

Q2 Report

Half-yearly report & report for the second quarter 2016

AkzoNobel 

2016

Our results at a glance

Q2:

- Volumes up 1 percent, driven by Decorative Paints and Performance Coatings
- Revenue down 6 percent, mainly due to adverse currencies
- EBIT (operating income excluding incidental items) up 9 percent at €491 million (2015: €452 million), reflecting continuous improvement initiatives and lower costs, partly offset by adverse currency effects
- Operating income up 1 percent at €491 million (2015: €486 million**)
- ROS* improved to 13.2 percent (2015: 11.4 percent); ROI* improved to 15.1 percent (2015: 12.2 percent). ROS and ROI improved for all Business Areas
- Net income attributable to shareholders at €312 million (2015: €331 million, which included positive incidental items**)
- Adjusted EPS up 2 percent at €1.32 (2015: €1.30)
- Net cash inflow from operating activities up at €453 million (2015: €407 million)

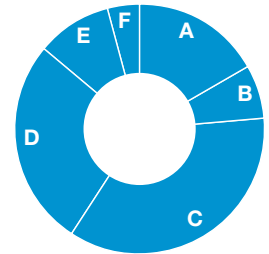
- Launched €500 million 10 year bond at a coupon of 1.125 percent in April 2016
- Further de-risking of pension liabilities

Outlook:

- The market environment remains uncertain with challenging conditions in several countries and segments. Deflationary pressures and currency headwinds are expected to continue

AkzoNobel around the world Revenue by destination

| | |
|-------------------|-----|
| | % |
| A North America | 17 |
| B Emerging Europe | 7 |
| C Mature Europe | 36 |
| D Asia Pacific | 27 |
| E Latin America | 10 |
| F Other regions | 3 |
| | 100 |



(Based on the full-year 2015)

Summary of financial outcomes

| Second quarter | | | January-June | | |
|----------------|-------|-----|--------------|--------|-----|
| 2015 | 2016 | Δ% | 2015 | 2016 | Δ% |
| 3,949 | 3,711 | (6) | 7,540 | 7,141 | (5) |
| 486 | 491 | 1 | 792 | 848 | 7 |
| 452 | 491 | 9 | 758 | 825 | 9 |
| 12.3 | 13.2 | | 10.5 | 11.9 | |
| 11.4 | 13.2 | | 10.1 | 11.6 | |
| | | | | | |
| | | | | | |
| | | | 10,365 | 10,155 | |
| | | | 12.2 | 15.1 | |
| | | | | | |
| 137 | 151 | | 260 | 275 | |
| 407 | 453 | | (215) | 117 | |
| | | | 2,138 | 1,580 | |
| | | | | | |
| 332 | 312 | (6) | 495 | 553 | 12 |
| (1) | - | | (4) | (1) | |
| 331 | 312 | (6) | 491 | 552 | 12 |
| 1.34 | 1.24 | | 1.99 | 2.21 | |
| 1.30 | 1.32 | 2 | 2.07 | 2.30 | 11 |
| | | | 46,000 | 45,700 | |

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

** In Q2 2015, the divestment of the Paper Chemicals business closed and resulted in an incidental result of €30 million reported in operating income, which also impacted net income

Financial highlights

Volumes were up 1 percent, driven by Decorative Paints and Performance Coatings. Revenue was down 6 percent, mainly due to adverse currencies. EBIT (operating income excluding incidental items) was up 9 percent at €491 million (2015: €452 million), reflecting continuous improvement initiatives and lower costs, partly offset by adverse currency effects. ROS improved to 13.2 percent (2015: 11.4 percent) and ROI improved to 15.1 percent (2015: 12.2 percent). ROS and ROI improved for all Business Areas. Net cash inflow from operating activities was €453 million, up 11 percent (2015: €407 million).

Revenue

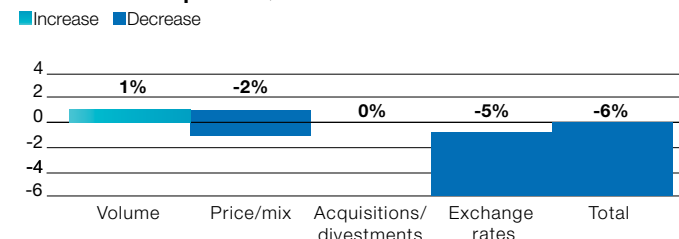
Volumes were up 1 percent, while adverse currency effects and price/mix effects resulted in revenue down 6 percent.

- In Decorative Paints volumes were up in Asia, continued to be down in Latin America and were slightly lower in Europe. Revenue was down 7 percent due to unfavorable currency effects
- In Performance Coatings volumes were up 2 percent with positive developments in all reporting units. Demand trends differed per region. Revenue was down 5 percent due to adverse currencies
- In Specialty Chemicals volumes were flat with positive developments in some segments offset by lower demand in oil related segments. Revenue was down 7 percent mainly due to adverse currency effects, divestments and price deflation in several markets

Acquisitions and divestments

The divestment of the Paper Chemicals business was completed in Q2 2015.

Revenue development Q2 2016



Revenue

| Second quarter | | | January-June | | | |
|----------------|--------------|------------|-------------------------------|--------------|--------------|------------|
| 2015 | 2016 | Δ% | in € millions | 2015 | 2016 | Δ% |
| 1,134 | 1,055 | (7) | Decorative Paints | 2,024 | 1,916 | (5) |
| 1,550 | 1,473 | (5) | Performance Coatings | 2,980 | 2,861 | (4) |
| 1,290 | 1,206 | (7) | Specialty Chemicals | 2,586 | 2,412 | (7) |
| (25) | (23) | | Other activities/eliminations | (50) | (48) | |
| 3,949 | 3,711 | (6) | Total | 7,540 | 7,141 | (5) |

| in % versus Q2 2015 | Volume | Price/mix | Divestments | Exchange rates | Total |
|----------------------|----------|------------|-------------|----------------|------------|
| Decorative Paints | 1 | (1) | - | (7) | (7) |
| Performance Coatings | 2 | (2) | - | (5) | (5) |
| Specialty Chemicals | - | (3) | (1) | (3) | (7) |
| Total | 1 | (2) | - | (5) | (6) |

| Volume development per quarter (year-on-year) | Q2 15 | Q3 15 | Q4 15 | Q1 16 | Q2 16 |
|---|------------|------------|----------|----------|----------|
| Decorative Paints | (1) | - | 1 | 6 | 1 |
| Performance Coatings | (3) | (2) | - | 2 | 2 |
| Specialty Chemicals | - | - | - | 1 | - |
| Total | (2) | (1) | - | 2 | 1 |

| Price/mix development per quarter (year-on-year) | Q2 15 | Q3 15 | Q4 15 | Q1 16 | Q2 16 |
|--|----------|----------|------------|------------|------------|
| Decorative Paints | - | (2) | - | (2) | (1) |
| Performance Coatings | - | 2 | 1 | (1) | (2) |
| Specialty Chemicals | (1) | (2) | (2) | (4) | (3) |
| Total | - | - | (1) | (2) | (2) |

EBIT and operating income

- In Decorative Paints, EBIT and operating income were up 2 percent, mainly due to higher volumes and lower costs, partly offset by adverse currency effects
- In Performance Coatings, EBIT and operating income were up 1 percent due to higher volumes, continuous improvement initiatives and lower costs offset by unfavorable currencies
- In Specialty Chemicals, EBIT was up 10 percent due to operational efficiencies and lower costs, while price deflation and adverse currencies also affected the results. In Q2 2015 the divestment of the Paper Chemicals business was closed and resulted in a book profit net of related costs of €30 million reported in operating income
- EBIT and operating income in other activities were impacted by favorable one-time adjustments on legacy provisions. Corporate and other costs were in line with the previous year

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

Net financing expenses

Net financing expenses decreased as a result of reduced external interest expenses following the repayment of a high interest bond and the issuance of a low interest bond in Q2 2016.

Tax

The year-to-date effective tax rate was 27 percent (2015: 26 percent), impacted by non-taxable gains and adjustments to previous years.

Net income

Year-to-date net income attributable to shareholders was up 12 percent at €552 million (2015: €491 million). Net income attributable to shareholders in Q2 was at €312 million (2015: €331 million). Q2 2015 was positively impacted by an incidental item related to the divestment of the Paper Chemicals business and tax adjustments.

EBIT (operating income excluding incidental items)

| Second quarter | | | January-June | | | |
|----------------|------------|----------|-------------------------------|------------|------------|----------|
| 2015 | 2016 | Δ% | in € millions | 2015 | 2016 | Δ% |
| 128 | 131 | 2 | Decorative Paints | 178 | 183 | 3 |
| 220 | 222 | 1 | Performance Coatings | 390 | 408 | 5 |
| 162 | 179 | 10 | Specialty Chemicals | 325 | 343 | 6 |
| (58) | (41) | | Other activities/eliminations | (135) | (109) | |
| 452 | 491 | 9 | Total | 758 | 825 | 9 |

Operating income

| Second quarter | | | January-June | | | |
|----------------|------------|----------|-------------------------------|------------|------------|----------|
| 2015 | 2016 | Δ% | in € millions | 2015 | 2016 | Δ% |
| 128 | 131 | 2 | Decorative Paints | 178 | 183 | 3 |
| 220 | 222 | 1 | Performance Coatings | 390 | 408 | 5 |
| 192 | 179 | (7) | Specialty Chemicals | 355 | 343 | (3) |
| (54) | (41) | | Other activities/eliminations | (131) | (86) | |
| 486 | 491 | 1 | Total | 792 | 848 | 7 |

Operating income to net income

| Second quarter | | | January-June | |
|----------------|------------|--|--------------|------------|
| 2015 | 2016 | in € millions | 2015 | 2016 |
| 486 | 491 | Operating income | 792 | 848 |
| (27) | (22) | Net financing expenses | (68) | (49) |
| 8 | 8 | Results from associates and joint ventures | 6 | 28 |
| 467 | 477 | Profit before tax | 730 | 827 |
| (108) | (138) | Income tax | (190) | (224) |
| 359 | 339 | Profit from continuing operations | 540 | 603 |
| (1) | - | Profit from discontinued operations | (4) | (1) |
| 358 | 339 | Profit for the period | 536 | 602 |
| (27) | (27) | Non-controlling interests | (45) | (50) |
| 331 | 312 | Net income | 491 | 552 |

Decorative Paints

- Volumes increased 1 percent mainly due to positive developments in Asia
- Revenue down 7 percent, due to unfavorable currency effects
- EBIT and operating income up 2 percent, mainly due to higher volumes and lower costs, partly offset by adverse currency effects
- ROS increased to 12.4 percent (2015: 11.3 percent); ROI increased to 12.3 percent (2015: 10.4 percent)

Volumes were up in Asia, continued to be down in Latin America and were slightly lower in Europe. Revenue was down 7 percent due to unfavorable currency effects.

EBIT and operating income were up 2 percent, mainly due to higher volumes and lower costs, partly offset by adverse currency effects. In all regions foreign currency effects adversely impacted raw material costs in local currencies.

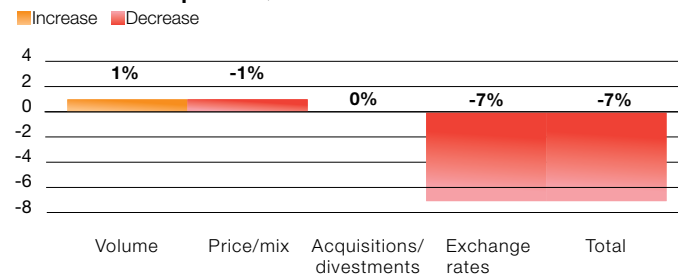
Europe, Middle East and Africa

Recent developments have increased uncertainty in some countries, for example as a result of the UK referendum. Currency volatility has also increased, including for the pound Sterling. Volumes were slightly down in the region. Revenue was down 6 percent mostly due to unfavorable currencies and price/mix.

Latin America

Market conditions remained challenging due to economic instability and currency devaluation. Revenue decreased 22 percent mainly due to adverse currency effects, while positive price/mix offset lower volumes. Improvement actions and cost control remained the focus in the region.

Revenue development Q2 2016



Asia

Demand was positive in many Asian markets. In China, volumes were positive despite continued challenging conditions in the construction market. Revenue reduced 4 percent due to higher volumes more than offset by unfavorable currencies and adverse price/mix.

Children in Brazil can now test their all-round sporting skills, thanks to the inspiring and imaginative use of paint. Launched in Rio, our Unexpected Courts project uses paint to create courts and spaces in surprising places, where children can play alternative sports such as basketball, volleyball, hockey and table tennis.



Revenue

| Second quarter | | | | January-June | | |
|----------------|--------------|------------|-------------------------------------|--------------|--------------|------------|
| 2015 | 2016 | Δ% | in € millions | 2015 | 2016 | Δ% |
| 665 | 627 | (6) | Deco Europe, Middle East and Africa | 1,177 | 1,139 | (3) |
| 133 | 104 | (22) | Decorative Paints Latin America | 271 | 205 | (24) |
| 336 | 324 | (4) | Decorative Paints Asia | 576 | 573 | (1) |
| - | - | - | Other/intragroup eliminations | - | (1) | |
| 1,134 | 1,055 | (7) | Total | 2,024 | 1,916 | (5) |
| 128 | 131 | 2 | Operating income | 178 | 183 | 3 |
| 128 | 131 | 2 | EBIT | 178 | 183 | 3 |
| 11.3 | 12.4 | | ROS% * | 8.8 | 9.6 | |
| | | | Average invested capital | 2,953 | 2,856 | |
| | | | Moving average ROI (in %) * | 10.4 | 12.3 | |
| 39 | 26 | | Capital expenditures | 76 | 52 | |
| | | | Number of employees | 15,200 | 14,700 | |

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

Performance Coatings

- Volumes up 2 percent with positive developments in all reporting units
- Revenue down 5 percent, due to adverse currencies
- EBIT and operating income up 1 percent, due to higher volumes, continuous improvement initiatives and lower costs offset by unfavorable currencies
- ROS increased to 15.1 percent (2015: 14.2 percent); ROI increased to 31.0 percent (2015: 23.9 percent)

Volumes were up 2 percent with positive developments in all reporting units. Demand trends differed per region. Revenue was down 5 percent due to adverse currencies.

EBIT and operating income were up 1 percent due to higher volumes, continuous improvement initiatives and lower costs.

Marine and Protective Coatings

Protective Coatings volumes were up due to strong demand in Asia. Volumes in Marine Coatings were impacted by the slowdown of new build activity in Asia, as well as maintenance and dry docking. Revenue was down 6 percent with improved volumes more than offset by adverse price/mix and currencies.

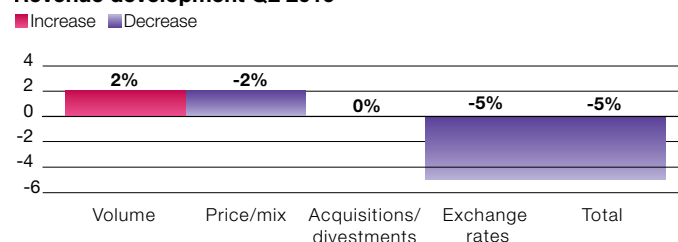
Automotive and Specialty Coatings

Volumes in Automotive Coatings were up, particularly in Europe. New business in Asia helped to offset a general slowdown in Specialty Coatings. Revenue was down 1 percent with increased volumes and favorable price/mix more than offset by adverse currencies.

Industrial and Powder Coatings

Volumes for Powder Coatings were positive, especially in Europe, while demand was subdued for Wood Coatings. Coil and Packaging Coatings grew in Asia. Revenue was down 6 percent due to higher volumes more than offset by adverse currencies and price/mix.

Revenue development Q2 2016



Intended acquisition of BASF's Industrial Coatings business

In Q1 2016, the intended acquisition of BASF's Industrial Coatings business was announced. The business generated revenue of about €300 million in 2015 and supplies products for a number of end uses, including coil, furniture foil and panel coatings, wind energy and general industry, and commercial transport. The planned transaction is expected to be completed in the later part of the second half of 2016.

We inaugurated a new €6.5 million technology center in Songjiang, Shanghai. The company's largest research facility in China, it will support customers in all our end-use sectors. Equipped with a full array of state-of-the-art material analysis and performance testing facilities, the center currently employs 150 scientists, which is expected to rise to 200 by 2020. The majority of the products supported by the new facility will be waterborne and powder-based, in line with our ambitions to develop more eco-premium solutions.



Revenue

Second quarter

January-June

| 2015 | 2016 | Δ% | in € millions | 2015 | 2016 | Δ% |
|--------------|--------------|------------|-----------------------------------|--------------|--------------|------------|
| 418 | 392 | (6) | Marine and Protective Coatings | 771 | 752 | (2) |
| 389 | 385 | (1) | Automotive and Specialty Coatings | 777 | 758 | (2) |
| 750 | 705 | (6) | Industrial and Powder Coatings | 1,445 | 1,370 | (5) |
| (7) | (9) | | Other/intragroup eliminations | (13) | (19) | |
| 1,550 | 1,473 | (5) | Total | 2,980 | 2,861 | (4) |
| 220 | 222 | 1 | Operating income | 390 | 408 | 5 |
| 220 | 222 | 1 | EBIT | 390 | 408 | 5 |
| 14.2 | 15.1 | | ROS% * | 13.1 | 14.3 | |
| | | | Average invested capital | 2,643 | 2,612 | |
| | | | Moving average ROI (in %) * | 23.9 | 31.0 | |
| 35 | 40 | | Capital expenditures | 64 | 71 | |
| | | | Number of employees | 19,700 | 19,300 | |

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

Specialty Chemicals

- Volumes flat with positive developments in some segments offset by lower demand in oil related segments
- Revenue down 7 percent, due to adverse currency effects, divestments and price deflation in several segments
- EBIT up 10 percent mostly due to operational efficiencies and lower costs
- ROS increased to 14.8 percent (2015: 12.6 percent); ROI increased to 17.1 percent (2015: 16.1 percent)

Volumes were flat with positive developments in some segments offset by lower demand in oil related segments. Revenue was down 7 percent mainly due to adverse currency effects, divestments and price deflation in several markets.

EBIT was up 10 percent due to operational efficiencies and lower costs, while price deflation and adverse currencies also affected the results. In Q2 2015 the divestment of the Paper Chemicals business was closed and resulted in a book profit net of related costs of €30 million reported in operating income.

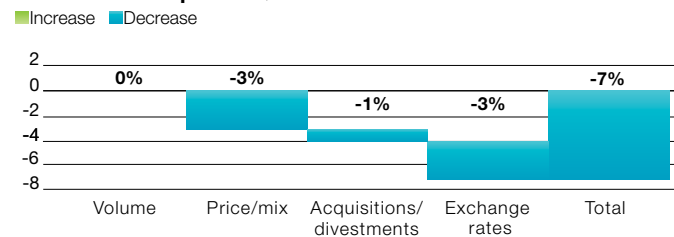
Functional Chemicals

Volumes were down 3 percent compared with a strong previous year. Revenue was down 10 percent, mainly due to price deflation, lower volumes and adverse currency effects.

Industrial Chemicals

Volumes were higher mainly due to increased manufacturing availability in Frankfurt and Rotterdam. Revenue was up 3 percent with higher volumes partly offset by adverse price/mix effects.

Revenue development Q2 2016



Surface Chemistry

Volume development was positive in Europe and Asia. Revenue was down 6 percent due to adverse currencies and price deflation in the oil related segments, especially in the Americas.

Pulp and Performance Chemicals

Volumes in Europe remained positive, while demand in the Americas was subdued partly due to de-stocking of customers. Revenue, excluding the impact of the divested Paper Chemicals business, was down 6 percent mainly due to adverse currency effects.

Winemakers are increasingly turning to corks made with our Expancel Microspheres, which help to ensure that wines are kept as perfect as possible and can be enjoyed as intended. The innovative and versatile product has now been approved by the US Food and Drug Administration as a constituent in wine corks. It has been rapidly growing in popularity with micro-agglomerated wine cork manufacturers, as it helps to overcome some of the weaknesses of traditional cork.



Revenue

| Second quarter | | | | January-June | | |
|----------------|--------------|------------|--------------------------------|--------------|--------------|------------|
| 2015 | 2016 | Δ% | in € millions | 2015 | 2016 | Δ% |
| 497 | 445 | (10) | Functional Chemicals | 961 | 881 | (8) |
| 284 | 293 | 3 | Industrial Chemicals | 592 | 592 | - |
| 282 | 266 | (6) | Surface Chemistry | 559 | 524 | (6) |
| 252 | 223 | (12) | Pulp and Performance Chemicals | 525 | 457 | (13) |
| (25) | (21) | (4) | Other/intragroup eliminations | (51) | (42) | (9) |
| 1,290 | 1,206 | (7) | Total | 2,586 | 2,412 | (7) |
| 192 | 179 | (7) | Operating income | 355 | 343 | (3) |
| 162 | 179 | 10 | EBIT | 325 | 343 | 6 |
| 12.6 | 14.8 | 18 | ROS% * | 12.6 | 14.2 | 12 |
| | | | Average invested capital | 3,557 | 3,477 | (2) |
| | | | Moving average ROI (in %) * | 16.1 | 17.1 | 6 |
| 59 | 84 | 41 | Capital expenditures | 115 | 147 | 28 |
| | | | Number of employees | 9,200 | 9,000 | (2) |

* ROS% = EBIT/Revenue. Moving average ROI (in %) = 12 months EBIT/12 months average invested capital

Condensed financial statements

Consolidated statement of income

| Second quarter | | January-June | |
|--------------------------------|--------------|--------------|--------------|
| 2015 | 2016 | 2015 | 2016 |
| in € millions | | | |
| Continuing operations | | | |
| 3,949 | 3,711 | 7,540 | 7,141 |
| (2,313) | (2,094) | (4,459) | (4,075) |
| 1,636 | 1,617 | 3,081 | 3,066 |
| (1,184) | (1,126) | (2,323) | (2,241) |
| 34 | – | 34 | 23 |
| 486 | 491 | 792 | 848 |
| (27) | (22) | (68) | (49) |
| 8 | 8 | 6 | 28 |
| 467 | 477 | 730 | 827 |
| (108) | (138) | (190) | (224) |
| 359 | 339 | 540 | 603 |
| Discontinued operations | | | |
| (1) | – | (4) | (1) |
| 358 | 339 | 536 | 602 |
| Attributable to | | | |
| 331 | 312 | 491 | 552 |
| 27 | 27 | 45 | 50 |
| 358 | 339 | 536 | 602 |

Consolidated statement of comprehensive income

| Second quarter | | January-June | |
|--|------------|--------------|-------------|
| 2015 | 2016 | 2015 | 2016 |
| in € millions | | | |
| 358 | 339 | 536 | 602 |
| Other comprehensive income | | | |
| (176) | 10 | 414 | (176) |
| (4) | 33 | (5) | 17 |
| (338) | (31) | (638) | (70) |
| (6) | 152 | – | 155 |
| (524) | 164 | (229) | (74) |
| (166) | 503 | 307 | 528 |
| Comprehensive income for the period attributable to | | | |
| (169) | 475 | 231 | 487 |
| 3 | 28 | 76 | 41 |
| (166) | 503 | 307 | 528 |

Condensed consolidated balance sheet

| in € millions | December 31, 2015 | June 30, 2016 |
|---|-------------------|---------------|
| Assets | | |
| Non-current assets | | |
| Intangible assets | 4,156 | 4,064 |
| Property, plant and equipment | 4,003 | 4,033 |
| Other financial non-current assets | 2,125 | 2,442 |
| Total non-current assets | 10,284 | 10,539 |
| Current assets | | |
| Inventories | 1,504 | 1,585 |
| Trade and other receivables | 2,741 | 3,109 |
| Cash and cash equivalents | 1,365 | 1,331 |
| Other current assets | 69 | 60 |
| Total current assets | 5,679 | 6,085 |
| Total assets | 15,963 | 16,624 |
| Equity and liabilities | | |
| Total equity | 6,980 | 7,314 |
| Non-current liabilities | | |
| Provisions and deferred tax liabilities | 2,225 | 2,313 |
| Long-term borrowings | 2,161 | 2,655 |
| Total non-current liabilities | 4,386 | 4,968 |
| Current liabilities | | |
| Short-term borrowings | 430 | 255 |
| Trade and other payables | 3,473 | 3,338 |
| Other short-term liabilities | 694 | 749 |
| Total current liabilities | 4,597 | 4,342 |
| Total equity and liabilities | 15,963 | 16,624 |

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, 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 |
| Balance at January 1, 2016 | 498 | 598 | (42) | 81 | 5,349 | 6,484 | 496 | 6,980 |
| Profit for the period | – | – | – | – | 552 | 552 | 50 | 602 |
| Other comprehensive income | – | – | 13 | (187) | 109 | (65) | (9) | (74) |
| Comprehensive income for the period | – | – | 13 | (187) | 661 | 487 | 41 | 528 |
| Dividend paid | 4 | 115 | – | – | (299) | (180) | (32) | (212) |
| Equity-settled transactions | – | – | – | – | 18 | 18 | – | 18 |
| Issue of common shares | 1 | (1) | – | – | – | – | – | – |
| Acquisitions and divestments | – | – | – | – | (1) | (1) | 1 | – |
| Balance at June 30, 2016 | 503 | 712 | (29) | (106) | 5,728 | 6,808 | 506 | 7,314 |

Shareholders' equity

Shareholders' equity increased from €6.5 billion at year-end 2015 to €6.8 billion at the end of June 2016, mainly due to the net effect of:

- Profit for the period of €552 million
- A net positive effect of €109 million for actuarial gains and losses which includes the adverse impact of the de-risking of pension liabilities and the positive impact of re-recognition of (pension related) deferred tax assets
- Negative currency effects €187 million (and related taxes)
- Dividend payments of €180 million

Invested capital

Invested capital at the end of Q2 2016 totaled €10.3 billion (Q2 2015: €10.7 billion), down €0.4 billion. Operating working capital was €142 million lower than June 30, 2015 and improved to 12.6 percent of revenue (Q2 2015: 12.8 percent).

Pensions

The net balance sheet position (IAS19) of the pension plans at the end of Q2 2016 was a deficit of €0.4 billion (year-end 2015: €0.6 billion). The development during the first half of 2016 was the net effect of:

- Top-up payments of €284 million, predominantly into the UK pension plans
- Higher asset returns and lower inflation

Offset by:

- Lower discount rates in the key countries
- De-risking of pension liabilities through non-cash buy-in transactions totaling €1.2 billion (£0.6 billion in Q2 and £0.3 billion in Q1), related to the ICI Pension Fund, which led to an adverse €221 million impact in Other comprehensive income

An additional non-cash buy-in transaction of £0.8 billion was completed in July 2016 related to the ICI Pension Fund.

Workforce

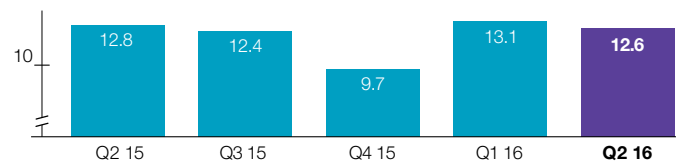
At June 30, 2016, we employed 45,700 people (June 30, 2015: 46,000). With the introduction of Global Business Services (GBS) organization as of January 1, 2016 some employees are now reported at corporate level instead of within the Business Areas.

Invested capital

| in € millions | June 30, 2015 | December 31, 2015 | June 30, 2016 |
|---|---------------|-------------------|---------------|
| Trade receivables | 2,806 | 2,267 | 2,579 |
| Inventories | 1,644 | 1,504 | 1,585 |
| Trade payables | (2,433) | (2,386) | (2,289) |
| Operating working capital | 2,017 | 1,385 | 1,875 |
| Other working capital items | (721) | (787) | (778) |
| Non-current assets | 10,184 | 10,284 | 10,539 |
| Less investments in associates and joint ventures | (163) | (165) | (156) |
| Less pension assets | (146) | (528) | (845) |
| Deferred tax liabilities | (434) | (360) | (348) |
| Invested capital | 10,737 | 9,829 | 10,287 |

Operating working capital

In % of revenue



Cash flows and net debt

Operating activities in Q2 2016 resulted in a cash inflow of €453 million, up 11 percent (2015: €407 million).

In April 2016, a €500 million bond was launched at attractive terms, with a ten-year maturity, at a coupon of 1.125 percent. A £250 million bond with 8 percent coupon was repaid from existing sources in April 2016.

At June 30, 2016 net debt was €1,580 million down 26 percent on June 30, 2015 (€ 2,138 million).

Outlook

The market environment remains uncertain with challenging conditions in several countries and segments. Deflationary pressures and currency headwinds are expected to continue.

Please refer to our website for more information on our ambitions and the strategic focus areas.

Condensed consolidated statement of cash flows

| Second quarter | | | January-June | |
|--|--------------|--|--------------|--------------|
| 2015 | 2016 | in € millions | 2015 | 2016 |
| 947 | 1,097 | Cash and cash equivalents at beginning of period | 1,649 | 1,317 |
| Adjustments to reconcile earnings to cash generated from operating activities | | | | |
| 359 | 339 | Profit for the period from continuing operations | 540 | 603 |
| 158 | 151 | Amortization and depreciation | 314 | 304 |
| (40) | (74) | Changes in working capital | (616) | (566) |
| (85) | (38) | Changes in provisions | (495) | (338) |
| 15 | 75 | Other changes | 42 | 114 |
| 407 | 453 | Net cash from operating activities | (215) | 117 |
| (137) | (151) | Capital expenditures | (260) | (275) |
| 114 | 25 | Acquisitions and divestments net of cash acquired | 112 | 23 |
| (14) | 16 | Other changes | (20) | 22 |
| (37) | (110) | Net cash from investing activities | (168) | (230) |
| (175) | 33 | Changes from borrowings | (189) | 298 |
| (184) | (226) | Dividends | (205) | (233) |
| (2) | 1 | Other changes | (2) | (1) |
| (361) | (192) | Net cash from financing activities | (396) | 64 |
| 9 | 151 | Net cash used for continuing operations | (779) | (49) |
| (1) | (1) | Cash flows from discontinued operations | (2) | (4) |
| 8 | 150 | Net change in cash and cash equivalents of total operations | (781) | (53) |
| (33) | 7 | Effect of exchange rate changes on cash and cash equivalents | 54 | (10) |
| 922 | 1,254 | Net cash and cash equivalents at June 30 | 922 | 1,254 |

Quarterly statistics

| | | | | | 2015 | | | | 2016 |
|---|--------------|--------------|--------------|---------------|-------------------------------|--------------|--------------|--------------|------|
| Q1 | Q2 | Q3 | Q4 | year | in € millions | Q1 | Q2 | year-to-date | |
| Revenue | | | | | | | | | |
| 890 | 1,134 | 1,052 | 931 | 4,007 | Decorative Paints | 861 | 1,055 | 1,916 | |
| 1,430 | 1,550 | 1,493 | 1,482 | 5,955 | Performance Coatings | 1,388 | 1,473 | 2,861 | |
| 1,296 | 1,290 | 1,235 | 1,167 | 4,988 | Specialty Chemicals | 1,206 | 1,206 | 2,412 | |
| (25) | (25) | (20) | (21) | (91) | Other activities/eliminations | (25) | (23) | (48) | |
| 3,591 | 3,949 | 3,760 | 3,559 | 14,859 | Total | 3,430 | 3,711 | 7,141 | |
| EBITDA | | | | | | | | | |
| 88 | 165 | 159 | 83 | 495 | Decorative Paints | 86 | 165 | 251 | |
| 206 | 257 | 246 | 229 | 938 | Performance Coatings | 222 | 257 | 479 | |
| 242 | 243 | 242 | 171 | 898 | Specialty Chemicals | 245 | 259 | 504 | |
| (74) | (55) | (57) | (57) | (243) | Other activities/eliminations | (66) | (39) | (105) | |
| 462 | 610 | 590 | 426 | 2,088 | Total | 487 | 642 | 1,129 | |
| 12.9 | 15.4 | 15.7 | 12.0 | 14.1 | EBITDA margin (in %) | 14.2 | 17.3 | 15.8 | |
| Depreciation | | | | | | | | | |
| (26) | (26) | (27) | (26) | (105) | Decorative Paints | (23) | (25) | (48) | |
| (25) | (26) | (26) | (27) | (104) | Performance Coatings | (26) | (25) | (51) | |
| (66) | (68) | (66) | (69) | (269) | Specialty Chemicals | (69) | (68) | (137) | |
| (3) | (3) | (1) | (2) | (9) | Other activities/eliminations | (2) | (2) | (4) | |
| (120) | (123) | (120) | (124) | (487) | Total | (120) | (120) | (240) | |
| Amortization | | | | | | | | | |
| (12) | (11) | (11) | (11) | (45) | Decorative Paints | (11) | (9) | (20) | |
| (11) | (11) | (10) | (10) | (42) | Performance Coatings | (10) | (10) | (20) | |
| (13) | (13) | (13) | (12) | (51) | Specialty Chemicals | (12) | (12) | (24) | |
| - | - | - | (1) | (1) | Other activities/eliminations | - | - | - | |
| (36) | (35) | (34) | (34) | (139) | Total | (33) | (31) | (64) | |
| EBIT (operating income excluding incidental items) | | | | | | | | | |
| 50 | 128 | 121 | 46 | 345 | Decorative Paints | 52 | 131 | 183 | |
| 170 | 220 | 210 | 192 | 792 | Performance Coatings | 186 | 222 | 408 | |
| 163 | 162 | 163 | 90 | 578 | Specialty Chemicals | 164 | 179 | 343 | |
| (77) | (58) | (58) | (60) | (253) | Other activities/eliminations | (68) | (41) | (109) | |
| 306 | 452 | 436 | 268 | 1,462 | Total | 334 | 491 | 825 | |
| 8.5 | 11.4 | 11.6 | 7.5 | 9.8 | ROS (in %) | 9.7 | 13.2 | 11.6 | |

Quarterly statistics

| | | | | | 2015 | | | | 2016 |
|---|-------------|-------------|-------------|--------------|--|-------------|-------------|--------------|------|
| Q1 | Q2 | Q3 | Q4 | year | in € millions | Q1 | Q2 | year-to-date | |
| Operating income | | | | | | | | | |
| 50 | 128 | 121 | 46 | 345 | Decorative Paints | 52 | 131 | 183 | |
| 170 | 220 | 210 | 192 | 792 | Performance Coatings | 186 | 222 | 408 | |
| 163 | 192 | 163 | 91 | 609 | Specialty Chemicals | 164 | 179 | 343 | |
| (77) | (54) | (58) | 16 | (173) | Other activities/eliminations | (45) | (41) | (86) | |
| 306 | 486 | 436 | 345 | 1,573 | Total | 357 | 491 | 848 | |
| Incidentals per Business Area | | | | | | | | | |
| - | - | - | - | - | Decorative Paints | - | - | - | |
| - | - | - | - | - | Performance Coatings | - | - | - | |
| - | 30 | - | 1 | 31 | Specialty Chemicals | - | - | - | |
| - | 4 | - | 76 | 80 | Other activities/eliminations | 23 | - | 23 | |
| - | 34 | - | 77 | 111 | Total | 23 | - | 23 | |
| Reconciliation net financing expense | | | | | | | | | |
| 10 | 4 | 7 | 7 | 28 | Financing income | 5 | 11 | 16 | |
| (38) | (31) | (29) | (27) | (125) | Financing expenses | (27) | (23) | (50) | |
| (28) | (27) | (22) | (20) | (97) | Net interest on net debt | (22) | (12) | (34) | |
| Other interest movements | | | | | | | | | |
| (4) | (3) | (4) | (2) | (13) | Financing expenses related to pensions | (2) | (2) | (4) | |
| (9) | (1) | (7) | - | (17) | Interest on provisions | (11) | (8) | (19) | |
| - | 4 | 5 | 4 | 13 | Other items | 8 | - | 8 | |
| (13) | - | (6) | 2 | (17) | Net other financing charges | (5) | (10) | (15) | |
| (41) | (27) | (28) | (18) | (114) | Net financing expenses | (27) | (22) | (49) | |
| Quarterly net income analysis | | | | | | | | | |
| (2) | 8 | 6 | 5 | 17 | Results from associates and joint ventures | 20 | 8 | 28 | |
| (18) | (27) | (16) | (26) | (87) | Profit attributable to non-controlling interests | (23) | (27) | (50) | |
| 263 | 467 | 414 | 332 | 1,476 | Profit before tax | 350 | 477 | 827 | |
| (82) | (108) | (114) | (112) | (416) | Income tax | (86) | (138) | (224) | |
| 181 | 359 | 300 | 220 | 1,060 | Profit for the period from continuing operations | 264 | 339 | 603 | |
| 31 | 23 | 28 | 34 | 28 | Effective tax rate (in %) | 25 | 29 | 27 | |

Quarterly statistics

| | | | | 2015 | | | 2016 | |
|---|-------------|-------------|-------------|-------------|---|-------------|-------------|--------------|
| Q1 | Q2 | Q3 | Q4 | year | | Q1 | Q2 | year-to-date |
| Earnings per share from continuing operations (in €) | | | | | | | | |
| 0.66 | 1.35 | 1.15 | 0.78 | 3.93 | Basic | 0.96 | 1.24 | 2.21 |
| 0.66 | 1.34 | 1.14 | 0.77 | 3.90 | Diluted | 0.96 | 1.24 | 2.20 |
| Earnings per share from discontinued operations (in €) | | | | | | | | |
| (0.01) | (0.01) | – | 0.04 | 0.02 | Basic | – | – | – |
| (0.01) | (0.01) | – | 0.04 | 0.02 | Diluted | – | – | – |
| Earnings per share from total operations (in €) | | | | | | | | |
| 0.65 | 1.34 | 1.15 | 0.82 | 3.95 | Basic | 0.96 | 1.24 | 2.21 |
| 0.65 | 1.33 | 1.14 | 0.81 | 3.92 | Diluted | 0.96 | 1.24 | 2.20 |
| Number of shares (in millions) | | | | | | | | |
| 246.4 | 247.7 | 248.4 | 248.7 | 247.8 | Weighted average number of shares | 249.5 | 250.6 | 250.1 |
| 246.9 | 248.4 | 248.4 | 249.0 | 249.0 | Number of shares at end of quarter | 249.6 | 251.6 | 251.6 |
| Adjusted earnings (in € millions) | | | | | | | | |
| 263 | 467 | 414 | 332 | 1,476 | Profit before tax from continuing operations | 350 | 477 | 827 |
| – | (34) | – | (77) | (111) | Incidentals reported in operating income | (23) | – | (23) |
| 36 | 35 | 34 | 34 | 139 | Amortization of intangible assets | 33 | 31 | 64 |
| (93) | (118) | (125) | (85) | (421) | Adjusted income tax | (95) | (149) | (244) |
| (18) | (27) | (16) | (26) | (87) | Non-controlling interests | (23) | (27) | (50) |
| 188 | 323 | 307 | 178 | 996 | Adjusted net income for continuing operations | 242 | 332 | 574 |
| 0.76 | 1.30 | 1.24 | 0.72 | 4.02 | Adjusted earnings per share (in €) | 0.97 | 1.32 | 2.30 |

Principal risks and uncertainties

In our 2015 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 three to five years as well as beyond the five year time horizon. We consider the medium-term and long-term risks as communicated in the Annual Report of 2015, including the five medium-term risks assessed to increase, to be still valid. This also applies to increased uncertainty due to the result of the UK referendum. Please refer to our website for our Annual Report of 2015.

| 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. | Continue our strategy to bring down our operational cost base and reduce complexity. Leverage our Global Business Services to further standardize core functional processes in all regions across the organization. Further deploy the commercial excellence programs and more sustainable product solutions to capture organic growth and offset the effects of decreased economic growth rates. Have contingency plans prepared for a selected number of scenarios, dealing with geographical or segment slowdowns. |
| Information Technology | One effect of the company's longer term Information Technology strategy is increased reliance on fewer, consolidated, critical applications, including our industrial process control systems. 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 cybercrime or other events, can have a direct impact on our production processes, our competitive position and the reputation of our 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. Launch training on IT security via e-learning. Roll-out of the new IM security standard for industrial control systems to our manufacturing locations. |
| Fluctuations in exchange rates | Exchange rate fluctuations can have a positive and negative impact on our financial results. We have operations in more than 80 countries and report in euros. We are particularly sensitive to movements in the US dollar, pound sterling, Swedish krona and Latin American and Asian currencies. | A centralized treasury function and hedging policy is in place for certain currency exchange rate risks (see Note 22 of the Consolidated financial statements). At a more operational level, risks are reduced by the prevalence of local-for-local production. Reduce as much as possible the impact of transactional exposure on the results of our businesses by striving for natural hedges in our main currencies. |
| Complying with laws and regulations | Our international footprint exposes us to continuously expanding laws and regulations. We may be held responsible for any liabilities arising out of non-compliance with these 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, including training on the new Code of Conduct. |
| Attraction and retention of talent | We face the challenge of ensuring continued alignment between a rapidly evolving business environment and qualifications, capabilities and talent of our workforce. This is an increasingly complex process as the labor market poses different challenges across disciplines and regions. Having the right people, with the right capabilities, experience and background will, to a large extent, determine the success of our organization and requires the development of an increasingly longer term view on future talent needs. | Strengthen AkzoNobel Employee Value Proposition based on revised company purpose and stronger company brand strategy. Further improve talent and succession action planning and follow up. Roll-out new leadership behaviors with impactful leadership assessment and development curriculum and integration into our Performance and Development Dialog. Further build and develop the AkzoNobel Academy with strong functional competency frameworks and well-defined development curriculum and career planning. Embed company-wide standard setting and compliance awareness through activities and training programs, including training on the new Code of Conduct |

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 2016 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 2016 give a true and fair view of our assets and liabilities, financial position at June 30, 2016, and of the result of our consolidated operations for the first half year of 2016.
2. The interim management report in this half-yearly financial report includes a fair review of the information required pursuant to section 5:25d, subsections 8 and 9 of the Dutch Act on Financial Supervision.

Amsterdam, July 19, 2016
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, 2016 do not have any or only an immaterial effect on our Consolidated financial statements. Otherwise the accounting principles are as applied in the 2015 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.

EBIT is operating income excluding incidental results.

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 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 EBIT of the last twelve months as percentage of average invested capital.

ROS is EBIT as percentage of revenue.

OPI margin% is operating income as percentage of revenue.

SG&A costs includes selling and distribution expenses, general and administrative expenses and research, development and innovation expenses.

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.

Akzo Nobel N.V.

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The explanatory sheets used during the
press conference can be viewed on AkzoNobel's
corporate website www.akzonobel.com/quarterlyresults

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Financial calendar

| | |
|---|-------------------|
| Report for Q3 2016 | October 19, 2016 |
| Report for the full-year 2016 and the fourth quarter | February 15, 2017 |
| Report for the first quarter 2017 | April 24, 2017 |
| Annual General Meeting of shareholders | April 25, 2017 |
| Report for the 2nd quarter 2017 | July 25, 2017 |
| Report for the 3rd quarter 2017 | October 17, 2017 |



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AkzoNobel creates everyday essentials to make people's lives more liveable and inspiring. As a leading global paints and coatings company and a major producer of specialty chemicals, we supply essential ingredients, essential protection and essential color to industries and consumers worldwide. Backed by a pioneering heritage, our innovative products and sustainable technologies are designed to meet the growing demands of our fast-changing planet, while making life easier. Headquartered in Amsterdam, the Netherlands, we have approximately 45,000 people in around 80 countries, while our portfolio includes well-known brands such as Dulux, Sikkens, International, Interpon and Eka. Consistently ranked as a leader in sustainability, we are dedicated to energizing cities and communities while creating a protected, colorful world where life is improved by what we do.

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