

Condensed financial statements

Consolidated statement of income

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

Consolidated statement of comprehensive income

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

Condensed consolidated balance sheet

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

Shareholders' equity

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

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

Changes in equity

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

Invested capital

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

Pensions

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

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

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

Offset by:

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

Workforce

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

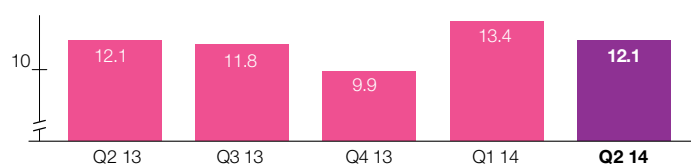
- A decrease of 430 employees due to divestments
- A decrease of 1,000 employees due to ongoing restructuring
- An increase of 310 employees, mainly due to seasonal activity

Invested capital

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

Operating working capital

In % of revenue



Operating working capital

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

Condensed consolidated statement of cash flows

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

Cash flows and net debt

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

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

Outlook and 2015 targets

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

Quarterly statistics

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

Quarterly statistics

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

Quarterly statistics

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

Principal risks and uncertainties

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

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

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

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

To the best of our knowledge:

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

Amsterdam, July 23, 2014
The Board of Management

Ton Büchner, Chief Executive Officer

Notes to the condensed financial statements

Accounting policies and restatements

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

Seasonality

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

Other activities

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

Glossary

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

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

EBIT is operating income before incidentals.

EBIT margin is EBIT as percentage of revenue.

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

EBITDA margin is EBITDA as percentage of revenue.

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

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

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

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

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

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

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

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

ROS% is operating income as percentage of revenue.

Safe Harbor Statement

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

Brands and trademarks

In this report, reference is made to brands and trademarks owned by, or licensed to, AkzoNobel. Unauthorized use of these is strictly prohibited.

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Financial calendar

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



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

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