Half-yearly report & report for the second quarter

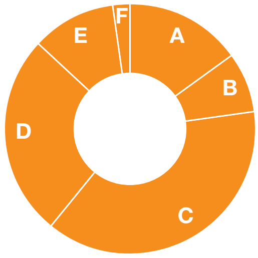
2013

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	26
E Latin America	11
F Other regions	2
	100

(Based on the full year 2012)



Our quarterly results at a glance

- Revenue down 4 percent, mainly due to divestments
- Operating income at €322 million (2012: €388 million) driven by adverse price/mix developments
- Net income attributable to shareholders €429 million (2012: €219 million) due to recognition of a deferred tax asset and the divestment of Decorative Paints North America
- Adjusted EPS €1.37 (2012: €1.06)
- Performance improvement program on track to be completed in 2013
- Operational focus of strategy update announced in February is the right approach for continuing challenging market conditions; 2015 targets confirmed.
- Restructuring activities being stepped up with full year charges expected to be in the order of €325 million with the benefits of these additional €120 million costs realized in 2014 and beyond
- Expected higher restructuring charges, and continued weak markets, mean that full year operating income is unlikely to exceed the €908 million of 2012

Summary of financial outcomes

2nd quarter				January - June		
2012	2013	Δ%	in € millions	2012	2013	Δ%
4,044	3,865	(4)	Revenue	7,751	7,330	(5)
388	322	(17)	Operating income	624	539	(14)
9.6	8.3		ROS%	8.1	7.4	
			Invested capital	12,684	10,239	
			Moving average ROI (in %)	8.7	7.7	
554	474	(14)	EBITDA	964	849	(12)
166	168		Capital expenditures	301	299	
351	261		Net cash from operating activities	(353)	(145)	
			Net debt	2,844	2,197	
215	308	43	Net income from continuing operations	325	404	24
4	121		Net income from discontinued operations	(22)	114	
219	429	96	Net income attributable to shareholders	303	518	71
0.92	1.78		Earnings per share from total operations (in €)	1.28	2.15	
1.06	1.37		Adjusted earnings per share (in €)	1.71	1.89	
			Number of employees	52,820	50,500	

Financial highlights

Revenue was down 4 percent due to divestments and adverse currencies. Operating income was 17 percent lower at €322 million, driven by adverse price/mix developments. Specialty Chemicals were impacted by a general softening of demand across all markets. Cash from operating activities was €261 million (2012: €351 million), mainly due to lower operating income.

Revenue

- Q2 revenue in Decorative Paints declined 1 percent, mainly due to negative price/mix and unfavorable currency effects. The slowdown in global markets continues to affect the top line. In general volumes stabilized, with some markets, in particular China, making a positive contribution in the quarter.
- Q2 revenue in Performance Coatings declined 1 percent, with the slowdown in Europe impacting all businesses.
- Q2 revenue in Specialty Chemicals declined by 12 percent, mainly due to divestments and lower volumes in all businesses. A general softening in demand was evident, notably in Europe, although manufacturing also slowed down in China and other high growth markets. Furthermore, the conclusion of value chain issues in Q1 and the exit from the merchant fatty acids business in Boxing, China, had an impact on volume.

Acquisitions and divestments

- The divestment of Chemicals Pakistan in 2012 accounts for the divestment impact in revenue.
- The divestment of Decorative Paints North America was completed on April 1, 2013 and resulted in €779 million cash inflows and a transaction gain of €115 million, both reported in discontinued operations.

Raw materials

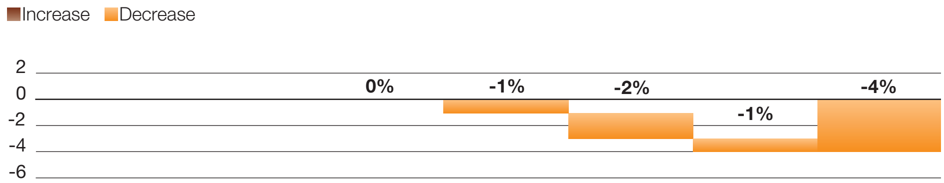
In Q2, we saw lower input prices as a result of lower TiO_2 costs and the lower oil price, which has begun to impact some of our raw materials. We expect the price of TiO_2 to remain stable for the rest of the year, which would imply slightly less benefit when compared with the second half of 2012, as the price had already started to come down in the second half of last year. We should also continue to see some benefit from the lower price of oil in the second half of 2013, although this is not expected to be significant as the derivative products are also impacted by supply and demand specifics. Nonetheless, we do expect that overall our raw materials cost for the year will be down marginally compared with 2012 on a like for like basis.

Revenue

2nd quarter | January - June

2012	2013	Δ%	in € millions	2012	2013	Δ%
1,187	1,179	(1)	Decorative Paints	2,161	2,104	(3)
1,472	1,458	(1)	Performance Coatings	2,841	2,789	(2)
1,431	1,253	(12)	Specialty Chemicals	2,830	2,497	(12)
(46)	(25)		Other activities/eliminations	(81)	(60)	
4,044	**3,865**	**(4)**	**Total**	**7,751**	**7,330**	**(5)**

Revenue development Q2 2013



in % versus Q2 2012	Volume	Price/mix	Divestments	Exchange rates	Total
Decorative Paints	4	(2)	–	(3)	(1)
Performance Coatings	–	–	–	(1)	(1)
Specialty Chemicals	(5)	(2)	(5)	–	(12)
Total	**–**	**(1)**	**(2)**	**(1)**	**(4)**

Volume development per quarter (year-on-year)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Decorative Paints	(3)	(6)	2	(1)	4
Performance Coatings	(2)	–	(2)	(3)	–
Specialty Chemicals	(2)	(2)	(1)	(4)	(5)
Total	**(3)**	**(3)**	**(1)**	**(3)**	**–**

Price/mix development per quarter (year-on-year)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Decorative Paints	3	1	–	(1)	(2)
Performance Coatings	6	3	3	1	–
Specialty Chemicals	2	(1)	1	(2)	(2)
Total	**3**	**1**	**2**	**(1)**	**(1)**

Performance improvement program

The performance improvement program announced in October 2011 is making good progress with positive impact on both variable and fixed costs. The initiatives have cumulatively resulted in €381 million savings and we are on track to deliver the full €500 million in EBITDA at the end of this year. The program is structured around business unit adaptations and operational excellence, which contribute the majority of the benefits, while functional excellence is an important enabler. Various actions taken in operational excellence address product complexity reduction, sourcing optimization, manufacturing and distribution excellence, and margin management across the entire organization.

Since the announcement of the program, the number of employees was reduced by over 2,500 FTE, of which around 800 were in 2013. In the first half of 2013, we have spent €69 million on restructuring activities. We expect the costs for the full year 2013 to be in the order of €325 million, with the additional benefits becoming visible in 2014. Examples of additional restructuring activities include the upcoming initiatives in European Decorative Paints and Functional Chemicals. We are embedding continuous improvement in our businesses, moving from project based actions.

Operating income

- In Decorative Paints, costs were lower, mainly in Europe. Operating income for the quarter totaled €102 million (9 percent lower than the previous year), mainly due to restructuring costs in mature markets.
- In Performance Coatings, the impact of the revenue decline was partially offset by margin management, cost control and restructuring.
- In Specialty Chemicals, the lower profitability was mainly due to lower volumes and production outages, partly mitigated by cost and productivity initiatives. The first phase of a large performance improvement program in Functional Chemicals was initiated, which will lead to further FTE-reductions. Implementation will start as of Q3, when restructuring costs will be recorded as part of the performance improvement plan.

Operating income

2nd quarter				January - June		
2012	2013	Δ%	in € millions	2012	2013	Δ%
112	102	(9)	Decorative Paints	137	145	6
171	163	(5)	Performance Coatings	298	292	(2)
154	121	(21)	Specialty Chemicals	294	220	(25)
(49)	(64)		Other activities/eliminations	(105)	(118)	
388	**322**	**(17)**	**Total**	**624**	**539**	**(14)**

Operating income in Other activities

2nd quarter			January - June	
2012	2013	in € millions	2012	2013
(26)	(31)	Corporate costs	(62)	(61)
(1)	(3)	Pensions	2	(6)
(10)	(3)	Insurances	(12)	3
(12)	(27)	Other	(33)	(54)
(49)	**(64)**	**Operating income in Other activities**	**(105)**	**(118)**

Operating income to net income

2nd quarter			January - June	
2012	2013	in € millions	2012	2013
388	**322**	**Operating income**	**624**	**539**
(67)	(33)	Net financing expenses	(117)	(96)
5	6	Results from associates and joint ventures	9	9
326	**295**	**Profit before tax**	**516**	**452**
(89)	38	Income tax	(155)	(7)
237	**333**	**Profit from continuing operations**	**361**	**445**
4	121	Profit/(loss) from discontinued operations	(22)	114
241	**454**	**Profit for the period**	**339**	**559**
(22)	(25)	Non-controlling interests	(36)	(41)
219	**429**	**Net income**	**303**	**518**

Operating income in Other activities

Operating income in Other activities was lower than previous year. The main difference is in "Other" costs due to positive one-offs in 2012.

Net financing expenses

Net financing expenses decreased by €34 million to €33 million. This was driven by:

- Interest charge on provisions which decreased by €33 million due to higher discount rates.
- Lower financing income was offset by lower financing expenses.

Tax

The tax line for the quarter includes a non-cash gain as a result of the recognition of €124 million of previously unrecognized deferred tax assets. The year-to-date tax rate excluding this deferred tax gain is 29 percent (2012: 30 percent).

Decorative Paints

- Revenue down 1 percent due to unfavorable price/mix and adverse currencies
- Volumes stabilizing but market conditions in Europe remained challenging
- Operating income benefited from lower cost, but was impacted by a weak volume development in mature markets
- Asian revenue grew due to strong volume development in China

Revenue declined 1 percent, mainly due to negative price/mix and unfavorable currency effects. The slowdown in global markets continues to affect the top line. In general volumes stabilized, with some markets, in particular China, making a positive contribution in the quarter. Operating income for the quarter totaled €102 million (9 percent lower than the previous year), mainly due to restructuring costs in mature markets. We have been benefiting from a lower cost basis and lower raw material prices.

Europe

Revenue in Europe was down 6 percent. All regions continue to be affected by the region's economic crisis, but due to a strong quarter in the UK, volume increased by 1 percent. Countries such as Germany, Austria, Belgium, and the Netherlands were most affected, while growth was still evident in some high growth countries such as Russia. Restructuring measures and various operational efficiency improvement programs led to a lower cost base, but the ongoing restructuring spend meant that total operational costs were higher. As a result, operating income was lower than the previous year. In Germany, we decided to divest the stores to independent wholesalers to sharpen the distribution focus.

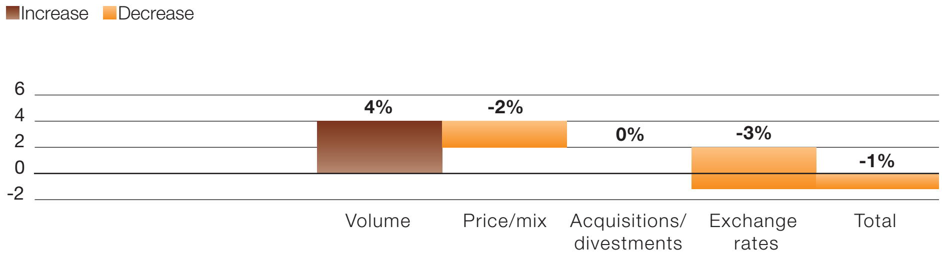
Latin America

Revenue increased 4 percent, despite the unfavorable currency impact. Volumes and prices were also up, but at lower margins due to raw material costs being affected by the currency devaluation in the region. The costs in constant currencies increased due to additional manpower to support growth, but are flat in euros due to currency developments.

Revenue

2nd quarter				January - June		
2012	**2013**	**Δ%**	in € millions	**2012**	**2013**	**Δ%**
780	736	(6)	Decorative Paints Europe	1,398	1,314	(6)
135	140	4	Decorative Paints Latin America	269	274	2
276	303	10	Decorative Paints Asia	498	516	4
(4)	–		Other/intragroup eliminations	(4)	–	
1,187	**1,179**	**(1)**	**Total**	**2,161**	**2,104**	**(3)**
112	102	(9)	Operating income	137	145	6
9.4	8.7		ROS%	6.3	6.9	
			Invested capital	5,508	2,882	
			Moving average ROI (in %)	3.7	2.9	
155	141	(9)	EBITDA	223	229	3
41	40		Capital expenditures	70	67	
			Number of employees	17,440	16,940	

Revenue development Q2 2013



Asia

Revenue was up 10 percent due to strong volume developments in China and South East Asia. In China, volume and revenue continue to grow by double digits, while profitability continues to increase as a result of favorable mix due to higher sales of premium products and strong cost control.

Performance Coatings

- Revenue down 1 percent, due to currencies
- Operating income down 5 percent, return on sales at 11.2 percent (2012: 11.6 percent)
- Overall volume flat compared with the previous year
- Continued focus on cost control and operational efficiencies

Revenue declined 1 percent on 2012, with the slowdown in Europe impacting all businesses. Operating income was down by 5 percent due to investments in growth and business excellence initiatives, partially mitigated by margin management and structural cost benefits.

Marine and Protective Coatings

Revenue dropped 3 percent due to currency and price/mix, but this revenue decline was partially offset by growth in volume. The global decline in newbuild activity continues to impact results for the Marine business. At Protective Coatings, the high activity levels in oil and gas are continuing, while in Yacht, the retail market across all regions struggled with the shortening of the maintenance and repair season.

Automotive and Aerospace Coatings

Revenue was up 3 percent supported by price/mix and volumes, although currencies had an adverse impact. In Vehicle Refinish, volumes in Europe remained weak, with Asia continuing to show mixed results. Some volume growth was evident, notably at Aerospace and Specialty Finishes. Initiatives to control costs continued during the quarter.

Powder Coatings

Revenue dropped 1 percent due to currencies, being partially offset by favorable price/mix. Volumes declined in Europe, although this was offset by growth in Asia, while the Americas were in line with the previous year. It was a mixed quarter, with Architectural, Automotive and Trade Coaters achieving growth, but Domestic Appliance continues to experience weak demand. Cost control initiatives launched in 2012 helped to control costs during the quarter.

Revenue

2nd quarter				January - June		
2012	2013	Δ%	in € millions	2012	2013	Δ%
411	400	(3)	Marine and Protective Coatings	780	751	(4)
329	339	3	Automotive and Aerospace Coatings	639	657	3
255	252	(1)	Powder Coatings	499	482	(3)
483	474	(2)	Industrial Coatings	935	914	(2)
(6)	(7)		Other/intragroup eliminations	(12)	(15)	
1,472	**1,458**	**(1)**	**Total**	**2,841**	**2,789**	**(2)**
171	163	(5)	Operating income	298	292	(2)
11.6	11.2		ROS%	10.5	10.5	
			Invested capital	2,545	2,524	
			Moving average ROI (in %)	20.5	21.0	
204	197	(3)	EBITDA	363	360	(1)
25	26		Capital expenditures	43	52	
			Number of employees	21,910	21,420	

Revenue development Q2 2013

Industrial Coatings

Revenue declined 2 percent due to currencies and volume, partially offset by favorable price/mix. Growth was achieved in Asia in Coil and Packaging, and in the Americas in Wood Finishes, partially offsetting the decline in Europe, which was visible in all segments.

Specialty Chemicals

- Revenue down 12 percent, due to Chemicals Pakistan divestment and 5 percent lower volumes
- Operating income down 21 percent to €121 million, due to unfavorable market conditions and production issues in the value chain
- Performance improvement programs are ongoing in all businesses

Revenue declined during the quarter, mainly due to divestments and lower volumes in all businesses, particularly in segments such as construction, agriculture and pulp bleaching. A general softening in demand was evident, notably in Europe, although manufacturing also slowed down in China and other high growth markets, impacting global supply chains and adding to the volatility in ordering patterns. Furthermore, the conclusion of value chain issues in Q1 and the exit from the merchant fatty acids business in Boxing, China, had an impact on volume. The lower profitability was mainly due to lower volumes and production outages, partly mitigated by cost and productivity initiatives.

Functional Chemicals

General market conditions remained difficult, with volumes under pressure in construction related products (performance additives, polysulfides) and polymer initiators. Ethylene Amines margins remained under pressure due to the continued imbalance in supply/demand. The first phase of a large and comprehensive performance improvement program has been initiated, aimed at structurally improving competitiveness by implementing operational and functional excellence throughout all areas and functions. The program will include an estimated FTE reduction of more than 350 (8 percent of the business' total workforce). Implementation will start as of Q3, when one-time restructuring costs will be recorded as part of the performance improvement plan.

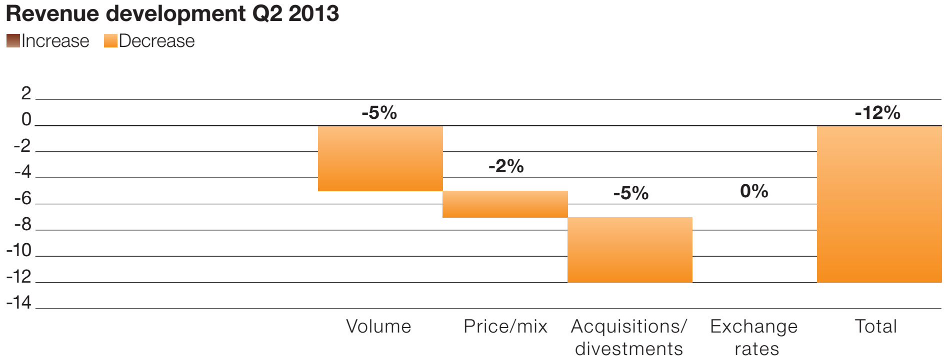
Industrial Chemicals

Volumes and margins were impacted by low caustic inventories due to the conclusion of a large maintenance stop in Rotterdam early in the quarter.

Revenue

2nd quarter				January - June		
2012	**2013**	**Δ%**	in € millions	**2012**	**2013**	**Δ%**
518	488	(6)	Functional Chemicals	1,017	955	(6)
293	279	(5)	Industrial Chemicals	594	570	(4)
293	264	(10)	Surface Chemistry	577	522	(10)
289	258	(11)	Pulp and Performance Chemicals	571	520	(9)
72	–	(100)	Chemicals Pakistan	141	–	(100)
(34)	(36)		Other/intragroup eliminations	(70)	(70)	
1,431	**1,253**	**(12)**	**Total**	**2,830**	**2,497**	**(12)**
154	121	(21)	Operating income	294	220	(25)
10.8	9.7		ROS%	10.4	8.8	
			Invested capital	3,751	3,702	
			Moving average ROI (in %)	16.7	11.5	
235	198	(16)	EBITDA	470	372	(21)
95	100		Capital expenditures	182	178	
			Number of employees	11,860	10,620	

Revenue development Q2 2013



Surface Chemistry

Volumes were down due to lower sales in the agriculture segment and the previously announced exit from the merchant fatty acids business in China.

Pulp and Performance Chemicals

It was a weak quarter, with lower volumes than the previous year, mainly in bleaching products. In Brazil, the investments in the Chemical Island concept are in start-up mode.

Condensed financial statements

Consolidated statement of income

2nd quarter 2012	2nd quarter 2013	in € millions	January - June 2012	January - June 2013
Continuing operations				
4,044	3,865	Revenue	7,751	7,330
(2,470)	(2,332)	Cost of sales	(4,786)	(4,457)
1,574	**1,533**	**Gross profit**	**2,965**	**2,873**
(801)	(778)	Selling expenses	(1,544)	(1,493)
(292)	(336)	General and administrative expenses	(604)	(654)
(96)	(94)	Research and development expenses	(187)	(184)
3	(3)	Other operating income/(expenses)	(6)	(3)
388	**322**	**Operating income**	**624**	**539**
(67)	(33)	Net financing expenses	(117)	(96)
5	6	Results from associates and joint ventures	9	9
326	**295**	**Profit before tax**	**516**	**452**
(89)	38	Income tax	(155)	(7)
237	**333**	**Profit for the period from continuing operations**	**361**	**445**
Discontinued operations				
4	121	Profit for the period from discontinued operations	(22)	114
241	**454**	**Profit for the period**	**339**	**559**
Attributable to				
219	429	Shareholders of the company	303	518
22	25	Non-controlling interests	36	41
241	**454**	**Profit for the period**	**339**	**559**

Consolidated statement of comprehensive income

2nd quarter 2012	2nd quarter 2013	in € millions	January - June 2012	January - June 2013
241	**454**	**Profit for the period**	**339**	**559**
Other comprehensive income				
216	(295)	Exchange differences arising on translation of foreign operations	147	(204)
2	(19)	Cash flow hedges	(13)	(16)
(276)	243	Post-retirement benefits	(725)	237
63	(14)	Tax relating to components of other comprehensive income	176	(34)
5	**(85)**	**Other comprehensive income for the period (net of tax)**	**(415)**	**(17)**
246	**369**	**Comprehensive income for the period**	**(76)**	**542**
Comprehensive income for the period attributable to				
211	360	Shareholders of the company	(114)	508
35	9	Non-controlling interests	38	34
246	**369**	**Comprehensive income for the period**	**(76)**	**542**

Condensed consolidated balance sheet *

in € millions	December 31, 2012	June 30, 2013
Assets		
Non-current assets		
Intangible assets	4,454	4,335
Property, plant and equipment	3,739	3,703
Other financial non-current assets	2,628	2,750
Total non-current assets	**10,821**	**10,788**
Current assets		
Inventories	1,545	1,559
Trade and other receivables	2,698	3,030
Cash and cash equivalents	1,752	1,915
Other current assets	91	127
Assets held for sale	921	121
Total current assets	**7,007**	**6,752**
Total assets	**17,828**	**17,540**
Equity and liabilities		
Total equity	**6,228**	**6,621**
Non-current liabilities		
Provisions and deferred tax liabilities	3,111	2,705
Long-term borrowings	3,388	2,676
Total non-current liabilities	**6,499**	**5,381**
Current liabilities		
Short-term borrowings	662	1,436
Trade and other payables	3,242	3,263
Other short-term liabilities	845	790
Liabilities held for sale	352	49
Total current liabilities	**5,101**	**5,538**
Total equity and liabilities	**17,828**	**17,540**

Shareholders' equity

Shareholders' equity increased from €5.8 million at year-end 2012 to €6.2 billion, mainly due to the effect of:

- Net income of €518 million
- IAS19 actuarial gains (net of tax) of €194 million

Offset by:

- Dividend payments of €158 million
- Decrease in cumulative translation reserves of €127 million due to the stronger euro
- Decrease in cumulative translation reserves of €64 million due to the recycling to the statement of income of the cumulative translation reserves related to the divested Decorative Paints North America business.

** Restated for the revised IAS 19*

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, 2012	**469**	**47**	**(9)**	**4**	**8,520**	**9,031**	**529**	**9,560**
Profit for the period	–	–	–	–	303	303	36	339
Other comprehensive income	–	–	(12)	141	(546)	(417)	2	(415)
Comprehensive income for the period	**–**	**–**	**(12)**	**141**	**(243)**	**(114)**	**38**	**(76)**
Dividend paid	5	90	–	–	(263)	(168)	(13)	(181)
Equity-settled transactions	–	–	–	–	19	19	–	19
Issue of common shares	2	4	–	–	–	6	–	6
Acquisitions and divestments	–	–	–	–	(7)	(7)	(8)	(15)
Balance at June 30, 2012	**476**	**141**	**(21)**	**145**	**8,026**	**8,767**	**546**	**9,313**
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**

Invested capital

Invested capital at the end of Q2 2013 totaled €10.2 billion, €0.1 billion higher than at year-end 2012. Invested capital was mainly impacted by the net effect of:

- An increase of operating working capital of €0.3 billion mainly due to seasonality. Expressed as a percentage of revenue, operating working capital was 12.1 percent (Q2 2012: 13.8 percent; year-end 2012: 10.7 percent).
- A decrease of €0.1 billion due to foreign currency translation, due to the stronger euro.

Pensions

The funded status of the pension plans at the end of Q2 2013 was a deficit of €0.4 billion (year-end 2012: €1.1 billion as reported, €0.9 billion on restated basis). The movement compared to year-end 2012 is primarily due to:

- Changes in accounting standard IAS 19 (effective January 1, 2013) by €183 million
- Top-up payments of €294 million into certain pension plans
- Higher discount rates in all key countries

Offset by:

- Higher inflation
- Lower asset returns.

Workforce

At June 30, 2013, we employed 50,500 staff (year-end 2012: 50,610 employees). The net decrease was due to:

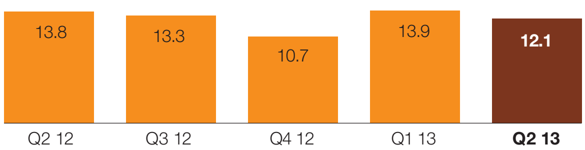
- A decrease of 810 employees due to ongoing restructuring.
- An increase of 700 employees due to new hires and seasonal activity. New hires were mainly in high growth markets.

Invested capital

in € millions	June 30, 2012	December 31, 2012	June 30, 2013
Trade receivables	2,554	2,174	2,489
Inventories	1,791	1,545	1,559
Trade payables	(2,118)	(2,147)	(2,176)
Operating working capital	**2,227**	**1,572**	**1,872**
Other working capital items	(783)	(870)	(796)
Non-current assets	13,098	10,821	10,788
Less investments in associates and joint ventures	(203)	(185)	(186)
Less pension assets	(1,151)	(842)	(978)
Deferred tax liabilities	(504)	(434)	(461)
Invested capital	**12,684**	**10,062**	**10,239**

Operating working capital

In % of revenue



Operating working capital

in € millions, % of revenue	June 30, 2012		December 31, 2012		June 30, 2013	
Decorative Paints	661	13.9	353	8.9	447	9.5
Performance Coatings	871	14.8	742	13.3	860	14.7
Specialty Chemicals	783	13.7	564	10.7	645	12.9
Other activities	(88)		(87)		(80)	
Total	**2,227**	**13.8**	**1,572**	**10.7**	**1,872**	**12.1**

Condensed consolidated statement of cash flows

2nd quarter 2012	2nd quarter 2013	in € millions	January - June 2012	January - June 2013
905	1,112	**Cash and cash equivalents at beginning of period**	1,335	1,558
		Adjustments to reconcile earnings to cash generated from operating activities		
237	333	Profit for the period from continuing operations	361	445
155	152	Amortization and depreciation	308	310
(80)	(123)	Changes in working capital	(464)	(473)
(29)	(38)	Changes in provisions	(577)	(317)
68	(63)	Other changes	19	(110)
351	261	**Net cash from operating activities**	(353)	(145)
(166)	(168)	Capital expenditures	(301)	(299)
(14)	7	Acquisitions and divestments net of cash acquired	(13)	(6)
2	9	Other changes	13	22
(178)	(152)	**Net cash from investing activities**	(301)	(283)
22	(59)	Changes from borrowings	512	104
(178)	(178)	Dividends	(181)	(186)
1	2	Other changes	(9)	12
(155)	(235)	**Net cash from financing activities**	322	(70)
18	(126)	**Net cash used for continuing operations**	(332)	(498)
44	779	Cash flows from discontinued operations	(27)	692
62	653	**Net change in cash and cash equivalents of total operations**	(359)	194
26	(38)	Effect of exchange rate changes on cash and cash equivalents	17	(25)
993	1,727	**Cash and cash equivalents at June 30**	993	1,727

Cash flows and net debt

Operating activities in Q2 2013 resulted in a cash inflow of €261 million (Q2 2012: €351 million). The change is mainly due to lower operating income and higher cash outflow from working capital. The movement in other changes related to a non-cash deferred tax gain, that was included in profit from continuing operations.

Net debt decreased from €2,888 million in Q1 2013 to €2,197 million in Q2 2013 as a consequence of the net impact of:

- Cash inflow from discontinued operations of €779 million, mainly proceeds from the divestment of Decorative Paints North America.
- Cash inflow from operating activities of €261 million.
- Capital expenditures of €168 million.
- Dividend payments of €178 million.

Outlook and 2015 targets

As communicated in Q1, the economic environment remains challenging and we do not expect an early improvement in the trends in our end-user market segments. We expect to increase restructuring charges in the second half by €120 million to around €325 million to secure the delivery of our 2015 targets. This means that our full year operating income is unlikely to exceed the €908 million of 2012. The acceleration of our performance improvement program and the strategic priorities announced in February are the right focus to have in these markets:

- Achieve ROI% at 14.0 percent by 2015.
- Achieve ROS% at 9.0 percent by 2015.
- Maintain net debt/EBITDA lower than 2.0 by 2015.
- Increase revenue from downstream eco-premium solutions to 20 percent of our revenues in 2020.
- Reduce our carbon emissions through the value chain by 25 to 30 percent per ton by 2020 (base 2012).
- Improve resource efficiency across the full value chain.

Quarterly statistics

				2012				2013
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Year-to-date
Revenue								
974	1,187	1,141	995	4,297	Decorative Paints	925	1,179	2,104
1,369	1,472	1,467	1,394	5,702	Performance Coatings	1,331	1,458	2,789
1,399	1,431	1,393	1,320	5,543	Specialty Chemicals	1,244	1,253	2,497
(35)	(46)	(35)	(36)	(152)	Other activities/eliminations	(35)	(25)	(60)
3,707	**4,044**	**3,966**	**3,673**	**15,390**	**Total**	**3,465**	**3,865**	**7,330**
EBITDA								
68	155	97	(36)	284	Decorative Paints	88	141	229
159	204	163	147	673	Performance Coatings	163	197	360
235	235	208	152	830	Specialty Chemicals	174	198	372
(52)	(40)	(40)	(58)	(190)	Other activities/eliminations	(50)	(62)	(112)
410	**554**	**428**	**205**	**1,597**	**Total**	**375**	**474**	**849**
11.1	**13.7**	**10.8**	**5.6**	**10.4**	**EBITDA margin (in %)**	**10.8**	**12.3**	**11.6**
Depreciation								
(27)	(26)	(26)	(27)	(106)	Decorative Paints	(28)	(28)	(56)
(23)	(25)	(23)	(24)	(95)	Performance Coatings	(25)	(25)	(50)
(61)	(63)	(62)	(65)	(251)	Specialty Chemicals	(62)	(64)	(126)
(3)	(1)	(4)	(3)	(11)	Other activities/eliminations	(4)	(2)	(6)
(114)	**(115)**	**(115)**	**(119)**	**(463)**	**Total**	**(119)**	**(119)**	**(238)**
Amortization								
(16)	(17)	(18)	(19)	(70)	Decorative Paints	(17)	(11)	(28)
(9)	(8)	(10)	(9)	(36)	Performance Coatings	(9)	(9)	(18)
(13)	(15)	(13)	(14)	(55)	Specialty Chemicals	(13)	(13)	(26)
(1)	–	–	–	(1)	Other activities/eliminations	–	–	–
(39)	**(40)**	**(41)**	**(42)**	**(162)**	**Total**	**(39)**	**(33)**	**(72)**
EBIT								
25	112	53	(82)	108	Decorative Paints	43	102	145
127	171	130	114	542	Performance Coatings	129	163	292
161	157	133	73	524	Specialty Chemicals	99	121	220
(56)	(41)	(44)	(61)	(202)	Other activities/eliminations	(54)	(64)	(118)
257	**399**	**272**	**44**	**972**	**Total**	**217**	**322**	**539**
6.9	**9.9**	**6.9**	**1.2**	**6.3**	**EBIT margin (in %)**	**6.3**	**8.3**	**7.4**
Operating income								
25	112	(2,058)	(91)	(2,012)	Decorative Paints	43	102	145
127	171	130	114	542	Performance Coatings	129	163	292
140	154	133	73	500	Specialty Chemicals	99	121	220
(56)	(49)	(63)	(60)	(228)	Other activities/eliminations	(54)	(64)	(118)
236	**388**	**(1,858)**	**36**	**(1,198)**	**Total**	**217**	**322**	**539**
6.4	**9.6**	**6.3**	**1.0**	**5.9**	**ROS% before impairment**	**6.3**	**8.3**	**7.4**

Quarterly statistics

				2012				2013
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	Year-to-date
Incidentals per Business Area								
–	–	(2,111)	(9)	(2,120)	Decorative Paints	–	–	–
–	–	–	–	–	Performance Coatings	–	–	–
(21)	(3)	–	–	(24)	Specialty Chemicals	–	–	–
–	(8)	(19)	1	(26)	Other activities/eliminations	–	–	–
(21)	**(11)**	**(2,130)**	**(8)**	**(2,170)**	**Total**	**–**	**–**	**–**
Incidentals included in operating income								
–	–	–	–	–	Restructuring costs	–	–	–
–	–	(2,106)	–	(2,106)	Impairment	–	–	–
(21)	2	(1)	–	(20)	Results related to major legal and environmental cases	–	–	–
–	–	(5)	(25)	(30)	Results on acquisitions and divestments	–	–	–
–	(13)	(18)	17	(14)	Other incidental results	–	–	–
(21)	**(11)**	**(2,130)**	**(8)**	**(2,170)**	**Total**	**–**	**–**	**–**
Reconciliation net financing expense								
15	17	16	11	59	Financing income	9	8	17
(57)	(65)	(58)	(59)	(239)	Financing expenses	(56)	(57)	(113)
(42)	**(48)**	**(42)**	**(48)**	**(180)**	**Net interest on net debt**	**(47)**	**(49)**	**(96)**
Other interest movements								
(1)	(1)	–	(1)	(3)	Financing expenses related to pensions	(5)	(5)	(10)
(3)	(18)	(9)	1	(29)	Interest on provisions	(12)	15	3
(4)	–	1	10	7	Other items	1	6	7
(8)	**(19)**	**(8)**	**10**	**(25)**	**Net other financing charges**	**(16)**	**16**	**-**
(50)	**(67)**	**(50)**	**(38)**	**(205)**	**Net financing expenses**	**(63)**	**(33)**	**(96)**
Quarterly net income analysis								
4	5	5	(1)	13	Results from associates and joint ventures	3	6	9
(14)	(22)	(9)	(18)	(63)	Profit attributable to non-controlling interests	(16)	(25)	(41)
190	326	(1,903)	(3)	(1,390)	Profit before tax	157	295	452
(66)	(89)	(64)	16	(203)	Income tax	(45)	38	(7)
124	237	(1,967)	13	(1,593)	Profit for the period from continuing operations	112	333	445
35	27	(3)	533	(15)	Effective tax rate (in %)	29	(13)	2

Quarterly statistics

				2012				2013
Q1	Q2	Q3	Q4	year		Q1	Q2	Year-to-date
Earnings per share from continuing operations (in €)								
0.47	0.90	(8.29)	(0.02)	(6.98)	Basic	0.40	1.28	1.68
0.46	0.90	(8.29)	(0.02)	(6.98)	Diluted	0.40	1.27	1.67
Earnings per share from discontinued operations (in €)								
(0.11)	0.02	(1.65)	(0.09)	(1.84)	Basic	(0.03)	0.50	0.47
(0.11)	0.02	(1.65)	(0.09)	(1.84)	Diluted	(0.03)	0.50	0.47
Earnings per share from total operations (in €)								
0.36	0.92	(9.94)	(0.11)	(8.82)	Basic	0.37	1.78	2.15
0.35	0.92	(9.94)	(0.11)	(8.82)	Diluted	0.37	1.77	2.14
Number of shares (in millions)								
235.1	236.9	238.2	238.6	237.2	Weighted average number of shares	239.4	241.0	240.2
235.6	238.2	238.2	239.0	239.0	Number of shares at end of quarter	239.8	242.1	242.1
Adjusted earnings (in € millions)								
190	326	(1,903)	(3)	(1,390)	Profit before tax from continuing operations	157	295	452
21	11	2,130	8	2,170	Incidentals reported in operating income	-	-	-
39	40	41	42	162	Amortization of intangible assets	39	33	72
(84)	(103)	(82)	(5)	(274)	Adjusted income tax	(57)	28	(29)
(14)	(22)	(9)	(18)	(63)	Non-controlling interests	(16)	(25)	(41)
152	252	177	24	605	Adjusted net income for continuing operations	123	331	454
0.65	**1.06**	**0.74**	**0.10**	**2.55**	**Adjusted earnings per share (in €)**	**0.51**	**1.37**	**1.89**

Principal risks and uncertainties

In our 2012 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, we consider the top 5 risks as communicated in the Annual Report of 2012 still to be valid.

Risk	Risk description	Risk corrective actions
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 puts emphasis not only on attracting and retaining employees, but also on motivating them and developing their capabilities. As part of this drive, we are stepping up our actions to strengthen our corporate identity and to build a functionally excellent One HR organization focused on best-in-class talent management. Our ultimate goal is to be recognized internally and externally as the employer of choice. To achieve this, we have a number of priority focus areas including professionalizing recruitment, improving our talent management processes and harmonizing 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 superior people. In addition, as part of the overall performance improvement program, we have set up the AkzoNobel Academy. This is specifically focused on building capability across the company and, in particular, at providing a higher level of general leadership, project and change management skills, as well as creating a consistent approach to specific functional capabilities.
Management of change	We undertake various restructuring, investment and performance improvement projects that require significant change management and project expertise. Failure to manage these change projects appropriately, or to implement such projects, may lead to inability to achieve our strategic ambitions.	Risk management is an integral part of project management excellence. Senior management is involved in all critical projects that are prioritized and supervised by the Executive Committee to ensure an aligned and integrated vision and thrust from the top for the company's change agenda. Major initiatives, such as the performance improvement program and business restructuring projects, are under the direct supervision of dedicated Executive Committee members. Furthermore, we have included project management and change management curricula in our AkzoNobel Academy.
Worsening of economic conditions	One of the principal uncertainties continues to be the development of the global economy. The global economic conditions remain fragile and it is difficult to predict customer demand and raw material costs. Construction and housing markets are expected to remain soft in mature markets and our Decorative Paints business in particular has been affected by the market downturn. The likelihood of a European sovereign crisis may have decreased but the chronic fiscal imbalances may further adversely impact the global, regional or national economies in markets where we operate. Failure to adapt adequately and in time can be harmful to our business and results.	As mentioned during our Strategy Update in February 2013, we are accelerating our comprehensive performance improvement program to deliver €500 million EBITDA. This is based on functional and operational excellence. Around 40 percent of the anticipated benefits will come from programs to decrease complexity and to optimize the supply chain, and a further 50 percent from margin management, research and development initiatives and business restructuring programs. These benefits will accrue across our Business Areas. We continue to apply various scenarios for planning and budgeting to be best prepared for further changes in economic conditions.
International operations	We are a global business with operations in more than 80 countries. Therefore, we are 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. The Executive Committee decides on all significant investments and the countries and industry segments in which AkzoNobel conducts its business. We have also set up a dedicated Middle East organization responsible for all AkzoNobel business in the countries belonging to the region.
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 to support funding for the implementation of our strategic agenda.	Our balance sheet and debt profile are strong. We continue to deliver on our comprehensive performance improvement program to achieve €500 million EBITDA and 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 managed by our centralized treasury function (see Note 22 in the Financial statements of the 2012 Annual Report).

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 2013 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 2013 give a true and fair view of our assets and liabilities, financial position at June 30, 2013, and of the result of our consolidated operations for the first half year of 2013.
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 18, 2013
The Board of Management

Ton Büchner, Chief Executive Officer
Keith Nichols, Chief Financial 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. Except for the implementation of the revised IAS 19 "Employee Benefits", the accounting principles are as applied in the 2012 financial statements.

As of 2013, we apply stricter rules to qualify items as incidental items and have restated the relevant performance measures. In addition, invested capital was restated to exclude the receivable from pension funds in an asset position. Further, moving average ROI is now to be calculated with use of last twelve months operating income instead of, the so far used, EBIT. Operating working capital now comprises the total company and therefore includes, besides the inventories, trade receivables and trade payables in the Business Areas, the same items for the other activities.

Comparative numbers for 2012 have been restated accordingly. Please refer to our website for the details of these restatements, as issued at the time of our Strategy update on February 20, 2013.

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.

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. As of 2013, we apply stricter rules to qualify items as incidental.

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. For this calculation operating income has been adjusted for the Q3 2012 impairment of the Decorative Paints business of €2,106 million.

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 2013	October 21, 2013
Report for the year 2013 and the 4th quarter	February 6, 2014
Report for the 1st quarter 2014	April 17, 2014
Annual General Meeting of shareholders	April 29, 2014
Report for the 2nd quarter 2014	July 23, 2014
Report for the 3rd quarter 2014	October 21, 2014

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 excellence and delivering Tomorrow's Answers Today™.

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