Half-yearly report & report for the second quarter

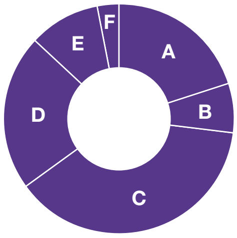
2012

AkzoNobel
Tomorrow's Answers Today

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

		%
A	North America	20
B	Emerging Europe	7
C	Mature Europe	38
D	Asia Pacific	22
E	Latin America	10
F	Other regions	3
		100

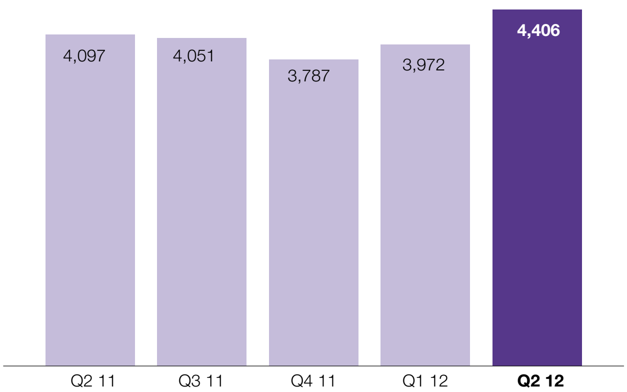
(Based on the full year 2011)



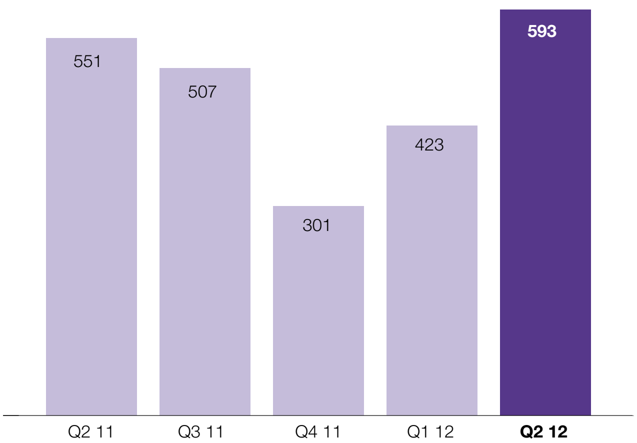
Our results at a glance

- Revenue up 8 percent, mainly driven by pricing actions and currencies
- Volumes declined 2 percent, primarily due to the economic slowdown in Europe
- EBITDA margin 13.5 percent (2011: 13.4 percent)
- Net income from continuing operations €197 million (2011: €251 million), primarily due to higher incidental charges
- Adjusted EPS €1.12 (2011: €1.09)
- Performance improvement program on track
- The economic environment remains our principal sensitivity in 2012

Revenue
In € millions



EBITDA
In € millions



Financial highlights

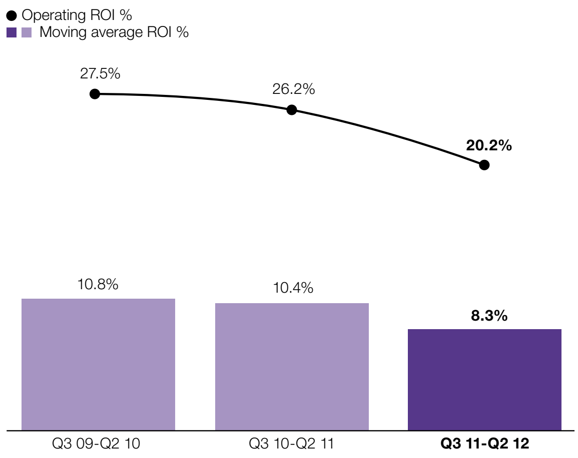
Continuing operations before incidentals

2nd quarter				January - June		
2011	**2012**	Δ%	in € millions	2011	**2012**	Δ%
4,097	4,406	8	Revenue	7,859	8,378	7
551	593	8	EBITDA	988	1,016	3
13.4	13.5		EBITDA margin (in %)	12.6	12.1	
401	423	5	EBIT	690	678	(2)
9.8	9.6		EBIT margin (in %)	8.8	8.1	
			Moving average ROI (in %)	10.4	8.3	
			Operating ROI (in %)	26.2	20.2	
1.09	1.12		Adjusted earnings per share (in €)	1.82	1.75	

Continuing operations after incidentals

2nd quarter				January - June		
2011	**2012**	Δ%	in € millions	2011	**2012**	Δ%
428	375	(12)	Operating income	705	566	(20)
251	197		Net income from continuing operations	383	267	
17	4		Net income from discontinued operations	13	5	
268	201		Net income total operations	396	272	
1.07	0.83		Earnings per share from continuing operations (in €)	1.64	1.13	
1.14	0.85		Earnings per share from total operations (in €)	1.69	1.15	
164	173		Capital expenditures	294	316	
165	401		Net cash from operating activities	(354)	(360)	
			Interest coverage	7.6	6.3	
			Invested capital	13,115	14,813	
			Net debt	1,808	2,844	
			Number of employees	56,410	57,580	

Returns on invested capital



Financial highlights

Revenue was up 8 percent driven by pricing actions to offset higher raw material costs and by favorable currency effects. Volumes were down 2 percent, primarily due to the economic slowdown in Europe. The EBITDA margin was 13.5 percent (2011: 13.4 percent). The performance improvement program is making good progress.

Revenue

Revenue was up 8 percent, driven by pricing actions to offset higher raw material costs and by favorable currency effects. Volumes were down 2 percent reflecting weaker demand across our end markets.

- Decorative Paints revenue grew 6 percent, mainly due to favorable price/mix and positive currency effects. Revenue grew in all businesses, with the exception of South East Asia Pacific. Volumes were down, negatively affected by the euro crisis and the general slowdown in global markets (Europe and South East Asia Pacific were our hardest hit markets). However, we continue to see positive volume development in Latin America and China.
- In Performance Coatings, revenue increased 12 percent compared with the previous year. The strongest growth came from Industrial Coatings (due to acquisitions) and Marine and Protective Coatings (from strong demand in Protective Coatings). Volume declined with significant variability between individual activities.
- Specialty Chemicals revenue increased 6 percent due to positive price/mix developments, acquisitions and foreign currency effects. Volumes were 2 percent below the previous year reflecting a slowdown in most businesses in the quarter as customer ordering patterns became more cautious.

Acquisitions

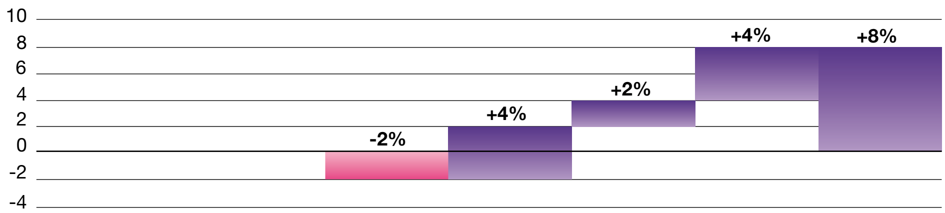
In the beginning of 2012, we closed the acquisition of Boxing Oleochemicals in Specialty Chemicals, the leading supplier of nitrile amines and derivatives in China and throughout Asia. The Schramm/SSCP acquisition accounted for the acquisition effect in Performance Coatings as these activities were consolidated from Q4 2011.

Revenue

2nd quarter				January - June		
2011	2012	Δ%	in € millions	2011	2012	Δ%
1,461	1,551	6	Decorative Paints	2,657	2,793	5
1,312	1,472	12	Performance Coatings	2,549	2,841	11
1,350	1,431	6	Specialty Chemicals	2,701	2,830	5
(26)	(48)		Other activities/eliminations	(48)	(86)	
4,097	**4,406**	8	**Total**	7,859	**8,378**	7

Revenue development Q2 2012

Increase Decrease



in % versus Q2 2011	Volume	Price/mix	Acquisitions	Exchange rates	Total
Decorative Paints	(2)	5	–	3	6
Performance Coatings	(2)	6	3	5	12
Specialty Chemicals	(2)	2	2	4	6
Total	**(2)**	**4**	**2**	**4**	**8**

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

Price/mix development per quarter (year-on-year)	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Decorative Paints	2	3	4	6	5
Performance Coatings	3	7	7	8	6
Specialty Chemicals	8	8	5	1	2
Total	4	6	6	5	**4**

Raw materials

We have continued to see inflation in our overall raw materials portfolio, although less than last year. The main driver of input cost inflation is TiO_2. In the second quarter, there has been increased availability from China and a reduction in global demand. However, in total, we still expect an increased average cost for the year.

EBITDA

EBITDA was 8 percent higher at €593 million. The EBITDA margin was 13.5 percent (2011: 13.4 percent).

- In Decorative Paints, EBITDA was down 8 percent, reflecting weaker European market conditions. Restructuring continues in mature markets, particularly in Europe.
- In Performance Coatings, margin management initiatives are ongoing in response to continued raw material price increases. In mature markets, where activity levels are lower, there is a greater focus on cost control and restructuring activity.
- All businesses in Specialty Chemicals performed strongly and earnings and margins increased compared with 2011, except for Functional Chemicals, which remained impacted by the supply/demand imbalance in Ethylene Amines.

Performance improvement program

The performance improvement program announced in October 2011 is making good progress. Conceptually, it consists of three main building blocks, being operational professionalization, functional standardization and business unit specific adaptations. Operational professionalization addresses issues such as product complexity reduction, procurement, manufacturing and distribution excellence, and margin management. Business unit adaptations and operational professionalization are expected to contribute around 90 percent of the expected 2012 benefits of €200 million, while functional standardization will primarily be an important enabler. The combined cost of the program in the first half year equals €90 million, booked under incidentals.

EBITDA

2nd quarter 2011	2nd quarter 2012	Δ%	in € millions	January - June 2011	January - June 2012	Δ%
191	175	(8)	Decorative Paints	281	251	(11)
170	213	25	Performance Coatings	313	377	20
220	255	16	Specialty Chemicals	461	490	6
(30)	(50)		Other activities/eliminations	(67)	(102)	
551	**593**	8	**Total**	988	**1,016**	3

Incidentals included in operating income

2nd quarter 2011	2nd quarter 2012	in € millions	January - June 2011	January - June 2012
(20)	(44)	Restructuring costs	(29)	(90)
21	3	Results related to major legal and environmental cases	22	(19)
26	–	Results on acquisitions and divestments	26	–
–	(7)	Other incidental results	(4)	(3)
27	**(48)**	**Incidentals included in operating income**	15	**(112)**

EBIT in other

2nd quarter 2011	2nd quarter 2012	in € millions	January - June 2011	January - June 2012
(25)	(24)	Corporate costs	(50)	(56)
(5)	–	Pensions	(7)	(1)
5	(9)	Insurances	8	(10)
(8)	(18)	Other	(23)	(41)
(33)	**(51)**	**EBIT in "other"**	(72)	**(108)**

The benefits of the program included in the first half year results, both in contribution margin and in cost savings, equal €65 million. Since the announcement of the program, around 1,000 people have left the company, of which around 800 left in 2012. The program is on track, with the main benefits for 2012 occurring in the second half of the year.

Incidental items

We incurred higher restructuring costs across the businesses, mainly in mature markets, as we implement the performance improvement program. In addition, the previous year included favorable non-recurring items.

EBIT in "other"

Corporate costs are in line with the previous year. The result of our captive insurance companies was negative mainly due to higher claims compared to the prior year. Other costs were higher than last year when there were favorable non-recurring items.

Net financing expenses

Net financing charges for Q2 2012 increased by €18 million to €82 million driven by:

- Interest on provisions which increased by €6 million to €18 million mainly due to lower discount rates
- Other items decreased €7 million reflecting lower interest income from foreign currency results of hedged future interest cash flows.

Tax

The Q2 tax rate is 27 percent (2011: 27 percent). It is slightly lower than normal due to the fact that we benefitted from the recognition of a previously unrecognized loss. The year-to-date tax rate is 29 percent (2011: 29 percent).

Decorative Paints

- Revenue up 6 percent on 2011, driven by favorable price/mix
- Weaker demand in mature and South East Asian markets negatively impacted volumes
- EBITDA down 8 percent, mainly driven by weaker performance in Europe, reflecting challenging market conditions
- Improved results in North America due to a combination of margin management and restructuring
- Restructuring continues in mature markets, particularly in Europe

Decorative Paints revenue grew 6 percent, mainly due to favorable price/mix and positive currency effects. Revenue grew in all businesses, with the exception of South East Asia Pacific. Volumes were down, negatively affected by the euro crisis and the general slowdown in global markets (Europe and South East Asia Pacific were our hardest hit markets). However, we continue to see positive volume development in Latin America and China. EBITDA was down 8 percent, reflecting weaker European market conditions. Restructuring continues in mature markets, particularly in Europe.

Europe

Revenue was flat. Demand was weak in all our European markets, especially the Southern region. We are continuing our restructuring and cost reduction efforts across Europe in response to the difficult market conditions we are facing.

Americas

North America experienced significant revenue growth. Glidden DUO and Ultra-Hide product launches, the 75th SICO Anniversary promotion, price gains, and favorable mix in the retail channels drove the results. Stores Canada delivered a strong quarter due to continued growth in the Dulux brand. Stores US revenue was lower due to pricing and segmentation strategies and the impact of service levels. The business has also started to benefit from its restructuring efforts.

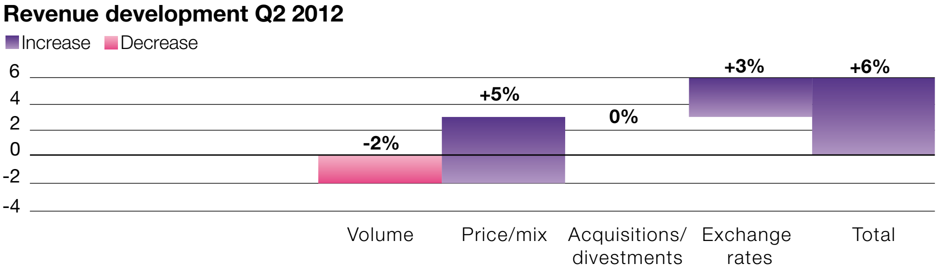
Revenue in Latin America was up, reflecting strong margin management and volume growth amid a general economic slowdown in the region and currency devaluation. In Brazil, the volume growth outpaced the market growth, fueled by the successful Tudo de Cor campaign. We will continue to invest in our brands and distribution channels.

Asia

China's revenue increased due to margin management and strong volume growth, especially in project and professional channels. Revenue was down in the South East Asia Pacific markets, reflecting weak conditions in Indonesia and Vietnam. Strong cost control in the region partially compensated for the negative volume trends.

In India, revenue continued to grow on the back of volume growth and strong margin management , partly offset by weak markets in the rest of the region. Cost control measures are implemented to mitigate cost inflation.

Revenue development Q2 2012



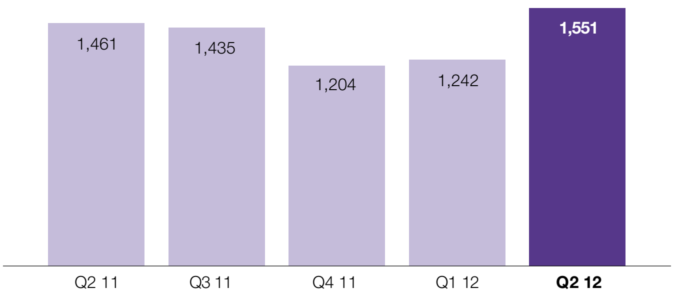
Key brands

Revenue

2nd quarter				January - June		
2011	2012	Δ%	in € millions	2011	2012	Δ%
777	780	–	Decorative Paints Europe	1,384	1,398	1
423	502	19	Decorative Paints Americas	822	905	10
262	276	5	Decorative Paints Asia	454	498	10
(1)	(7)		Other/intragroup eliminations	(3)	(8)	
1,461	**1,551**	**6**	**Total**	**2,657**	**2,793**	**5**
Before incidentals						
191	175	(8)	EBITDA	281	251	(11)
13.1	11.3		EBITDA margin (in %)	10.6	9.0	
141	117	(17)	EBIT	180	136	(24)
9.7	7.5		EBIT margin (in %)	6.8	4.9	
			Moving average ROI (in %)	5.2	2.7	
After incidentals						
137	110		Operating income	174	95	
42	48		Capital expenditures	84	85	
			Invested capital	6,550	7,097	
			Number of employees	22,580	22,200	

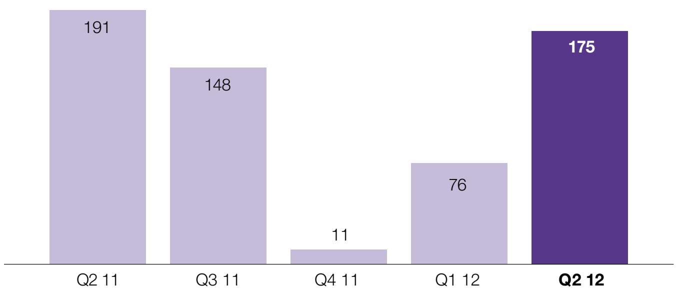
Revenue

In € millions



EBITDA

In € millions



Performance Coatings

- Revenue up 12 percent, supported by margin management, acquisitions and currency effects
- Underlying volume declined by 2 percent, with significant variability between individual markets
- EBITDA margin at 14.5 percent (2011: 13.0 percent) driven by margin management and operational efficiency
- Integration of acquired activities supporting results
- Protective Coatings and Industrial Coatings were the strongest growth contributors

Revenue increased 12 percent compared with the previous year. The strongest growth came from Industrial Coatings (due to acquisitions) and Marine and Protective Coatings (from strong demand in Protective Coatings). Volume declined with significant variability between individual activities. Margin management initiatives are ongoing in response to continued raw material price increases. In mature markets, where activity levels are lower, there is a greater focus on cost control and restructuring activity.

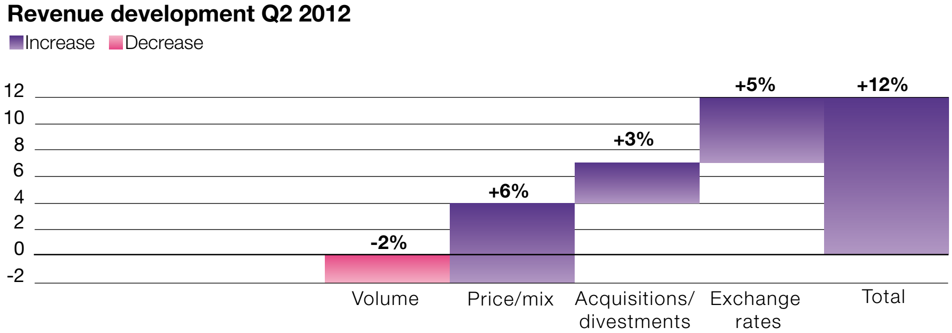
Marine and Protective Coatings
Revenue was up 15 percent on 2011, positively supported by price/mix and currencies. Overall volumes declined, with Marine volumes impacted by the slowdown in the new shipbuilding market. Protective Coatings achieved increased volumes across most regions, with especially good growth coming from the oil and gas businesses. Activities in Yacht increased in North America, partially offset by a small decline in Asia and Europe. We achieved notable success in Q2 with coatings supplied to "mega" projects commissioned by the oil majors Chevron, Total and Shell.

Wood Finishes and Adhesives
Revenue increased 7 percent compared with the previous year, positively supported by currencies and price/mix. Demand levels improved in North America, while they softened in Europe and Asia. We continue to further develop our position in the high growth domestic markets of China and India. We had the official opening of our new plant in Vietnam to supply coatings to the high growth markets of South East Asia.

Automotive and Aerospace Coatings
Revenue remained flat due to weak demand in Vehicle Refinish in the US and Europe. Lower volumes were compensated by currency and price/mix. Cost controls mitigated the impact of reduced volumes. During the quarter, Chinese car manufacturer FAW Haima Automobile chose Automotive and Aerospace Coatings as its exclusive vehicle refinishes paint provider. The business was selected for its state-of-the-art color technology, top quality products and outstanding customer service.

Powder Coatings
Revenue was up 7 percent, supported by price/mix and currencies. Lower European demand was partially mitigated by growth in other regions. Domestic Appliance and Furniture continued to suffer from the weaker economic situation. Architectural activities continued to be strong in our key growth

Revenue development Q2 2012



Key brands

AkzoNobel, International, Lesonal, Schramm, Interpon powder coatings EVERY COLOR IS GREEN, Sikkens, Chartek

markets and recorded marginal growth even in Europe. Our Automotive activities also remained strong in all regions, with good growth compared with the previous year. Our Resicoat product was used on the Beyneu-Shymkent gas pipeline, which connects the north and south of the Ukraine, with further links to the Central Asia–China pipeline.

Industrial Coatings

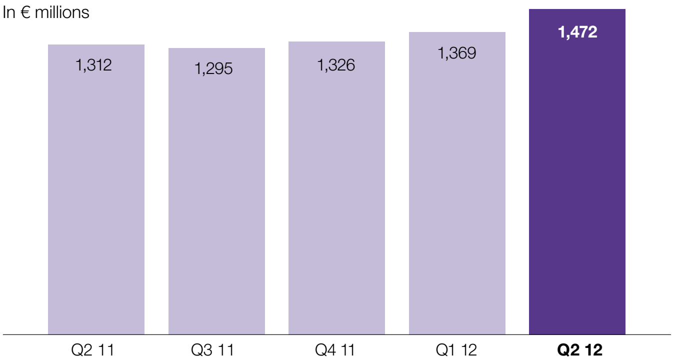
Revenue was up 28 percent, mainly due to acquisition activity. Coil Coatings' construction related business achieved strong growth in the high growth markets of Turkey and Russia. Packaging Coatings' beverage and food related business continued to increase its top line, with Asia being the main driver for growth. Specialty Finishes showed growth in its automotive and consumer electronics markets. Delivery of synergies from acquisition of Schramm/SSCP is on track and the integration is progressing well.

Revenue

2nd quarter				January - June		
2011	**2012**	Δ%	in € millions	2011	**2012**	Δ%
357	411	15	Marine and Protective Coatings	681	780	15
201	215	7	Wood Finishes and Adhesives	389	417	7
265	268	1	Automotive and Aerospace Coatings	524	523	–
238	255	7	Powder Coatings	469	499	6
258	330	28	Industrial Coatings	501	635	27
(7)	(7)		Other/intragroup eliminations	(15)	(13)	
1,312	**1,472**	12	**Total**	2,549	**2,841**	11
Before incidentals						
170	213	25	EBITDA	313	377	20
13.0	14.5		EBITDA margin (in %)	12.3	13.3	
142	180	27	EBIT	257	312	21
10.8	12.2		EBIT margin (in %)	10.1	11.0	
			Moving average ROI (in %)	24.2	22.9	
After incidentals						
155	171		Operating income	261	298	
30	25		Capital expenditures	46	43	
			Invested capital	2,231	2,534	
			Number of employees	21,030	21,920	

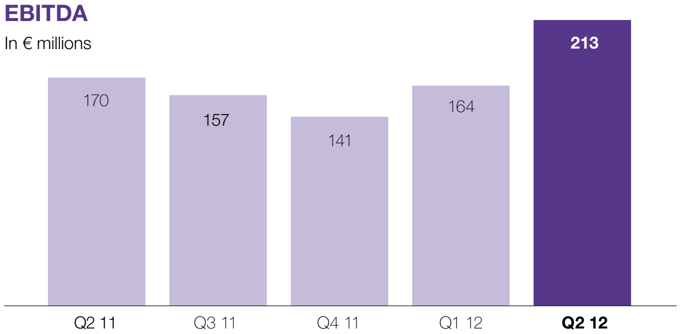
Revenue

In € millions



EBITDA

In € millions



Specialty Chemicals

- Revenue increased 6 percent, due to margin management, the Boxing Oleochemicals acquisition and currency effects
- Volumes in most businesses slowed down during the quarter and customer ordering patterns became more cautious
- EBITDA margin improved to 17.8 percent (2011: 16.3 percent), based on improved margins and continued cost restructuring

Specialty Chemicals margins improved due to positive price/mix developments and currency effects. These stronger margins, combined with cost control and continued restructuring, are compensating for weaker demand – volumes in the quarter remained 2 percent below the previous year. All businesses performed strongly and earnings and margins increased compared with 2011, except for Functional Chemicals, which remained impacted by the supply/demand imbalance in Ethylene Amines. Surface Chemistry and Pulp and Performance Chemicals increased their earnings substantially compared with last year, while Industrial Chemicals also performed well. Despite difficult domestic market conditions, Chemicals Pakistan was able to improve its profitability.

Functional Chemicals

Overall volumes were flat, driven by lower volumes for Sulfur Derivatives and Performance Additives. The business is facing a general weakening of demand in Europe, with North America showing some recovery and Latin America showing growth. The current market overcapacity in Ethylene Amines continues to put sales prices under pressure.

Industrial Chemicals

Industrial Chemicals delivered a good performance, driven by results in Chlor Alkali, as well as strong volumes in the Salt and Monochloroacetic business, the latter especially in China. The market conditions in the Netherlands for our gas-fired co-generation units of our Energy business remain challenging.

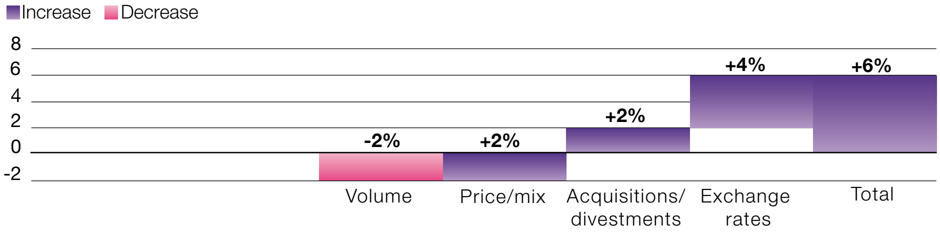
Surface Chemistry

Surface Chemistry had a very good quarter, with higher revenues being mainly attributable to the acquisition of Boxing Oleochemicals in China and a favorable currency impact. Structurally, business demand remains sound and capacity utilization is high. Effective margin management was one of the key drivers behind the performance during the quarter.

Pulp and Performance Chemicals

The business recorded another strong quarter due to a solid performance of the Bleaching Chemicals business, although demand in Asia and Europe softened. Revenues were higher than last year on the back of price/mix, supported by the strengthening of the US dollar versus the euro. Overall result improvements were driven by margin management actions.

Revenue development Q2 2012



Key brands

AkzoNobel eka BERMOCOLL Ferrazone® This Iron Works. JOZO SALT Dissolvine® master the elements

Chemicals Pakistan

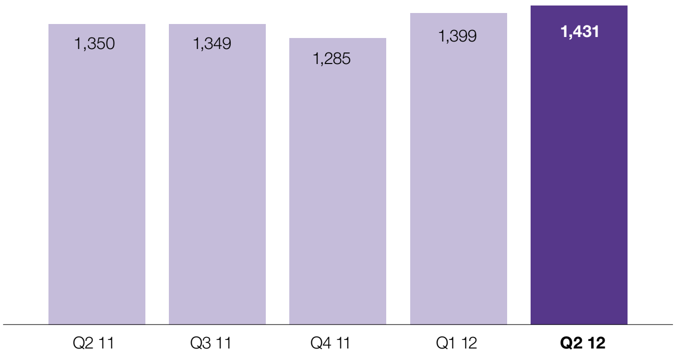
The energy crisis continues to affect the downstream industry for the Soda Ash and Polyester businesses. Furthermore, demand in the Polyester market remains soft. The divestment process of Chemicals Pakistan is progressing, with the separation having been completed.

Revenue

2nd quarter				January - June		
2011	**2012**	Δ%	in € millions	2011	**2012**	Δ%
493	518	5	Functional Chemicals	979	1,017	4
291	293	1	Industrial Chemicals	589	594	1
245	293	20	Surface Chemistry	482	577	20
276	289	5	Pulp and Performance Chemicals	550	571	4
78	72	(8)	Chemicals Pakistan	168	141	(16)
(33)	(34)		Other/intragroup eliminations	(67)	(70)	
1,350	**1,431**	6	**Total**	2,701	**2,830**	5
Before incidentals						
220	255	16	EBITDA	461	490	6
16.3	17.8		EBITDA margin (in %)	17.1	17.3	
151	177	17	EBIT	325	338	4
11.2	12.4		EBIT margin (in %)	12.0	11.9	
			Moving average ROI (in %)	19.4	17.6	
After incidentals						
147	154		Operating income	320	294	
87	95		Capital expenditures	154	182	
			Invested capital	3,515	3,815	
			Number of employees	11,420	11,980	

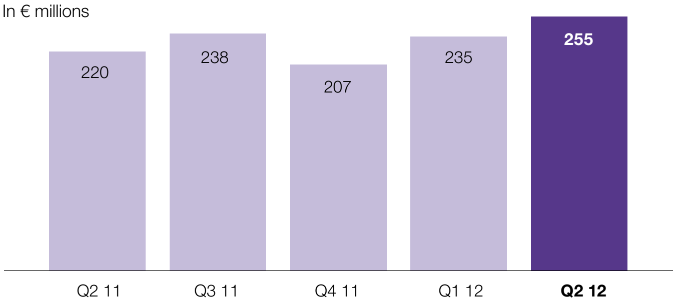
Revenue

In € millions



EBITDA

In € millions



Condensed financial statements

Consolidated statement of income

2nd quarter 2011	2nd quarter 2012	in € millions	January - June 2011	January - June 2012
Continuing operations				
4,097	4,406	Revenue	7,859	8,378
(2,467)	(2,675)	Cost of sales	(4,736)	(5,140)
1,630	**1,731**	**Gross profit**	**3,123**	**3,238**
(861)	(932)	Selling expenses	(1,682)	(1,792)
(294)	(322)	General and administrative expenses	(594)	(675)
(86)	(99)	Research and development expenses	(171)	(193)
39	(3)	Other operating income/(expenses)	29	(12)
428	**375**	**Operating income**	**705**	**566**
(64)	(82)	Net financing expenses	(127)	(147)
8	5	Results from associates and joint ventures	15	9
372	**298**	**Profit before tax**	**593**	**428**
(99)	(80)	Income tax	(172)	(126)
273	**218**	**Profit for the period from continuing operations**	**421**	**302**
Discontinued operations				
17	4	Profit for the period from discontinued operations	13	5
290	**222**	**Profit for the period**	**434**	**307**
Attributable to				
268	201	Shareholders of the company	396	272
22	21	Non-controlling interests	38	35
290	**222**	**Profit for the period**	**434**	**307**

Consolidated statement of comprehensive income

2nd quarter 2011	2nd quarter 2012	in € millions	January - June 2011	January - June 2012
290	**222**	**Profit for the period**	**434**	**307**
Other comprehensive income				
(71)	204	Exchange differences arising on translation of foreign operations	(368)	131
(18)	2	Cash flow hedges	(40)	(13)
8	(9)	Tax relating to components of other comprehensive income	20	(2)
(81)	**197**	**Other comprehensive income for the period (net of tax)**	**(388)**	**116**
209	**419**	**Comprehensive income for the period**	**46**	**423**
Comprehensive income attributable to				
197	384	Shareholders of the company	46	385
12	35	Non-controlling interests	–	38
209	**419**	**Comprehensive income for the period**	**46**	**423**

Condensed consolidated balance sheet

in € millions	December 31, 2011	June 30, 2012
Assets		
Non-current assets		
Intangible assets	7,392	7,427
Property, plant and equipment	3,705	3,749
Other financial non-current assets	2,198	2,759
Total non-current assets	**13,295**	**13,935**
Current assets		
Inventories	1,924	2,008
Trade and other receivables	2,917	3,422
Cash and cash equivalents	1,635	1,313
Other current assets	98	100
Assets held for sale	–	145
Total current assets	**6,574**	**6,988**
Total assets	**19,869**	**20,923**
Equity and liabilities		
Total equity	**9,743**	**9,995**
Non-current liabilities		
Provisions and deferred tax liabilities	2,284	2,324
Long-term borrowings	3,035	3,067
Total non-current liabilities	**5,319**	**5,391**
Current liabilities		
Short-term borrowings	494	1,089
Trade and other payables	3,349	3,487
Other short-term liabilities	964	961
Total current liabilities	**4,807**	**5,537**
Total equity and liabilities	**19,869**	**20,923**

Shareholders' equity

Shareholders' equity as at the end of Q2 2012 increased to €9.4 billion, due to the net effect of:

- Net income of €272 million.
- Increased cumulative translation reserves by €125 million due to the weakening euro.
- Dividend payments of €168 million.

Changes in equity

in € millions	Subscribed share capital	Additional paid-in capital	Cashflow hedge reserve	Cumulative translation reserves	Other reserves	Shareholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2011	**467**	**9**	**29**	**(43)**	**8,522**	**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
Balance at June 30, 2011	**468**	**23**	**(1)**	**(363)**	**8,681**	**8,808**	**506**	**9,314**
Balance at January 1, 2012	**469**	**47**	**(9)**	**4**	**8,701**	**9,212**	**531**	**9,743**
Profit for the period	–	–	–	–	272	272	35	307
Other comprehensive income	–	–	(12)	125	–	113	3	116
Comprehensive income for the period	**–**	**–**	**(12)**	**125**	**272**	**385**	**38**	**423**
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)**	**129**	**8,722**	**9,447**	**548**	**9,995**

Invested capital

Invested capital at the end of Q2 2012 totaled €14.8 billion, €1.1 billion higher than at year-end 2011. Invested capital was impacted by the net effect of:

- An increase of €0.6 billion of long-term receivables related to increases in pension funds in an asset position
- An increase of operating working capital of €0.5 billion mainly due to seasonality, more expensive raw materials and actions to ensure supply of titanium dioxide. Expressed as a percentage of revenue, operating working capital was 14.2 percent (Q2 2011: 13.8 percent; year-end 2011: 13.6 percent)
- A decrease of €0.2 billion due to the reclassification of Chemicals Pakistan to assets held for sale
- An increase of €0.1 billion from the Boxing Oleochemicals acquisition
- Payments of accrued interest of €0.1 billion
- An increase due to foreign currency effects on intangibles and property, plant and equipment of €0.1 billion, due to the weakening euro.

Pensions

The funded status of the pension plans at the end of Q2 2012 was estimated to be a deficit of €0.6 billion (year-end 2011: €0.5 billion; Q1 2012: €0.3 billion).

The movement compared with year-end 2011 is primarily due to:

- Top-up payments of €336 million into certain UK and US defined benefit pension plans
- A payment from a contingent asset structure of €239 million into the UK ICI Pension Fund
- Lower inflation in the UK decreasing the pension obligation

Offset by:

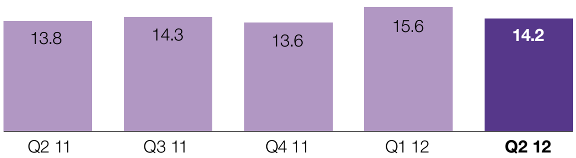
- Lower discount rates increasing the pension obligation.

Invested capital

in € millions	June 30, 2011	December 31, 2011	June 30, 2012
Trade receivables	2,582	2,368	2,792
Inventories	1,880	1,924	2,008
Trade payables	(2,183)	(2,213)	(2,263)
Operating working capital in Business Areas	**2,279**	**2,079**	**2,537**
Other working capital items	(881)	(901)	(902)
Non-current assets	12,449	13,295	13,935
Less investments in associates and joint ventures	(182)	(198)	(202)
Deferred tax liabilities	(550)	(567)	(555)
Invested capital	**13,115**	**13,708**	**14,813**

Operating working capital

In % of revenue



Operating working capital

in € millions, % of revenue	June 30, 2011		December 31, 2011		June 30, 2012	
Decorative Paints	784	13.4	622	12.9	883	14.2
Performance Coatings	801	15.3	772	14.6	871	14.8
Specialty Chemicals	694	12.9	685	13.3	783	13.7
Total	**2,279**	**13.8**	**2,079**	**13.6**	**2,537**	**14.2**

Workforce

At June 30, 2012, we employed 57,580 staff (year-end 2011: 57,240 employees). The net increase was due to:

- A decrease of 870 employees due to ongoing restructuring
- An increase from acquisitions of 570 employees
- An increase of 640 employees due to new hires and seasonal activity. New hires were mainly in high growth markets.

Cash flows and net debt

Operating activities in Q2 2012 resulted in a cash inflow of €401 million (2011: €165 million). The change is mainly due to a net effect of:

- Lower cash outflow from working capital and
- Lower payments related to provisions.

Condensed consolidated statement of cash flows

2nd quarter			January - June	
2011	2012	in € millions	2011	2012
1,986	**905**	**Cash and cash equivalents at beginning of period**	2,683	**1,335**
		Adjustments to reconcile earnings to cash generated from operating activities		
273	218	Profit for the period from continuing operations	421	302
153	186	Amortization, depreciation and impairments	303	359
(204)	(38)	Changes in working capital	(594)	(456)
(70)	(30)	Changes in provisions	(428)	(576)
13	65	Other changes	(56)	11
165	**401**	**Net cash from operating activities**	(354)	**(360)**
(164)	(173)	Capital expenditures	(294)	(316)
16	(13)	Acquisitions and divestments net of cash acquired	24	(12)
1	2	Other changes	3	13
(147)	**(184)**	**Net cash from investing activities**	(267)	**(315)**
(538)	22	Changes from borrowings	(550)	512
(271)	(178)	Dividends	(272)	(181)
5	1	Other changes	10	(9)
(804)	**(155)**	**Net cash from financing activities**	(812)	**322**
(786)	**62**	**Net cash used for continuing operations**	(1,433)	**(353)**
11	–	Cash flows from discontinued operations	11	(6)
(775)	**62**	**Net change in cash and cash equivalents of total operations**	(1,422)	**(359)**
(17)	26	Effect of exchange rate changes on cash and cash equivalents	(67)	17
1,194	**993**	**Cash and cash equivalents at June 30**	1,194	**993**

Net debt remained flat compared with Q1 2012 as the cash inflow from operating activities in Q2 2012 was balanced with the cash outflows, of which capital expenditures and dividend payments are the main items.

As disclosed in note 21 to the 2011 financial statements, two antitrust cases were pending with the EU General Court regarding Metacrylates and Heat Stabilizers. In Metacrylates the General Court has rendered a judgment in June 2012 and this will result in cash outflows of approximately €100 million in Q3. This case has been fully provided for.

Outlook

We are moving ahead with the implementation of our performance improvement program which should bring clear benefits in 2012 and beyond, supporting our margins. The major uncertainty remains the economic environment. Our concerns are focused on the risk of recession in Europe, delayed recovery of the US property market and the potential for a slowdown in Asia. Each of these can have a significant impact on our customers in these regions, that would in turn impact our sales volumes.

AkzoNobel has a strong portfolio of complementary businesses, with many leading market positions and exposure to growth markets. This, combined with our ongoing management actions, means that we are confident that we can deliver medium-term growth in line with our strategic ambitions.

We will be providing an update on strategy around the publication of our Q3 results.

Quarterly statistics

				2011				2012
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
Revenue								
1,196	1,461	1,435	1,204	5,296	Decorative Paints	1,242	1,551	2,793
1,237	1,312	1,295	1,326	5,170	Performance Coatings	1,369	1,472	2,841
1,351	1,350	1,349	1,285	5,335	Specialty Chemicals	1,399	1,431	2,830
(22)	(26)	(28)	(28)	(104)	Other activities/eliminations	(38)	(48)	(86)
3,762	**4,097**	**4,051**	**3,787**	**15,697**	**Total**	**3,972**	**4,406**	**8,378**
EBITDA								
90	191	148	11	440	Decorative Paints	76	175	251
143	170	157	141	611	Performance Coatings	164	213	377
241	220	238	207	906	Specialty Chemicals	235	255	490
(37)	(30)	(36)	(58)	(161)	Other activities/eliminations	(52)	(50)	(102)
437	**551**	**507**	**301**	**1,796**	**Total**	**423**	**593**	**1,016**
11.6	**13.4**	**12.5**	**7.9**	**11.4**	**EBITDA margin (in %)**	**10.6**	**13.5**	**12.1**
Depreciation								
(30)	(30)	(33)	(33)	(126)	Decorative Paints	(33)	(34)	(67)
(21)	(21)	(21)	(24)	(87)	Performance Coatings	(23)	(25)	(48)
(55)	(56)	(56)	(60)	(227)	Specialty Chemicals	(61)	(63)	(124)
(2)	(3)	(4)	(2)	(11)	Other activities/eliminations	(5)	(1)	(6)
(108)	**(110)**	**(114)**	**(119)**	**(451)**	**Total**	**(122)**	**(123)**	**(245)**
Amortization								
(21)	(20)	(20)	(23)	(84)	Decorative Paints	(24)	(24)	(48)
(7)	(7)	(7)	(8)	(29)	Performance Coatings	(9)	(8)	(17)
(12)	(13)	(13)	(16)	(54)	Specialty Chemicals	(13)	(15)	(28)
–	–	(1)	(2)	(3)	Other activities/eliminations	–	–	–
(40)	**(40)**	**(41)**	**(49)**	**(170)**	**Total**	**(46)**	**(47)**	**(93)**
EBIT								
39	141	95	(45)	230	Decorative Paints	19	117	136
115	142	129	109	495	Performance Coatings	132	180	312
174	151	169	131	625	Specialty Chemicals	161	177	338
(39)	(33)	(41)	(62)	(175)	Other activities/eliminations	(57)	(51)	(108)
289	**401**	**352**	**133**	**1,175**	**Total**	**255**	**423**	**678**
7.7	**9.8**	**8.7**	**3.5**	**7.5**	**EBIT margin (in %)**	**6.4**	**9.6**	**8.1**
Operating income								
37	137	57	(94)	137	Decorative Paints	(15)	110	95
106	155	114	83	458	Performance Coatings	127	171	298
173	147	169	133	622	Specialty Chemicals	140	154	294
(39)	(11)	(39)	(86)	(175)	Other activities/eliminations	(61)	(60)	(121)
277	**428**	**301**	**36**	**1,042**	**Total**	**191**	**375**	**566**

Quarterly statistics

2011 Q1	2011 Q2	2011 Q3	2011 Q4	2011 year	in € millions	2012 Q1	2012 Q2	2012 year-to-date
					Incidentals per Business Area			
(2)	(4)	(38)	(49)	(93)	Decorative Paints	(34)	(7)	(41)
(9)	13	(15)	(26)	(37)	Performance Coatings	(5)	(9)	(14)
(1)	(4)	–	2	(3)	Specialty Chemicals	(21)	(23)	(44)
–	22	2	(24)	–	Other activities/eliminations	(4)	(9)	(13)
(12)	**27**	**(51)**	**(97)**	**(133)**	**Total**	**(64)**	**(48)**	**(112)**
					Incidentals included in operating income			
(9)	(20)	(47)	(55)	(131)	Restructuring costs	(46)	(44)	(90)
1	21	2	(33)	(9)	Results related to major legal and environmental cases	(22)	3	(19)
–	26	(5)	(11)	10	Results on acquisitions and divest-ments	–	–	–
(4)	–	(1)	2	(3)	Other incidental results	4	(7)	(3)
(12)	**27**	**(51)**	**(97)**	**(133)**	**Total**	**(64)**	**(48)**	**(112)**
					Incidentals per line item			
(4)	(5)	(25)	(18)	(52)	Cost of sales	(35)	(10)	(45)
(3)	(9)	(20)	(34)	(66)	Selling expenses	(9)	(21)	(30)
(1)	(4)	(1)	(18)	(24)	General and administrative expenses	(20)	(10)	(30)
–	–	(1)	(8)	(9)	Research and development expenses	(1)	(2)	(3)
(4)	45	(4)	(19)	18	Other operating income/(expenses)	1	(5)	(4)
(12)	**27**	**(51)**	**(97)**	**(133)**	**Total**	**(64)**	**(48)**	**(112)**
					Reconciliation net financing expense			
14	17	14	12	57	Financing income	15	17	32
(61)	(63)	(49)	(129)	(302)	Financing expenses	(57)	(65)	(122)
(47)	**(46)**	**(35)**	**(117)**	**(245)**	**Net interest on net debt**	**(42)**	**(48)**	**(90)**
					Other interest movements			
(16)	(13)	(15)	(15)	(59)	Financing expenses related to pensions	(16)	(16)	(32)
(5)	(12)	(13)	(16)	(46)	Interest on provisions	(3)	(18)	(21)
5	7	(7)	7	12	Other items	(4)	–	(4)
(16)	**(18)**	**(35)**	**(24)**	**(93)**	**Net other financing charges**	**(23)**	**(34)**	**(57)**
(63)	**(64)**	**(70)**	**(141)**	**(338)**	**Net financing expenses**	**(65)**	**(82)**	**(147)**
					Quarterly net income analysis			
7	8	9	(1)	23	Results from associates and joint ventures	4	5	9
(16)	(22)	(18)	(8)	(64)	Profit attributable to non-controlling interests	(14)	(21)	(35)
221	372	240	(106)	727	Profit before tax	130	298	428
(73)	(99)	(74)	52	(194)	Income tax	(46)	(80)	(126)
148	273	166	(54)	533	Profit for the period from continuing operations	84	218	302
33	27	31	49	27	Effective tax rate (in %)	35	27	29

Quarterly statistics

				2011				2012
Q1	Q2	Q3	Q4	year		Q1	Q2	year-to-date
Earnings per share from continuing operations (in €)								
0.57	1.07	0.63	(0.26)	2.01	Basic	0.30	0.83	1.13
0.56	1.07	0.63	(0.26)	1.99	Diluted	0.30	0.82	1.12
Earnings per share from discontinued operations (in €)								
(0.02)	0.07	–	(0.03)	0.03	Basic	–	0.02	0.02
(0.02)	0.07	–	(0.03)	0.03	Diluted	–	0.02	0.02
Earnings per share from total operations (in €)								
0.55	1.14	0.63	(0.29)	2.04	Basic	0.30	0.85	1.15
0.54	1.14	0.63	(0.29)	2.02	Diluted	0.30	0.84	1.14
Number of shares (in millions)								
233.6	233.9	234.0	234.3	233.9	Weighted average number of shares	235.1	236.9	236.0
233.7	234.0	234.0	234.7	234.7	Number of shares at end of quarter	235.6	238.2	238.2
Adjusted earnings (in € millions)								
221	372	240	(106)	727	Profit before tax from continuing operations	130	298	428
12	(27)	51	97	133	Incidentals reported in operating income	64	48	112
40	40	41	49	170	Amortization of intangible assets	46	47	93
(88)	(107)	(100)	9	(286)	Adjusted income tax	(78)	(106)	(184)
(16)	(22)	(18)	(8)	(64)	Non-controlling interests	(14)	(21)	(35)
169	**256**	**214**	**41**	**680**	**Adjusted net income for continuing operations**	**148**	**266**	**414**
0.72	**1.09**	**0.91**	**0.17**	**2.91**	**Adjusted earnings per share (in €)**	**0.63**	**1.12**	**1.75**

Principal risks and uncertainties

In our 2011 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 2012, we consider that these top 5 risks are still valid.

Risk	Risk description	Risk corrective actions
Adapt to economic conditions	Failure to adapt adequately and in time to weak and volatile economic conditions can have a harmful impact on our business and results of operations.	The Executive Committee has defined a comprehensive performance improvement program to deliver €500 million EBITDA by 2014. Conceptually, the program consists of three main building blocks, being operational professionalization, functional standardization and business unit specific adaptations. Operational professionalization addresses issues such as product complexity reduction, procurement, manufacturing and distribution excellence, and margin management. Business unit adaptations and operational professionalization are expected to contribute around 90 percent of the expected 2012 benefits of €200 million, while functional standardization will primarily be an important enabler.
International operations	Because AkzoNobel conducts international operations, we are exposed to a variety of risks like unfavorable political, social or economic developments and developments in laws, regulations and standards 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. 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.
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 their motivation, development and building capability. To strengthen these efforts, we have a dedicated Executive Committee member for the Human Resources function and have implemented an employee engagement program. The Human Resources function is also part of the comprehensive three-year performance improvement plan, launched in October 2011. HR instruments such as performance appraisals, the employee survey and leadership identification and review, as well as leadership development, are used 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 encouraged 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 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 made an inventory of single and sole sourced raw materials and are actively pursuing plans to improve this situation. We have diversified contract length and our 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.
Cash flow	The threat of a European sovereign crisis, exposure to potentially worsening economic conditions, raw material price increases, and funding of pension schemes may lead to insufficient free cash flow generation to support our growth strategy.	We are committed to maintaining strong investment grade credit ratings. Ratings at mid-year were Standard & Poor's BBB+ (stable outlook) and Moody's Baa1 (stable outlook). We have launched a comprehensive performance improvement program to deliver €500 million EBITDA by 2014. 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 of our 2011 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 2012 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 2012 give a true and fair view of our assets and liabilities, financial position at June 30, 2012, and of the result of our consolidated operations for the first half year of 2012.
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 19, 2012
The Board of Management

Ton Büchner, Chief Executive Officer
Keith Nichols, Chief Financial Officer
Leif Darner, Board member, responsible for Performance Coatings
Tex Gunning, Board member, responsible for Decorative Paints

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 2011 financial statements.

Operating working capital is defined as the sum of inventories, trade receivables and trade payables in the Business Areas. We have adjusted the definitions of trade receivables as well as trade payables to include supplier related receivables and customer related payables. The 2011 figures have been adjusted accordingly.

As from 2013, the amended IAS 19 on pensions will become effective and the impact will be disclosed in our 2012 financial statements. Implementation of this amendment will result in including the pension deficit, as disclosed on page 14, in other comprehensive income in shareholders' equity. In addition, we expect a limited positive effect on EBITDA and financing expenses.

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. 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.

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. Starting 2012 we have changed the definitions of trade receivables as well as trade payables. Trade receivables now include supplier related receivables while in trade payables customer related payables have been included. The 2011 figures have been adjusted to align with the 2012 definitions. When expressed as a ratio, operating working capital is measured against four times last quarter 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 2012	October 18, 2012
Report for 2012 and the 4th quarter	February 20, 2013

AkzoNobel
Tomorrow's Answers Today

www.akzonobel.com

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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