Q2 Report

Half-yearly report & report for the second quarter

AkzoNobel

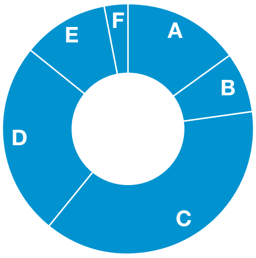
2015

Making cities more livable

AkzoNobel partnered with Monocle magazines' 'Quality of Life' Survey. Portland, US, pictured here, is one of the top 25 world's most livable cities.

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

	%
A North America	15
B Emerging Europe	8
C Mature Europe	37
D Asia Pacific	26
E Latin America	10
F Other regions	4
	100



(Based on the full year 2014)

Our results at a glance

Q2:

- Revenue up 6 percent to €3.9 billion, due to 9 percent favorable currency effects, offset by divestments and lower volume
- Operating income up 38 percent at €486 million (2014: €353 million), reflecting the positive effects of process optimization, lower costs, reduced restructuring expenses, divestment results and favorable currency developments
- ROS improved to 12.3 percent (2014: 9.5 percent); excluding incidental items, ROS was 11.4 percent (2014: 9.5 percent); ROI improved to 11.7 percent (2014: 10.1 percent)
- Net income attributable to shareholders up 61 percent at €331 million (2014: €205 million)
- Adjusted EPS up 37 percent at €1.30 (2014: €0.95)
- Net cash inflow from operating activities €407 million (2014: €393 million)
- Divestment of the Paper Chemicals business completed

Outlook:

- The market trend in North America continues to be positive with Europe not improving. Conditions remain challenging in many other countries, including Russia, Brazil and China
- On track to deliver 2015 targets

Financial highlights

Summary of financial outcomes

Second quarter 2014	2015	Δ%	in € millions	January-June 2014	2015	Δ%
3,710	3,949	6	Revenue	7,093	7,540	6
353	486	38	Operating income	569	792	39
353	452	28	Operating income excluding incidental items	569	758	33
9.5	12.3		ROS%	8.0	10.5	
9.5	11.4		ROS excl. incidental items (in %)	8.0	10.1	
			Average invested capital	9,784	10,365	
			Moving average ROI (in %)	10.1	11.7	
509	610	20	EBITDA	873	1,072	23
150	137		Capital expenditures	265	260	
393	407		Net cash from operating activities	(159)	(215)	
			Net debt	2,129	2,138	
206	332	61	Net income from continuing operations	332	495	49
(1)	(1)		Net income from discontinued operations	2	(4)	
205	331	61	Net income attributable to shareholders	334	491	47
0.84	1.34		Earnings per share from total operations (in €)	1.37	1.99	
0.95	1.30	37	Adjusted earnings per share (in €)	1.56	2.07	33
			Number of employees	48,400	46,000	

Overall targets for the full year 2015 are 9.0 percent return on sales and 14.0 percent return on investment

Financial highlights

Revenue was up 6 percent in Q2, due to 9 percent favorable currency effects offset by divestments and lower volume. Operating income was €486 million (2014: €353 million); up 38 percent, reflecting the positive effects of process optimization, lower costs, reduced restructuring expenses, divestment results and favorable currency developments. ROS improved to 12.3 percent (2014: 9.5 percent) and ROI improved to 11.7 percent (2014: 10.1 percent). Net cash inflow from operating activities was €407 million (2014: €393 million).

The market trend in North America continued to be positive with Europe not improving. Conditions remained challenging in many other countries, including Russia, Brazil and China.

Revenue

- Revenue in Decorative Paints was up 6 percent, mainly driven by favorable currency effects. Volumes for the second quarter were up in Asia, while volumes were down for Europe and Latin America
- Revenue in Performance Coatings was up 8 percent across the reporting units, benefiting from favorable currencies and higher demand for premium products. Volumes declined in the quarter mainly due to lower capital and maintenance spending in the global oil and gas industry. Russia, Brazil and China remain challenging
- Revenue in Specialty Chemicals was up 5 percent due to continued favorable currency effects, partly offset by the impact of the divestment of the Paper Chemicals business, which was completed early May. Volumes were flat. Growth in some segments compensated for lower demand in oil and gas drilling segments. North America continued to show a positive trend, while growth in Asia was subdued and demand remained weak in Europe and South America

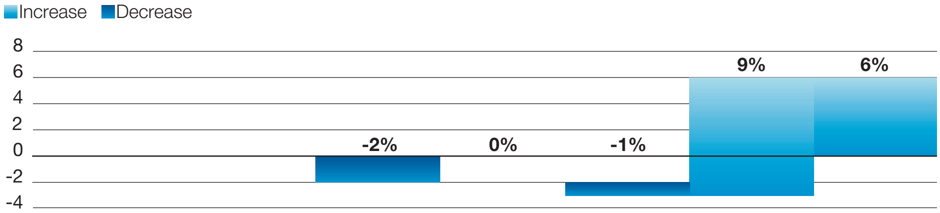
Acquisitions and divestments

- Specialty Chemicals completed the sale of its Paper Chemicals business for €153 million. The business was part of Pulp and Performance Chemicals

Revenue

Second quarter 2014	Second quarter 2015	Δ%	in € millions	January-June 2014	January-June 2015	Δ%
1,074	1,134	6	Decorative Paints	1,939	2,024	4
1,434	1,550	8	Performance Coatings	2,753	2,980	8
1,228	1,290	5	Specialty Chemicals	2,450	2,586	6
(26)	(25)		Other activities/eliminations	(49)	(50)	
3,710	3,949	6	Total	7,093	7,540	6

Revenue development Q2 2015



in % versus 2014	Volume	Price/mix	Divestments	Exchange rates	Total
Decorative Paints	(1)	–	–	7	6
Performance Coatings	(3)	–	–	11	8
Specialty Chemicals	–	(1)	(2)	8	5
Total	**(2)**	**–**	**(1)**	**9**	**6**

Volume development per quarter (year-on-year)	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Decorative Paints	3	–	(2)	(3)	(1)
Performance Coatings	1	2	–	(3)	(3)
Specialty Chemicals	4	–	(1)	–	–
Total	3	1	(1)	(2)	**(2)**

Price/mix development per quarter (year-on-year)	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15
Decorative Paints	(3)	(3)	–	(1)	–
Performance Coatings	2	(1)	1	1	–
Specialty Chemicals	(1)	1	–	–	(1)
Total	(1)	(1)	–	–	**–**

Operating income

- In Decorative Paints, operating income was up 25 percent due to the new operating model, lower costs, reduced restructuring expenses, strict cost containment and favorable currency developments
- In Performance Coatings, operating income was up 24 percent driven by cost reductions from performance improvement initiatives, margin management activities, manufacturing productivity, and favorable currencies
- In Specialty Chemicals, operating income was up 55 percent (31 percent excluding incidental items related to the divestment of the Paper Chemicals business). Results were supported by the increase of production at the new Frankfurt plant, operational efficiencies throughout the business and favorable currency developments

Total restructuring charges in the second quarter amounted to €24 million (2014: €45 million), excluding restructuring charges linked to the divestment of the Paper Chemicals business included in incidental items.

Raw material prices were lower, although in certain regions foreign currency effects have adversely impacted raw material costs in local currencies.

Operating income in other activities

Operating income in other activities was lower than the previous year. Corporate costs were higher due to planned functional transformation projects. Pension costs were impacted by de-risking initiatives.

Net financing expenses

Net financing expenses decreased due to lower external interest expenses and reduced interest on provisions.

Tax

The year-to-date effective tax rate was 26 percent (2014: 26 percent). The tax rate was positively impacted by favorable one-time adjustments and the tax effect of the divestment. Excluding one-off items the effective tax rate was 28 percent (2014: 28 percent).

Operating income

Second quarter				January-June		
2014	2015	Δ%	in € millions	2014	2015	Δ%
102	128	25	Decorative Paints	119	178	50
178	220	24	Performance Coatings	304	390	28
124	192	55	Specialty Chemicals	259	355	37
(51)	(54)		Other activities/eliminations	(113)	(131)	
353	**486**	38	**Total**	569	**792**	39

Operating income in other activities

Second quarter			January-June	
2014	2015	in € millions	2014	2015
(41)	(45)	Corporate costs	(85)	(92)
(3)	(6)	Pensions	(9)	(13)
5	7	Insurances	8	(2)
(12)	(10)	Other	(27)	(24)
(51)	**(54)**	**Operating income in other activities**	(113)	**(131)**

Operating income to net income

Second quarter			January-June	
2014	2015	in € millions	2014	2015
353	**486**	**Operating income**	569	**792**
(40)	(27)	Net financing expenses	(77)	(68)
6	8	Results from associates and joint ventures	12	6
319	**467**	**Profit before tax**	504	**730**
(89)	(108)	Income tax	(132)	(190)
230	**359**	**Profit from continuing operations**	372	**540**
(1)	(1)	Profit from discontinued operations	2	(4)
229	**358**	**Profit for the period**	374	**536**
(24)	(27)	Non-controlling interests	(40)	(45)
205	**331**	**Net income**	334	**491**

Decorative Paints

- Revenue up 6 percent in Q2, mainly driven by favorable currency effects
- Operating income up 25 percent, due to the new operating model, lower costs, reduced restructuring expenses, cost containment and favorable currencies
- ROS increased to 11.3 percent (2014: 9.5 percent); ROI increased to 10.4 percent (2014: 6.2 percent on a comparable basis)

Revenue increased 6 percent, mainly driven by favorable currency effects. Volumes were up in Asia, while volumes were down for Europe and Latin America.

Operating income improved by 25 percent due to the new operating model, lower costs, reduced restructuring expenses, strict cost containment and favorable currency developments.

Europe, Middle East and Africa

Revenue was flat. Volumes were slightly lower due to varying market dynamics and challenging environments in Eastern Europe, in particular Russia, compensated by positive price/mix and favorable currency effects. Various operational efficiency improvement programs and the new operating model led to a lower cost base.

Latin America

Revenue increased by 7 percent due to positive price/ mix, partly offset by unfavorable currency effects and lower volumes. Margin management offset the adverse currency impact on the cost of raw materials. Improvement actions and strict cost control continued to be a focus in the region.

Asia

Despite challenging conditions in the Chinese construction market, revenue in Asia increased by 17 percent due to higher volumes and favorable currency effects, partly offset by adverse price/mix.

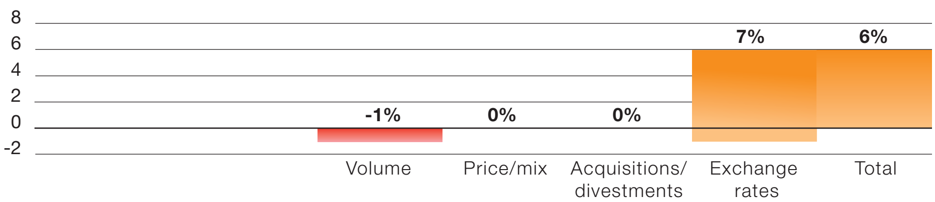
Revenue

Second quarter				January - June		
2014	2015	Δ%	in € millions	2014	2015	Δ%
662	665	–	Deco Europe, Middle East and Africa	1,194	1,177	(1)
124	133	7	Decorative Paints Latin America	240	271	13
287	336	17	Decorative Paints Asia	505	576	14
1	–		Other/intragroup eliminations	–	–	
1,074	**1,134**	**6**	**Total**	**1,939**	**2,024**	**4**
102	128	25	Operating income	119	178	50
9.5	11.3		ROS%	6.1	8.8	
			Average invested capital	2,776	2,953	
			Moving average ROI (in %) *	13.4	10.4	
141	165	17	EBITDA	197	253	28
38	39		Capital expenditures	66	76	
			Number of employees	15,600	15,200	

* On a comparable basis: 2014 (excluding incidental items): 6.2 percent.

Revenue development Q2 2015

Increase Decrease



Performance Coatings

- Revenue up 8 percent in Q2, due to currency effects more than offsetting lower volumes
- Operating income up 24 percent, driven by cost reductions from performance improvement initiatives, margin management activities, manufacturing productivity and currencies
- ROS increased to 14.2 percent (2014: 12.4 percent); ROI increased to 23.9 percent (2014: 22.1 percent)

Revenue was up across the reporting units, benefiting from favorable currencies and higher demand for premium products. Volumes declined in the quarter mainly due to lower capital and maintenance spending in the global oil and gas industry. Russia, Brazil and China remain challenging.

Operating income increased 24 percent driven by cost reductions from performance improvement initiatives (including management de-layering, manufacturing site closures, and general spend reductions), margin management activities, manufacturing productivity and currencies.

Marine and Protective Coatings

Revenue was up 15 percent, due to favorable currencies and positive volume development within Marine Coatings, partially offset by weaker demand in Protective Coatings due to lower capital spending and delayed projects in the global oil and gas industries. Marine volumes were driven by strong demand from projects in Europe and Asia, tempered by continued weakness in the Chinese shipbuilding industry.

Automotive and Specialty Coatings

Revenue was up 7 percent, mostly due to favorable currencies and price/mix. Aerospace volumes improved due to continued favorable market conditions. Growth in consumer electronics slowed.

Industrial and Powder Coatings

Revenue was up 5 percent, due to favorable currencies and price/mix, partially offset by weaker markets, most notably in the Chinese construction industries. Several segments benefited from strength of the construction industries in North America. In Europe, Packaging volume development was positive while coated steel production declined. Volumes were impacted by the expiry of resin supply agreements related to the 2013 divestment of AkzoNobel's Decorative Paints business in North America.

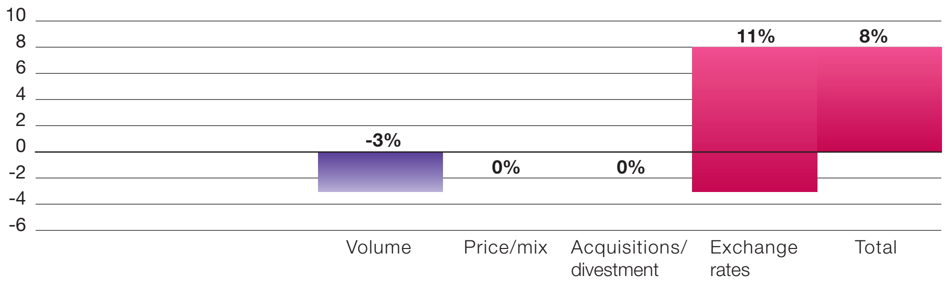
Revenue *

Second quarter				January - June		
2014	2015	Δ%	in € millions	2014	2015	Δ%
362	418	15	Marine and Protective Coatings	685	771	13
365	389	7	Automotive and Specialty Coatings	708	777	10
715	750	5	Industrial and Powder Coatings	1,375	1,445	5
(8)	(7)		Other/intragroup eliminations	(15)	(13)	
1,434	**1,550**	**8**	**Total**	**2,753**	**2,980**	**8**
178	220	24	Operating income	304	390	28
12.4	14.2		ROS%	11.0	13.1	
			Average invested capital	2,432	2,643	
			Moving average ROI (in %)	22.1	23.9	
212	257	21	EBITDA	375	463	23
37	35		Capital expenditures	63	64	
			Number of employees	21,200	19,700	

* Segment reporting following change in business structure.
For more details, please see the Investor update presentation on www.akzonobel.com

Revenue development Q2 2015

Increase Decrease



Specialty Chemicals

- Revenue up 5 percent in Q2, mainly due to favorable currency effects, while volumes were flat
- Operating income up 55 percent (31 percent excluding incidental items related to the divestment of the Paper Chemicals business), supported by the increase of production at the new Frankfurt plant and operational efficiencies throughout the business
- ROS increased to 14.9 percent (2014: 10.1 percent); excluding incidental items ROS was 12.6 percent; ROI increased to 17.0 percent (2014: 9.6 percent)
- Divestment of Paper Chemicals business was closed in May; book profit net of related costs was €30 million included in operating income

Revenue was up 5 percent due to continued favorable currency effects, partly offset by the impact of the divestment of the Paper Chemicals business, which was completed early May. Volumes were flat. Growth in some segments compensated for lower demand in oil and gas drilling segments. North America continued to show a positive trend, while growth in Asia was subdued and demand remained weak in Europe and South America.

Operating income increased 55 percent (31 percent excluding incidental items related to the divestment of the Paper Chemicals business). Results were supported by the increase of production at the new Frankfurt plant, operational efficiencies throughout the business and favorable currency developments.

Functional Chemicals
Revenue was up 11 percent mainly due to positive volume developments for chelates and cellulosic specialties and favorable currency effects.

Industrial Chemicals
Revenue was down 7 percent, due to a scheduled maintenance stop. Product availability improved due to an increase of production at the new chlorine plant in Frankfurt, which is now fully on-stream.

Surface Chemistry
Revenue was up 10 percent due to positive currency effects. Higher volumes from several growing segments were more than compensated by the volume decrease in oil drilling segments.

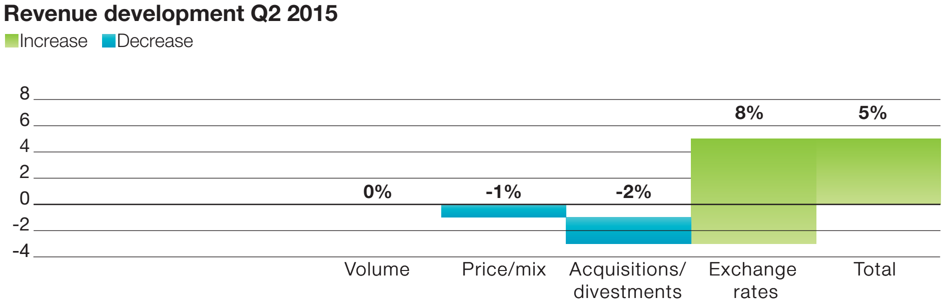
Pulp and Performance Chemicals
Revenue was up 1 percent. Positive volume development in the pulp segment, especially in North and South America, as well as in growth products, was offset by the impact of the divested Paper Chemicals business. The divestment has an annual revenue impact of around €150 million. The deal includes tolling agreements that will expire over time.

Revenue

Second quarter				January - June		
2014	**2015**	**Δ%**	in € millions	**2014**	**2015**	**Δ%**
447	497	11	Functional Chemicals *	887	961	8
305	284	(7)	Industrial Chemicals *	627	592	(6)
256	282	10	Surface Chemistry	506	559	10
250	252	1	Pulp and Performance Chemicals	493	525	6
(30)	(25)		Other/intragroup eliminations	(63)	(51)	
1,228	**1,290**	**5**	**Total**	**2,450**	**2,586**	**6**
124	192	55	Operating income	259	355	37
124	162	31	Operating income excl. incidental items	259	325	25
10.1	14.9		ROS%	10.6	13.7	
10.1	12.6		ROS excl. incidental items (in %)	10.6	12.6	
			Average invested capital	3,492	3,557	
			Moving average ROI (in %) **	9.6	17.0	
204	243	19	EBITDA	408	485	19
72	59		Capital expenditures	133	115	
			Number of employees	10,000	9,200	

* Adjusted to the new business structure.
** On a comparable basis: 2015: 16.2 percent; 2014: 13.6 percent.

Revenue development Q2 2015



Condensed financial statements

Consolidated statement of income

Second quarter 2014	Second quarter 2015	in € millions	January-June 2014	January-June 2015
Continuing operations				
3,710	3,949	Revenue	7,093	7,540
(2,228)	(2,313)	Cost of sales	(4,304)	(4,459)
1,482	**1,636**	**Gross profit**	**2,789**	**3,081**
(1,129)	(1,150)	SG&A costs	(2,220)	(2,289)
353	**486**	**Operating income**	**569**	**792**
(40)	(27)	Net financing expenses	(77)	(68)
6	8	Results from associates and joint ventures	12	6
319	**467**	**Profit before tax**	**504**	**730**
(89)	(108)	Income tax	(132)	(190)
230	**359**	**Profit for the period from continuing operations**	**372**	**540**
Discontinued operations				
(1)	(1)	Profit for the period from discontinued operations	2	(4)
229	**358**	**Profit for the period**	**374**	**536**
Attributable to				
205	331	Shareholders of the company	334	491
24	27	Non-controlling interests	40	45
229	**358**	**Profit for the period**	**374**	**536**

Consolidated statement of comprehensive income

Second quarter 2014	Second quarter 2015	in € millions	January-June 2014	January-June 2015
229	358	Profit for the period	374	**536**
Other comprehensive income				
97	(176)	Exchange differences arising on translation of foreign operations	83	414
12	(4)	Cash flow hedges	(8)	(5)
(112)	(338)	Post-retirement benefits	(851)	(638)
10	(6)	Tax relating to components of other comprehensive income	28	–
7	**(524)**	**Other comprehensive income for the period (net of tax)**	**(748)**	**(229)**
236	**(166)**	**Comprehensive income for the period**	**(374)**	**307**
Comprehensive income for the period attributable to				
210	(169)	Shareholders of the company	(418)	231
26	3	Non-controlling interests	44	76
236	**(166)**	**Comprehensive income for the period**	**(374)**	**307**

Condensed consolidated balance sheet

in € millions	December 31, 2014	June 30, 2015
Assets		
Non-current assets		
Intangible assets	4,142	4,296
Property, plant and equipment	3,835	3,995
Other financial non-current assets	2,148	1,893
Total non-current assets	**10,125**	**10,184**
Current assets		
Inventories	1,545	1,644
Trade and other receivables	2,743	3,322
Cash and cash equivalents	1,732	1,008
Other current assets	88	83
Assets held for sale	66	10
Total current assets	**6,174**	**6,067**
Total assets	**16,299**	**16,251**
Equity and liabilities		
Total equity	**6,267**	**6,381**
Non-current liabilities		
Provisions and deferred tax liabilities	2,555	2,535
Long-term borrowings	2,527	2,182
Total non-current liabilities	**5,082**	**4,717**
Current liabilities		
Short-term borrowings	811	964
Trade and other payables	3,407	3,480
Other short-term liabilities	721	707
Liabilities held for sale	11	2
Total current liabilities	**4,950**	**5,153**
Total equity and liabilities	**16,299**	**16,251**

Shareholders' equity

Shareholders' equity increased from €5.8 billion at year-end 2014 to €5.9 billion at the end of June 2015, mainly due to:

- Positive currency effects €396 million
- Net income of €491 million

Offset by:

- Actuarial impact of €652 million reported in Other comprehensive income, including €321 million for de-risking of pension liabilities
- Dividend payments of €170 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	Group equity
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
Balance at June 30, 2014	**491**	**432**	**(25)**	**(341)**	**4,482**	**5,039**	**457**	**5,496**
Balance at January 1, 2015	**492**	**463**	**(19)**	**(43)**	**4,897**	**5,790**	**477**	**6,267**
Profit for the period	–	–	–	–	491	491	45	536
Other comprehensive income	–	–	(4)	396	(652)	(260)	31	(229)
Comprehensive income for the period	**–**	**–**	**(4)**	**396**	**(161)**	**231**	**76**	**307**
Dividend paid	3	103	–	–	(276)	(170)	(37)	(207)
Equity-settled transactions	–	–	–	–	14	14	–	14
Issue of common shares	2	(2)	–	–	–	–	2	2
Acquisitions and divestments	–	–	–	–	(3)	(3)	1	(2)
Balance at June 30, 2015	**497**	**564**	**(23)**	**353**	**4,471**	**5,862**	**519**	**6,381**

Invested capital

Invested capital at the end of Q2 2015 totaled €10.7 billion, up €0.8 billion on year-end 2014. Invested capital was primarily impacted by currency variation and seasonal increase of operating working capital of €0.6 billion. Performance Coatings continued to accommodate a temporary and planned inventory increase as part of the scheduled footprint optimization.

Pensions

The net balance sheet position of the pension plans at the end of June 2015 was an IFRS deficit of €1.1 billion (year-end 2014: €0.8 billion). This was the result of the net effect of:

- Lower asset returns
- Higher inflation in the UK
- Further de-risking of pension liabilities of £1.5 billion (€2.0 billion) in the first half of the year related to the ICI Pension Fund in the UK, by way of three additional non-cash buy-in transactions, together giving rise to an adverse impact of €321 million in Other comprehensive income

Offset by:

- Top-up payments of €339 million, paid in Q1, into certain UK defined benefit pension plans
- Higher discount rates in the key countries

The triennial review of the ICI Pension Fund was completed in July 2015, a new valuation and payment schedule was agreed with the Trustees.

Workforce

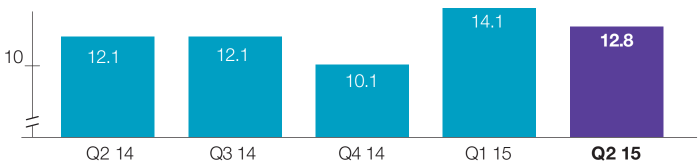
At June 30, 2015, we employed 46,000 staff (year-end 2014: 47,200 employees).

Invested capital

in € millions	June 30, 2014	December 31, 2014	June 30, 2015
Trade receivables	2,456	2,246	2,806
Inventories	1,541	1,545	1,644
Trade payables	(2,209)	(2,373)	(2,433)
Operating working capital	**1,788**	**1,418**	**2,017**
Other working capital items	(626)	(676)	(721)
Non-current assets	9,418	10,125	10,184
Less investments in associates and joint ventures	(179)	(183)	(163)
Less pension assets	(60)	(409)	(146)
Deferred tax liabilities	(402)	(412)	(434)
Invested capital	**9,939**	**9,863**	**10,737**

Operating working capital

In % of revenue



Operating working capital

in € millions, % of revenue	June 30, 2014		December 31, 2014		June 30, 2015	
Decorative Paints	373	8.7	202	5.5	386	8.5
Performance Coatings	843	14.7	733	12.9	973	15.7
Specialty Chemicals	655	13.3	587	12.3	723	14.0
Other activities	(83)		(104)		(65)	
Total	**1,788**	**12.1**	**1,418**	**10.1**	**2,017**	**12.8**

Condensed consolidated statement of cash flows

Second quarter 2014	Second quarter 2015	in € millions	January-June 2014	January-June 2015
879	**947**	**Cash and cash equivalents at beginning of period**	2,020	**1,649**
		Adjustments to reconcile earnings to cash generated from operating activities		
230	359	Profit for the period from continuing operations	372	540
156	158	Amortization and depreciation	304	314
(2)	(40)	Changes in working capital	(473)	(616)
(60)	(85)	Changes in provisions	(354)	(495)
69	15	Other changes	(8)	42
393	**407**	**Net cash from operating activities**	(159)	**(215)**
(150)	(137)	Capital expenditures	(265)	(260)
–	114	Acquisitions and divestments net of cash acquired	–	112
3	(14)	Other changes	21	(20)
(147)	**(37)**	**Net cash from investing activities**	(244)	**(168)**
(22)	(175)	Changes from borrowings	(514)	(189)
(175)	(184)	Dividends	(177)	(205)
–	(2)	Other changes	9	(2)
(197)	**(361)**	**Net cash from financing activities**	(682)	**(396)**
49	**9**	**Net cash used for continuing operations**	(1,085)	**(779)**
(11)	(1)	Cash flows from discontinued operations	(14)	(2)
38	**8**	**Net change in cash and cash equivalents of total operations**	(1,099)	**(781)**
9	(33)	Effect of exchange rate changes on cash and cash equivalents	5	54
926	**922**	**Cash and cash equivalents at June 30**	926	**922**

Cash flows and net debt

Operating activities in Q2 2015 resulted in a cash inflow of €407 million (2014: €393 million). The increased profit from continuing operations was partly offset by changes in working capital and provisions.

Net debt in Q2 decreased to €2,138 million (Q1 2015: €2,278 million).

Outlook and 2015 targets

Exchange rate movements, positive market trends in North America and no improvement for Europe overall, as well as lower growth rates in many countries, including Russia, Brazil and China, are determining the dynamics of 2015. The significant actions taken in recent years form a sound basis for further improved performance. We are on track to deliver our targets for 2015. Please refer to our website for more information on our ambitions and the strategic focus areas.

Quarterly statistics

				2014				2015
Q1	Q2	Q3	Q4	year	in € millions	Q1	Q2	year-to-date
					Revenue			
865	1,074	1,050	920	3,909	Decorative Paints	890	1,134	2,024
1,319	1,434	1,420	1,416	5,589	Performance Coatings	1,430	1,550	2,980
1,222	1,228	1,239	1,194	4,883	Specialty Chemicals	1,296	1,290	2,586
(23)	(26)	(23)	(13)	(85)	Other activities/eliminations	(25)	(25)	(50)
3,383	**3,710**	**3,686**	**3,517**	**14,296**	**Total**	**3,591**	**3,949**	**7,540**
					EBITDA			
56	141	150	58	405	Decorative Paints	88	165	253
163	212	170	142	687	Performance Coatings	206	257	463
204	204	232	175	815	Specialty Chemicals	242	243	485
(59)	(48)	(65)	(45)	(217)	Other activities/eliminations	(74)	(55)	(129)
364	**509**	**487**	**330**	**1,690**	**Total**	**462**	**610**	**1,072**
10.8	**13.7**	**13.2**	**9.4**	**11.8**	**EBITDA margin (in %)**	**12.9**	**15.4**	**14.2**
					Depreciation			
(27)	(26)	(27)	(29)	(109)	Decorative Paints	(26)	(26)	(52)
(27)	(24)	(25)	(25)	(101)	Performance Coatings	(25)	(26)	(51)
(60)	(64)	(64)	(68)	(256)	Specialty Chemicals	(66)	(68)	(134)
(3)	(3)	(3)	(2)	(11)	Other activities/eliminations	(3)	(3)	(6)
(117)	**(117)**	**(119)**	**(124)**	**(477)**	**Total**	**(120)**	**(123)**	**(243)**
					Amortization			
(12)	(13)	(10)	(13)	(48)	Decorative Paints	(12)	(11)	(23)
(10)	(10)	(10)	(11)	(41)	Performance Coatings	(11)	(11)	(22)
(9)	(16)	(12)	(14)	(51)	Specialty Chemicals	(13)	(13)	(26)
–	–	(1)	–	(1)	Other activities/eliminations	–	–	–
(31)	**(39)**	**(33)**	**(38)**	**(141)**	**Total**	**(36)**	**(35)**	**(71)**
					Operating income excluding incidentals			
17	102	113	16	248	Decorative Paints	50	128	178
126	178	135	106	545	Performance Coatings	170	220	390
135	124	156	93	508	Specialty Chemicals	163	162	325
(62)	(51)	(69)	(47)	(229)	Other activities/eliminations	(77)	(58)	(135)
216	**353**	**335**	**168**	**1,072**	**Total**	**306**	**452**	**758**
					Operating income			
17	102	113	16	248	Decorative Paints	50	128	178
126	178	135	106	545	Performance Coatings	170	220	390
135	124	156	93	508	Specialty Chemicals	163	192	355
(62)	(51)	(69)	(132)	(314)	Other activities/eliminations	(77)	(54)	(131)
216	**353**	**335**	**83**	**987**	**Total**	**306**	**486**	**792**
6.4	**9.5**	**9.1**	**2.4**	**6.9**	**ROS (in %)**	**8.5**	**12.3**	**10.5**

Quarterly statistics

2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 year	in € millions	2015 Q1	2015 Q2	2015 year-to-date
Incidentals per Business Area								
–	–	–	–	–	Decorative Paints	–	–	–
–	–	–	–	–	Performance Coatings	–	–	–
–	–	–	–	–	Specialty Chemicals	–	30	30
–	–	–	(85)	(85)	Other activities/eliminations	–	4	4
–	**–**	**–**	**(85)**	**(85)**	**Total**	**–**	**34**	**34**
Reconciliation net financing expense								
12	9	9	12	42	Financing income	10	4	14
(44)	(37)	(36)	(40)	(157)	Financing expenses	(38)	(31)	(69)
(32)	**(28)**	**(27)**	**(28)**	**(115)**	**Net interest on net debt**	**(28)**	**(27)**	**(55)**
Other interest movements								
(5)	(4)	(4)	(5)	(18)	Financing expenses related to pensions	(4)	(3)	(7)
(4)	(11)	(8)	(9)	(32)	Interest on provisions	(9)	(1)	(10)
4	3	1	1	9	Other items	–	4	4
(5)	**(12)**	**(11)**	**(13)**	**(41)**	**Net other financing charges**	**(13)**	**–**	**(13)**
(37)	**(40)**	**(38)**	**(41)**	**(156)**	**Net financing expenses**	**(41)**	**(27)**	**(68)**
Quarterly net income analysis								
6	6	6	3	21	Results from associates and joint ventures	(2)	8	6
(16)	(24)	(16)	(16)	(72)	Profit attributable to non-controlling interests	(18)	(27)	(45)
185	319	303	45	852	Profit before tax	263	467	730
(43)	(89)	(84)	(36)	(252)	Income tax	(82)	(108)	(190)
142	230	219	9	600	Profit for the period from continuing operations	181	359	540
23	28	28	80	30	Effective tax rate (in %)	31	23	26

Quarterly statistics

Q1	Q2	Q3	Q4	2014 year		Q1	Q2	2015 year-to-date
Earnings per share from continuing operations (in €)								
0.52	0.84	0.83	(0.03)	2.16	Basic	0.66	1.35	2.01
0.52	0.83	0.82	(0.03)	2.15	Diluted	0.66	1.34	2.00
Earnings per share from discontinued operations (in €)								
0.01	–	0.01	0.06	0.07	Basic	(0.01)	(0.01)	(0.02)
0.01	–	0.01	0.06	0.07	Diluted	(0.01)	(0.01)	(0.02)
Earnings per share from total operations (in €)								
0.53	0.84	0.84	0.03	2.23	Basic	0.65	1.34	1.99
0.53	0.83	0.83	0.03	2.22	Diluted	0.65	1.33	1.98
Number of shares (in millions)								
243.0	244.4	245.4	245.7	244.7	Weighted average number of shares	246.4	247.7	247.1
243.4	245.4	245.4	246.0	246.0	Number of shares at end of quarter	246.9	248.4	248.4
Adjusted earnings (in € millions)								
185	319	303	45	852	Profit before tax from continuing operations	263	467	730
–	–	–	85	85	Incidentals reported in operating income	–	(34)	(34)
31	39	33	38	141	Amortization of intangible assets	36	35	71
(52)	(101)	(94)	(72)	(319)	Adjusted income tax	(93)	(118)	(211)
(16)	(24)	(16)	(16)	(72)	Non-controlling interests	(18)	(27)	(45)
148	233	226	80	687	Adjusted net income for continuing operations	188	323	511
0.61	**0.95**	**0.92**	**0.33**	**2.81**	**Adjusted earnings per share (in €)**	**0.76**	**1.30**	**2.07**

Principal risks and uncertainties

In our 2014 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 six risks assessed most likely to increase as communicated in the Annual Report of 2014 to be still valid.

Risk	Risk description	Risk corrective actions
Worsening of economic conditions	The global economy remains fragile and it continues to be difficult to predict customer demand and raw material costs. AkzoNobel is susceptible to decreased growth rates within high growth markets and/or continued economic and market downturn in mature markets. The effects could lead to a decline in demand and deteriorating financial results, which in turn could result in the company not realizing its financial targets.	Execute our strategy to bring down our operational cost base and reduce complexity. Continue the implementation of Global Business Services aimed at standardized core functional processes in all regions across the organization. Further deploy the commercial excellence programs to capture organic growth and 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.	Strategically spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Carefully monitor the political, economic and legislative conditions across the company. All significant investments, and the countries and industry segments in which AkzoNobel conducts its business, are decided on by the Executive Committee. Country organizations are in place in order to mitigate country-specific and generic business risks.
Information Technology	An effect of AkzoNobel's longer term Information Technology strategy is that our IT landscape is converging into fewer ERP systems and other critical applications. The amount of digital exchanges of business transactions with customers, suppliers and other stakeholders is increasing. Non-availability of our critical IT systems or unauthorized access, through cyber-crime or other events, can have a direct effect on our production processes, our competitive position and the reputation of the company.	Continuously test and update the systems used for information security. Further implement measures such as redundant design, back-up processes, virus protection, anti-spoofing and forensic scans. Centrally monitor access control processes to our key IT systems. A company-wide directive describing the rules regarding Information Management was issued in 2014.
Free cash flow generation	The potential for further deterioration of economic conditions could have an impact on the free cash flow generation of our businesses. Furthermore, we are potentially exposed to additional funding of pension schemes. This may lead to insufficient free cash flow generation, which limits our strategic degrees of freedom.	Maintain a strong investment grade credit rating; our longterm senior unsecured debt rating is BBB+ by Standard & Poor's and Baa1 by Moody's. Focus on cash management is stressed in our monthly Operational Control Cycle meetings and relevant metrics are included in our remuneration policies. 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.
Complying with laws and regulations	We may be held responsible for any liabilities arising out of non-compliance with laws and regulations.	Monitor and adapt to significant changes in the legal systems, regulatory controls, customs and practices in the countries in which we operate. Remain dedicated to minimizing AkzoNobel's compliance risk by fostering an open and transparent culture, continuously educating our employees worldwide and increasing awareness. Monitor overall compliance through our comprehensive annual non-financial letter of representation process, as well as our annual competition law compliance declaration. Embed company-wide standard setting and compliance awareness through activities and training programs.
Innovation and identification of major transforming technologies	Our success depends on the sustainable growth of our business through research, development and innovation. If we are not able to identify and adopt major transforming technologies in a timely manner, this may lead to the loss of our leadership positions and adversely affect our business.	Support continuous research and development through a spend of 2.5 percent (€363 million) of total revenue. Maintain the use of our detailed technology roadmaps, which assess relevant technological horizons and pathways to acquire and detail new technologies. Promote our global open innovation capability to identify, assess and acquire the most recent promising technologies.

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 2015 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 2015 give a true and fair view of our assets and liabilities, financial position at June 30, 2015, and of the result of our consolidated operations for the first half year of 2015.
2. The interim management report in this half-yearly financial report includes a fair review of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision.

Amsterdam, July 21, 2015
The Board of Management

Ton Büchner, Chief Executive Officer
Maëlys Castella, 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. The IFRS changes applicable as from January 1, 2015 do not have any or only an immaterial effect on our Consolidated financial statements. Otherwise the accounting principles are as applied in the 2014 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 and also include country holdings. Pensions reflects pension costs after the elimination of interest cost (reported as financing expenses). Insurances are the results from our captive insurance companies. Other costs include the cost of share-based compensation, the results of treasury and legacy operations.

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.

EBITDA is operating income excluding depreciation, amortization and incidental results.

EBITDA margin is EBITDA as percentage of revenue.

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

Incidental results are special charges and benefits, results on acquisitions and divestments, major 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 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.

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.

ROI is calculated as operating income of the last twelve months as percentage of average invested capital.

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.

Brand 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 3rd quarter 2015	October 22, 2015
Report for the year 2015 and the 4th quarter	February 11, 2016
Report for the 1st quarter 2016	April 19, 2016
Annual General Meeting of shareholders	April 20, 2016
Report for the 2nd quarter 2016	July 19, 2016
Report for the 3rd quarter 2016	October 19, 2016

www.akzonobel.com

AkzoNobel is a leading global paints and coatings company and a major producer of specialty chemicals. Calling on centuries of expertise, we supply industries and consumers worldwide with innovative products and sustainable technologies designed to meet the growing demands of our fast-changing planet. Headquartered in Amsterdam, the Netherlands, we have approximately 46,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as one of the leaders in the area of sustainability, we are committed to making life more liveable and our cities more human.

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