15 percent EBITDA margin guidance.

Revenue

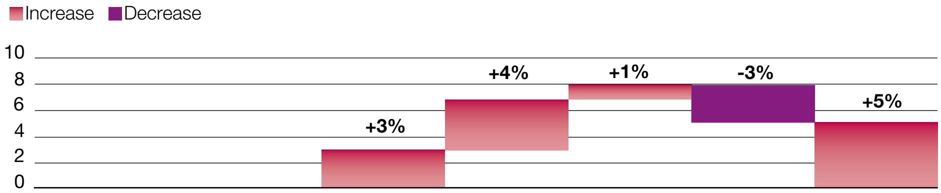
Demand has been volatile during the quarter in the mature markets of Decorative Paints. Utilization rates in Specialty Chemicals, have continued to be high.

- Revenue in Decorative Paints increased 4 percent (8 percent at constant currency). Revenue increased across all regions with the biggest increase in the high-growth markets. The impact of increased prices was 4 percent before an adverse mix effect of 2 percent. Demand in most of the mature markets declined in the second quarter.
- Revenue in Performance Coatings was up 4 percent (8 percent at constant currency). Revenue growth was balanced across all regions. Volumes increased in all major business segments with the exception of Wood Finishes and Adhesives, which has significant exposure to the US housing market. Selling prices are being increased in response to the continuous rise in raw material prices, with Marine being the hardest-hit segment.
- In Specialty Chemicals, the demand pattern of the last twelve months remained fundamentally unchanged in the second quarter. Strength in manufacturing and industrial production, particularly in Asia and North America, resulted in firm demand across most of our business lines. In addition, the continued success in our key geographical and innovation growth platforms contributed to the volume increase of 1 percent, relative to the strong second quarter of 2010. Despite seasonal maintenance stops, overall top-line development remained encouraging.

Revenue

2nd quarter 2010	2011	Δ%	in € millions	January - June 2010	2011	Δ%
1,401	1,461	4	Decorative Paints	2,457	2,657	8
1,260	1,312	4	Performance Coatings	2,309	2,549	10
1,258	1,350	7	Specialty Chemicals	2,412	2,701	12
(12)	(26)		Other activities/eliminations	(25)	(48)	
3,907	**4,097**	5	**Total**	7,153	**7,859**	10

Revenue development Q2 2011



in % versus Q2 2010	Volume	Price/mix	Acquisitions/ divestments	Exchange rates	Total
Decorative Paints	6	2	–	(4)	4
Performance Coatings	2	3	3	(4)	4
Specialty Chemicals	1	8	–	(2)	7
Total	**3**	**4**	**1**	**(3)**	**5**

Volume development per quarter (year-on-year)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Decorative Paints	1	–	1	9	6
Performance Coatings	12	5	5	7	2
Specialty Chemicals	15	10	3	6	1
Total	8	4	3	7	**3**

Price/mix development per quarter (year-on-year)	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Decorative Paints	–	1	2	1	2
Performance Coatings	(3)	–	3	2	3
Specialty Chemicals	(2)	2	8	6	8
Total	(2)	1	4	3	**4**

Acquisitions and investments

The acquisitions in Performance Coatings result in a positive revenue effect, as these activities were consolidated during and after Q2 2010. During Q2 2011, we made several announcements on new investments:

- In Decorative Paints we announced plans for a €110 million manufacturing facility in the North East of England and we have entered into a partnership in China with Quangxi CAVA Titanium Industry Co. Ltd. to help ensure supply of titanium dioxide (TiO_2)
- In Performance Coatings, we have announced our intention to acquire coatings manufacturer Schramm Holding AG, which will enable us to strengthen our

global leadership position in specialty plastic coatings

- In Specialty Chemicals, we are investing €140 million to convert our chlorine plant in Frankfurt, Germany, to membrane electrolysis technology. In addition, we agreed to acquire from Integrated Botanical Technologies (IBT) its patented Zeta Fraction technology, which is transforming how plant-based chemistry is used
- In Research, Development and Innovation (RD&I), we opened a €7 million fire protection laboratory at our Felling site in the UK. The global market is growing rapidly due to increasingly stringent fire protection regulations worldwide. We also opened a new research laboratory in Deventer, the Netherlands – one of six global RD&I centers that undertakes cutting-edge research, which leads to major breakthrough innovations.

ICI Pakistan

We are in the process of splitting ICI Pakistan into two listed entities: AkzoNobel Pakistan Limited (part of the Decorative Paints business) and ICI Pakistan Limited (all other non-Deco businesses of ICI Pakistan). We will retain a 75.8 percent shareholding in AkzoNobel Pakistan and will seek appropriate buyers for our shareholding in ICI Pakistan. ICI Pakistan's 2010 revenue amounted to €305 million.

Raw materials

Raw material prices have continued to rise in the second quarter and have impacted all three Business Areas. They are now around 20 percent higher than a year ago. With our margin management efforts still ongoing, we remain confident that we continue to make progress to mitigate this pressure.

EBITDA

EBITDA has been impacted by further raw material price inflation, demand volatility and continued soft demand (particularly in mature markets), as well as prolonged maintenance stops within Specialty Chemicals and the strong euro.

- In Decorative Paints, EBITDA was down 7 percent for the quarter, with a negative currency impact of 2 percent. The EBITDA margin in the second quarter is in line with the normal seasonal pattern but is lower compared to the previous year, which is mainly caused by weaker performance in Europe.
- In Performance Coatings, EBITDA was 11 percent lower with a negative currency impact of 4 percent, compared to a strong quarter in the prior year, impacted by higher raw material prices and continued weak markets in the Wood Finishes segment. Cost control and restructuring efforts in mature markets are ongoing and continue to support performance. EBITDA was €170 million; EBITDA margin was 13.0 percent (2010: 15.2 percent).
- In Specialty Chemicals, the escalation of input costs – largely petrochemical derivatives and energy – dampened performance. Furthermore, there were several large site maintenance stops in the quarter resulting in higher maintenance costs and the sourcing of higher-cost products from third parties. Consequently, EBITDA was €220 million, 14 percent below the exceptional level of last year including a 2 percent adverse currency translation impact. The EBITDA margin was 16.3 percent (2010: 20.4 percent).

EBITDA

2nd quarter 2010	2nd quarter 2011	Δ%	in € millions	January - June 2010	January - June 2011	Δ%
205	191	(7)	Decorative Paints	287	281	(2)
191	170	(11)	Performance Coatings	334	313	(6)
257	220	(14)	Specialty Chemicals	464	461	(1)
(39)	(30)		Other activities/eliminations	(72)	(67)	
614	**551**	**(10)**	**Total**	**1,013**	**988**	**(2)**

Incidental included in operating income

2nd quarter 2010	2nd quarter 2011	in € millions	January - June 2010	January - June 2011
(21)	(20)	Restructuring costs	(38)	(29)
8	21	Results related to major legal, anti-trust and environmental cases	(1)	22
1	26	Results on acquisitions and divestments	2	26
1	–	Other incidental results	(8)	(4)
(11)	**27**	**Incidentals included in operating income**	**(45)**	**15**

EBIT in other

2nd quarter 2010	2nd quarter 2011	in € millions	January - June 2010	January - June 2011
(23)	(25)	Corporate costs	(43)	(50)
–	(5)	Pensions	2	(7)
(6)	5	Insurances	(4)	8
(13)	(8)	Other	(35)	(23)
(42)	**(33)**	**EBIT in "other"**	**(80)**	**(72)**

EBIT in "other"

Corporate costs continued to be higher than last year as a consequence of specific functional excellence activities. The result of our captive insurance companies was positive due to the low number of claims. Other costs were lower than last year due to favorable non-recurring items.

Incidental items

The restructuring costs are mainly related to smaller projects across all businesses. We released a provision related to an anti-trust claim and incurred gains on some smaller divestments.

Decorative Paints

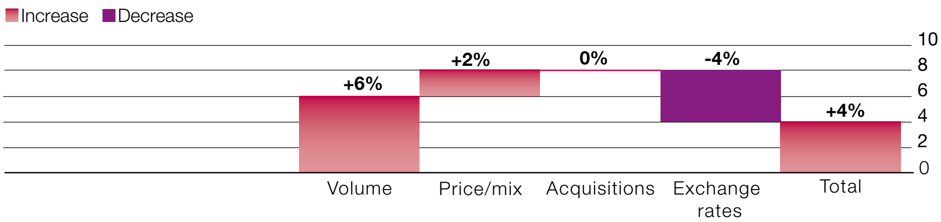
- Revenue increased 4 percent and EBITDA decreased 7 percent
- Continued momentum in high-growth markets
- Demand in mature markets declined in the quarter
- Further price increases are being implemented to compensate for higher raw material costs
- Weaker performance in Europe was the main driver of the lower EBITDA result

The Decorative Paints business in the second quarter showed a revenue increase of 4 percent (8 percent on a constant currency basis). Revenue increased across all regions with the most growth in the high-growth markets. The impact of increased prices was 4 percent before an adverse mix impact of 2 percent. Our growth strategy of investing in brands, distribution and people, as well as expanding into mid-tier markets in high-growth regions, is progressing well. However, demand in most of the mature markets declined in the second quarter. Due to the increased raw material prices and unfavorable mix effects, our margin decreased versus the previous year. EBITDA was down 7 percent for the quarter, with a negative currency impact of 2 percent. The EBITDA margin in the second quarter is in line with the normal seasonal pattern but is lower compared to the previous year, which is mainly caused by weaker performance in Europe.

Europe
In Europe, revenue was up 2 percent (up 3 percent in constant currencies). We are still seeing positive revenue developments in Russia and Turkey, but these are offset by lower demand in the mature countries of Europe. The second quarter was challenging with markets deteriorating across the region. The UK was impacted by adverse conditions and down-trading. As a consequence, versus the first quarter, sales growth in Europe halved to 3 percent in constant currencies. Margins in the quarter were under pressure due to a combination of rapidly increasing raw material costs as well as adverse product mix reflecting weaker economic conditions. Additional price increases are planned for the second half of this year to partly offset these effects. The operating costs in the quarter were well-controlled to partly mitigate the lower margins.

Americas
Revenue in the US was flat (12 percent up in constant currencies). Volume was the primary driver along with price gains that were partially offset by product mix. The new Walmart business delivered the majority of the Q2 revenue improvement. In Canada, Q2 revenue was 10 percent below 2010 (down 5 percent in constant currencies), driven by lower demand. The decrease in demand was partly caused by changes in the Canadian government's home purchase credit and tax incentive implemented in mid-2010 and adverse weather conditions in the second quarter. In Latin America, Q2 revenue was 14 percent above 2010 (19 percent in constant currencies), driven by price, mix and healthy demand. Our focus on pricing discipline also resulted in above market revenue growth in Brazil.

Revenue development Q2 2011



Key brands

Asia

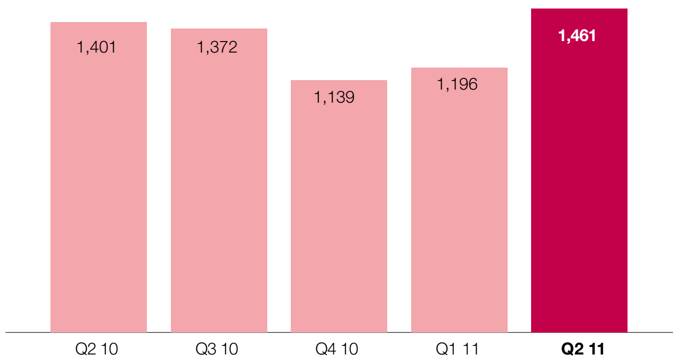
Our businesses in Asia continued their strong performance. Revenue increased 19 percent from Q2 2010 (26 percent in constant currencies). All countries in Asia contributed to this growth. Revenue in China grew by 26 percent (32 percent in constant currencies) as a result of our successful roll out in selected Tier 2 and Tier 3 cities. Our mid-tier range products have enjoyed the highest growth rate – 57 percent – among all product segments. We opened and upgraded about 280 Dulux stores in the second quarter. Prices were increased in April to partly mitigate raw material inflation. The central government has launched a series of measures to curb rising property prices and the market outlook for a number of coastal cities in the second half year is still uncertain. We will, however, continue to accelerate our brand building and channel development to fully capture the growth potential in the medium- to long-term. In South East Asia and Pacific, revenue increased versus 2010 by 14 percent (22 percent in constant currencies). Strong double-digit revenue growth was achieved in most key markets. Margin management offset increased raw material prices and adverse mix effect from successful non-premium expansion. The region continues its investment in brands, people and tinting to generate top-line growth. Growth in India continued to be very strong at 12 percent in the second quarter (22 percent in constant currencies) due to high demand and price developments.

Revenue

2nd quarter				January - June		
2010	**2011**	Δ%	in € millions	2010	**2011**	Δ%
762	777	2	Decorative Paints Europe	1,322	1,384	5
419	423	1	Decorative Paints Americas	758	822	8
220	262	19	Decorative Paints Asia	379	454	20
–	(1)		Other/intragroup eliminations	(2)	(3)	
1,401	**1,461**	**4**	**Total**	**2,457**	**2,657**	**8**
Before incidentals						
205	191	(7)	EBITDA	287	281	(2)
14.6	13.1		EBITDA margin (in %)	11.7	10.6	
153	141	(8)	EBIT	187	180	(4)
10.9	9.7		EBIT margin (in %)	7.6	6.8	
			Moving average ROI (in %)	5.6	5.2	
After incidentals						
146	137		Operating income	165	174	
40	42		Capital expenditures	63	84	
			Invested capital	6,821	6,550	
			Number of employees	21,840	22,580	

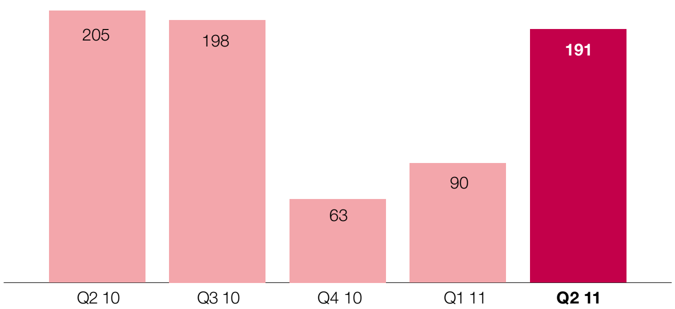
Revenue

In € millions



EBITDA

In € millions



Performance Coatings

- Revenue increased 4 percent, volumes up 2 percent
- Ongoing price increases offset by higher raw material cost
- EBITDA margin at 13.0 percent (2010: 15.2 percent)
- The Marine and Wood Finishes segments impacted by weaker economic conditions
- Recent acquisitions contributed positively to results

Against a strong prior year, Q2 revenue was up 4 percent, positively supported by a 2 percent volume increase, a 3 percent price increase, and 3 percent acquisition growth. However, it was negatively impacted by currencies by 4 percent. Revenue growth was balanced across all regions. Volumes increased in all major business segments with the exception of Wood Finishes and Adhesives, which has significant exposure to the US housing market. Selling prices are being increased in response to the continuous rise in raw material prices, with Marine being the hardest-hit segment. During the quarter, raw material price increases had a negative impact on margins. Cost control and restructuring efforts in mature markets are ongoing and continue to support performance. We continue to invest in growth plans in support of our medium-term growth strategy. EBITDA for the second quarter was €170 million. EBITDA margin was 13.0 percent (2010: 15.2 percent).

Marine and Protective Coatings

Revenue for Marine and Protective Coatings was down 2 percent compared to last year, supported by an increase in volume by 3 percent, but negatively affected by currency. Marine experienced flat activity levels, with new construction remaining at prior year levels. The increases in raw material prices over the last few quarters have had an increasingly negative impact on Marine’s fixed priced new construction projects. Deep Sea Maintenance saw a small improvement in volumes, offset by a reduction in Coastal and Navy's business. In Protective Coatings we continue to see strong growth in all regions, with both the heavy industry as well as oil and gas markets contributing towards this. Yacht has seen a slower quarter with volumes down as a result of weaker retail market activity in North America and Europe, while Asia Pacific remained flat. The impact of raw material price increases is visible in all segments. A new €7 million, state-of-the-art fire protection laboratory was opened at the Felling, UK, site in June, creating one of the key global RD&I centers of excellence. This site will significantly improve our ability to develop new products for the market.

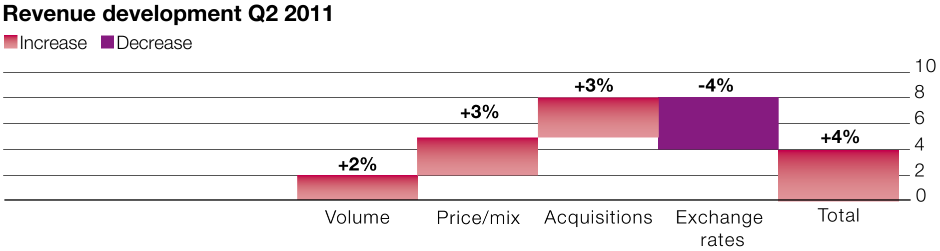
Wood Finishes and Adhesives

Revenue for Wood Finishes and Adhesives decreased by 5 percent compared to last year, affected by lower volumes and negative currency and offset by prices. The softer volume levels are driven primarily by the US housing crisis, which impacts our businesses in the Americas and exports from Asia. Demand in our European business has improved over the previous year, but the results have been mixed by country. Market demand for wood finishes is expected to remain well below pre-recessionary levels until the housing markets show some sign of improvement. Operating costs were below last year due to restructuring activities in markets, which experienced lower than expected demand levels. In May we announced the discontinuation of board resin production in Stockvik, Sweden, and the transfer of production to our facility in Kristinehamn, Sweden, to gain manufacturing synergies. In early July we announced the restructuring of our Wood Coatings Europe business into a more strategic market-focused organization which impacted the sales, manufacturing, and logistics organizations. The impact of raw material price increases is visible in all segments.

Automotive and Aerospace Coatings

Automotive and Aerospace Coatings revenue increased 2 percent over last year, mainly due to higher volumes and the acquisition of Changzou Prime Automotive Paint Co., Ltd., but negatively affected by currencies. The growth is largely attributable to higher sales in Aerospace Coatings, growth in the Vehicle Refinishes trade segment in Asia, and market share gain in North America (where vehicle refinishes volumes increased over the previous year). Due to continually high demand in the US and Western Europe, total Commercial Vehicle OEM demand grew compared to last year. As part of our growth strategy we announced a major deal with the LKQ Corporation, the largest North American provider of aftermarket automotive parts. As part of the deal, we sold all of our company-

Revenue development Q2 2011



Key brands

owned direct sales outlets in the US to LKQ. Sikkens, Lesonal and U-Tech brands are distributed by LKQ at all their locations in the US.

Powder Coatings

Powder Coatings experienced a strong quarter with revenue up 21 percent, supported by pricing actions and acquisitions. The increase was generated by high-growth in developing economies in Europe and the North American Automotive and Trade Coatings segments. The acquired powder coatings integration activities continue and they are now delivering cost efficiencies both in Europe and North America. A new Polymer lab was opened in Felling, UK, in April. The laboratory facility will enable Powder Coatings to continue to build on its growth ambitions in RD&I. The building is devoted to the development of novel polymers and processing technologies.

Industrial Coatings

Industrial Coatings revenue was up 11 percent mainly due to higher volumes, pricing actions, and acquisition impact, offset by negative currency effect. The main drivers of the growth have been the Lindgens acquisition as well as Packaging Coatings market share gains in Europe and Asia. Coil Coatings increased its revenue base due to volume and price increases. Specialty Plastics saw lower volumes and revenue mainly as a result of low revenue in Asia. Coil Coatings construction-related business showed good volume and revenue development in high-growth markets, while the mature markets – in particular Western Europe – lost volume. Specialty Plastics has seen a revenue drop in Asia, in its business segments of Wireless and IT, while the Automotive segment has increased its revenue. Packaging Coatings beverage and food-related business has shown a very strong increase in its volume and revenue compared to prior year, mainly coming from Europe and Asia. AkzoNobel announced its intention to acquire coatings manufacture Schramm Holding AG and the coatings activities operated by Schramm's largest shareholder, Korean company SSCP, which will enable us to strengthen our global leadership position in specialty plastics coatings.

Revenue

2nd quarter 2010	2011	Δ%	in € millions	January - June 2010	2011	Δ%
364	357	(2)	Marine and Protective Coatings	662	681	3
212	201	(5)	Wood Finishes and Adhesives	390	389	–
260	265	2	Automotive and Aerospace Coatings	487	524	8
196	238	21	Powder Coatings	352	469	33
232	258	11	Industrial Coatings	425	501	18
(4)	(7)		Other/intragroup eliminations	(7)	(15)	
1,260	**1,312**	4	**Total**	2,309	**2,549**	10

Before incidentals

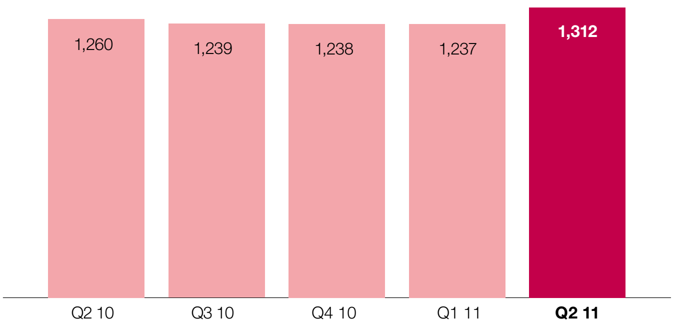
2nd quarter 2010	2011	Δ%	in € millions	January - June 2010	2011	Δ%
191	170	(11)	EBITDA	334	313	(6)
15.2	13.0		EBITDA margin (in %)	14.5	12.3	
163	142	(13)	EBIT	281	257	(9)
12.9	10.8		EBIT margin (in %)	12.2	10.1	
			Moving average ROI (in %)	28.8	24.2	

After incidentals

2nd quarter 2010	2011	Δ%	in € millions	January - June 2010	2011	Δ%
153	155		Operating income	254	261	
17	30		Capital expenditures	30	46	
			Invested capital	2,077	2,231	
			Number of employees	20,850	21,030	

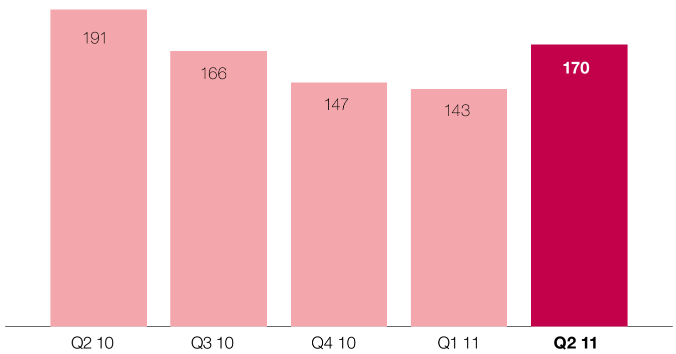
Revenue

In € millions



EBITDA

In € millions



Specialty Chemicals

- Revenue increased 7 percent: volume increased 1 percent
- Utilization rates have continued to be high
- Increased input costs and unfavorable currency effect compressed margins
- Prolonged site maintenance stops impacted the quarter
- EBITDA decreased 14 percent to €220 million (2010: €257 million)
- EBITDA margin was 16.3 percent (2010: 20.4 percent)

The demand pattern of the last twelve months remained fundamentally unchanged in the second quarter. Strength in manufacturing and industrial production, particularly in Asia and North America, resulted in firm demand across most of our business lines. In addition, the continued success in our key geographical and innovation growth platforms contributed to a volume increase of 1 percent, relative to the strong second quarter of 2010. Overall top-line development remained encouraging. However, the escalation of input costs, largely petrochemical derivatives and energy, dampened performance. Furthermore, there were several large site maintenance stops in the quarter, resulting in higher maintenance costs and the sourcing of higher-cost products from third parties. Consequently, EBITDA was €220 million, 14 percent below the exceptional level of last year. The EBITDA margin was 16.3 percent. Market share, margin management and unit margin development across our businesses remain key focus elements. As part of our growth and sustainability agenda, we are investing in the conversion of our Frankfurt, Germany, site to a larger membrane-based facility. As well as expanding capacity, this will improve our ecological footprint. At the end of Q2, we also enhanced our technology portfolio in sustainable chemistry after agreeing to acquire Integrated Botanical Technologies' (IBT) patented Zeta Fraction technology, which is transforming how plant-based chemistry is used.

Functional Chemicals

Following two years of sustained performance improvement in Functional Chemicals, unfavorable market forces in the second quarter resulted in a more mixed performance picture across the business unit. Our High Polymers, XTP, Sulfur Derivatives and Salt Specialties businesses essentially matched last year's performance. However, the performance of Ethylene Amines, Chelates and Performance Additives was below the second quarter of 2010. While we realized continued volume growth overall, significant year-on-year increases in raw material costs and unfavorable currency effects negatively impacted margin. In addition, an extended maintenance stop in Stenungsund, Sweden and start-up costs in Ningbo, China, further impacted our results in the quarter. These expenses notwithstanding, at the mid-point of the year the performance in our growth platforms remains encouraging and our asset utilization high. Elevated feedstock costs and unfavorable currency developments have increased the pressure on margins and thus heightened the focus on our margin management discipline.

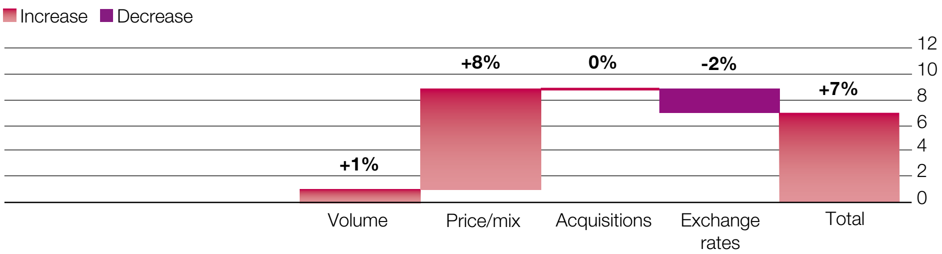
Industrial Chemicals

Industrial Chemicals delivered a solid performance in the quarter. Demand for chemical transformation salt, caustic, and chlorine derivatives remained firm, factoring in the maintenance stops across the chain. Increased pricing and volume strength led to an improved performance in our Chlor-alkali, Salt and Mono Chloro Acetic business activities. However, the Energy business remains challenged due to higher gas costs relative to the electricity market prices. In addition, we executed full and partial planned maintenance stops in Delfzijl and Rotterdam, the Netherlands, and Bitterfeld, Germany. Nonetheless, this improved pricing and steady demand resulted in an overall favorable performance relative to Q2 2010.

Surface Chemistry

Our Surface Chemistry business continued to perform well, albeit slightly below the exceptionally strong level of last year. Demand for Agro, Oilfield, and other performance applications remained healthy, while some weakness has emerged in the consumer-

Revenue development Q2 2011



Key brands

related applications. Key fat and oil input costs increased again in the quarter and unfavorable currency effects also dampened margin. Thus, margin management actions remain in the forefront. We continue to execute on our growth agenda and we acquired innovative plant-based technology from Integrated Botanical Technologies LLC (IBT) in June.

Pulp and Paper Chemicals

The performance of our Pulp and Paper Chemicals business in the second quarter was slightly below the second quarter of 2010. Volume development remained positive, driven by the strength in chlorate demand, particularly in South America. South America is quickly becoming the world leader in wood pulp, and our Pulp Chemicals business is there to support this growth. In Q2, margin pressure increased as input costs escalated – relative to 2010 – and currency effects were unfavorable, most notably in Paper Chemicals. Margin management and cost containment initiatives have been put in place in Pulp and Paper Chemicals.

Chemicals Pakistan

The second quarter proved difficult in our Chemicals Pakistan business. Demand and pricing in the Polyester business turned sharply due to deteriorating downstream market conditions. In addition, the performance of our Soda Ash business was hindered by reduced gas availability, negatively impacting both volume and margin. The change in demand pattern, energy supply disruptions and the continuing devaluation of the local currency resulted in a deterioration in performance in the quarter.

Revenue

2nd quarter				January - June		
2010	**2011**	Δ%	in € millions	2010	**2011**	Δ%
469	493	5	Functional Chemicals	888	979	10
256	291	14	Industrial Chemicals	512	589	15
226	245	8	Surface Chemistry	428	482	13
261	276	6	Pulp and Paper Chemicals	502	550	10
82	78	(5)	Chemicals Pakistan	150	168	12
(36)	(33)		Other/intragroup eliminations	(68)	(67)	
1,258	**1,350**	**7**	**Total**	**2,412**	**2,701**	**12**

Before incidentals

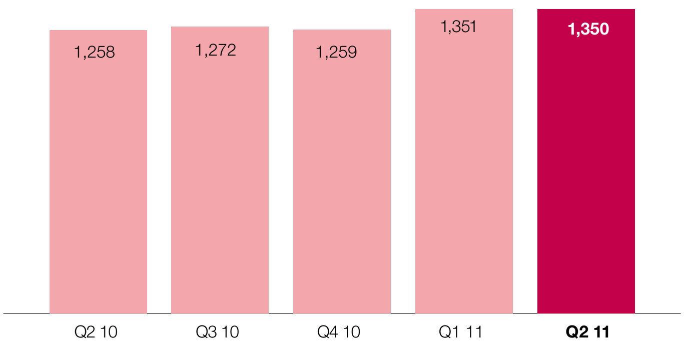
257	220	(14)	EBITDA	464	461	(1)
20.4	16.3		EBITDA margin (in %)	19.2	17.1	
192	151	(21)	EBIT	336	325	(3)
15.3	11.2		EBIT margin (in %)	13.9	12.0	
			Moving average ROI (in %)	18.4	19.4	

After incidentals

195	147		Operating income	321	320	
71	87		Capital expenditures	128	154	
			Invested capital	3,547	3,515	
			Number of employees	11,200	11,420	

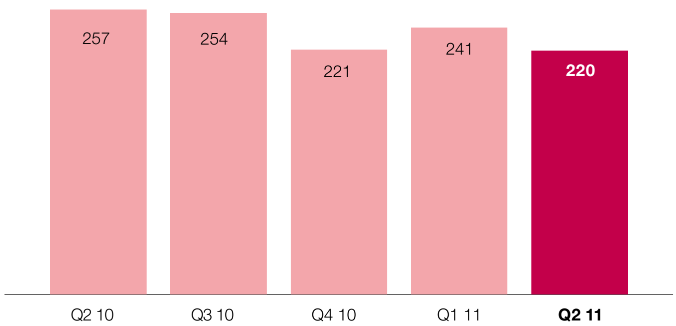
Revenue

In € millions



EBITDA

In € millions



Condensed financial statements

Consolidated statement of income

2nd quarter 2010	2011	in € millions	January - June 2010	2011
		Continuing operations		
3,907	4,097	Revenue	7,153	7,859
(2,254)	(2,467)	Cost of sales	(4,165)	(4,736)
1,653	**1,630**	**Gross profit**	**2,988**	**3,123**
(859)	(861)	Selling expenses	(1,631)	(1,682)
(259)	(294)	General and administrative expenses	(514)	(594)
(85)	(86)	Research and development expenses	(162)	(171)
5	39	Other operating income/(expenses)	(2)	29
455	**428**	**Operating income**	**679**	**705**
(113)	(64)	Net financing expenses	(201)	(127)
7	8	Results from associates and joint ventures	12	15
349	**372**	**Profit before tax**	**490**	**593**
(76)	(99)	Income tax	(129)	(172)
273	**273**	**Profit for the period from continuing operations**	**361**	**421**
		Discontinued operations		
26	17	Profit for the period from discontinued operations	37	13
299	**290**	**Profit for the period**	**398**	**434**
		Attributable to		
273	268	Shareholders of the company	354	396
26	22	Non-controlling interests	44	38
299	**290**	**Profit for the period**	**398**	**434**

Consolidated statement of comprehensive income

2nd quarter 2010	2011	in € millions	January - June 2010	2011
299	**290**	**Profit for the period**	**398**	**434**
		Other comprehensive income		
642	(71)	Exchange differences arising on translation of foreign operations	1,078	(368)
10	(18)	Cash flow hedges	1	(40)
(3)	8	Tax relating to components of other comprehensive income	(1)	20
649	**(81)**	**Other comprehensive income for the period (net of tax)**	**1,078**	**(388)**
948	**209**	**Comprehensive income for the period**	**1,476**	**46**
		Comprehensive income attributable to		
900	197	Shareholders of the company	1,389	46
48	12	Non-controlling interests	87	–
948	**209**	**Comprehensive income for the period**	**1,476**	**46**

Condensed consolidated balance sheet

in € millions

	December 31, 2010	June 30, 2011
Assets		
Non-current assets		
Intangible assets	7,308	7,028
Property, plant and equipment	3,384	3,352
Other financial non-current assets	1,977	2,069
Total non-current assets	**12,669**	**12,449**
Current assets		
Inventories	1,678	1,880
Trade and other receivables	2,788	3,206
Cash and cash equivalents	2,851	1,494
Other current assets	108	101
Total current assets	**7,425**	**6,681**
Total assets	**20,094**	**19,130**
Equity and liabilities		
Total equity	**9,509**	**9,314**
Non-current liabilities		
Provisions and deferred tax liabilities	2,444	2,247
Long-term borrowings	2,880	2,824
Total non-current liabilities	**5,324**	**5,071**
Current liabilities		
Short-term borrowings	907	478
Trade and other payables	3,305	3,344
Other short-term liabilities	1,049	923
Total current liabilities	**5,261**	**4,745**
Total equity and liabilities	**20,094**	**19,130**

Shareholders' equity

Shareholders' equity as at the end of Q2 2011 decreased to €8.8 billion, due to the net effect of:

- Net income of €396 million.
- Decreased cumulative translation reserves by €320 million due to the strengthening euro.
- Dividend payments of €253 million.

Dividend policy

We are aiming for a stable to rising dividend. Following requests in our AGM in April, we will introduce a stock dividend option with cash dividend as default. Details of the payment dates are found on the last page of this report.

Tax

The Q2 tax rate is 27 percent (2010: 22 percent), benefitting from tax-exempt gains, the main one being a release of an anti-trust provision. Excluding this and other one-off factors, the tax rate would have been 29 percent. In 2010, the Q2 tax rate was low because of several adjustments in previous year, partly related to settlements with several tax authorities. The year-to-date tax rate is 29 percent (2010: 26 percent).

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Revaluation reserves	Cumulative translation reserves	Other reserves	Shareholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2010	**465**	**2**	**(6)**	**7**	**(777)**	**8,084**	**7,775**	**470**	**8,245**
Profit for the period	–	–	–	–	–	354	354	44	398
Other comprehensive income	–	–	–	–	1,035	–	1,035	43	1,078
Comprehensive income for the period	**–**	**–**	**–**	**–**	**1,035**	**354**	**1,389**	**87**	**1,476**
Dividend paid	–	–	–	–	–	(244)	(244)	(38)	(282)
Equity-settled transactions	–	–	–	–	–	13	13	–	13
Issue of common shares	2	1	–	–	–	–	3	–	3
Acquisitions and divestments	–	–	–	–	–	(7)	(7)	(4)	(11)
Balance at June 30, 2010	**467**	**3**	**(6)**	**7**	**258**	**8,200**	**8,929**	**515**	**9,444**
Balance at January 1, 2011	**467**	**9**	**29**	**7**	**(43)**	**8,515**	**8,984**	**525**	**9,509**
Profit for the period	–	–	–	–	–	396	396	38	434
Other comprehensive income	–	–	(30)	–	(320)	–	(350)	(38)	(388)
Comprehensive income for the period	**–**	**–**	**(30)**	**–**	**(320)**	**396**	**46**	**–**	**46**
Dividend paid	–	–	–	–	–	(253)	(253)	(19)	(272)
Equity-settled transactions	–	–	–	–	–	16	16	–	16
Issue of common shares	1	14	–	–	–	–	15	–	15
Acquisitions and divestments	–	–	–	–	–	–	–	–	–
Balance at June 30, 2011	**468**	**23**	**(1)**	**7**	**(363)**	**8,674**	**8,808**	**506**	**9,314**

Invested capital

Invested capital at the end of Q2 2011 totaled €13.1 billion, €0.4 billion higher than at year-end 2010. Invested capital was impacted by the net effect of:

- Foreign currency effects on intangibles and property, plant and equipment, due to the strenghtening euro. In total, invested capital decreased by €0.4 billion due to the currency translation impact.
- An increase of €0.2 billion of long-term receivables related to pension funds in an asset position.
- An increase of operating working capital due to seasonal business activities. Expressed as a percentage of revenue, operating working capital was 14.5 percent (Q2 2010: 15.0 percent; year-end 2010: 13.9 percent).
- Payments of accrued interest of €148 million.

Pensions

The funded status of the pension plans at the end of Q2 2011 was estimated to be a deficit of €0.4 billion (year-end 2010: €1.0 billion; Q1 2011: €0.7 billion).

The movement compared to year-end 2010 is due to:

- Top-up payments of €341 million into certain defined benefit pension plans
- Higher discount rates decreasing the pension obligation
- Higher asset returns.

Workforce

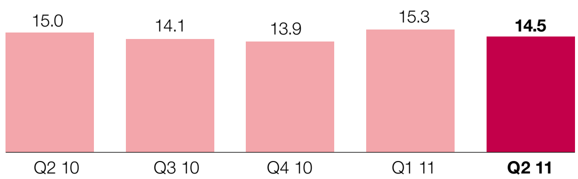
At June 30, 2011, we employed 56,410 staff (year-end 2010: 55,590 employees). The net increase was due to:

- A decrease of 560 employees due to ongoing restructuring
- A net decrease from acquisitions and divestments of 160 employees
- An increase of 1,540 employees due to new hires and seasonal activity.

Invested capital
in € millions

	June 30, 2010	December 31, 2010	**June 30, 2011**
Trade receivables	2,477	2,101	2,477
Inventories	1,639	1,678	1,880
Trade payables	(1,770)	(1,763)	(1,968)
Operating working capital in Business Areas	**2,346**	**2,016**	**2,389**
Other working capital items	(1,262)	(1,203)	(991)
Non-current assets	13,027	12,669	12,449
Less investments in associates and joint ventures	(182)	(175)	(182)
Deferred tax liabilities	(644)	(589)	(550)
Invested capital	**13,285**	**12,718**	**13,115**

Operating working capital
In % of revenue



Operating working capital

in € millions, % of revenue	June 30, 2010		December 31, 2010		**June 30, 2011**	
Decorative Paints	796	14.2	651	14.3	858	14.7
Performance Coatings	838	16.6	714	14.4	823	15.7
Specialty Chemicals	712	14.1	651	12.9	708	13.1
Total	**2,346**	**15.0**	**2,016**	**13.9**	**2,389**	**14.5**

Cash flows

Operating activities in Q2 2011 resulted in a cash inflow of €165 million (2010: €391 million). The change is due to changes in working a net effect of:

- Lower increase of operating working capital
- Higher increase in non-operating working capital items due to fair value changes and cash settlements for foreign currency hedging activities as well as due to changes in prepayments and accruals.

Net debt

Net debt increased from €936 million at year-end 2010 to €1,808 million at the end of Q2, mainly due to:

- Operating cash outflow of €354 million
- Capital expenditures of €294 million
- Payments of dividend of €272 million

A bond totaling €539 million matured in June and was paid back without refinancing.

Condensed consolidated statement of cash flows

2nd quarter 2010	2011	in € millions	January-June 2010	2011
1,348	1,986	**Cash and cash equivalents (opening balance)**	1,919	2,683
		Adjustments to reconcile earnings to cash generated from operating activities		
273	273	Profit for the period from continuing operations	361	421
157	153	Amortization, depreciation and impairments	298	303
2	(204)	Changes in working capital	(287)	(594)
(137)	(70)	Changes in provisions	(503)	(428)
96	13	Other changes	(3)	(56)
391	165	**Net cash from operating activities**	(134)	(354)
(130)	(164)	Capital expenditures	(227)	(294)
(35)	16	Acquisitions and divestments net of cash acquired	(27)	24
1	1	Other changes	4	3
(164)	(147)	**Net cash from investing activities**	(250)	(267)
76	(538)	Changes from borrowings	51	(550)
(274)	(271)	Dividends	(282)	(272)
2	5	Other changes	3	10
(196)	(804)	**Net cash from financing activities**	(228)	(812)
31	(786)	**Net cash used for continuing operations**	(612)	(1,433)
1	11	Cash flows from discontinued operations	1	11
32	(775)	**Net change in cash and cash equivalents of total operations**	(611)	(1,422)
92	(17)	Effect of exchange rate changes on cash and cash equivalents	164	(67)
1,472	1,194	**Cash and cash equivalents at June 30**	1,472	1,194

Net financing expenses

Net financing charges decreased by €49 million to €64 million (2010: €113 million):

- Financing expenses on pensions decreased by €13 million to €13 million (2010: €26 million) mainly due to higher returns on plan assets.
- Net interest on debt decreased by €14 million to €46 million (2010: €60 million) due to higher cash balances, close out of interest rate swaps and a one-time adjustment to the interest classification versus last year.
- Interest on provisions decreased by €17 million to €12 million (2010: €29 million) due to lower discount rates.
- We incurred other interest benefits of €7 million due to foreign currency results on hedged future interest cash flows.

For further detail on financing expenses, please refer to page 18.

Medium-term ambitions

We have the aspiration to be the world's leading Coatings and Specialty Chemicals company. Our medium-term ambitions are to grow to €20 billion revenue, increase EBITDA each year while maintaining a 13 to 15 percent margin, reduce OWC percent of revenue year-on-year by 0.5 percent towards a 12 percent level, and pay a stable to rising dividend.

The sustainability ambitions are to remain a top three leader in our industry, to be top quartile in our peer group in terms of safety performance, diversity, employee engagement and development, and eco-efficiency improvement rates.

Outlook

We expect full-year 2011 EBITDA to be at least in line with the prior year, assuming no further deterioration in economic conditions. We are implementing additional performance improvement measures and functional and operational excellence initiatives to sustainably underpin performance and ensure that our growth ambitions are delivered at or above the mid-point of our 13-15 percent EBITDA margin guidance. These initiatives will build on our leadership positions by transferring best practices, adopting standard and consistent methodologies, and leveraging our scale. Details of these measures will be announced in the second half of the year.

Principal risks and uncertainties

In our 2010 Report we have extensively described our risk management framework and our major risk factors which may prevent full achievement of our objectives within the forthcoming five years. In respect of the principal risks for the second half of 2011, we consider that these top 5 risks are still valid. Concerning the sourcing of raw materials, actions to mitigate the price inflation are ongoing and initiatives to secure future supplies are being executed.

Risk	Risk description	Risk corrective actions
Adapt to economic conditions	Failure to adapt adequately and in time to economic conditions can have a harmful impact on our business and results of operations.	One of the principal uncertainties facing our company is the development of the global economy. Economic recovery remains fragile and it continues to be difficult to predict customer demand. Construction and housing markets might remain soft in mature markets, while in high-growth markets there is potential for bubble formation. On the positive side, we have seen evidence of sustained industrial demand beyond re-stocking in 2010. For planning and budgeting we apply various scenarios to be best prepared for further changes in economic conditions. We have a strong balance sheet to fund growth. To help drive our growth agenda, we are focusing on EVA and cash, delivering further operating working capital improvement, disciplined capital allocation for organic growth, selective acquisitions, building capabilities and processes to support our "leading" ambition and a prudent financing policy in still challenging capital markets.
International operations	Because AkzoNobel conducts international operations, we are exposed to a variety of risks, many of them beyond our control, which could adversely affect our business.	We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Our aspirations to fuel growth in high-growth markets – double revenue in China, create a significant footprint in India, outgrow competition in Brazil and expand in the Middle East and sub-Saharan Africa – will further expose us to this risk. Unfavorable political, social or economic developments and developments in laws, regulations and standards could adversely affect our businesses and results of operations. Political, economic and legislative conditions are carefully monitored. The Executive Committee decides on all significant investments, the countries and industry segments in which AkzoNobel conducts its business.
Attraction and retention of talent	Our ambitious growth plans may not be achieved if we fail to attract and retain the right people.	Growing our business calls for the need to grow our people. Therefore, AkzoNobel – in the context of the company's Talent Factory initiative – puts emphasis on attracting, retaining, motivating and educating staff. These efforts are supported by a strong Human Resources function and HR instruments such as performance appraisals, the employee survey and leadership identification and review, as well as leadership development to optimize support to our business. We provide clarity in the working environment through information and communication programs. Special focus is dedicated to high-growth markets. Remuneration packages may include long and short-term incentives. However, the Executive Committee, ensures that employees are not incited to act in their own interest and take risks that are not in keeping with the company's strategy and risk appetite.
Sourcing of raw materials	Inability to access sufficient raw materials, growth in cost and expenses for raw materials, energy and changes in product mix may adversely influence the future results and growth of our company.	We are sensitive to price movements that can lead to erosion of margins and allow product substitution. Our company may also be impacted by business interruption or product discontinuation at some of our key suppliers. We aim to use our purchasing power and long-term relationships with suppliers to acquire raw materials and safeguard their constant delivery in a sustainable manner, to secure volumes and to cooperate on innovation and sustainability. We have inventoried single and sole sourced raw materials and are actively pursuing plans to improve this situation. We have diversified contract length and supplier base. Our strengthened global sourcing strategy enables us to bundle the purchasing power both in product related and non-product related requirements. We continuously monitor the markets in which we operate for developments and opportunities and adapt our purchasing strategy accordingly.
Access to funding	Inability to have access, control and visibility of liquidity by AkzoNobel and/or its partners in the value chain may limit our growth rate and may have an adverse effect on our business and results.	Our balance sheet and debt profile are strong. We are monitoring financial markets, critical suppliers and customers closely. We have a prudent financing strategy and a strict cash management policy, which are managed by our centralized treasury function, see note 24 in the Financial statements on page 124 of our 2010 Report. We are committed to maintaining strong investment grade credit ratings. Ratings at year-end were Standard & Poor's BBB+ (stable outlook) and Moody's Baa1 (stable outlook).

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 2011 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 2011 give a true and fair view of our assets and liabilities, financial position at June 30, 2011, and of the result of our consolidated operations for the first half year of 2011.
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 21, 2011
The Board of Management

Hans Wijers, Chief Executive Officer
Keith Nichols, Chief Financial Officer
Leif Darner, Board member,
responsible for Performance Coatings
Rob Frohn, Board member,
responsible for Specialty Chemicals
Tex Gunning, Board member,
responsible for Decorative Paints

Quarterly statistics

2010 Q1	2010 Q2	2010 Q3	2010 Q4	2010 year	in € millions	2011 Q1	2011 Q2	2011 year-to-date
					Revenue			
1,056	1,401	1,372	1,139	4,968	Decorative Paints	1,196	1,461	2,657
1,049	1,260	1,239	1,238	4,786	Performance Coatings	1,237	1,312	2,549
1,154	1,258	1,272	1,259	4,943	Specialty Chemicals	1,351	1,350	2,701
(13)	(12)	(16)	(16)	(57)	Other activities/eliminations	(22)	(26)	(48)
3,246	**3,907**	**3,867**	**3,620**	**14,640**	**Total**	**3,762**	**4,097**	**7,859**
					EBITDA			
82	205	198	63	548	Decorative Paints	90	191	281
143	191	166	147	647	Performance Coatings	143	170	313
207	257	254	221	939	Specialty Chemicals	241	220	461
(33)	(39)	(44)	(54)	(170)	Other activities/eliminations	(37)	(30)	(67)
399	**614**	**574**	**377**	**1,964**	**Total**	**437**	**551**	**988**
12.3	**15.7**	**14.8**	**10.4**	**13.4**	**EBITDA margin (in %)**	**11.6**	**13.4**	**12.6**
					Depreciation			
(29)	(32)	(31)	(32)	(124)	Decorative Paints	(30)	(30)	(60)
(19)	(21)	(20)	(21)	(81)	Performance Coatings	(21)	(21)	(42)
(52)	(53)	(54)	(55)	(214)	Specialty Chemicals	(55)	(56)	(111)
(5)	(4)	(2)	(5)	(16)	Other activities/eliminations	(2)	(3)	(5)
(105)	**(110)**	**(107)**	**(113)**	**(435)**	**Total**	**(108)**	**(110)**	**(218)**
					Amortization			
(19)	(20)	(19)	(23)	(81)	Decorative Paints	(21)	(20)	(41)
(6)	(7)	(6)	(7)	(26)	Performance Coatings	(7)	(7)	(14)
(11)	(12)	(12)	(11)	(46)	Specialty Chemicals	(12)	(13)	(25)
–	1	(2)	(1)	(2)	Other activities/eliminations	–	–	–
(36)	**(38)**	**(39)**	**(42)**	**(155)**	**Total**	**(40)**	**(40)**	**(80)**
					EBIT			
34	153	148	8	343	Decorative Paints	39	141	180
118	163	140	119	540	Performance Coatings	115	142	257
144	192	188	155	679	Specialty Chemicals	174	151	325
(38)	(42)	(48)	(60)	(188)	Other activities/eliminations	(39)	(33)	(72)
258	**466**	**428**	**222**	**1,374**	**Total**	**289**	**401**	**690**
7.9	**11.9**	**11.1**	**6.1**	**9.4**	**EBIT margin (in %)**	**7.7**	**9.8**	**8.8**
					Operating income			
19	146	136	(26)	275	Decorative Paints	37	137	174
101	153	129	104	487	Performance Coatings	106	155	261
126	195	164	119	604	Specialty Chemicals	173	147	320
(22)	(39)	(48)	(38)	(147)	Other activities/eliminations	(39)	(11)	(50)
224	**455**	**381**	**159**	**1,219**	**Total**	**277**	**428**	**705**

2010						2011		
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	**year-to-date**
					Incidentals per Business Area			
(15)	(7)	(12)	(34)	(68)	Decorative Paints	(2)	(4)	(6)
(17)	(10)	(11)	(15)	(53)	Performance Coatings	(9)	13	4
(18)	3	(24)	(36)	(75)	Specialty Chemicals	(1)	(4)	(5)
16	3	–	22	41	Other activities/eliminations	–	22	22
(34)	**(11)**	**(47)**	**(63)**	**(155)**	**Total**	**(12)**	**27**	**15**
					Incidentals included in operating income			
(17)	(21)	(53)	(29)	(120)	Restructuring costs	(9)	(20)	(29)
(9)	8	–	(48)	(49)	Results related to major legal, anti-trust and environmental cases	1	21	22
1	1	15	16	33	Results on acquisitions and divestments	–	26	26
(9)	1	(9)	(2)	(19)	Other incidental results	(4)	–	(4)
(34)	**(11)**	**(47)**	**(63)**	**(155)**	**Total**	**(12)**	**27**	**15**
					Incidentals per line item			
(16)	(20)	(37)	(53)	(126)	Cost of sales	(4)	(5)	(9)
(5)	(3)	(7)	(28)	(43)	Selling expenses	(3)	(9)	(12)
(7)	1	(3)	(4)	(13)	General and administrative expenses	(1)	(4)	(5)
–	–	(2)	1	(1)	Research and development expenses	–	–	–
(6)	11	2	21	28	Other operating income/(expenses)	(4)	45	41
(34)	**(11)**	**(47)**	**(63)**	**(155)**	**Total**	**(12)**	**27**	**15**
					Reconciliation net financing expense			
12	12	16	11	51	Financing income	14	17	31
(67)	(72)	(53)	(48)	(240)	Financing expenses	(61)	(63)	(124)
(55)	**(60)**	**(37)**	**(37)**	**(189)**	**Net interest on net debt**	**(47)**	**(46)**	**(93)**
					Other interest movements			
(25)	(26)	(26)	(23)	(100)	Financing expenses related to pensions	(16)	(13)	(29)
(8)	(29)	(6)	4	(39)	Interest on provisions	(5)	(12)	(17)
–	2	(1)	–	1	Other items	5	7	12
(33)	**(53)**	**(33)**	**(19)**	**(138)**	**Net other financing charges**	**(16)**	**(18)**	**(34)**
(88)	**(113)**	**(70)**	**(56)**	**(327)**	**Net financing expenses**	**(63)**	**(64)**	**(127)**
					Quarterly net income analysis			
5	7	9	4	25	Results from associates and joint ventures	7	8	15
(18)	(26)	(22)	(17)	(83)	Profit attributable to non-controlling interests	(16)	(22)	(38)
141	349	320	107	917	Profit before tax	221	372	593
(53)	(76)	(81)	40	(170)	Income tax	(73)	(99)	(172)
88	273	239	147	747	Profit for the period from continuing operations	148	273	421
38	22	25	(37)	19	Effective tax rate (in %)	33	27	29

2010 Q1	Q2	Q3	Q4	year		2011 Q1	Q2	year-to-date
Earnings per share from continuing operations (in €)								
0.30	1.06	0.93	0.55	2.85	Basic	0.57	1.07	1.64
0.30	1.05	0.92	0.55	2.83	Diluted	0.56	1.07	1.63
Earnings per share from discontinued operations (in €)								
0.05	0.11	0.09	0.14	0.38	Basic	(0.02)	0.07	0.05
0.05	0.11	0.09	0.14	0.38	Diluted	(0.02)	0.07	0.05
Earnings per share from total operations (in €)								
0.35	1.17	1.02	0.69	3.23	Basic	0.55	1.14	1.69
0.35	1.16	1.01	0.69	3.21	Diluted	0.54	1.14	1.68
Number of shares (in millions)								
232.7	233.3	233.4	233.5	233.2	Weighted average number of shares	233.6	233.9	233.7
233.2	233.4	233.5	233.5	233.5	Number of shares at end of quarter	233.7	234.0	234.0
Adjusted earnings (in € millions)								
141	349	320	107	917	Profit before tax from continuing operations	221	372	593
34	11	47	63	155	Incidentals reported in operating income	12	(27)	(15)
36	38	39	42	155	Amortization of intangible assets	40	40	80
(71)	(97)	(107)	(4)	(279)	Adjusted income tax	(88)	(107)	(195)
(18)	(26)	(22)	(17)	(83)	Non-controlling interests	(16)	(22)	(38)
122	**275**	**277**	**191**	**865**	**Adjusted net income for continuing operations**	**169**	**256**	**425**
0.52	**1.18**	**1.19**	**0.82**	**3.71**	**Adjusted earnings per share (in €)**	**0.72**	**1.09**	**1.82**

Notes to the condensed financial statements

Accounting policies
This interim financial report is in compliance with IAS 34 "Interim Financial Reporting". This report is unaudited.

The accounting principles are as applied in the 2010 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.

The "other" category
In the category "other" 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 and company projects, 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.

Constant currencies information excludes foreign currency translation effects assuming foreign currency exchange rates have not changed between the prior year period and the current period.

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: Czech Republic, Estonia, Hungary, Poland, Romania, Russian Federation, Slovenia, Turkey and Ukraine.

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. EBITDA and EBIT before incidentals are key figures we use to assess our performance, as these figures better reflect the underlying trends in the results of the activities.

Interest coverage is operating income divided by net interest on net debt. In 2010, we used the definition operating income divided by net financing expenses and included non-cash items such as interest on pensions and provisions. We have changed the definition starting 2011. The 2010 figure has been adjusted to align with the 2011 definition.

Invested capital is total assets (excluding cash and cash equivalents, investments in associates, assets 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 EBIT 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 ROI is calculated as EBIT before amortization of the last twelve months divided by average invested capital excluding intangible assets.

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

Revenue consists of sales of goods, services, and royalty income.

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 2011	October 20, 2011
Ex-dividend date of 2011 interim dividend	October 24, 2011
Record date of 2011 interim dividend	October 26, 2011
Election period cash or stock interim dividend	October 27, 2011 - November 18, 2011
Payment date of cash dividend and delivery of new shares	November 24, 2011
Report for 2011 and the 4th quarter	February 16, 2012
Report for the 1st quarter 2012	April 19, 2012
Annual General Meeting	April 23, 2012
Report for the 2nd quarter 2012	July 19, 2012

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AkzoNobel is the largest 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 a Global Fortune 500 company and are consistently ranked as one of the leaders in the area of sustainability. With operations in more than 80 countries, our 55,000 people around the world are committed to excellence and delivering Tomorrow's Answers Today™.

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