Resilient performance demonstrates strong fundamentals

Report for the 2nd quarter of 2008

AkzoNobel
Tomorrow's Answers Today

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Financial calendar

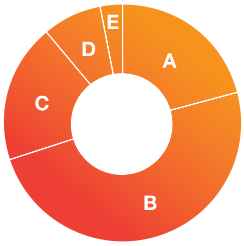
Investor and Analyst Day: *September 29, 2008*
Report for the 3rd quarter 2008: *October 29, 2008*
Quotation ex 2008 interim dividend: *October 30, 2008*
Payment of 2008 interim dividend: *November 10, 2008*

What's inside

AkzoNobel around the world
Revenue by destination *(35% in emerging markets)*

		%
A	North America	21
B	Europe	49
C	Asia Pacific	19
D	Latin America	8
E	Other regions	3
		100

Based on 2007 pro formas



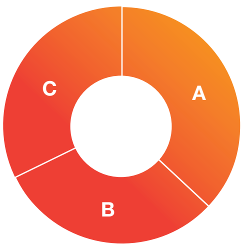
Our results at a glance

- Q2 revenue and EBITDA, in constant currencies, ahead 9 and 5 percent respectively
- Strong EBITDA margin of 13.6 percent
- Decorative Paints: geographical spread allows for stable margins
- Performance Coatings: EBITDA margin up at 13.7 percent
- Specialty Chemicals: higher raw material and energy prices led to a lower EBITDA margin of 16 percent
- Incidental charges of €86 million
- Net income from continuing operations before incidentals and fair value adjustments down 6 percent
- Earnings per share from continuing operations before incidentals up 5 percent
- €1 billion of €3 billion share buyback program completed at the end of July
- ICI integration process ahead of schedule

Revenue by business area

		%
A	Decorative Paints	37
B	Performance Coatings	31
C	Specialty Chemicals	32
		100

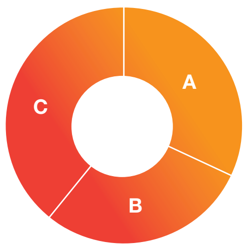
Based on 2007 pro formas



EBITDA by business area

		%
A	Decorative Paints	32
B	Performance Coatings	29
C	Specialty Chemicals	39
		100

Based on 2007 pro formas

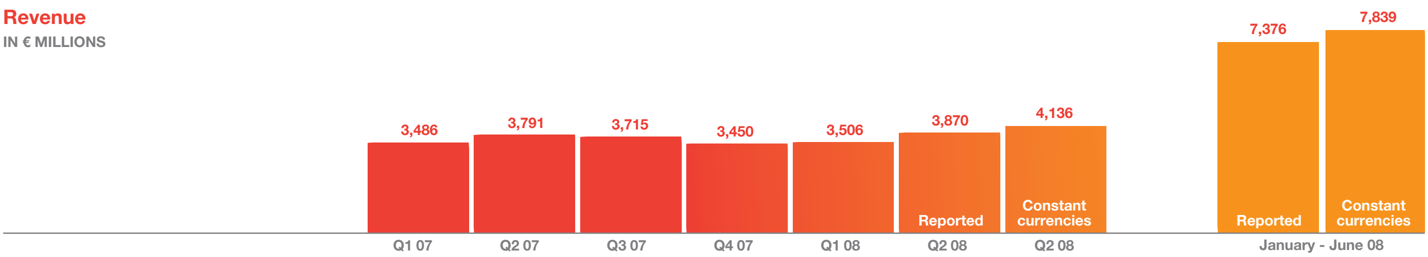


Financial highlights

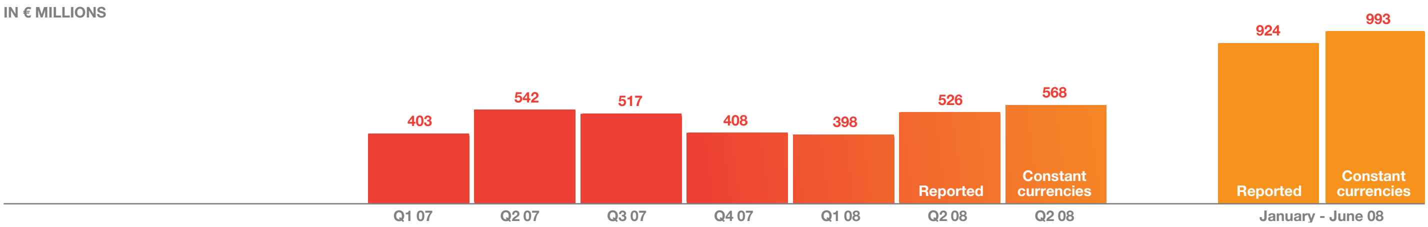
2ND QUARTER			IN € MILLIONS	JANUARY - JUNE		
2008	2007[1]	Δ%		2008	2007[1]	Δ%
			Continuing operations before incidentals			
3,870	3,791	2	Revenue	7,376	7,277	1
526	542	(3)	EBITDA	924	945	(2)
13.6	14.3		EBITDA margin (in %)	12.5	13.0	
418	429	(3)	EBIT before fair value adjustments	703	720	(2)
10.8	11.3		EBIT margin before fair value adjustments (in %)	9.5	9.9	
385	391	(2)	EBIT after fair value adjustments	642	645	–
9.9	10.3		EBIT margin after fair value adjustments (in %)	8.7	8.9	
258	274	(6)	Net income from continuing operations before fair value adjustments	414	443	(7)
234	247	(5)	Net income from continuing operations	370	389	(5)
0.91	0.87	5	Earnings per share from continuing operations (in €)	1.42	1.36	4
			After incidentals			
299	359		EBIT (operating income)	405	523	
165	225		Net income from continuing operations	201	303	
19	–		Net income from discontinued operations	101	–	
184	225		Net income total operations	302	303	
			Earnings per share			
0.64	0.79		From continuing operations (in €)	0.77	1.06	
0.72	0.79		Total operations (in €)	1.16	1.06	
121	100		Capital expenditures	220	213	
12.0	12.8		Interest coverage	6.1	7.4	
			Invested capital	14,149	14,400[2]	
			Net cash from operating activities	(362)	(320)	
			Net interest-bearing borrowings	1,056	2,832[2]	
			Number of employees (continuing operations)	60,110	59,475[2]	

[1] Pro forma
[2] At year-end

Revenue
IN € MILLIONS



EBITDA before incidentals
IN € MILLIONS



Autonomous growth was 8 percent, with Specialty Chemicals at 13 percent. EBITDA decreased by 3 percent, reflecting an adverse currency impact of 7 percent and increased costs of raw materials and energy. However, EBITDA, in constant currencies, was up by 5 percent. We increased earnings per share from continuing operations before incidentals by 5 percent.

Autonomous growth of 8 percent
In constant currencies, we realized underlying growth in all three businesses areas. Both Specialty Chemicals and Performance Coatings realized strong autonomous growth of 13 and 7 percent respectively. Autonomous growth for the company of 8 percent was offset by a 7 percent adverse currency impact – mainly from the British pound and US dollar. In total, revenue increased by 2 percent.

In constant currencies, revenue in Decorative Paints increased by 2 percent compared with last year. We implemented price increases which were offset by mix effects. Growth in North America was hampered by the weaker US dollar and softer economy. In Performance Coatings, we realized a good sales/volume mix, notably in Marine & Protective Coatings. Specialty Chemicals' growth was mainly driven by Functional Chemicals and Chemicals Pakistan.

EBITDA in constant currencies: up 5 percent; reported EBITDA decreased by 3 percent
In constant currencies, EBITDA increased by 5 percent, both during the second quarter and on a year-to-date basis. Compared with last year, reported EBITDA before incidentals decreased by 3 percent.

In constant currencies, EBITDA in Decorative Paints was unchanged compared with 2007, while EBITDA in Performance Coatings was up 14 percent and EBITDA in Specialty Chemicals increased by 10 percent.

The reported EBITDA margin decreased slightly to 13.6 percent. The weaker contributions to EBITDA from Decorative Paints and Specialty Chemicals were partly counterbalanced by excellent outcomes from Performance Coatings.

The "other" costs in EBITDA of €25 million in the second quarter (2007: €10 million) were higher due primarily to lower results in our captive insurance companies.

Autonomous growth

IN % VERSUS Q2, 2007 PRO FORMA	TOTAL	VOLUME	PRICE	CURRENCY	ACQUISITIONS/DIVESTMENTS
Decorative Paints	(4)	1	–	(6)	1
Performance Coatings	1	3	4	(7)	1
Specialty Chemicals	6	5	8	(7)	–
AkzoNobel	**2**	**4**	**4**	**(7)**	**1**

Incidental charges included in operating income

IN € MILLIONS	2ND QUARTER 2008	2ND QUARTER 2007*
Transformation cost	(72)	–
Restructuring charges	(11)	(45)
Results on divestments	(1)	–
Charges related to major legal, antitrust and environmental cases	(2)	(2)
Special benefits/(charges)	–	15
Incidentals included in operating income	**(86)**	**(32)**

* Pro forma

Composition of net income during the second quarter

IN € MILLIONS	NET INCOME BEFORE INCIDENTALS 2008	2007*	Δ%	NET INCOME 2008	2007*	Δ%
Continuing operations	234	247	(5)	165	225	(27)
Discontinued operations	19	–		19	–	
Total	**253**	**247**	**2**	**184**	**225**	**(18)**

* Pro forma

Financial highlights

Operating income declined due to incidentals

Incidental charges of €86 million (2007: €32 million) reduced operating income in the second quarter to €299 million. Transformation costs of €72 million included €55 million related to impairments of the AkzoNobel Decorative Paints businesses that have been, or will be, sold due to the commitment packages agreed with European and Canadian authorities. The Canadian business was sold at June 30, 2008. These impairments were charged against gross profit on an incidental basis and were not taken into account in the pro formas for 2007.

Earnings per share up 5 percent

Although net income from continuing operations before incidentals declined by 5 percent, we increased earnings per share from continuing operations before incidentals by 5 percent, due to the share buyback program in 2007 and 2008.

Net income before incidentals increased by 2 percent, mainly as a result of discontinued operations. Net income from continuing operations after incidentals decreased from €225 million to €165 million, mainly due to the higher level of incidental charges. The incidental charges related for a significant amount (€72 million) to transformation costs that were not taken into account in the pro formas for 2007.

Discontinued operations

We intend to sell the Specialty Starches business which we acquired from ICI. Its results are included in the 2008 results from discontinued operations, together with the impact of the on-sale to Henkel in the second quarter. Discontinued operations in 2007 related to the Organon BioSciences divestment.

On-sale to Henkel

The completion of the on-sale of the Adhesives and Electronic Material businesses to Henkel marked the start of the second quarter. We received an amount of €3.6 billion before final settlement adjustments. The disentanglement from ICI's National Starches business is expected to continue throughout 2008. Per June 30, 2008, entities not yet disentangled are included in assets and liabilities classified as held for sale. As the selling price was determined before the ICI acquisition, we expect a limited effect on the profit or loss going forward. Any remaining impact will be presented in discontinued operations.

We agreed with Henkel on limited transitional services for the retained National Starches businesses for two years from completion. For the operations that we retain and integrate, we expect to no longer need these services by year-end.

Integration process

Integration is ahead of plan and progress is fully in line with the €340 milllion synergy target communicated earlier. Opportunities for realizing synergies have been defined across all functions and a monitoring system is in place. Our global functions and business units have been re-organized in line with our new company structure. The former ICI headquarters have been closed. We have integrated our sales and export organizations, and contracts for purchasing and distribution are being renegotiated. Projects to track and improve plant performance have started. For research and development, a combined program management system is in place and we have combined knowledge in key research areas. Combined standardized IT systems are being implemented and in finance, reporting and consolidation flows were integrated.

Outlook

For the remainder of the year, we anticipate weaker economic conditions in some of our mature markets and raw material and energy price increases show no signs of easing. We are focused on the management of our margins and we are accelerating the realization of synergies from the acquisition of ICI. Based on our latest forecast, we do not expect our reported 2008 EBITDA before incidentals to match the 2007 pro forma level of €1,870 million, although we expect to be close in constant currencies.

AkzoNobel is building a business with solid medium and long-term fundamentals, and the focus will continue to be on:

1) Making further significant progress with the integration of the retained former ICI businesses
2) Outgrowing our markets
3) Improving our EBITDA margin to the upper half of our peer group.

This report presents pro forma outcomes to allow for comparison with the hypothetical situation that AkzoNobel acquired ICI on January 1, 2007. Pro forma numbers are used as comparatives in the texts of this report, unless indicated otherwise. Pro forma outcomes for 2007 per quarter and per business area are found on our website www.akzonobel.com.

Decorative Paints

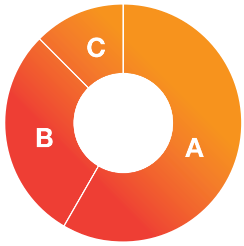
- Internal and external wall paints and lacquers
- A full range of interior and exterior decoration and protection products for professional and DIY markets
- Woodcare and specialty products
- Lacquers and varnishes for wood protection and decoration
- Specialty paints for metal, concrete and other critical building materials
- Adhesives for the building and renovation industry
- Tile and floor adhesives and floor leveling compounds used in building and renovation industry
- Offers services such as mixing machines, color concepts and expertise
- Customers range from trade distributors to large scale outlets

Passionate about bringing color to the world

Q2 2008 revenue split by origin

	€ million	%
A Decorative Paints Europe[1]	825	59
B Decorative Paints Americas[2]	414	29
C Decorative Paints Asia	174	12
Intragroup/Other	(1)	
	1,412	100

[1] Including UK €166 million
[2] Including US €219 million



Geographical spread allows for stable margins

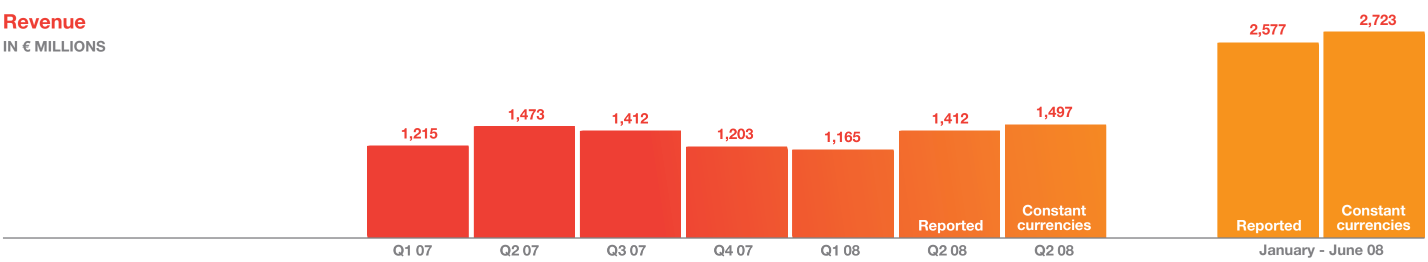
- Autonomous growth and acquisitions contributed 2 percent to revenue
- Continued double-digit autonomous growth in Asia and Latin America
- Leading brands and market positions protected margins
- Stable EBITDA margin
- Revenue in Europe in constant currencies was ahead of 2007

Decorative Paints

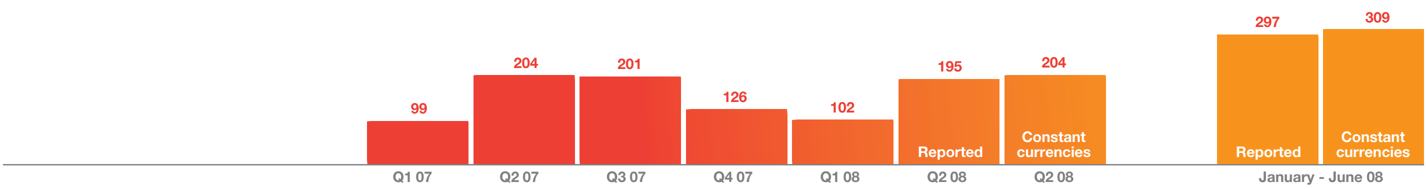
2ND QUARTER			IN € MILLIONS	JANUARY - JUNE		
2008	2007[1]	Δ%		2008	2007[1]	Δ%
			Revenue			
825	831	(1)	Decorative Paints Europe	1,474	1,494	(1)
414	482	(14)	Decorative Paints Americas	786	897	(12)
174	162	7	Decorative Paints Asia	318	299	6
(1)	(2)		Intragroup revenue/other	(1)	(2)	
1,412	**1,473**	**(4)**	**Total**	**2,577**	**2,688**	**(4)**
			Before incidentals			
195	204	(4)	EBITDA	297	303	(2)
13.8	13.8		EBITDA margin (in %)	11.5	11.3	
166	176	(6)	EBIT before fair value adjustments	238	246	(3)
11.8	11.9		EBIT margin before fair value adjustments (in %)	9.2	9.2	
146	151	(3)	EBIT after fair value adjustments	198	196	1
10.3	10.3		EBIT margin after fair value adjustments (in %)	7.7	7.3	
			After incidentals			
137	140	(2)	EBIT (operating income)	150	152	(1)
9.7	9.5		EBIT margin (in %)	5.8	5.7	
34	27		Capital expenditures	60	52	
			Invested capital	7,687	7,865[2]	
			Number of employees	25,970[3]	25,615[2]	

[1] Pro forma
[2] At year-end
[3] Including 400 seasonal staff

Revenue
IN € MILLIONS



EBITDA before incidentals
IN € MILLIONS



Geographical spread allows for stable margins

Continued double-digit autonomous growth in Asia and Latin America contributed to a revenue increase of 2 percent in constant currencies. Adverse currency impact was 6 percent. Leading brands and market positions protected our margins. Before incidentals, the EBITDA margin remained unchanged at 13.8 percent and EBITDA, in constant currencies, was in line with 2007.

In constant currencies, our revenue in Europe, with the exception of the UK, remained ahead of last year. In the US, revenue in constant currencies diminished by 7 percent, in line with the previous quarter. The recently implemented US Decorative Paints strategy emphasizes the importance of maintaining volume market share, growth by focusing on selected end-user segments, implementing further cost reductions and improving margins. As a consequence of the rise of raw material prices, we will implement further price increases across the world.

Europe

Despite the softer market conditions in Continental Europe, revenue performance remained on a par with the same period last year. We realized good autonomous growth in Northern and Eastern Europe, particularly in the emerging countries. Price increases and cost control resulted in EBIT above the previous year for both regions.

In the UK, revenue, at constant currencies, was 3 percent behind last year. Our major customers in the UK retail market are struggling with a significant drop in consumer confidence. The trade market has also declined due to weak housing newbuilds and low mortgage approval rates. Product innovations, tight margin management, price increases and cost control partly compensated for the shortfall in volume. We launched the new environmentally-friendly paint Ecosure® which represents a major step towards sustainable paint with reduced carbon and VOCs, with packaging made from at least 25 percent recycled materials.

Americas

Our US Decorative Paints business generates 16 percent of Decorative Paints revenue and represents 6 percent of our total revenue. In the US, all business lines were impacted by the continued soft trading environment due to the weak economic conditions. A further restructuring program is already underway to bring costs in line with the reduced sales growth. The sales team is being redesigned to meet the objectives of the recently implemented US Decorative Paints strategy which emphasizes the importance of maintaining volume market share and growth by focusing on selected end-user segments, while implementing further cost reductions and improving margins. An analysis of the man-power required to service the target segments has been completed in the Stores division and a substantial number of man-power reductions have already been made. The launch of Freshaire®, the first VOC-free paint in the US, has been a success in the market. The weak economic conditions in the US show no signs of easing. However, the favorable exchange rate on purchases made in US dollars has reduced the euro impact of higher raw material prices.

In Latin America, we continued to grow the business significantly. During the quarter, Brazil faced pressure on the contribution margin, but costs were kept under control. Argentina and Uruguay achieved a good performance.

Asia

Our Asian business developed strongly during the quarter, with good volume growth across all countries. Disciplined implementation of initiatives in channel expansion, new product launches and tinting machines rollout all contributed to double-digit autonomous growth. We achieved our highest growth rates in China, India, Indonesia and Vietnam. Price increases were implemented in all countries to counter rising raw material prices. EBIT improved further on what was an already healthy level.

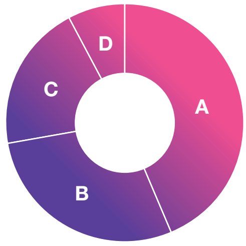
Performance Coatings

- The leading player in the performance coatings sector
- Strong growth platforms in emerging markets
- Supplies a wide range of industries and sectors including automotive, consumer electronics, aviation, shipping and leisure craft, sport equipment, construction, furniture, and food and beverage

Creating special paints for high performance

Q2 2008 revenue split

		€ million	%
A	Industrial Activities	516	44
B	Marine & Protective Coatings	346	29
C	Car Refinishes	233	20
D	Packaging Coatings	89	7
	Intragroup/Other	(9)	
		1,175	100



EBITDA margin up at 13.7 percent

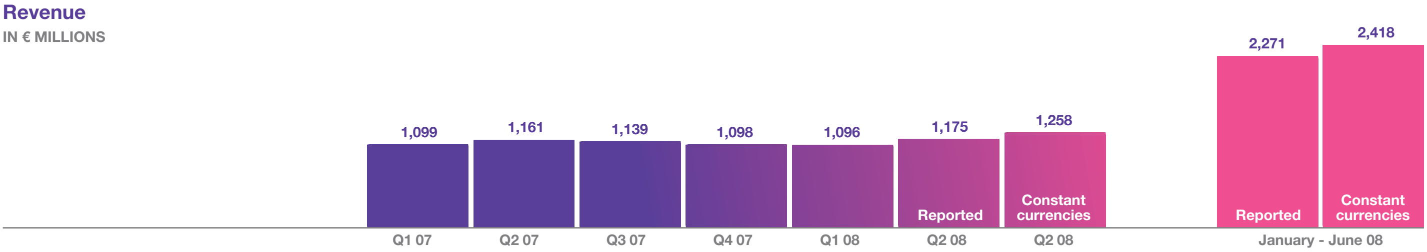
- A strong quarter overall
- Autonomous growth of 7 percent
- EBITDA margin increased to 13.7 percent
- Excellent quarter for Marine & Protective Coatings
- Solid results at Car Refinishes and Powder Coatings
- Industrial Finishes continues to be affected by weak US market conditions

Performance Coatings

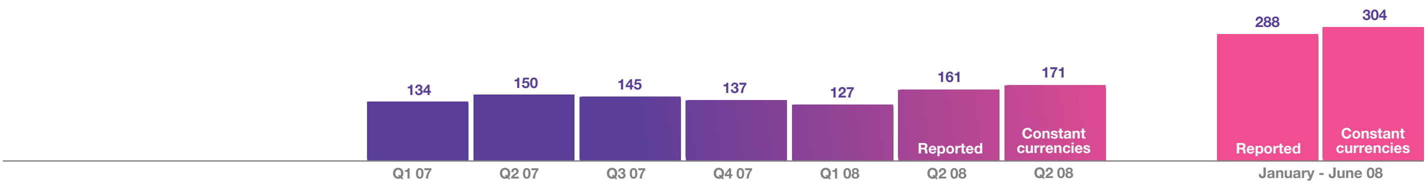
2ND QUARTER 2008	2007[1]	Δ%	IN € MILLIONS	JANUARY - JUNE 2008	2007[1]	Δ%
			Revenue			
516	517	–	Industrial Activities	999	1,007	(1)
346	328	5	Marine & Protective Coatings	662	632	5
233	237	(2)	Car Refinishes	455	467	(3)
89	88	1	Packaging Coatings	174	174	–
(9)	(9)		Intragroup revenue/other	(19)	(20)	
1,175	**1,161**	**1**	**Total**	**2,271**	**2,260**	**–**
			Before incidentals			
161	150	7	EBITDA	288	284	1
13.7	12.9		EBITDA margin (in %)	12.7	12.6	
141	130	8	EBIT before fair value adjustments	248	243	2
12.0	11.2		EBIT margin before fair value adjustments (in %)	10.9	10.8	
137	125	10	EBIT after fair value adjustments	240	234	3
11.7	10.8		EBIT margin after fair value adjustments (in %)	10.6	10.4	
			After incidentals			
147	124	19	EBIT (operating income)	227	225	1
12.5	10.7		EBIT margin (in %)	10.0	10.0	
18	23		Capital expenditures	38	44	
			Invested capital	1,977	2,131[2]	
			Number of employees	21,160	20,905[2]	

[1] Pro forma
[2] At year-end

Revenue
IN € MILLIONS



EBITDA before incidentals
IN € MILLIONS



EBITDA margin up at 13.7 percent

Autonomous growth of 7 percent was strong, but was counterbalanced by currencies (7 percent). Volume was up 3 percent and we realized price increases of 4 percent. EBITDA was up 7 percent due to improved margins and cost control, and the EBITDA margin rose to 13.7 percent.

Industrial Activities

Revenue in the second quarter was equal to the previous year, with the positive impact of the Chemcraft acquisition being somewhat negated by currencies. Our Industrial Finishes business continued to be affected by weak demand in the industrial markets and the construction industry in North America, while rapidly increasing petrochemical costs are suppressing margins. The Asian component of this business has also been impacted because it is heavily reliant on demand from North America. However, on an encouraging note, overall demand improved compared with the previous quarter. Our Powder Coatings business is achieving steady progress, moving ahead of last year's performance level. This success is mainly due to a stronger focus on margins compared with 2007. Overall, good results are shown in local currencies. A slowdown in Europe is more visible, but is being countered by domestic demand in China, which also overcame both export and US dollar weakness and severe weather events such as flooding in Bao An and the earthquake in Chengdu. During the quarter, a new Cromadex® center, an industrial coatings selling store, was opened in Italy.

Marine & Protective Coatings

We realized an excellent second quarter with all markets contributing. The double-digit autonomous growth was partly offset by currencies. Strong volume growth in Protective Coatings led the way, with strong volume growth in India, China, Brazil and the Middle East. Margin improvement continued due to the product mix, aided by Chartek® and Ceilcote®. The Marine business also achieved good volume growth with another strong quarter for Intersleek®. New building turned in double-digit volume growth compared with last year, although Deep Sea Maintenance experienced a tougher quarter with activity down in the US in particular.

The results of our Yacht business benefited from strong sales of the Awlgrip® brand in Europe and North America. Supply problems which occurred from January to April were resolved in May. Aerospace had a slower second quarter, but the strong growth in Asia Pacific continued. The second quarter also saw the start of production at the new Protective Coatings plant in Suzhou (China).

Car Refinishes

Our global vehicle refinishes business increased revenue in the second quarter compared with the same period last year (excluding the Kemipol divestment). This was despite a general softening of the market resulting from less kilometers being driven (due to the high fuel prices). Volume growth was most significant in South America and Asia, particularly in China, India and Indonesia. We realized good revenue development in Europe. Overall, results improved due to autonomous growth and – particularly in Europe – good cost control. South America was the strongest region for our automotive plastic coatings (APC) activities. The US APC business is coming under pressure due to the soft commercial market. Margins decreased and demand softened as a result. However, our core Car Refinishes business in North America remained solid as price rises came into effect.

Packaging Coatings

Margins held up well and it was a good quarter overall, with autonomous growth of 8 percent. Europe showed strong sales in the beer and beverage market and we realized overall margin improvements. North America had a disappointing quarter due to a decline in the beverage can market. Asia showed modest growth compared with last year. The growth in South America was healthy. New product launches in Asia and South America continued to provide numerous growth opportunities for the business. Raw material dynamics have not had any notable impact on results to date, as integration synergies are countering price increases to some extent.

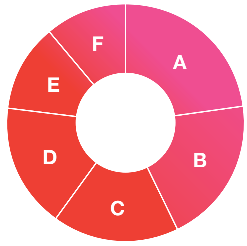
Specialty Chemicals

- A focused player in the chemicals industry with leading positions in selected market segments
- Operational performance among the best in class
- Our chemicals can be found in a wide variety of everyday products such as ice cream, soups, disinfectants, plastics, soaps, detergents, cosmetics, paper and asphalt

Quality ingredients for life's essentials

Q2 2008 revenue split

		€ million	%
A	Functional Chemicals	285	23
B	Pulp & Paper Chemicals	247	20
C	Base Chemicals	220	17
D	Surface Chemistry	211	17
F	Chemicals Pakistan	150	12
E	Polymer Chemicals	137	11
	Intragroup/Other	(31)	
		1,219	100



Securing top-line growth

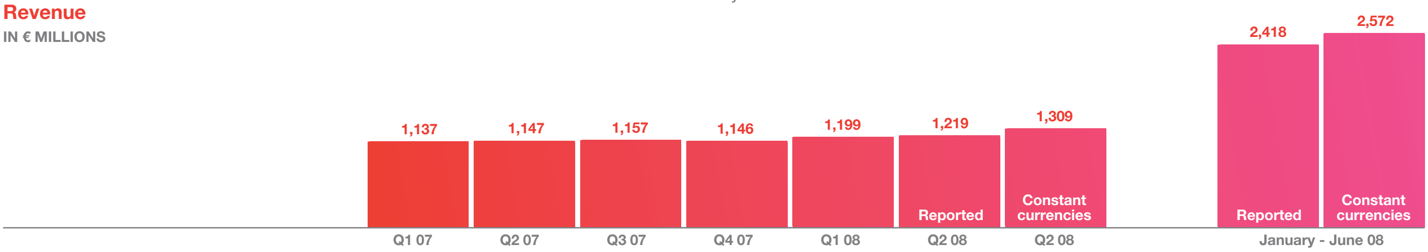
- Stable performance
- 13 percent autonomous growth driven by significant price increases (8 percent) and higher volumes (5 percent)
- Higher raw material and energy prices led to a lower EBITDA margin of 16 percent
- EBITDA, in constant currencies, up 10 percent
- Strong operating results at Surface Chemistry and Chemicals Pakistan
- Weaker demand experienced in Pulp & Paper

Specialty Chemicals

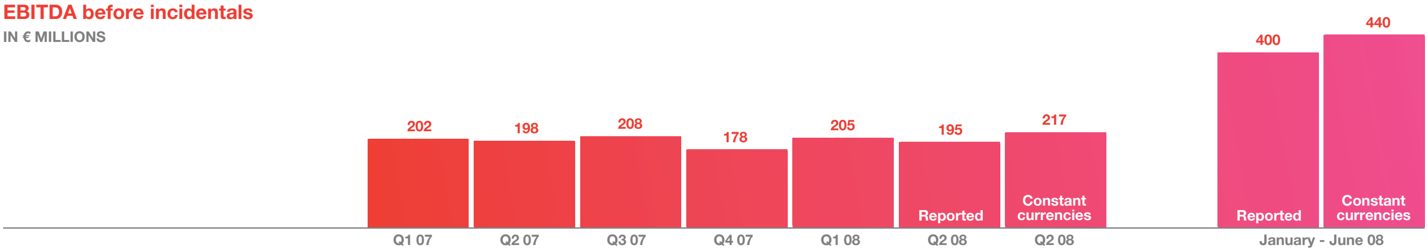
2ND QUARTER			IN € MILLIONS	JANUARY - JUNE		
2008	2007[1]	Δ%		2008	2007[1]	Δ%
			Revenue			
285	265	8	Functional Chemicals	562	531	6
247	247	–	Pulp & Paper Chemicals	495	492	1
220	210	5	Base Chemicals	467	435	7
211	198	7	Surface Chemistry	412	390	6
150	126	19	Chemicals Pakistan	278	238	17
137	136	1	Polymer Chemicals	271	268	1
(31)	(35)		Intragroup revenue/other	(67)	(70)	
1,219	**1,147**	**6**	**Total**	**2,418**	**2,284**	**6**
			Before incidentals			
195	198	(2)	EBITDA	400	400	–
16.0	17.3		EBITDA margin (in %)	16.5	17.5	
144	139	4	EBIT before fair value adjustments	293	284	3
11.8	12.1		EBIT margin before fair value adjustments (in %)	12.1	12.4	
131	131	–	EBIT after fair value adjustments	274	268	2
10.7	11.4		EBIT margin after fair value adjustments (in %)	11.3	11.7	
			After incidentals			
130	130	–	EBIT (operating income)	268	262	2
10.7	11.3		EBIT margin (in %)	11.1	11.5	
64	44		Capital expenditures	113	101	
			Invested capital	3,575	3,380[2]	
			Number of employees	11,090	10,965[2]	

[1] Pro forma (adjusted for Specialty Polymers)
[2] At year-end

Revenue
IN € MILLIONS



EBITDA before incidentals
IN € MILLIONS



Securing top-line growth

Specialty Chemicals reported a stable second quarter compared with last year. Higher raw material and energy prices led to a lower overall EBITDA margin. Autonomous growth was up 13 percent, with price increases contributing 8 percent and volume growth of 5 percent. Negative currency impact was 7 percent. EBITDA, in constant currencies, was up 10 percent.

Functional Chemicals
We increased profitability in many businesses. By managing sales and production cost, we curbed the effect of currencies, raw material prices, planned maintenance stops and several cases of force majeure declarations from suppliers.

Our Polysulfides, Chelates and Sulfur Products businesses have been clearly improving during 2008. Ethylene Amines – which incurred a planned maintenance stop in May/June – will provide more capacity going forward. Cellulosic Specialties suffered from the slowdown in the construction industries in the US and some European countries.

Elotex®, a building adhesives business, remained below last year's levels due to softer market volumes in all regions and price pressure on operating margins.

Pulp & Paper Chemicals
We announced the acquisition of the Levasil® silica sol business from H.C. Starck in Germany and will consolidate this business as from the third quarter of 2008.

During the second quarter, we incurred delayed deliveries in the Pulp and Paper business due to more and longer maintenance stops initiated by our customers at their sites. Furthermore, results were lower due to certain one-off costs.

Energy prices were at high levels. In the Scandinavian countries, this was due to temporary disturbances in the region's energy supply. The energy cost reduced margins in the Bleaching segment. Wood export from Russia remained restricted, thus affecting the results of Paper Chemicals in the Scandinavian market.

Base Chemicals
Both our Salt and MCA (monochloroacetic acid) businesses delivered solid performances during the quarter, underscored by high volume sales. In Base Chemicals, our Energy business in particular faced significantly increased gas prices, which we partly recovered in our operating margins. A maintenance stop at Chlor-Alkali's Rotterdam production cluster impacted the utilization rates.

We introduced small-scale remotely controlled chlorine production units, located at our customers' manufacturing sites. This new product has attracted excellent market interest as the process is an environmentally advanced choice and it is an alternative to chlorine transportation. Thus our customers benefit from enhanced reliability and safety.

Surface Chemistry
Surface Chemistry's operating results were clearly above 2007 levels. The agrochemicals, mining and cleaning activities were particularly strong during the second quarter, with improved volumes and margins. Utilization for products was high, with demand exceeding capacity in several product lines. Operating costs remained below the previous year due partly to the mid-2007 closure of the McCook production plant.

Chemicals Pakistan
Overall revenue for Chemicals Pakistan improved 16 percent over the previous year, driven by higher sales in the Pakistan PTA business due to both sales price and volume. Results at our other Chemicals Pakistan businesses (polyester and soda ash) were also ahead of the previous year.

Polymer Chemicals
Polymer Chemicals' second quarter results were on a par with the previous year. Strong volumes and prices in Europe and Asia for Cross-linking and Thermoset Peroxides and the Polymer Additives business compensated for High Polymer Specialties' outcome. In May, we acquired two product lines from the Chinese organic peroxide producer Qiangsheng Chemicals.

Condensed financial statements

Consolidated statement of income

2ND QUARTER 2008	2ND QUARTER PRO FORMA 2007[1]	2ND QUARTER 2007	IN € MILLIONS	JANUARY - JUNE 2008	JANUARY - JUNE PRO FORMA 2007[1]	JANUARY - JUNE 2007
			Continuing operations			
3,870	3,791	2,685	Revenue	7,376	7,277	5,186
(2,413)	(2,292)	(1,628)	Cost of sales	(4,634)	(4,492)	(3,160)
1,457	**1,499**	**1,057**	**Gross profit**	**2,742**	**2,785**	**2,026**
(811)	(826)	(568)	Selling expenses	(1,604)	(1,610)	(1,117)
(80)	(87)	(69)	Research and development expenses	(163)	(176)	(140)
(260)	(268)	(165)	General and administrative expenses	(564)	(547)	(327)
(7)	41	(4)	Other operating income	(6)	71	21
299	**359**	**251**	**Operating income (EBIT)**	**405**	**523**	**463**
51	68	37	Financing income	79	122	70
(76)	(96)	(62)	Financing expenses	(145)	(193)	(122)
274	**331**	**226**	**Operating income less financing income and expenses**	**339**	**452**	**411**
5	10	(43)	Results from associates and joint ventures	9	23	(31)
279	**341**	**183**	**Profit before tax**	**348**	**475**	**380**
(92)	(96)	(48)	Income tax	(111)	(134)	(103)
187	**245**	**135**	**Profit for the period from continuing operations**	**237**	**341**	**277**
			Discontinued operations			
19	–	146	Profit for the period from discontinued operations	101	–	258
206	**245**	**281**	**Profit for the period**	**338**	**341**	**535**
			Attributable to:			
184	225	270	- Equity holders of the company (net income)	302	303	516
22	20	11	- Minority interests	36	38	19
206	**245**	**281**	**Profit for the period**	**338**	**341**	**535**
			Income per share from continuing operations before incidentals (in €):			
0.91	0.87	0.58	- Basic	1.42	1.36	1.04
0.91	0.86	0.58	- Diluted	1.42	1.35	1.04
			Income per share from continuing operations after incidentals (in €):			
0.64	0.79	0.43	- Basic	0.77	1.06	0.90
0.64	0.79	0.43	- Diluted	0.77	1.06	0.89
			Income per share from discontinued operations (in €):			
0.07	–	0.52	- Basic	0.39	–	0.90
0.07	–	0.51	- Diluted	0.39	–	0.90
			Income per share from total operations (in €):			
0.71	0.79	0.95	- Basic	1.16	1.06	1.80
0.71	0.79	0.94	- Diluted	1.16	1.06	1.79

[1] Pro forma figures adjusted for comparative figures

Information on segments and incidentals

2ND QUARTER 2008	2ND QUARTER PRO FORMA 2007	Δ%	IN € MILLIONS	JANUARY - JUNE 2008	JANUARY - JUNE PRO FORMA 2007	Δ%
			Revenue			
1,412	1,473	(4)	Decorative Paints	2,577	2,688	(4)
1,175	1,161	1	Performance Coatings	2,271	2,260	–
1,219	1,147	6	Specialty Chemicals	2,418	2,284	6
64	10		Other activities/eliminations	110	45	
3,870	**3,791**	**2**	**Total**	**7,376**	**7,277**	**1**
			EBITDA before incidentals			
195	204	(4)	Decorative Paints	297	303	(2)
161	150	7	Performance Coatings	288	284	1
195	198	(2)	Specialty Chemicals	400	400	–
(25)	(10)		Other activities/eliminations	(61)	(42)	
526	**542**	**(3)**	**Total**	**924**	**945**	**(2)**
13.6	**14.3**		**EBITDA margin (in %)**	**12.5**	**13.0**	
			EBIT before incidentals and amortization/depreciation of fair value adjustments related to the ICI acquisition			
166	176	(6)	Decorative Paints	238	246	(3)
141	130	8	Performance Coatings	248	243	2
144	139	4	Specialty Chemicals	293	284	3
(33)	(16)		Other activities/eliminations	(76)	(53)	
418	**429**	**(3)**	**Total**	**703**	**720**	**(2)**
10.8	**11.3**		**EBIT margin (in %)**	**9.5**	**9.9**	
			EBIT before incidentals and after amortization/depreciation of fair value adjustments related to the ICI acquisition			
146	151	(3)	Decorative Paints	198	196	1
137	125	10	Performance Coatings	240	234	3
131	131	–	Specialty Chemicals	274	268	2
(29)	(16)		Other activities/eliminations	(70)	(53)	
385	**391**	**(2)**	**Total**	**642**	**645**	**–**
9.9	**10.3**		**EBIT margin (in %)**	**8.7**	**8.9**	
			EBIT (operating income)			
137	140	(2)	Decorative Paints	150	152	(1)
147	124	19	Performance Coatings	227	225	1
130	130	–	Specialty Chemicals	268	262	2
(115)	(35)		Other activities/eliminations	(240)	(116)	
299	**359**	**(17)**	**Total**	**405**	**523**	**(23)**
7.7	**9.5**		**EBIT margin (in %)**	**5.5**	**7.2**	
			Incidentals included in EBIT			
(72)	–		Transformation cost	(156)	–	
–	–		Fair value adjustment of inventories	(42)	(48)	
(11)	(45)		Restructuring charges	(40)	(81)	
(1)	–		Results on divestments	4	(3)	
(2)	(2)		Charges related to major legal, antitrust and environmental cases	(3)	(2)	
–	15		Special benefits/(charges)	–	12	
(86)	**(32)**		**Total**	**(237)**	**(122)**	

Condensed consolidated balance sheet

IN € MILLIONS	JUNE 30	DECEMBER 31 PRO FORMA	DECEMBER 31
	2008	2007	2007
Property, plant and equipment	3,089	3,179	2,203
Goodwill[1]	4,601	4,880	463
Other intangible assets	3,477	3,600	206
Deferred tax assets	736	750	630
Investments in associates and joint ventures	176	205	142
Other financial non-current assets	726	774	630
Total non-current assets	**12,805**	**13,388**	**4,274**
Inventories	1,650	1,672	1,177
Current tax assets	40	34	25
Trade and other receivables	3,319	2,995	2,139
Cash and cash equivalents	2,667	1,530	11,628
Assets held for sale	1,515	5,633	–
Total current assets	**9,191**	**11,864**	**14,969**
Total assets	**21,996**	**25,252**	**19,243**
Shareholders' equity	10,332	11,559	11,032
Minority interest	563	596	97
Total equity	**10,895**	**12,155**	**11,129**
Provisions	2,238	2,708	1,598
Deferred tax liabilities	726	1,029	133
Long-term borrowings	1,253	2,321	1,954
Total non-current liabilities	**4,217**	**6,058**	**3,685**
Short-term borrowings	2,470	2,041	1,635
Current tax liabilities	632	490	278
Trade and other payables	2,857	2,994	1,998
Current portion of provisions	767	771	518
Liabilities held for sale	158	743	–
Total current liabilities	**6,884**	**7,039**	**4,429**
Total equity and liabilities	**21,996**	**25,252**	**19,243**
Shareholders' equity per share (in €)	41.49	44.07	42.06
Number of shares outstanding (in millions)	249.0	262.3	262.3
Invested capital	14,149	14,400	5,197

[1] Change compared to 2007 pro forma due to currency translation in goodwill

Highlights

- A €1 billion bond is approaching maturity date and was transfered to short-term borrowings
- The bridge facility and commercial paper loans were redeemed with proceeds from the Henkel on-sale
- Invested capital includes €8.1 billion goodwill and other intangibles, mainly from the ICI acquisition
- Assets held for sale include the Specialty Starches business from ICI, entities that are sold to Henkel and not yet disentangled, and AkzoNobel businesses to be sold as agreed with the European authorities.

Condensed consolidated statement of cash flows

IN € MILLIONS	JANUARY - JUNE	JANUARY - JUNE PRO FORMA	JANUARY - JUNE
	2008	2007	2007[1]
Profit for the period	338	341	535
Income discontinued operations	(101)	–	(258)
Amortization and depreciation	221	225	176
Amortization/depreciation fair value adjustments	61	75	–
Inventory step-up	42	48	–
Impairment losses	66	10	10
Financing income and expenses	(57)	(155)	(85)
Results from associates and joint ventures	(9)	(23)	(19)
Pre-tax result on divestments	(4)	3	60
Income tax	(38)	(2)	(7)
Changes in working capital	(568)	(563)	(322)
Changes in provisions	(313)	(279)	(101)
Net cash from operating activities	**(362)**	**(320)**	**(11)**
Capital expenditures	(220)	(213)	(158)
Interest received	52	119	86
Associates and joint ventures	29	28	28
Acquisition of consolidated companies[2]	(10,455)	(22)	(15)
Proceeds from sale of interests[3]	3,643	66	150
Other changes	(24)	(72)	4
Net cash from investing activities	**(6,975)**	**(94)**	**95**
Proceeds from borrowings	(190)		(131)
Issue of shares	10		100
Buyback of shares	(706)		(548)
Termination of currency swap	–		87
Dividends	(384)		(278)
Net cash from financing activities	**(1,270)**		**(770)**
Net cash used for continuing operations	**(8,607)**		**(686)**
Cash flows from discontinued operations	(170)		208
Net change in cash and cash equivalents of continued and discontinued operations	**(8,777)**		**(478)**
Cash and cash equivalents at January 1	11,067		1,631
Effect of exchange rate changes on cash and cash equivalents	(56)		3
Cash and cash equivalents at June 30	**2,234**		**1,156**

[1] Reclassified for comparative purposes
[2] Net of € 1.1 billion cash
[3] Net of cash

Highlights

- Net year-to-date cash outflow from operating activities €362 million, slightly higher than last year
- Capital expenditures remained broadly unchanged
- Proceeds from on-sale to Henkel were €3.6 billion after a pension settlement and before final settlement adjustments.

Changes in equity

IN € MILLIONS	SUBSCRIBED SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	CHANGE IN FAIR VALUE OF DERIVATIVES	CUMULATIVE TRANSLATION RESERVES	OTHER (STATUTORY) RESERVES AND UNDIS-TRIBUTED PROFIT	SHARE-HOLDERS' EQUITY	MINORITY INTERESTS	TOTAL EQUITY
Balance at January 1, 2007	574	1,841	(2)	30	1,701	4,144	119	4,263
Changes in fair value of derivatives	–	–	8	–	–	8	–	8
Changes in exchange rates in respect of foreign operations	–	–	–	34	–	34	2	36
Income/(expenses) directly recognized in equity	–	–	8	34	–	42	2	44
Profit for the period	–	–	–	–	516	516	19	535
Total income/(expenses)	–	–	8	34	516	558	21	579
Dividend paid	–	–	–	–	(259)	(259)	(19)	(278)
Equity-settled transactions	–	–	–	–	9	9	–	9
Issue of common shares	3	97	–	–	–	100	–	100
Buyback of shares	–	–	–	–	(596)	(596)	–	(596)
Changes in minority interest in subsidiaries	–	–	–	–	–	–	(13)	(13)
Balance at June 30, 2007	**577**	**1,938**	**6**	**64**	**1,371**	**3,956**	**108**	**4,064**
Balance at January 1, 2008	525	363	(510)	(51)	10,705	11,032	97	11,129
Changes in fair value of derivatives	–	–	(2)	–	–	(2)	–	(2)
Transfer to goodwill	–	–	551	–	–	551	–	551
Changes in exchange rates in respect of foreign operations	–	–	–	(495)	–	(495)	(48)	(543)
Income/(expenses) directly recognized in equity	–	–	549	(495)	–	54	(48)	6
Profit for the period	–	–	–	–	302	302	36	338
Total income/(expenses)	–	–	549	(495)	302	356	(12)	344
Dividend paid	–	–	–	–	(365)	(365)	(19)	(384)
Equity-settled transactions	–	–	–	–	32	32	–	32
Issue of common shares	2	8	–	–	–	10	–	10
Buyback of shares	–	–	–	–	(733)	(733)	–	(733)
Acquisition and divestments	–	–	–	–	–	–	487	487
Changes in minority interest in subsidiaries	–	–	–	–	–	–	10	10
Balance at June 30, 2008	**527**	**371**	**39**	**(546)**	**9,941**	**10,332**	**563**	**10,895**

Invested capital

On a pro forma basis, invested capital decreased from €14.4 billion at year-end to €14.1 billion as at June 30, 2008, mainly due to currency effects.

As at June 30, 2008, invested capital included the following amounts of goodwill and other intangibles per segment:

IN € MILLIONS	GOODWILL	OTHER INTANGIBLES
Decorative Paints	3,447	2,736
Performance Coatings	452	217
Specialty Chemicals	702	524
AkzoNobel	**4,601**	**3,477**

Impact of the ICI acquisition

The purchase price of ICI was at the end of the second quarter of 2008 still allocated to assets and liabilities on a preliminary basis. The major intangibles recognized are acquired brands, the most significant being Dulux®. Several brands are expected to have an indefinite life. As a result, they will not be amortized but tested for impairment. Measuring ICI's assets and liabilities at fair value increased amortization and depreciation for the assets with a definite useful life. The amount for the second quarter of 2008 was €33 million (2007: €37 million). For the years 2008-2010, a charge of €125-130 million per annum is expected.

Working capital

Working capital increased by €0.6 billion, mainly due to the seasonal pattern at Decorative Paints and the autonomous growth of our businesses.

Equity

Shareholders' equity at the end of the second quarter of 2008 amounted to €10.3 billion. The change in equity between the end of the second quarter of 2007 and the beginning of 2008 – apart from operational profit – resulted mainly from the gain on the Organon BioSciences divestment, the 2007 share buyback program and a deferred loss from hedging activities related to the ICI acquisition.

In the first half of 2008, profit was added to equity. In relation to the ICI acquisition, an amount of €551 million deferred loss on the hedge was transfered to goodwill. The deferred gain from hedging the on-sale to Henkel was offset against the related cumulative translation reserves. Other changes in equity related mainly to dividends paid and to foreign currency translation.

Mid March, AkzoNobel started a new €3 billion share buyback program which represents approximately 7.5 percent of the outstanding shares. An amount of 14.2 million shares was re-purchased for an average price of €51.16 at the end of the second quarter.

Cash position

During the second quarter of 2008, cash and cash equivalents improved significantly as the on-sale to Henkel was finalized on April 3, 2008. This resulted in cash receipts of €3.6 billion before final settlement adjustments. The incoming proceeds were used to redeem our outstanding bridge facility of €0.6 billion and reduced the commercial paper program in April and May by €1.2 billion. Remaining proceeds were used for our share buyback program, which started in the first quarter of 2008. Total cash spent on the program during the second quarter of 2008 was €0.7 billion. Our shareholders received €0.4 billion as dividend. Surplus cash per June 30, 2008, held for further share buyback during the coming months, was invested in short-term deposits.

Workforce

Our workforce at June 30, 2008, for continuing operations increased from 59,475 to 60,110 employees. The growth is explained by our operations that are typically expanded in the second quarter. Around 4,000 employees worked for businesses to be divested.

Amsterdam, July 29, 2008
The Board of Management

Additional information

Notes

The report for the 3rd quarter of 2008 will be published on October 29, 2008.

This report is unaudited.

This interim financial report is in compliance with IAS 34 – Interim Financial Reporting. The same accounting policies and methods of computation have been applied as in the 2007 financial statements, a copy of which can be found on the company's website www.akzonobel.com.

Pro forma information: in addition to the quarterly figures as issued by AkzoNobel in 2007, this report presents pro forma comparatives for 2007. These reflect the AkzoNobel outcomes as if it acquired ICI at January 1, 2007, and include the effects of the preliminary purchase price allocation. The main impact of the purchase price allocation on the statement of income is higher amortization of intangibles, higher depreciation of property, plant and equipment, and higher cost of sales. The latter is due to the fair value of inventories recognized on acquisition date which results in higher cost of sales as inventories are sold, mainly in the first quarter. Due to the fact that the purchase price allocation is determined on a provisional basis, the pro forma outcomes are subject to change. The pro forma information for the full year 2007, per quarter, and per business area was published on April 18, 2008, and can be found on the company's website www.akzonobel.com. The published pro forma outcomes were adjusted to reflect the integration of Specialty Polymers into Surface Chemistry and Functional Chemicals, and to present EBIT on a comparative basis.

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

Autonomous growth is defined as the change in revenue attributable to changed volumes and selling prices. It excludes effects from currency and acquisition and divestment.

Incidentals are transformation costs, special charges and benefits, results on divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases. EBIT and EBITDA before incidentals and EBIT before incidentals and amortization and depreciation of fair value adjustments are key figures management uses to assess the company's performance, as these figures better reflect the underlying trends in the results of the activities.

EBIT margin is operating income (EBIT) as percentage of revenue.

EBITDA is EBIT before depreciation and amortization and refers in this report to EBITDA before incidentals.

Invested capital is total assets (excluding cash and cash equivalents, investments in associates, assets held for sale) less current income tax payable and less trade and other payables.

Net interest-bearing borrowings are long-term borrowings plus short-term borrowings less cash and cash equivalents.

Interest coverage is EBIT devided by the sum of financing income and expenses.

Transformation costs are acquisition-related costs, cost related to sell businesses as agreed with the European and Canadian authorities, and costs for the new corporate identity.

Revenue and EBITDA at constant currencies are used to assess our performance without currency effect.

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 forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, changes in the final purchase price allocation for ICI, 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, a copy of which can be found on the company's corporate website www.akzonobel.com.

Countdown to the ultimate challenge

The eyes of the world will be focused on the Olympic Games when they open in Beijing next month – a global sporting event which AkzoNobel's very own winning team has already taken part in.

Construction work began several years ago and the company has supplied coatings for various venues, including the main Olympic Stadium (dubbed the Bird's Nest) and the equally futuristic National Aquatics Center (known as the Water Cube).

All 8,000 tons of steelwork on the $100 million Water Cube is protected by coatings supplied by the company's International Paint business, while around 1,000 kilograms of Interpon® powder coatings was also used during the construction. AkzoNobel powder coatings have also been applied to the main stadium.

In total, more than 30 venues will be used during the 16 days of competition, many of which utilize the company's coatings. These include the National Indoor Stadium (which will host artistic gymnastics, trampoline and handball), the Qingdao Sailing Center, the Beijing Olympic Convention Center (fencing), the Shunyi Rowing and Canoeing Park, Beijing University of Technology Gymnasium (badminton, rhythmic gymnastics) and the Capital Indoor Stadium (volleyball).

But it's not just on the sporting front where the company's coatings expertise is putting in its usual world class performance. Products were also supplied for the $3 billion extension to Beijing International Airport, which was officially opened earlier this year. The company's Specialty Chemicals know-how has also been required, with Surface Chemistry supplying a micro-surfacing emulsifier which enabled miles of roads to be repaved in double quick time during the night in preparation for the huge increase in traffic.

Although the 2008 Games will be the first time the Olympics have been staged in China, AkzoNobel is no stranger to the global sporting spectacular, having also supplied coatings for major venues used in Athens in 2004 and Sydney in 2000.

AkzoNobel
Tomorrow's Answers Today

www.akzonobel.com

We're the largest global paints and coatings company and a major producer of specialty chemicals. We supply industries worldwide with quality ingredients for life's essentials. We think about the future, but act in the present. We're passionate about developing sustainable answers for our customers. Based in Amsterdam, the Netherlands, we have 60,000 employees working in more than 80 countries – all committed to excellence and delivering Tomorrow's Answers Today™.

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