CREATING A PLATFORM FOR GROWTH

ANNUAL REPORT 2004

AKZO NOBEL

COMPANY STATEMENT

PROFILE

Akzo Nobel is a multicultural company headquartered in the Netherlands, holding many leading positions in pharma products, coatings, and chemicals. Employing 63,600 people in 2004, the Company conducts its activities through 16* business units and has subsidiaries in more than 80 countries. Sales in 2004 aggregated EUR 12.7 billion, of which 25% in pharma products, 41% in coatings, and 34% in chemical products.

Akzo Nobel's businesses operate with much operational freedom, based on their entrepreneurial spirit in serving customers, using technology and managing their assets, while benefiting from the Company's large international scale.

** Situation at January 1, 2005*

OUR COMPANY

Akzo Nobel is a multicultural company. Its subsidiaries are market-driven and technology-based, serving customers throughout the world with pharma products, coatings, and chemicals.
Akzo Nobel conducts its diversified activities through decentralized business units.
We maintain a product portfolio with leadership positions in important market segments.

OUR PEOPLE

Akzo Nobel regards people as its most important resource.
We foster leadership, individual accountability, and teamwork.
Our employees are professionals whose entrepreneurial behavior is result-oriented and guided by personal integrity.
They strive for the success of their own units in the interest of Akzo Nobel as a global company.
In return, our employees can count on opportunities for individual and professional development in an international working environment.
We offer them rewarding and challenging assignments with room for initiative.

OUR COMMITMENTS

We will focus our efforts on the success of our customers.
We will provide competitive returns on our shareholders' investments.
We will create an attractive working environment for our employees.
We will conduct our activities in a socially responsible manner.

OUR AMBITION

To be the first choice of customers, shareholders, and employees, and to be a respected member of society.

FOR BUSINESS PRINCIPLES SEE INSIDE COVER

BUSINESS PRINCIPLES

Introduction
As described in the Company Statement, it is Akzo Nobel's ambition to be the first choice of customers, shareholders, and employees, and to be a respected member of society.

Our Business Principles set out the core values that should underlie the conduct of all Akzo Nobel companies in order to fulfill our ambition. The Business Principles apply equally to business transactions throughout the world and to the individual behavior of employees in conducting Akzo Nobel's business.

Akzo Nobel regards the application of its Business Principles of prime importance in decisions to enter into or continue relationships with customers, contractors, and suppliers, and to participate in joint ventures.

Core Values
Akzo Nobel strives to meet high standards of performance and behavior based on the Company's core values of business conduct. These core values are:
- entrepreneurial spirit
- personal integrity
- social responsibility.

Responsibilities
Akzo Nobel is committed to creating long-term value for its customers, shareholders, employees, and society, recognizing that sustainable profit is essential for the continuity of its business.

We will focus our efforts on the success of our customers. In this respect it is our responsibility to provide customers with products and services that offer value in terms of price and quality and meet high health, safety, and environmental standards.

We will provide competitive returns on our shareholders' investments. In this respect it is our responsibility to take due account of the expectations of our investors.

We will create an attractive working environment for our employees. In this respect it is our responsibility to recruit, hire, and promote employees on the sole basis of suitability for the job, to stimulate their individual and professional development, and to provide safe and healthy working conditions. It is also our responsibility to prohibit harassment of any kind and exploitation of child labor.

We will conduct our activities in a socially responsible manner. In this respect we observe the laws of the countries in which we operate, support fundamental human rights in line with the legitimate role of business, and give proper regard to health, safety, and the environment consistent with our commitment to contribute to sustainable development.

Free Enterprise
Akzo Nobel supports the principles of free enterprise and fair competition. The Company aims to meet customer's needs faster, better, and more distinctively than our competitors. To this end, Akzo Nobel will compete vigorously but fairly, and within the framework of applicable competition laws.

Business Integrity
Akzo Nobel insists on integrity and fairness in all aspects of its business operations. Bribery and any other form of unethical business practice is prohibited. Akzo Nobel employees are expected to avoid all situations in which their personal or financial interests may conflict with the Company's interest. All business transactions shall be accurately and completely recorded in accordance with the Company's accounting principles and local laws and can be subject to audit.

Community Activities
Akzo Nobel companies are encouraged to support community activities. Akzo Nobel companies are to give their employees the opportunity to play an active role in societal matters—for example, through community or educational programs—unless participation in these activities creates a conflict of interest. Akzo Nobel companies are not to make payments to political parties, or their institutions, agencies, or representatives.

Communication
Akzo Nobel recognizes that, in view of the Company's scope of activities, the impact they have on stakeholders, and the public role the Company fulfills, proper communication is essential. Subject to any overriding considerations of confidentiality, Akzo Nobel companies endeavor to communicate with others in an open, factual, and timely manner.

Compliance
The Board of Management will not hold Management accountable for any loss of business resulting from compliance with Akzo Nobel's Business Principles, and will see to it that no employee suffers as a consequence of reporting a breach or suspected breach of these principles.

CONTENTS

In this report the terms "Akzo Nobel" and "the Company" refer to Akzo Nobel N.V. and its consolidated companies in general. The Company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms "we," "our," and "us" are used to describe the Company; where they are used in the chapter "Business Activities," they refer to the businesses concerned.

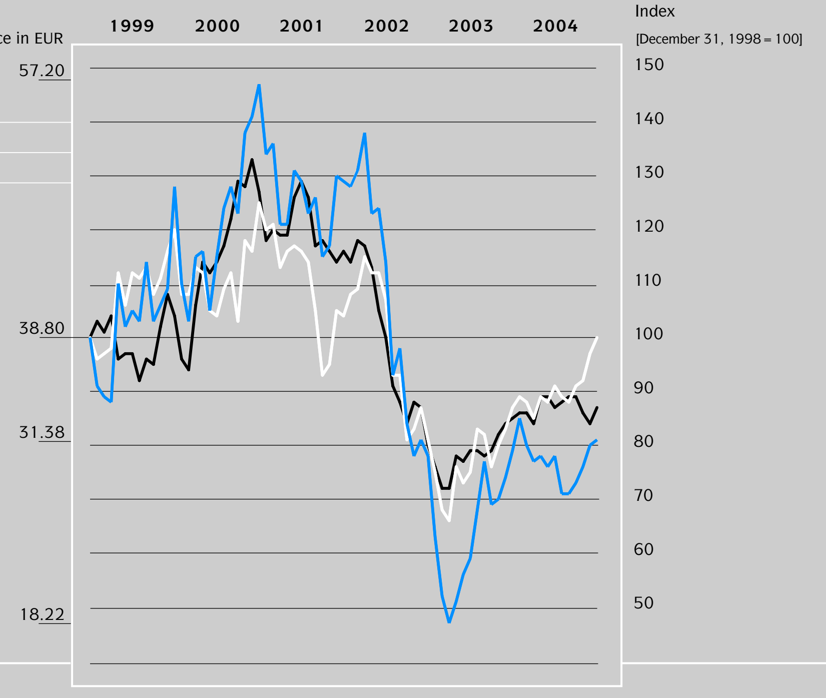
The symbol ® indicates trademarks registered in one or more countries.

SAFE HARBOR STATEMENT*

This Annual Report contains statements which address such key issues as Akzo Nobel's growth strategy, future financial results, market positions, product development, pharmaceutical products in the pipeline, and product approvals. Such statements, including but not limited to the "Outlook for 2005," 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, 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 complete discussion of the risk factors affecting our business please refer to page 61 of this report and to our 2003 Annual Report on Form 20-F filed with the United States Securities and Exchange Commission, a copy of which can be found on the Company's website www.akzonobel.com. The 2004 Annual Report on Form 20-F will be available in April 2005.

* *Pursuant to the U.S. Private Securities Litigation Reform Act 1995.*

Akzo Nobel share price
Bloomberg Europe Chemicals Index (rebased)
Bloomberg Europe Pharmaceutical Index (rebased)

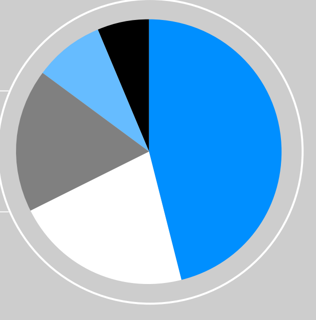


Akzo Nobel's common shares are listed on Euronext Amsterdam and NASDAQ (as American Depositary Receipts).

At year-end 2004, 64% of Akzo Nobel's shares were held in the United States, 18% in the Netherlands, 5% in the United Kingdom, and 13% in other countries. About 90% of the total number of shares was owned by institutional investors, the remainder by private investors. Under the Dutch Major Holdings Disclosure Act, ING has declared a 5% position in Akzo Nobel common shares.

2004 net sales by origin
(EUR 12.7 billion)

Euro region* [46%]
Other European countries** [22%]
USA and Canada [17%]
Asia [9%]
Other regions [6%]

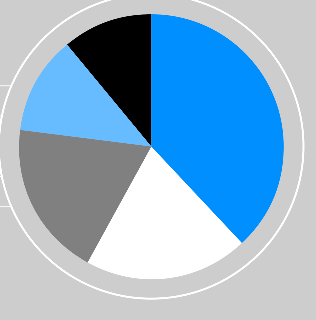


*The Netherlands [21%]
Germany [8%]
Other [17%]

**Sweden [9%]
United Kingdom [7%]
Other [6%]

2004 net sales by destination
(EUR 12.7 billion)

Euro region* [38%]
Other European countries** [20%]
USA and Canada [19%]
Asia [12%]
Other regions [11%]

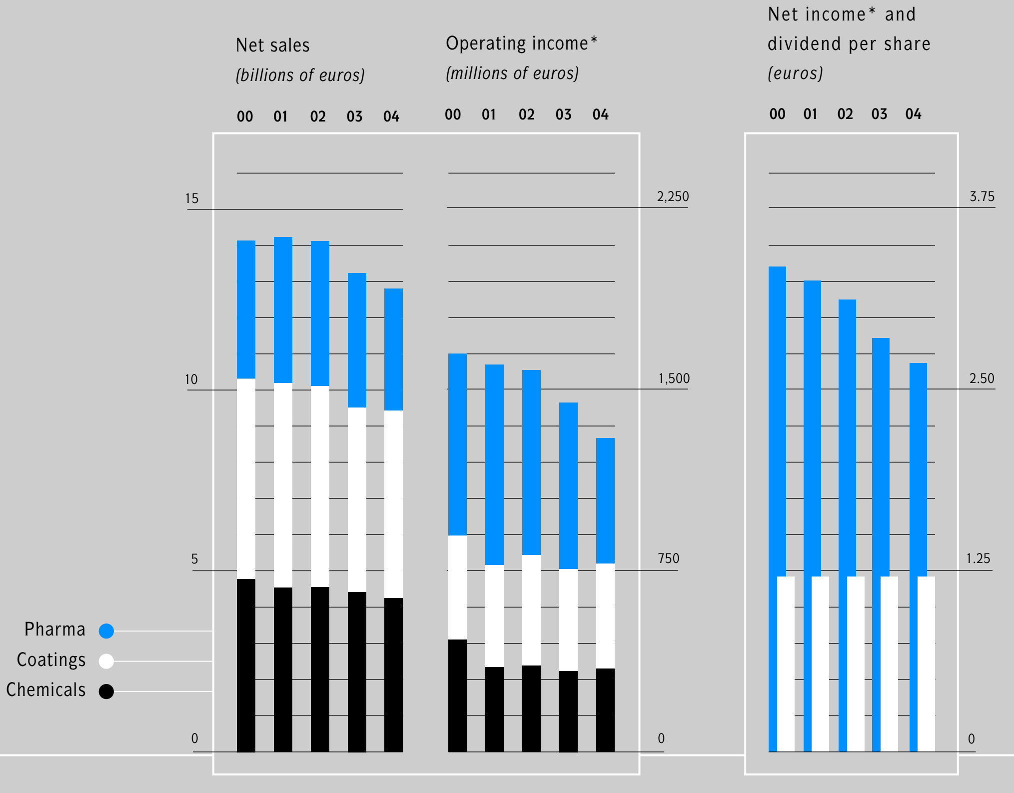


*The Netherlands [7%]
Germany [9%]
Other [22%]

**Sweden [4%]
United Kingdom [7%]
Other [9%]

For definitions of certain financial ratios and concepts see back cover foldout.

To comply with the regulations of the U.S. Securities and Exchange Commission (SEC), the Company also files an Annual Report on Form 20-F, which after filing will be available at the Company's office, on the Company's internet website, and on the internet website maintained by the SEC.



Millions of euros (EUR)	**2004**	2003
Net sales	**12,688**	13,051
Operating income		
before nonrecurring items (EBIT)	**1,210**	1,347
Depreciation and amortization	**593**	652
EBITDA	**1,803**	1,999
Capital expenditures	**551**	581
Operating income, after nonrecurring items	**1,300**	1,064
Economic Value Added (EVA)	**430**	520
Net income excluding nonrecurring items	**770**	811
Net income	**856**	602
Per common share outstanding, in EUR		
Net income excluding nonrecurring items	**2.69**	2.84
Net income	**3.00**	2.11
Dividend	**1.20**	1.20
Shareholders' equity at year-end	**10.62**	8.76
Share price at year-end	**31.38**	30.60
Key ratios		
EBIT as percent of net sales (ROS)	**9.5**	10.3
EBIT as percent of invested capital (ROI)	**15.8**	16.0
EBIT : financing charges (interest coverage)	**9.8**	8.1
EBITDA : financing charges	**14.7**	12.0
Gearing	**0.36**	0.92
Number of employees at year-end	**61,450**	64,580

* *Excluding nonrecurring items.*

CHAIRMAN'S STATEMENT

Dear Shareholder,

2004 has been crucial for maneuvering Akzo Nobel into a position of financial and organizational strength. Despite a challenging external environment, Akzo Nobel performed ahead of expectations in 2004 as a result of concerted actions to strengthen the Company. We now stand on the threshold of renewed growth—buoyed by a reinforced financial position and a dynamic streamlining of the businesses.

Coming off the back of an equally difficult 2003—when many companies struggled to cope—we have come through the past 24 months as a stronger company by challenging every aspect of our organization, the strength of our operations, the quality of our portfolio, and the effectiveness of our global business strategies. We've restructured vigorously—at corporate level as well as within the businesses themselves—increasing our efficiency on costs and capital utilization, completing our divestment program, and significantly reducing debt. The Company's foundation is solid. It's from this carefully prepared springboard that our reenergized company will confidently move forward into the future to build and deliver on our strategic growth plans.

A major factor in all of this has been the Chemicals divestment program. During the course of 2004 the three businesses Catalysts, Phosphorus Chemicals, and Coating Resins were divested for a combined total of around one billion euros. We've already made it clear that we planned to use these funds to further strengthen our balance sheet and actively pursue opportunities to expand and consolidate our leading positions in various global markets, particularly within our Coatings group, which is the world's biggest.

In 2005 we will further streamline the Chemicals portfolio in order to competitively realign the business for growth, profitability, and leadership positions in selected markets. These efforts will result in a smaller portfolio that is stronger, creates more value, and is better structured to meet our financial expectations. As a consequence of this new focus, the Company intends to divest several businesses that do not fit this strategy, representing a total of around EUR 750 million sales in 2004.

Coatings has continued to grow at a healthy pace and increase its returns by developing solutions for our customers and following them in the growth regions of the world, and I'm tremendously excited by Akzo Nobel's growth opportunities in Coatings. We aim to act on this with stepped-up acquisitions to enhance our portfolio in 2005. However, we also remain keenly focused on opportunities for our Pharmaceuticals and Chemicals businesses.

Much of our shareholders' attention in 2004 has rightly focused on our pledge to "fix Pharma." I'm happy to report that, while we have seen pressure on Pharma's top line, we were able to successfully defend profitability. In addition to major cost reductions, one major decision we took within Pharma was to combine our two human pharmaceuticals businesses, Organon and Diosynth, into one operating unit. This will create a solid strategic platform for us to expand our biotech operations and also significantly simplify the organization. We are now preparing for the next phase of growth in Human Healthcare, with sales set to bottom out this year as we roll out successful products in new markets. Our policy of seeking codevelopment and copromotion arrangements is progressing well. There have also been some positive developments on the product front, with the contraceptive NuvaRing® in particular enjoying increasingly strong sales. The drug product pipeline is also showing steady progress, although, as we've said before, fixing human pharma will not be a quick fix. We are encouraged by the number of drugs in phase II or III of development. We will increase our investment in our human healthcare organization to gear up for launches expected from 2006 onward.

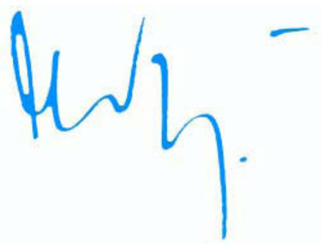
We expect renewed growth to come from across Akzo Nobel's businesses. A brief look at some of Akzo Nobel's main global activity during 2004 will reveal that we were very active in Asia. In China, for example, Industrial Finishes officially opened two new multipurpose coatings sites, while Powder Coatings announced that two new factories were being constructed in Langfang and Guangdong Province. I feel it important to stress that as one of the world's most significant emerging markets, China will play a key role in our company's growth plans. Indeed, I've already stated that we expect to double our sales in China in less than five years. Elsewhere in Asia during the year, Surface Chemistry opened its new facility on Jurong Island in Singapore and the Coatings group revealed that a new decorative coatings factory is being built in Vietnam. Add to this, Chemicals building new facilities in the Netherlands and expanding in Sweden; Coatings opening a new factory in Brazil and Pharma setting up a biotech research facility in Massachusetts, and it's clear that Akzo Nobel's worldwide growth plans have already started to plant seeds which will enable our strategy for the future to flourish.

When considering the events of the last 12 months, it's extremely important to mention developments in the area of human resources policy, where we are stepping up our efforts to build a performance-driven culture. By also intensifying our efforts in Corporate Social Responsibility and HSE, we are confirming our deep-seated dedication to remaining a decent, transparent, and socially responsible company. On that note, I would like to mention the competition law compliance cases we recently faced. These related to incidents that occurred in the distant past, and while Akzo Nobel will continue to cooperate with the relevant authorities, I want to make it absolutely clear that any and all compliance violations are totally unacceptable within this company and will not be tolerated. We have a very strict code of ethics laid down in our corporate Business Principles, and we will rigorously endeavor to adhere to these in all our business dealings and day-to-day operations.

But what does all this year-long activity amount to? Akzo Nobel, a company which thrives on its diversity, is preparing to flex its combined muscle and stride forward as a value-driven company. An organization which delivers on its inherent commitment of rewarding shareholder investment and works tirelessly to position itself for long-term growth.

We look to the future with cautious optimism and expect that we will be able to grow the top line of the Company in 2005 across the portfolio. Our bottom line will benefit from this growth but will also be impacted by raw material prices—which are still increasing—and the further weakening of currencies against the euro. In Human Healthcare especially, we will have to rise to the challenge during 2005 of finding the right balance between investing in R&D and premarketing, while actively defending margins. In spite of the very challenging and unpredictable economic conditions (currencies and raw material prices), we aspire to achieve a net income within the range of 2004.

I know that also during 2005 we will again be able to rely on the tireless efforts of our colleagues across the globe. I am extremely proud and grateful to have the mandate to lead this fantastic group of people into the next growth phase of our organization.



Hans Wijers
Chairman of the Board of Management

BOARD OF MANAGEMENT

	Has served in this or similar capacity since:
[1] Hans Wijers (1951, Dutch), *Chairman and CEO*	2002
[2] Rob Frohn (1960, Dutch), *CFO*[1]	2004
Fritz Fröhlich (1942, German), *Deputy Chairman and CFO*[2]	1993
[3] Toon Wilderbeek (1950, Dutch), *Pharma*	2002
[4] Rudy van der Meer (1945, Dutch), *Coatings*	1993
[5] Leif Darner (1952, Swedish), *Chemicals*[3]	2004
Dag Strömqvist (1942, Swedish), *Chemicals*[4]	2000

Secretary

Han Jalink

Corporate Officers

Jan Eijsbouts,	*General Counsel*
Frits Hensel,	*Senior Vice President – Finance*
Heiko Hutmacher,	*Senior Vice President – Human Resources*[5]
Derek Welch,	*Director of Corporate Strategy*

1) *From May 1, 2004.*
2) *Until May 1, 2004.*
3) *From July 1, 2004.*
4) *Until July 1, 2004.*
5) *From June 1, 2004.*

5 2 1 3 4

MAJOR EVENTS IN 2004

PHARMA

Akzo Nobel integrates Organon and Diosynth, effective January 1, 2005, into one single business unit to reinforce its human pharmaceutical business, notably in the biotechnology area, and invests EUR 60 million in a parenteral production facility.

Organon
Transfer of antithrombotic Arixtra® to Sanofi-Synthélabo completed.

FDA approves Follistim®-AQ™ cartridge—the first premixed fertility treatment (FSH) in the United States.

Implanon® receives “approvable” status from the FDA.

A biotechnology center foothold is established in Cambridge, Massachusetts, to focus on monoclonal antibody research for immunology.

Most Remeron® antitrust cases in the United States settled for a total amount of EUR 89 million.

FDA finds the antidepressant gepirone ER “not approvable.”

Intervet
European Commission grants marketing authorization for Equilis® StrepE, a vaccine against strangles in horses. Intervet is the first company ever to obtain EU authorization for a bacterial genetically modified vaccine.

Intervet receives FDA approval for Vetsulin™—the first insulin to treat diabetes in dogs—and enters U.S. market.

Diosynth
Global restructuring of chemical synthesis operations.

COATINGS

Decorative Coatings Europe acquires Timpe & Mock, Germany's second largest coatings wholesaler, takes a 30% share in German decorative paint distributor Peters, and acquires BASF's joinery business.

Decorative Coatings International builds new plant in Vietnam.

Industrial Finishes opens two new multipurpose coatings sites in China and acquires coil coatings business Rhenacoat, France.

Powder Coatings announces construction of two new factories in China and opens new Non-Stick Coatings facility in Brazil.

Marine & Protective Coatings opens new R&D laboratory in the UK as part of the business unit's ongoing investment in R&D facilities around the world.

Car Refinishes announces major restructuring plan, involving 10% of its global workforce.

Nobilas Claims & Fleet Solutions acquires UK-based AON Motor Accident Management company.

CHEMICALS

European Commission backs plans of Akzo Nobel and Dutch Government to upgrade Delfzijl facilities and cease regular chlorine transports in the Netherlands.

Pulp & Paper Chemicals breaks ground for the new EUR 50 million chemical factory island within the Veracel paper mill complex at Eunapolis in Brazil.

Surface Chemistry opens new quat production facilities in Singapore, underscoring commitment to the Asian growth region.

Functional Chemicals
Ethylene Amines capacity improvement in Sweden delivers excellent growth.

Production joint venture in the United States with BASF results in further efficiency improvements for the North American chelates operations.

Divestments
Divestments of Catalysts, Phosphorus Chemicals, and Coating Resins generate proceeds of approximately EUR 1 billion.

STRATEGY

General
Akzo Nobel is a diversified multicultural group of companies with activities in pharma, coatings, and chemicals. Our ambition is to create above-average economic value over the business cycle. We strive to be a company which talented, ambitious people are proud to work for. We also want to be a company that is respected in the societies in which it operates.

Capital allocation is focused on building sustainable leading business positions, reflected in attractive growth, returns significantly above the costs of capital, and substantial operational cash flows. We actively restructure and divest activities that do not meet these criteria. We are led by medium- to long-term value creation.

We develop competitive advantages by combining the focus and entrepreneurial spirit of a decentralized business unit organization with the scale and power of a corporate center that provides access to global capital markets, managerial talent, and best practice management processes.

Our deeply ingrained Business Principles are the expression of a strong, shared international culture. They give us guidance in the complex, ever-changing global environment in which we operate.

We regularly evaluate the added value of the composition of our portfolio in a pragmatic way, driven by our value creation principle. As in the past, we will not shy away from bold moves.

Pharma

PRIORITY TO RESTORING GROWTH MOMENTUM

Our human healthcare activities are experiencing a period of declining sales. As a consequence, we have lowered the cost base and will continue to critically scrutinize the organization for further adjustments. At the same time we will continue to invest heavily in R&D to boost our pipeline. We will focus on in-licensing in areas where we have strong market positions but lack sufficient products. On the other hand, we are actively out-licensing and partnering in areas where we have limited development and marketing capabilities. We are confident that we will be able to restore growth momentum in the medium term on the basis of the quality of our pipeline.

We have integrated Organon and Diosynth effective January 2005. Diosynth is our focused niche player in the Active Pharmaceutical Ingredients market and our main biotech activity. Diosynth's third-party business will be continued under the name Diosynth. The integration will enable us to combine existing biotechnology competencies and reduce the complexity of our organization.

We are the third largest company in animal health in the world. We aim to remain a global leader through autonomous growth, aided by our strong commitment to R&D, and—where appropriate—acquisitions.

Pharma's medium-term financial targets are a ROS of around 17.5% and a ROI of 35%. For the long term, we strive for a ROS of over 20% and a ROI of 40%.

Coatings

FOCUSING ON GROWTH

Our coatings business is the world leader. It embraces most of the markets in both consumer and industrial applications for paints and coatings.

We are focusing on growth in the emerging markets of Asia, Eastern and Central Europe, and South and Central America through autonomous development and acquisitions. We will also continue to enhance our presence in the mature markets through selected acquisitions.

Our ambition is to remain market leader and participate in the consolidation of the coatings industry, which we believe is inevitable as our supplier and customer base strengthens globally.

Our medium-term financial target is 25% ROI, leading in due course to around 30%.

Chemicals

IMPROVEMENT THROUGH STREAMLINING THE PORTFOLIO

We have a wide spread of activities within our chemicals portfolio with a mixture of good leadership positions and several smaller market penetrations. The financial returns from the various businesses also differ.

We are making a determined effort to streamline and fine-tune our Chemicals portfolio by concentrating on actively growing profitable businesses which we have identified within selected strategic markets. This will see us exiting noncore businesses and rationalizing support structure around the selected core platforms.

The leading guideline is to focus on profitable growth in those market segments where we have a competitive advantage and can achieve sustainable, above-average financial returns.

Our financial target is to achieve a ROI of around 17.5% over the cycle.

Financing Objectives

To ensure sustained growth of our businesses and to be able to finance expansion we want to maintain a solid balance sheet and an interest coverage of at least 5. We aim for a well-spread maturity schedule of our long-term debt and a strong liquidity position.

We will defend our single A credit ratings.

SUPERVISORY BOARD

	Initial appointment	Current term of office	
[1] Aarnout Loudon 1) 2) (1936, Dutch), *Chairman*	1994	2004-2006	*Former Chairman of the Board of Management of Akzo Nobel* *Former member of The First Chamber of the Dutch Parliament* *Chairman of the Supervisory Board of ABN AMRO Holding* *Member of the Supervisory Board of Royal Dutch Petroleum Company* *Member of the International Advisory Board of Allianz (Germany)*
[2] Maarten van Veen 1) 2) (1935, Dutch), *Deputy Chairman* 3)	1997	2002-2005	*Former CEO of Koninklijke Hoogovens* *Chairman of the Supervisory Board of Koninklijke Volker Wessels Stevin* *Deputy Chairman of the Supervisory Boards of ABN AMRO Holding and Imtech* *Nonexecutive Director of Corus Group (United Kingdom)*
Frits Fentener van Vlissingen 4) (1933, Dutch), *Deputy Chairman* 5)	1984	retired in 2004	
[3] Virginia Bottomley MP 1) 2) (1948, British)	2000	2004-2008	*Former Secretary of State for Health and Member of the British Cabinet* *Governor of the London School of Economics, Governor of the Ditchley Foundation* *Executive Director of Odgers Ray & Berndtson*
[4] Dolf van den Brink 6) (1948, Dutch)	2004	2004-2008	*Professor Financial Institutions, University of Amsterdam* *Economic Advisor to the Managing Board of ABN AMRO Bank* *Former Member of the Managing Board of ABN AMRO Bank* *Chairman of the Supervisory Boards of Van der Moolen Holding and Nyenrode University* *Member of the Supervisory Board of Samas-Groep*
[5] Uwe-Ernst Bufe 7) (1944, German)	2003	2003-2007	*Former CEO of Degussa* *Chairman of the Supervisory Board of UBS Investment Bank, Frankfurt* *Member of the Supervisory Board of Altana and Rütgers* *Member of the Supervisory Board of Solvay (Belgium)* *Member of the Board of Directors of Umicore (Belgium)*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	Initial appointment	*Current term of office*	
[6] Abraham Cohen 7) (1936, American)	1992	2001-2005	*Former Senior Vice President of Merck & Co.* *Former President of Merck Sharp & Dohme International* *Chairman of the Board of Directors of Vasomedical (New York) and of Neurobiological Technologies (California)* *Nonexecutive Director of Teva Pharmaceutical Industries (Israel) and of Chugai Pharmaceuticals (Japan)*
[7] Cees van Lede (1942, Dutch)	2003	2003-2007	*Former Chairman of the Board of Management of Akzo Nobel* *Chairman of the Supervisory Board of Heineken* *Member of the Supervisory Board of Philips Electronics and Air Liquide (France)* *Nonexecutive Director of Reed Elsevier, Sara Lee Corp. (United States) and Air France/KLM (France)* *Chairman of the Board of Directors of INSEAD (France)*
[8] Alain Mérieux (1938, French)	2002	2002-2006	*Chairman of bioMérieux* *Director of Eurazeo and Compagnie Plastic Omnium*
[9] Lars Thunell 8) (1948, Swedish)	1999	2003-2007	*President and CEO of SEB Skandinaviska Enskilda Banken* *Chairman of the Board of IBX, Integrated Business Exchange*
[10] Karel Vuursteen 1) 2) (1941, Dutch)	2002	2002-2006	*Former CEO of Heineken* *Member of the Board of Directors of Heineken Holding* *Member of the Supervisory Boards of Royal Ahold and ING Group* *Member of the Supervisory Board of Electrolux (Sweden)* *Member of the Supervisory Board of Henkel (Germany)*

1) *Member of the Remuneration Committee.*
2) *Member of the Nomination Committee.*
3) *As of May 1, 2004.*
4) *Member of the Audit Committee until May 1, 2004.*
5) *Until May 1, 2004.*
6) *Member of the Audit Committee as of May 1, 2004.*
7) *Member of the Audit Committee.*
8) *Chairman of the Audit Committee.*

REPORT OF THE SUPERVISORY BOARD

Financial Statements and Dividend Proposal

The Supervisory Board submits to the shareholders the financial statements and the report of the Board of Management of Akzo Nobel N.V. for the financial year 2004, as prepared by the Board of Management and approved by the Supervisory Board.

The 2004 financial statements were audited by KPMG Accountants N.V. The Auditors' Report appears on page 116. The financial statements were discussed extensively with the auditors by the Audit Committee and in the presence of the Chairman of the Board of Management (CEO) and the Chief Financial Officer (CFO). In addition, the 2004 financial statements were a topic of discussion for the full Supervisory Board with the full Board of Management, in the presence of the auditors. Based on these discussions, the Supervisory Board believes that the 2004 financial statements of Akzo Nobel N.V. meet all requirements for correctness and transparency and that they form a good basis to account for the supervision provided.

We recommend that shareholders adopt the 2004 financial statements as presented in this Annual Report. We also propose that the General Meeting of Shareholders resolve that the total dividend for 2004 on each of the common shares outstanding will be EUR 1.20 and that this amount, less the interim dividend of EUR 0.30, which was made payable in November 2004, will be made payable in May 2005. The remaining amount of profit will be carried to other reserves.

Additionally, we request that shareholders discharge the members of the Board of Management of their responsibility for the conduct of business in 2004, and the members of the Supervisory Board for their supervision of the management.

Composition of the Supervisory Board

At the General Meeting of Shareholders of April 22, 2004, the total number of Supervisory Board members was reduced by one and fixed at ten. Effective May 1, 2004, Frits Fentener van Vlissingen stepped down, having reached the age limit. The Board acknowledged a debt of gratitude to Mr. Fentener van Vlissingen for his wise counsel and valuable contributions to the Company.

Also effective May 1, 2004, Dolf van den Brink, Professor Financial Institutions at the University of Amsterdam and former member of the Managing Board of ABN AMRO Bank, was appointed to the Supervisory Board for a four-year term. Aarnout Loudon and Virginia Bottomley were reappointed for, respectively, a two-year and a four-year period.

At the General Meeting of Shareholders on April 21, 2005, Maarten van Veen will resign after having served on the Board for seven years. With his expertise and broad business experience, Mr. van Veen, currently Deputy Chairman of the Supervisory Board, has rendered outstanding services to the Company.

It will be proposed at the General Meeting of Shareholders that Maarten van den Bergh, nonexecutive chairman of the Board of Lloyds TSB Group and former president of Royal Dutch Petroleum Company and vice-chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group, be appointed to the Supervisory Board for a four-year term to succeed Mr. van Veen.

Also at this meeting, Abraham Cohen will be stepping down from the Supervisory Board. The Rules of Procedure of the Supervisory Board provide that in principle members will step down after having served three four-year terms. However, given the challenges Akzo Nobel's Pharma business is facing and will continue to face in the next few years and given the importance of the U.S. market in general, the Supervisory Board considers an exception to this general rule to be in the best interest of the Company. It therefore recommends that the General Meeting of Shareholders reappoint Mr. Cohen for a four-year period.

All nominations are made in accordance with the membership profile, which can be found on Akzo Nobel's website.

All Supervisory Board members meet the applicable independence requirements of the Dutch Corporate Governance Code, except for Mr. van Lede and Mr. van den Brink. However, the Supervisory Board considers Mr. van den Brink to be independent. Reference is made to the details of the Supervisory Board members on pages 12 and 13 and with respect to Mr. van den Brink's independence to the explanation in the Corporate Governance chapter on page 70.

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. The remuneration for the year 2004 was EUR 41,000 for members of the Supervisory Board and EUR 52,000 for the Chairman. For each committee membership*, the remuneration was EUR 7,000. Details are given in note b on page 106.

* *For remuneration purposes memberships of the Remuneration Committee and of the Nomination Committee count as one committee membership.*

Board of Management Changes

Effective May 1, 2004, Fritz Fröhlich retired as CFO and Deputy Chairman of the Board of Management. Rob Frohn, who until the end of 2003 was General Manager of Surface Chemistry, succeeded him as a member of the Board of Management and CFO. The Supervisory Board expressed its indebtedness to Mr. Fröhlich for his outstanding contributions to the Company.

Dag Strömqvist retired from the Board of Management effective July 1, 2004. The Supervisory Board expresses its gratitude to Mr. Strömqvist for his excellent services to the Company. Leif Darner, until May 1, 2004, General Manager of Marine & Protective Coatings, succeeded Mr. Strömqvist.

After an outstanding career of 32 years with the Company and having served 12 years on the Board, Rudy van der Meer will retire effective May 1, 2005. Mr. van der Meer joined the Board in 1993, taking on responsibility for Chemicals. After integrating the two chemical divisions of Akzo and subsequently the acquired chemical activities of Nobel Industries, he extended the Chemicals' leading positions in selected segments of specification, functional, and specialty chemicals by pruning the portfolio and increasing productivity. In 2000 he took over responsibility for Coatings and successfully enhanced Akzo Nobel's worldwide Coatings' leadership position by increasing its profitability and expanding market positions, especially in Asia and Eastern Europe. We are greatly indebted to Mr. van der Meer for his excellent services to the Company.

It was decided not to fill this vacancy. Hans Wijers will take responsibility for Akzo Nobel's Coatings businesses in addition to his duties as CEO.

As a consequence it will be proposed at the General Meeting of Shareholders on April 21, 2005, to decrease membership of the Board of Management to four.

Supervisory Board Activities

The full Supervisory Board met five times in the course of 2004. All meetings were well attended by all Board members. The October meeting was held at the Intervet site in Boxmeer, the Netherlands, where a special focus was placed on Akzo Nobel's animal healthcare business unit.

All meetings were plenary sessions with the full Board of Management. On two occasions, the Supervisory Board held separate meetings, which were partly attended by the CEO, to evaluate its working methods, procedures, its own functioning and that of its committees as well as the functioning of the Board of Management and its individual members, and its relationship with the Board of Management. It also discussed the composition of the Supervisory Board and its Committees.

The Chairman of the Supervisory Board prepares the meetings with the assistance of the Chairman of the Board of Management. The Supervisory Board discussed such issues as Company strategy, corporate governance, risk management, restructuring measures, and the approval of major investments, acquisitions, and divestments. Regular agenda items included financial and operational performance, share price development, operational planning, and the annual financing and investment plan.

In light of the Sarbanes-Oxley Act in the United States and the Dutch Corporate Governance Code, corporate governance was reviewed and preparations were made to revise the Articles of Association. Although the Rules of Procedure of the Supervisory Board and its Committees had been amended in 2004, a more detailed review took place in early 2005. The Rules of Procedure are available on the Company's website.

The Supervisory Board again devoted considerable time to discussions on the Company's strategy. The Supervisory Board discussed with the Board of Management the overall strategy including objectives, associated risks, and the mechanisms for controlling financial risks. In three separate sessions the strategy of Pharma, Coatings, and Chemicals was reviewed and discussed in more detail. The Supervisory Board also discussed and consented to the Company's overall strategy.

The Board of Management keeps the Supervisory Board regularly informed of intended organizational changes and appointments of senior managers.

In December the full Supervisory Board received training on the new IFRS requirements and their consequences for the Company.

Audit Committee
The Audit Committee currently consists of four members and was chaired by Mr. Fentener van Vlissingen until his resignation. He was succeeded as chairman by Lars Thunell.
Mr. van den Brink filled the vacancy caused by the resignation of Mr. Fentener van Vlissingen in May 2004.

The Audit Committee had seven regular meetings in 2004. The CEO, the CFO, the Director of Corporate Control, the internal auditor, and the lead partner of the external auditor KPMG attended all regular meetings. In addition, the Audit Committee met with only the CEO and CFO being present, and held a meeting with only the External Auditor.

The Audit Committee regularly discussed financial statements, as well as the Annual Report on Form 20-F for SEC filing, internal and external control procedures, risk management, Internal Auditing reports, and the external auditor's performance and independence. Before the announcement of quarterly results, the Audit Committee was informed of the figures and consulted on the report and press release to be published.

In addition, in 2004 considerable time was spent on corporate governance. With the assistance of an external advisor, the Committee reviewed how it functioned and proposed a revised Charter, which was later approved by the Supervisory Board and included in the Rules of Procedure.

The Audit Committee further discussed such items as:
- Treasury and Finance (including the Company's hedging policy)
- IFRS implementation
- implementation of the requirements of Section 404 of the Sarbanes-Oxley Act
- pensions
- nonrecurring items.

Remuneration Committee and Nomination Committee
The Remuneration and Nomination Committee was split into two separate committees in December 2004. The two Committees consist of the same four members. The Committees met three times in 2004. Mr. Loudon chairs the Remuneration Committee and the Nomination Committee.

The Nomination Committee made proposals for the succession of Mr. van Veen in 2005 and reviewed the composition and division of tasks within the Board of Management in view of Mr. van der Meer's retirement in 2005. The Remuneration Committee made a recommendation on the remuneration and remuneration policy for the members of the Board of Management, including personal targets. The Supervisory Board approved the Committees' recommendations and will submit the remuneration policy to the General Meeting of Shareholders for adoption. A performance-related share plan and a revised performance-related option plan, both for Executives, will also be submitted for approval to the General Meeting of Shareholders.

For the principal elements of the Supervisory Board's remuneration report reference is made to page 74.

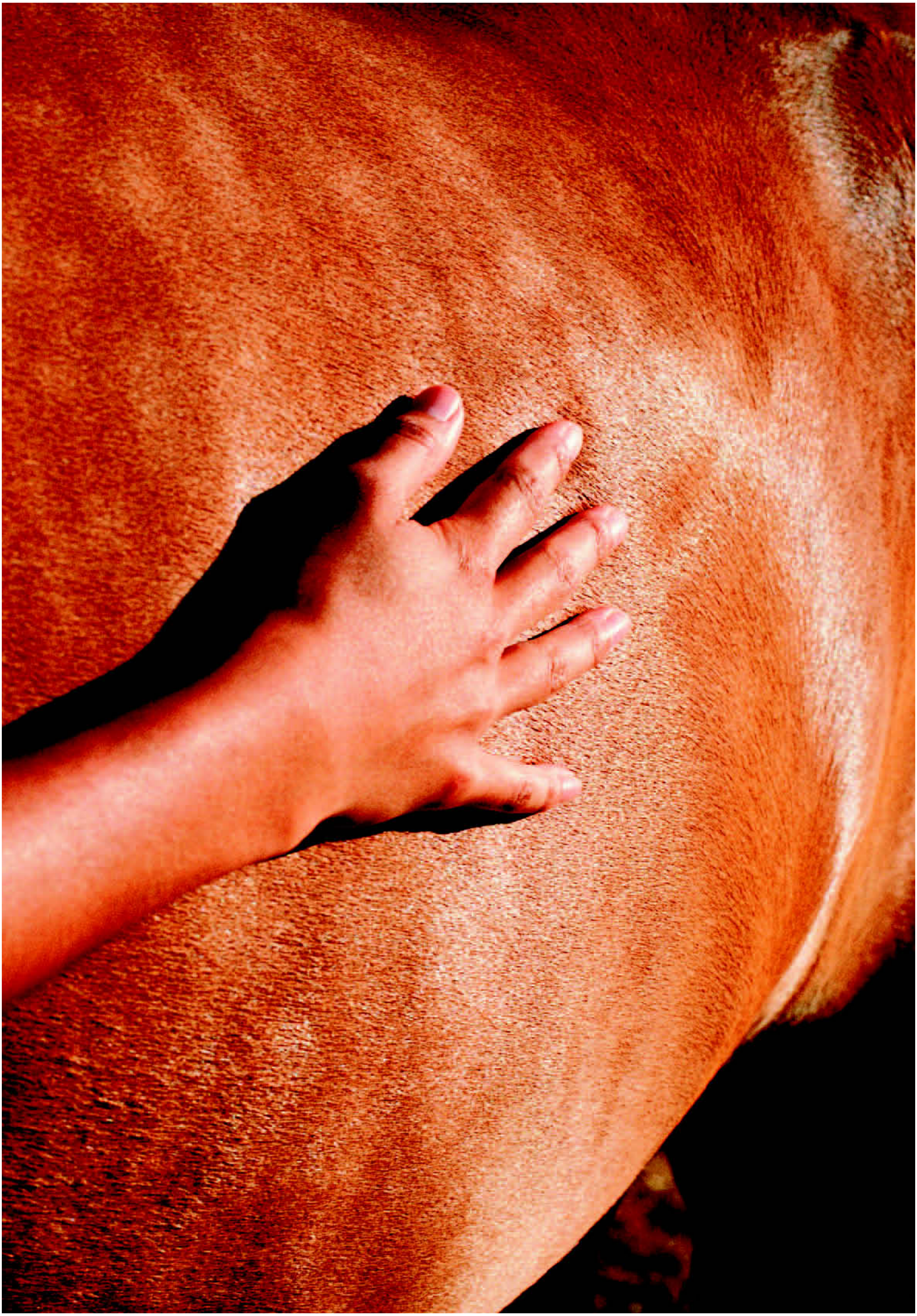
The Supervisory Board wishes to thank the Board of Management as well as all employees for their dedication and hard work for the Company in 2004.

Arnhem, February 3, 2005

The Supervisory Board

CREATING A PLATFORM FOR GROWTH

As one of the top three animal healthcare companies in the world, we take a hands-on approach to all our global activities.



REPORT OF THE BOARD OF MANAGEMENT

GENERAL FINANCIAL OVERVIEW*

- **Net income up 42%**
- **Net income excluding nonrecurring items 5% lower**
- **Autonomous growth 2%**
- **Restructurings paying off**
- **Divestments completed – EUR 1 billion proceeds; EUR 0.5 billion pretax book profit**
- **Significant nonrecurring charges – restructuring, antitrust and Remeron® cases**
- **Pharma – margin protection program mitigating effect top line decline**
- **Coatings – shift to growth mode; raw materials impact increasing in the fourth quarter**
- **Chemicals – strong performance improvement; new strategic focus**
- **Dividend maintained – EUR 1.20**
- **Outlook – aspiring to achieve net income, excluding nonrecurring items within the range of 2004**

Pharma

- Sales down – due to lower volumes at Organon and Diosynth and currencies
- Organon
  - cost saving programs – successful
  - Remeron® – major decline due to generic competition in United States; starting to erode in rest of world during the fourth quarter
  - HT products – sales pressure bottomed out
  - contraceptives – NuvaRing® strong growth
- Diosynth – severely suffering from overcapacity; restructurings completed
- Integration of Organon and Diosynth
- Intervet – improved performance

Coatings

- Autonomous growth 5% – mainly Asia Pacific and United States
- 32% of sales realized in emerging markets
- Steep increase of raw material prices – increasing pressure on margins in the fourth quarter
- Decorative Coatings – improved performance from cost savings
- Marine & Protective and industrial activities – further improved
- Car Refinishes – major worldwide restructuring set in motion

Chemicals

- Continued operations – autonomous growth 5%; operating income up 21%
- Most units benefiting from improved business climate
- Cost saving programs paying off
- Steeply rising raw material and energy prices – increasing pressure on margins
- 2003 divestment program – completed
- New strategic focus

CREATING A PLATFORM FOR GROWTH

When it comes to marine paint, our world-leading Coatings business has got everything in hand.

* *Operating income-related figures and statements are exclusive of nonrecurring items.*

Condensed Consolidated Statement of Income

Millions of euros	**2004**	2003*
Net sales:		
Pharma	**3,246**	3,550
Coatings	**5,249**	5,160
Chemicals	**4,305**	4,470
Other	**(112)**	(129)
Total	**12,688**	13,051
Operating income before nonrecurring items (EBIT):		
Pharma	**522**	692
Coatings	**421**	414
Chemicals	**354**	341
Other	**(87)**	(100)
Total	**1,210**	1,347
Financing charges	**(123)**	(166)
Operating income before nonrecurring items, less financing charges	**1,087**	1,181
Taxes	**(323)**	(366)
Earnings of consolidated companies, after taxes	**764**	815
Earnings from nonconsolidated companies	**41**	36
Earnings before minority interest	**805**	851
Minority interest	**(35)**	(40)
Net income excluding nonrecurring items	**770**	811
Nonrecurring items, after taxes	**86**	(209)
Net income	**856**	602

Net sales in 2004 were EUR 12.7 billion, down 3% on the previous year. Autonomous growth was 2%, which did not fully compensate the negative effect of currency translation (3%) and of divestments and acquisitions (on balance 2%). A breakdown is given at the bottom of this page.

Operating income was EUR 1,210 million, on balance 10% below 2003. Return on sales was 9.5%, compared with 10.3% in 2003.

Change in operating income from 2003

	Total	Operational performance	Divestments	Currency translation	Lower pension charges
Pharma	(170)	(153)*	–	(30)	13
Coatings	7	15	(5)	(16)	13
Chemicals	13	35	(27)	(7)	12
Other	13	1		–	12
Total	**(137)**	**(102)**	**(32)**	**(53)**	**50**

Financing charges decreased from EUR 166 million in 2003 to EUR 123 million in 2004, reflecting the substantial reduction of net borrowings as a result of proceeds from divestments. In addition, due to the weaker U.S. dollar, interest denominated in this currency translated into lower financing charges. Interest coverage improved from 8.1 to 9.8. EBITDA coverage was 14.7 (2003: 12.0).

Earnings from nonconsolidated companies at EUR 41 million were substantially up on 2003. Flexsys did significantly better than in 2003, which more than offset the loss of earnings from the divested Catalysts joint ventures. The Company's remaining 20%-stake in its former Fibers activities and the Turkish printing inks joint venture Dyo Sadolin also did better.

Nonrecurring items, on balance a net gain of EUR 86 million, mainly consist of (pretax amounts):

- gains on divestments of EUR 509 million, chiefly relating to Catalysts, Phosphorus Chemicals, and Coating Resins;
- restructuring and impairment charges of EUR 199 million, principally relating to the closure of Organon's production site in West Orange, New Jersey, and other worldwide cost reduction programs at Pharma, Chemicals' chlorine production site in Bohus, Sweden, and rationalization programs at Car Refinishes;
- a charge of EUR 89 million for settlement of most Remeron® court cases;
- addition to provisions of EUR 110 million for antitrust cases (see note 19; page 100).

Development of sales in %	Total	Volume	Price	Currency translation	Divestments/ acquisitions
Pharma	(9)	(7)	1	(3)	–
Coatings	2	4	1	(2)	(1)
Chemicals	(4)	4	1	(3)	(6)
Akzo Nobel	**(3)**	**1**	**1**	**(3)**	**(2)**

The negative currency translation impact predominantly related to the weakening of the U.S. dollar and various Asian currencies. Acquisitions principally concerned Timpe & Mock (deco wholesaler in Germany) and AON Motor Accident Management (United Kingdom), while divestments mainly related to Impregnated Papers sold in 2003 and Catalysts and Phosphorus Chemicals sold in 2004.

* *2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.*

Condensed Consolidated Statement of Cash Flows

Millions of euros	**2004**	2003
Earnings before minority interest	**891**	651
Depreciation and amortization	**593**	652
Cash flow	**1,484**	1,303
Other adjustments to reconcile earnings to cash provided by operations	**(367)**	213
Changes in working capital	**156**	(119)
Net cash provided by operations	**1,273**	1,397
Capital expenditures	**(551)**	(581)
Expenditures for intangible assets	**(28)**	(27)
Acquisitions	**(80)**	(101)
Proceeds from divestments	**1,036**	203
(Investments)/repayments nonconsolidated companies	**(29)**	78
Other changes	**6**	(23)
Net cash generated by/(used for) investing activities	**354**	(451)
Dividends paid	**(366)**	(370)
Total net cash used	**(12)**	(821)
Funds balance	**1,261**	576

The *funds balance* increased from EUR 0.6 billion to EUR 1.3 billion, mainly from divestments and the reduction of working capital. Cash flow from operations decreased somewhat to EUR 1.3 billion.

Capital expenditures were below the 2003 level—mainly attributable to Pharma—and almost at depreciation level. Investments are targeted at priority businesses and regions, particularly China and Central and Eastern Europe. In these areas, growth continued at high rates, and we opened several new factories to participate in this development. Chemicals' investments also include projects in the Netherlands and Brazil.

Acquisition expenditures concerned Timpe & Mock and several other acquisitions at Coatings.

Proceeds from divestments principally related to the sale of Catalysts, Phosphorus Chemicals, and Coating Resins.

Condensed Consolidated Balance Sheet

Millions of euros, December 31	**2004**	2003
Noncurrent assets	**5,040**	5,544
Working capital	**2,187**	2,573
Invested capital of consolidated companies	**7,227**	8,117
Nonconsolidated companies	**318**	353
Minimum pension liability-related assets	**491**	526
Cash and cash equivalents	**1,811**	727
	9,847	9,723
Equity	**3,176**	2,642
Minimum pension liability	**1,240**	1,342
Provisions	**2,479**	2,581
Borrowings	**2,952**	3,158
	9,847	9,723

Invested capital at December 31, 2004, amounted to EUR 7.2 billion, down EUR 0.9 billion on year-end 2003, mainly due to divestments, lower working capital needs, and negative currency translation effects.

Net interest-bearing borrowings were down EUR 1.3 billion to EUR 1.1 billion, which was mainly attributable to the proceeds from divestments.

Equity increased EUR 0.5 billion as a result of retained 2004 income.

Year-end *gearing* improved to 0.36 (December 31, 2003: 0.92).

Pension Costs

Pension Funding

Akzo Nobel has a number of defined benefit pension plans covering the majority of employees. Most of these plans are funded through assets in independently managed foundations or trusts in the Netherlands, the United Kingdom, the United States, and Germany. For obligations not funded through pension funds the Company recognizes provisions in the balance sheet. Valuation of pension obligations is carried out by independent actuaries.

Pension Accounting Principles

Akzo Nobel accounts for pensions in accordance with U.S. accounting standard SFAS 87. Under this standard, obligations and costs are calculated on the basis of projected future pension entitlements (which includes long-term estimates for future cost of living adjustments and salary increases during the employee's career), while pension plan assets are valued at market value. The standard also provides an equalization mechanism for swings in obligations and related investments. In case of underfunding, under certain conditions, additional provisions for minimum pension liabilities have to be recognized as a direct charge against shareholders' equity.

Pension charges

Under SFAS 87 pension charges trail developments in the pension funding situation by one year. During 2003, stock markets recovered somewhat from the drop in 2002. As a result, pension charges for 2004 decreased by some EUR 50 million compared to 2003. In 2004, financial markets recovered further, as a result of which 2005 pension charges are expected to drop by an additional EUR 70 million.

Minimum pension liability

As a result of the improved funding situation in 2004, the after-tax minimum pension liability charged against shareholders' equity decreased from EUR 816 million to EUR 749 million at December 31, 2004, increasing shareholders' equity by EUR 67 million.

Pension premiums paid

Pension premiums to be paid by the Company are based on local regulations and arrangements with Akzo Nobel's pension funds. In the first quarter of 2004, the Company paid an additional EUR 50 million into the pension fund in the Netherlands on top of normal pension premiums.

Focus on costs continued – workforce reduction of 2,650

The number of employees developed as follows:

	December 31, 2004	Restructurings	Divestments/ acquisitions	Other changes	December 31, 2003
Pharma	19,390	(1,410)	(80)	200	20,680
Coatings	29,070	(660)	580	810	28,340
Chemicals	11,890	(530)	(2,110)	120	14,410
Others	1,100	(50)			1,150
Akzo Nobel	**61,450**	**(2,650)**	**(1,610)**	**1,130**	**64,580**

The Company was well prepared to face the multitude of challenges of the year. Ongoing restructuring programs were vigorously pursued, and various new programs were started to address pressure on our earnings. As a result, our workforce was reduced by 2,650 people. Since the start of our major program in 2001, our restructuring actions have resulted in a headcount reduction by almost 9,000.

Our strong focus on restructuring, costs, and cash did not prevent us from investing in new growth opportunities in high growth regions. We are actively participating in attractive growth in Asia, particularly China, and in Eastern Europe.

Financing Activities

As a result of continued strict working capital management, a flat level of capital expenditures, and the successful completion of Chemicals' divestment program, we were able to reduce net borrowings by EUR 1.3 billion to EUR 1.1 billion.

The Company has a strong financial position. Long-term debt has a redemption scheme that is well spread over the coming years (see note 16 on page 99). The volume of short-term borrowings was reduced to EUR 258 million, and our Commercial Paper programs of EUR 1.5 billion and USD 1.0 billion were not used. We have a EUR 1.5 billion multicurrency revolving credit facility available, which has been committed by a syndicate of banks until November 2008. This facility, on which no drawdowns have been made thus far, can be used for general corporate financing purposes and supports our Commercial Paper programs.

Research and Development

Through strong customer and market orientation, our R&D activities provide an excellent platform for sustainable business development. We are focusing on innovative approaches and technologies that ensure continuity and profitable growth. *R&D expenses* were EUR 823 million, which is 6.5% of sales. For 2003, this was EUR 887 million and 6.8%, respectively. Pharma's R&D expenses were maintained at 16% of sales, reflecting its continuous commitment to research and development. In 2004, Organon again spent 19% of its sales on research.

	Millions of euros		% of sales	
	2004	2003*	**2004**	2003
Pharma	**518**	566	**16**	16
Coatings	**168**	164	**3**	3
Chemicals	**122**	132	**3**	3

Engineering

Akzo Nobel Engineering managed to increase its sales in 2004. The principal contributions came from chlorine projects in Rotterdam and Delfzijl in the Netherlands. We also served other Chemicals business units all over the world. For Pharma, Akzo Nobel Engineering proved its added value, particularly in the Netherlands. Outside Akzo Nobel, apart from substantial projects for fiber companies, we achieved attractive growth in basic engineering packages for and consultancy on soda ash production for clients in such countries as Kenya, Uzbekistan, and India.

* *2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.*

Economic Value Added (EVA)*

EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital calculated on the basis of an average return investors expect. The elements of the EVA calculation cannot be derived directly from the data given in the financial statements, as it takes into account certain adjustments such as addition of nonrecurring items to capital, inclusion of service costs for pensions only, and special treatment of strategic investments and acquisitions.

In 2004, EVA decreased by EUR 90 million to EUR 430 million, largely due to the decline at Pharma, as 2003 included the asenapine payment (EUR 70 million after taxes). Coatings and Chemicals achieved EVA improvement.

Implementation of International Financial Reporting Standards

In 2002, the European Commission decided that all listed companies in the EU must apply International Financial Reporting Standards (IFRS) in their financial statements from 2005 onwards. As a consequence, Akzo Nobel will report in accordance with IFRS starting with the Report for the First Quarter of 2005**. The changes not only concern accounting policies, but also additional disclosures in the notes to the financial statements. In 2004, we made the required changes to our financial reporting and consolidation systems and restated the comparative 2004 interim statement of income and balance sheet figures. On December 14, 2004, we published restated figures for the first three quarters of 2004 and provided information on the expected impact of IFRS on the Company's reported performance and financial position. See "IFRS-based reporting Q-1–Q-3 2004" published on the Company's website. On April 7, 2005, the restated figures for the full year 2004 will be published.

Internal Controls

The Board of Management is responsible for the establishment and adequate functioning of internal controls in the Company. Consequently, the Board of Management has implemented processes and procedures designed to provide control to the Board of Management over the Company's operations. These processes and procedures include measures regarding the general control environment, such as Business Principles, Corporate Directives, and Authority Schedules, as well as specific measures, such as a risk management system, internal control systems, and a system of letters of representation by responsible management at various levels within the Company. All these measures and procedures are aimed at a reasonable level of assurance that the significant risks of the Company are identified and managed and that the operational and financial objectives of the Company are met in compliance with applicable laws and regulations. Embedded in these processes is a system of controls over financial reporting in order to provide reasonable assurance regarding the reliability and adequacy of the Company's financial reporting.

For a detailed description of the risk management system and the principal risks identified, reference is made to the Risk Management chapter (see page 61).

Based on the outcome of its review of the operation of these general and specific measures and systems to the best of its knowledge and belief the Board of Management is of the opinion that these measures and systems provide a reasonable level of assurance and that they are adequate and have operated effectively in the year 2004. The outcome of this review and the current status have been discussed with the Audit Committee, the Supervisory Board, and the external auditor.

* *EVA® is a registered trademark of Stern Stewart & Co.*

** *To be published on April 19, 2005.*

Since the internal control systems throughout the whole organization are currently under review in view of the Company's future obligations pursuant to Section 404 of the U.S. Sarbanes-Oxley Act (SOX 404), the above statement by the Board of Management does not imply an assessment on the adequacy and effectiveness of the Company's internal control systems over financial reporting as required by SOX 404.

Dividend Proposal

A dividend of EUR 1.20 per common share (2003: EUR 1.20) will be proposed at the General Meeting of Shareholders on April 21, 2005. In November 2004, an interim dividend of EUR 0.30 was declared. Adoption of this proposal will result in a dividend payment of EUR 343 million, a payout ratio of 45% relative to net income excluding nonrecurring items, which is above our normal range of 35-40%. Effective April 25, 2005, Akzo Nobel shares will trade ex dividend. The final dividend will be made payable on May 2, 2005.

Pages 28 through 64 form an integral part of the Report of the Board of Management.

OUTLOOK FOR 2005

We look to the future with cautious optimism and expect that we will be able to grow the top line of the Company in 2005 across the portfolio. Our bottom line will benefit from this growth, but will also be impacted by raw material prices—which are still increasing—and the further weakening of currencies against the euro. In human healthcare especially, we will have to rise to the challenge during 2005 of finding the right balance between investing in R&D and premarketing, while actively defending margins. In spite of the very challenging and unpredictable economic conditions (currencies and raw material prices), we aspire to achieve a net income, excluding nonrecurring items, within the range of 2004.

In 2005, our focus will shift to growth, though we must keep our eyes on cost to protect our earnings. At the same time, following the Chemicals strategy we are creating further room to maneuver for growth opportunities in attractive strategic priority areas. We will continue to manage our funds in a highly disciplined manner and expect capital expenditures in the order of magnitude of EUR 650 million, up from 2004 due to our projects in the Netherlands and Brazil. Furthermore, we will continue to screen our activities and upgrade our portfolio based on value creation. The Company's strategy is also to strengthen the portfolio by selective acquisitions, supporting profitable growth in strategic areas.

We expect that no additional funds will have to be raised for the financing of continued operations.

Excluding acquisitions and divestments, the number of employees is expected to decrease due to the implementation of restructuring programs at all groups, while it will expand from investments in growth in strategic priority areas.

Arnhem, February 3, 2005

The Board of Management

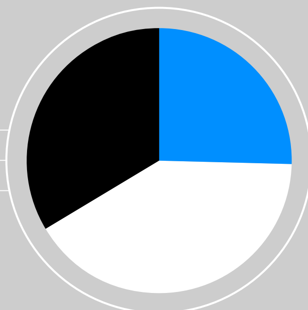
BUSINESS UNIT MANAGERS

1 Cor de Grauw, *Nobilas Claims & Fleet Solutions*
2 Jan Svärd, *Pulp & Paper Chemicals*
3 Gert van Ingen, *Energy*
4 Rob Molenaar, *Powder Coatings*
5 Jon Meijnen, *Functional Chemicals*
6 Bob Torba, *Industrial Finishes*
7 Rinus Rooseboom, *Car Refinishes*
8 Ruurd Stolp, *Intervet*
9 Bill McPherson, *Marine & Protective Coatings*
10 René Scheffers, *Base Chemicals*
11 Leif Abildgaard, *Decorative Coatings Europe*
12 Jan Andersson, *Decorative Coatings International*
13 Frank Sherman, *Surface Chemistry*
14 Peter Gommers, *Salt*
15 Toon Wilderbeek, *Organon*
16 Bob Margevich, *Polymer Chemicals*

BUSINESS ACTIVITIES

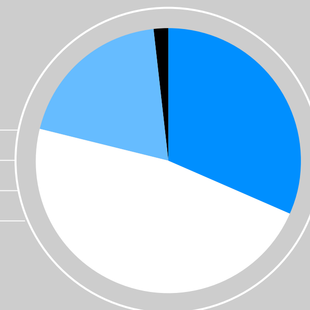
Net sales
(EUR 12.7 billion)

Pharma [25%]
Coatings [41%]
Chemicals [34%]



Number of employees
at December 31, 2004 (61,450)

Pharma [19,390]
Coatings [29,070]
Chemicals [11,890]
Other [1,100]



PRODUCTS AND MARKETS

PHARMA

2004 SALES: EUR 3.2 BILLION

Prescription drugs, veterinary products, and complex active pharmaceutical ingredients

Key Products/Applications	Competitive Position
Organon: contraceptives, infertility treatment, hormone therapy (HT) and osteoporosis, CNS products (antidepressants, antipsychotics), and muscle relaxants	Among top three suppliers of hormonal contraceptives, second largest in infertility products; among top five players in HT; investing for growth in CNS; world leader in neuromuscular relaxants
Diosynth: complex active pharmaceutical ingredients	Leading supplier of steroids and synthetic peptides, strong in heparins, and biopharmaceuticals
Intervet: veterinary vaccines and pharmaceuticals	World's third largest supplier of veterinary products; leading in veterinary vaccines

Main human healthcare products in the pipeline

Area		Phase II	Phase III	Registration
Reproductive Health	Male fertility control	Org 3236 + TU		
	Long-acting ovulation inducer		Org 36286	
	Serotonin -2- blocker (hot flashes)		Org 50081	
	Selective tissue estrogenic activity regulator		Livial®[1]	
	Oral androgen	Org 39970		
	Progestogen implant			Implanon®[1]
Psychiatry	AMPA receptor modulator	Org 24448		
	HPA axis modulator	Org 34517		
	Serotonin -2- blocker (sleep disorders)	Org 50081		
	Dopaminergic, adrenergic and serotonergic antagonist		asenapine[2]	
Anesthesia	Muscle relaxant binding agent	Org 25969		
Cardiovascular	Dual inhibitor (anti-IIA/anti-Xa)	Org 42675		

1) Approved outside the United States.
2) Collaboration with Pfizer.

Active pharmaceutical ingredients
Many products in various stages of development, in general on a contract manufacturing basis in the areas of biotechnology, synthetic peptides, and steroids.

Veterinary products in the pipeline
Numerous new products (vaccines and pharmaceuticals) in various stages of development.

COATINGS

2004 SALES: EUR 5.2 BILLION

Coatings and related products

The world's leading coatings producer

Key Products/Applications	Competitive Position
Decorative Coatings: coatings for decoration and protection of architectural structures	Market leader in Europe
Industrial activities: powder coatings, coatings for wood, metal, coil and plastics, and nonstick coatings	World leader in selected markets
Marine & Protective Coatings: coatings for protection and decoration of hulls, interiors, and superstructures of ships and yachts, aerospace coatings, protective coatings, and fire-retardant products for large plants and offshore installations	World leader
Car Refinishes: finishes for passenger cars, commercial transportation, and automotive plastic components	Among top three global suppliers
Nobilas *Claims & Fleet Solutions*	Potential leading provider in all areas of accident management services

CHEMICALS

2004 SALES: EUR 4.3 BILLION

Specification, functional, and specialty chemicals

Key Products/Application	Competitive Position
Pulp & Paper Chemicals: pulp bleaching chemicals and chemicals for the manufacture of paper and board; specialty resins for printing ink, adhesives and polymer manufacturing; high performance separation products for pharmaceuticals	World leader in pulp bleaching chemicals and strong worldwide positions in paper chemicals
Functional Chemicals: chelates, micronutrients, animal feed additives, PVC additives, and intermediates such as carbon disulfide, monochloroacetic acid, methyl amines and ethylene amines	Leading or strong worldwide positions
Surface Chemistry: surfactants and fatty acids used in detergents, cleaning, and personal care, as well as in asphalt production and the agro, oil, mining, and textile industries; cellulosic specialties such as thickeners and additives for coatings, building materials, pharmaceutical products, food, mining and oil; expandable microspheres	Leading or strong worldwide positions
Polymer Chemicals: polymerization catalysts such as organic peroxides, metal alkyls, and custom-manufactured Ziegler-Natta systems for the polymer-producing industry; high-purity metal organics for the electronic industry, and intermediates for pharmaceutical products	Leading or strong worldwide positions
Base Chemicals: chlorine and caustic soda for industrial applications	Leading positions in Northwest Europe
Salt for electrolysis, other chemical industries, food applications, and consumer use	Leading position in Northwest Europe Global leader in vacuum salt
Energy: supply of electricity and steam	Mainly for captive use

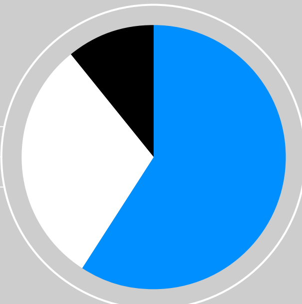
Chemical activities are also conducted through joint ventures. In 2004, sales of these nonconsolidated companies totaled EUR 1.2 billion on a 100-percent basis.

CREATING A PLATFORM FOR GROWTH

The creative ability which pumps through the veins of Akzo Nobel is just one of the factors which contribute to the Company's blueprint for sustainable growth. Our healthcare businesses in particular are at the cutting edge of pharmaceutical innovation, developing drugs for both humans and animals which continue to push back the boundaries of medical development. By expanding and modifying these inherent building blocks and significantly increasing our efforts in the field of biotechnology, we will make further progress toward meeting our strategic growth ambitions.

2004 business unit sales (EUR 3.4 billion)

Organon [59%]
Intervet [30%]
Diosynth [11%]

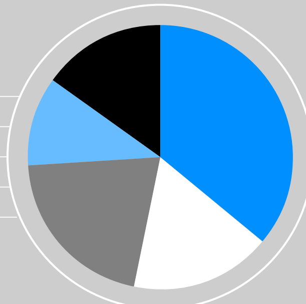


2004 net sales by destination

Euro region*[36%]
Other European countries**[17%]
USA and Canada [21%]
Asia [11%]
Other regions [15%]

*The Netherlands [3%]
Germany [8%]
France [9%]
Other [16%]

**United Kingdom [6%]
Other [11%]



Millions of euros	**2004**	2003
Net sales	**3,246**	3,550
Operating income before nonrecurring items (EBIT)	**522**	692
Depreciation and amortization	**168**	176
EBITDA	**690**	868
Capital expenditures	**158**	210
R&D expenditures	**518**	566
Invested capital at year-end	**2,387**	2,506
EVA	**189**	331
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**16.1**	19.5
– invested capital (ROI)	**21.3**	27.8
Net sales/invested capital	**1.33**	1.43
Capital expenditures/depreciation	**1.05**	1.33
Number of employees at year-end	**19,390**	20,680

LOOKING TO THE FUTURE WITH CONFIDENCE

Pharma continued to work hard to reduce the complexity within its business units and improve operational efficiencies. U.S. dollar weakness and increasingly stiff competition made these steps all the more important. Despite best efforts, sales and operating income were down substantially, continuing the downward trend triggered in December 2002 by the loss of exclusivity of Remeron®, which until then was our leading antidepressant. In 2003, Pharma also benefited from the payment of EUR 88 million for the asenapine cooperation by Pfizer.

Addressing the Remeron® lifecycle management issues was the biggest challenge for Organon in 2004. Organon entered into several agreements with generic companies to help market the product while managing Remeron®SolTab®, which remains exclusive in some markets. Also, most of the key lawsuits concerning Remeron® in the United States were settled.

R&D achievements help move Organon forward and the progress made in 2004 gives us confidence. Follistim®-AQ™ cartridge was approved in the United States, which should add to sales of this key fertility product. The asenapine program with Pfizer has made good progress. Phase III is well under way; FDA and European EMEA submissions are planned for early 2007. The approvable letter for the Implanon® birth control implant will also positively affect the second half of 2005 in the United States. There was, however, some negative R&D news, most notably the FDA rejection of our application for the antidepressant gepirone ER.

Diosynth had a very difficult year with sales down 24%, reflecting the overall situation of the contract manufacturing industry. In the biotechnology segment, several new manufacturing contracts were awarded, some of which may prove significant in the future.

In August, we announced the integration of Diosynth and Organon, which will combine Pharma's know-how, especially in the biotechnology area, and simplify supply chain management. Third-party customers of Diosynth will continue to be served under the Diosynth name.

The major news in the animal healthcare sector was the recurrence of avian flu. Intervet provided support to various governments in addressing this serious threat. Intervet also took steps to improve operational efficiency, the first results of which are clearly reflected in earnings.

Sales (millions of euros)
2004: 2,010
2003: 2,273

ORGANON – PRESCRIPTION DRUGS

General Manager: Toon Wilderbeek
(in addition to his responsibilities as a member of the Board of Management)

PREPARED FOR A STRONGER FUTURE

Despite continuing economic pressure in 2004, Organon has become fitter and better prepared for a stronger future. During the year two milestones were reached that should reinforce the future of our human pharmaceutical business: the integration of Organon with Diosynth—Akzo Nobel's manufacturer of active pharmaceutical ingredients—scheduled for the beginning of 2005, and the development progress made in Phase III with the antipsychotic asenapine in our partnership with Pfizer. We also established a biotechnology center foothold in Cambridge, Massachusetts, to focus on monoclonal antibody research for immunology.

In 2004, Organon radically changed its R&D policy and structure. The organizational structure now covers the entire R&D process from the early exploratory stage up to demonstration of Proof of Concept. This new policy focuses even more on the elaboration of new creative ideas, but always against the backdrop of sufficient output generation. Over time, this approach should fill the pipeline with innovative drug candidates.

Sales in the important geographic areas were below the 2003 levels. The decline in sales was mainly due to increased generic competition in both the United States and Europe, particularly for the antidepressant Remeron®. Currency effects caused a sales decrease of 3%, while price/volume effects were minus 9%, primarily reflecting a decrease of 40% in the United States. We managed to continuously protect our margins without major restructuring. Operating income was substantially lower than in 2003. R&D expenses as a percentage of sales were maintained. In 2003, Organon also benefited from the payment of EUR 88 million for the asenapine cooperation by Pfizer.

Sales of Organon's key products developed as follows:

Millions of euros	2004 sales	Autonomous growth, %
Remeron® in U.S.	47	(75)
Remeron® in rest of world	316	–
Contraceptives	522	4
– of which NuvaRing®	81	115
Puregon®/Follistim®	285	(11)
Livial®	160	(17)

In the therapeutic area **Contraception** we achieved sales growth with Cerazette® and NuvaRing®, aided by stepped-up promotion efforts. The sales growth pattern reflects increasing acceptance of NuvaRing®. In September 2004, cumulative sales of NuvaRing® surpassed the EUR 100 million mark with more than 600,000 rings sold monthly worldwide. In October 2004, the innovative, single rod progestogen implant, Implanon®, received "approvable status" from the FDA for marketing in the United States. The contraceptive is scheduled to be launched on the U.S. market in the course of 2005.

In the other therapeutic areas **Hormone Treatment (HT)**, **Psychiatry, Fertility** and **Anesthesia** sales were down compared to 2003.

Overall market size for menopausal HT declined strongly, as a result of a number of studies that downgrade some of the perceived positive health effects of treatments. However, a rebound effect in the market could occur in the near future, which may benefit Livial®, as its market share in the IMS registered markets has continued to grow to almost 22% over the last two years.

In the **Psychiatry** segment, asenapine—a novel psychotherapeutic medication for the treatment of psychotic and mood disorders—is in Phase III clinical trials. The compound is being developed in partnership by Organon and Pfizer. Asenapine will be administered as a fast dissolving tablet that will likely enhance compliance. Because of its unique pharmacological signature we expect asenapine to deliver strong control of psychotic and manic symptoms, superior relief on negative and affective symptoms, and an unsurpassed tolerability and safety profile. Phase II results did not show clinically relevant side effects. Asenapine was very well tolerated. The phase III clinical development program is on schedule and is expected to be finalized by the end of 2006. The registration file (including the U.S. NDA) is targeted for worldwide submission to the regulatory authorities in the first half of 2007.

We failed to obtain FDA approval for gepirone ER in 2004. Despite these developments, Organon remains committed to the continued development of products in the antidepressant therapeutic area.

In **Fertility**, we launched the Follistim®-AQ™ cartridge (follitropin beta injection) in the United States in the spring of 2004. It is designed to be used only with the Follistim Pen®, an innovative pen device which facilitates accurate delivery of individualized doses of premixed follitropin beta injection. Initial U.S. sales of the highly effective and widely used prescription fertility medication are promising. In various European countries, such as the Netherlands and Germany, Puregon® sales are negatively affected by changes in reimbursement policies.

In **Anesthesia**, the investigational drug application (IND) for the anesthetic Org 25969, a unique binding agent to reverse muscle relaxation, was accepted by the FDA. With the phase II human clinical trial in the United States and Europe completed, the compound entered phase III.

The reorganization and restructuring programs implemented in 2003 resulted in the formation of R&D teams for our key compounds. Organon now holds a competitive pipeline with five compounds in phase III and seventeen compounds in exploratory development (including phase II).

The integration of our two human pharmaceutical businesses, Diosynth and Organon, into a single business unit—under the name Organon—effective January 2005 combines key competencies for a targeted approach to human pharmaceutical activities. Diosynth's third-party business will be continued under the name Diosynth as a reliable partner for its customers. To mark the importance of this integration and the opportunities it will provide, Organon's management team has been extended, with offices based in the United States (Roseland, New Jersey) and the Netherlands (Oss). The integration should improve supply chain management and investment decisions. Furthermore, we will strive to reduce the complexity of our organization to aid us in our new strategy of forming partnerships.

The integration will also enable us to combine existing biotechnology activities to leverage our know-how and share technologies and skills to enhance our competitiveness in this attractive market. The biopharmaceuticals market offers opportunities to address underserved therapeutic categories like various forms of cancer and autoimmune disorders, such as rheumatoid arthritis and multiple sclerosis. The combined biotechnology business of Organon and Diosynth already represents 20% of sales revenues. The assets and know-how we have in biotechnology offer us a solid springboard to become an integrated pharmaceutical company which develops and markets drugs that are based both on New Chemical Entities (NCE) and on New Biological Entities (NBE).

The year 2004 has been a turning point for Organon in its return to growth. Organon's future will be marked by our continuing efforts to create and market prescription medicines that improve the health and quality of human life.

Nobilon, Akzo Nobel's human vaccine initiative, developed according to plan during 2004. The modern cell culture facilities for antigen production were not only approved for compliance with international Good Manufacturing Practice (GMP) but already came in full production. The development program for the first human vaccines started with an injectable human influenza vaccine and, in parallel, a modified live intranasal vaccine in cooperation with BioDiem. These and other vaccines in development will be based on innovative cell culture technology, which ensures more flexible capacity and products of high quality and purity.

Sales (millions of euros)
2004: 1,024
2003: 1,010
GEARED FOR SUCCESS

INTERVET – VETERINARY PRODUCTS
General Manager: Ruurd Stolp

With total sales of EUR 1,024 million in 2004, Intervet met expectations and strengthened its place in the global top three of animal health companies. Operating income was up on the previous year. Intervet will continue its strategy based on autonomous growth and selected acquisitions. Intervet has a broad product portfolio and one of the largest distribution networks around the world. In 2004, we worked intensively to develop further into a global organization to anticipate developments in the markets. We also made strong efforts to improve operating performance by streamlining our product portfolio, making investments in the manufacturing organization, and improving the infrastructure for the development of new products. As a result of these efforts we are now well prepared to increase our business in key countries with a focus on core species and improve our bottom-line performance within the next few years.

We generate almost 60% of sales in Europe and will build on our strong position in this mature market. In 2004, Intervet's development in North America was characterized by growth in key segments, notably in antiparasitics. The Latin American region seems to be continuing its recovery from the economic downturn of recent years, and we expect a more stable market there in 2005. Asia was severely affected by avian influenza outbreaks in various countries in the region.

From Intervet's broad product portfolio, pharmaceuticals showed a strong performance with significant autonomous growth. In the vaccines business Intervet further strengthened its position. Development of aquaculture vaccines is encouraging despite challenging market conditions in the European salmon market.

Intervet received approval to market several new products in Europe during 2004, including an innovative vaccine against Glässer's disease in pigs and a novel vaccine against strangles, a painful and debilitating disease of horses. Intervet is the first company ever to obtain an EU authorization for this bacterial, genetically modified vaccine.

Following FDA approval, Vetsulin™—the first insulin to treat diabetes in dogs—was launched in the U.S. market. Canine and equine dewormers were introduced in the American OTC market, which also benefited from the reintroduction of some vaccines in the companion animal health and livestock segment.

In 2004, we continued our major investment program in Boxmeer, the Netherlands, aimed at modernizing our multifunctional headquarters site and enlarging our production capacity for biological products. We also made further investments at our manufacturing site in Salamanca, Spain. In the fall of 2004, we completed a major refurbishment program of our Milton Keynes, UK site designed to expand and equip the laboratory building obtained a few years ago when Hoechst Roussel Vet was acquired. The new facilities enable us to bring together virology and bacteriology research groups for the development of poultry and pet vaccines. As a consequence, Intervet's The Elms research site near Cambridge was closed in the summer and a number of projects were transferred to Milton Keynes.

In December, Intervet divested its veterinary diagnostic business Dr. Bommeli AG to IDEXX Laboratories, Inc. Given Bommeli's size within Intervet's portfolio, the divestment had only a slight impact on Intervet's earnings.

Our logistics and manufacturing initiative launched in 2003 to implement SAP has made significant progress and should be concluded in early 2006.

Sales (millions of euros)	
2004:	**366**
2003:	479

IMPACTED BY LOWER DEMAND

DIOSYNTH – COMPLEX ACTIVE PHARMACEUTICAL INGREDIENTS

General Manager: Johan Evers

The innovative pharmaceutical industry is being plagued by major problems, including loss of patent protection for major products, a reduced number of new product approvals, heavy competition, and price pressure in part induced by governments. These factors adversely affect producers of active pharmaceutical products like Diosynth. In 2004, our sales declined 24%. Operating income fell strongly and was close to break-even.

In the segment of chemical active pharmaceutical ingredients, the market is still weak. Increasing competition is felt from new capacity being built, notably in China and India. Diosynth's strategy has always been to be a niche player, focusing on very specific complex products and technologies, such as steroids, peptides, and opiate analogues. In potential, the market for these products remains attractive because of their relatively long lifecycle.

Lower captive and third-party demand forced Diosynth to reduce capacity and personnel worldwide in 2004. Capacity for less complex starting materials was cut back in line with our strategy.

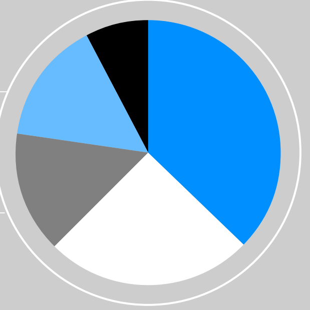
In the traditional market segment for biochemicals, Diosynth managed to increase its sales and market share, particularly in heparins.

In the biotechnology market, sales were under pressure. Nevertheless, the number of new development contracts increased strongly. This should result in increased sales in the coming years because of the time lag between technology transfer, initial process development, and commercial manufacturing of batches for clinical trials.

As of January 1, 2005, Diosynth has been integrated into Organon.

CREATING A PLATFORM FOR GROWTH

Being the world's biggest Coatings company does not mean Akzo Nobel lacks further ambition. We are constantly striving to take off in new markets and develop our businesses around the globe by spreading our wings in growth regions such as Asia and Eastern Europe. The sky is the limit in terms of opportunities and by continuing to develop leading innovative products we will supply our customers with the products and services they need to keep pace with the kaleidoscope of market demands that lie ahead.



Millions of euros	**2004**	2003*
Net sales	**5,249**	5,160
Operating income before nonrecurring items (EBIT)	**421**	414
Depreciation and amortization	**135**	147
EBITDA	**556**	561
Capital expenditures	**122**	124
R&D expenditures	**168**	164
Invested capital at year-end	**2,057**	2,043
EVA	**156**	153
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**8.0**	8.0
– invested capital (ROI)	**20.5**	19.4
Net sales/invested capital	**2.56**	2.42
Capital expenditures/depreciation	**1.03**	0.92
Number of employees at year-end	**29,070**	28,340

** 2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.*

SHIFT TO GROWTH MODE

Coatings recorded a ROI of 20.5%—a leap forward compared to the previous year—underscoring the road map to our medium-term ROI target of 25%. We achieved this through high volume growth, tight cost control, and despite steeply increasing raw material costs and difficult economic circumstances in Europe. All business units achieved performance gains, except for Car Refinishes, where a major restructuring program is being implemented to address this situation. In the fourth quarter of 2004, margins were under pressure from increased raw material prices, in particular in the industrial activities.

In 2004, sales grew autonomously by 5%, mainly in emerging markets, which now represent 32% of worldwide sales. We opened two new multipurpose Industrial Finishes sites in China and a new Non-Stick Coatings facility in Brazil. Marine & Protective Coatings established International Paint Japan to serve Japanese and worldwide marine coatings customers also directly in this important market. Furthermore, we completed investments in two new Powder Coatings sites in China and a new Decorative Coatings facility in Vietnam.

During the year, we established Nobilas *Claims & Fleet Solutions* as a separate business unit to fully exploit the potential to become the leading provider in all areas of accident management services.

We continued to improve our business mix by divesting eight small noncore businesses and making selective acquisitions, such as Rhenacoat coil coatings in France and BASF's joinery business.

Our European Decorative Coatings business remained focused on extending its distribution channels by acquiring ten wholesalers. In Germany—the biggest coatings market in Europe—we stepped up efforts to improve our position by acquiring Timpe & Mock and taking a 30% shareholding in Peters.

To realign the business with changing market conditions, Car Refinishes announced a major restructuring program, involving 10% of its global workforce.

Our main challenge continues to be a balancing act between our unwavering commitment to reducing our cost base in mature markets and at the same time capturing growth opportunities in emerging markets through a combination of selective acquisitions and organic growth.

Sales (millions of euros)	
2004:	**1,911**
2003:	1,842

DECORATIVE COATINGS

Decorative Coatings Europe and Decorative Coatings International serve the professional and do-it-yourself markets. Major brands include Sikkens®, Sadolin®, Crown®, Astral®, Marshall®, Trimetal®, Nordsjö®, Levis®, Herbol®, Vivechrom®, and Flexa®. The leading building adhesives brand is Schönox®.

DECORATIVE COATINGS EUROPE

General Manager: Leif Abildgaard

STRONG IMPROVEMENT IN FLAT MARKET

Market conditions failed to show sustainable improvement in 2004, reflecting sluggish GDP rates in most Western European countries. Demand for outdoor products was also adversely affected by unfavorable weather conditions in the northern part of Europe and a low number of new housing starts. We continued to place a strong focus on improving the quality of the business by taking many initiatives to strengthen our branded businesses and phasing out less attractive low margin businesses and weak brands with no added value. As a result of these efforts, we managed to improve margins in 2004 and offset higher costs of raw materials, packaging, energy, and transportation during the second half of the year.

In 2004, we completed a large proportion of the comprehensive cost reduction program that was launched in 2003. This program resulted in a considerable reduction of our structural cost base, mainly for Production and Logistics. Operating income and return on investment improved substantially.

In Trade, we recorded a satisfactory gain in operating income, assisted by a number of important strategic acquisitions of distributors, mainly in Germany. The second biggest distributor in Germany, Timpe & Mock with 20 outlets, was acquired. We also acquired a 30% stake in another major German distributor, Peters with 17 outlets, in exchange for Akzo Nobel's interests in distributors Beissel and Kerstin. Having service outlets close to the painters, either owned or in partnership with independent distributors, is a key strategic objective for Trade.

Retail's sales went up in various countries. In other countries we registered a decline in sales, reflecting the discontinuation of business in less attractive private labels and low-priced white commodity paints. Sales in added value branded products increased, aided by a comprehensive renewal of branded product offerings and improved positioning in most countries during 2004. The speedy transfer of proven products and concepts continued and bolstered our brand building objectives. While overall sales declined, Retail achieved a considerable improvement in operating income and financial ratios.

In Specialties, we were able to duplicate the previous year's high performance level. We recorded promising sales in the new EU countries, where we strengthened our presence. In the third quarter we acquired the Joinery business of BASF Coatings, bolstering our leading position in that market segment.

We successfully completed the first phase of the rollout of our new state-of-the-art tinting system and started the second phase. The basic principle of this new system is to offer any color across our product range via a system of innovative colorants. A limited number of base paints will reduce the complexity costs for our distributors, shops, and sites. Via this optimized system we can also offer better and more reliable accuracy of colors and product qualities that will meet future regulations for volatile organic compounds (VOC). As of 2007 (first phase) and 2010 (second phase), the new EU VOC directive will be fully effective.

DECORATIVE COATINGS INTERNATIONAL

General Manager: Jan Andersson

EXCELLENT PLATFORM FOR FURTHER GROWTH

Across the board, Deco International registered good volume growth and improved its operating income. The margins show a mixed picture, with strong downward pressure, particularly toward the end of the year. Strict cost control resulted in much lower costs relative to sales than in the previous year. The number of employees was lower, while business showed strong growth. As a consequence, capital turnover also improved, resulting in a substantially higher return on investment.

The Eastern European business continues to develop favorably, particularly in Russia and Ukraine but also in the Baltic states where we see steady growth. Restructuring programs in Hungary and Poland led to a significant decrease in headcount and costs. Combined with increased sales, these efforts resulted in distinctly higher profitability. Building Adhesives also stepped up its activities in this part of Europe.

Asia Pacific continues to show strong double digit volume increase. The first batches have been produced in the newly constructed factories in China and Vietnam.

Our wood care products niche strategy for North America and Argentina has once more proven to be a successful concept with robust volume growth, in particular in Argentina. Brazil also showed an improvement in the course of business in the second half of 2004.

The North African activities continue to operate at a healthy level with increased volumes.

In Turkey fierce competition depressed margins. Nevertheless, we achieved a huge increase in market share. The market in Greece was particularly buoyant and generated excellent results until the Olympics, with no dramatic decrease afterwards.

Building Adhesives managed to increase its volumes in static markets, such as Germany, resulting in a substantial increase in profit margins and returns.

We continued to place a strong focus on product stewardship issues and believe that we have now reached a good standard.

Worthy of note is that our unit in Brazil has logged more than 8 million hours without any lost time due to injuries.

We are confident that we have an excellent platform for further geographic development and growth in volume and profitability.

Sales (millions of euros)
2004: 1,592
2003: 1,489

INDUSTRIAL ACTIVITIES

Akzo Nobel's industrial activities include two global business units: Industrial Finishes and Powder Coatings.

INDUSTRIAL FINISHES

General Manager: Bob Torba

SIGNIFICANT GROWTH, SOLID PERFORMANCE

As a result of successful top line initiatives, geographic expansion, bolt-on acquisitions, and improved economic conditions, Industrial Finishes delivered substantial growth, which offset the impact of depressed margins brought on by rising raw material costs. On balance, operating income increased somewhat.

We continued to invest in the frontier markets of China, India, Brazil, and Eastern Europe. In addition, production and logistics capabilities in lower growth geographic markets were reshaped in 2004. Complementing strategic growth, we invested in our ongoing R&D activities to provide customers with a stream of products to help them become more efficient and/or differentiate their products in the ever-increasingly competitive global economy.

Combining our intense customer focus, decentralized organizational structure, global reach, and Akzo Nobel's expansive technology base, we remain very competitive in the markets in which we participate.

POWDER COATINGS

General Manager: Rob Molenaar

BUILDING MOMENTUM

In 2004, Powder Coatings delivered a solid financial performance with considerably improved operating income and return on investment. This was the result of a significant increase in sales combined with tight cost control and a selective investment approach.

We extended our geographic presence in all areas of operation, notably by constructing two new Powder Coatings plants in China and by opening a Brazilian plant for Non-Stick Coatings. Our Cromadex® organization continued to expand its distribution network throughout Europe with branch openings in France and Germany. In South Korea we integrated the management of our two powder businesses and closed the LG facility, thus reducing costs and gaining in operational efficiencies.

In Europe we had an outstanding year. Increased efficiencies in manufacturing and operations combined with strong sales growth in Southern Europe, Eastern Europe, and Turkey produced excellent improvement in operating income. In Asia, we achieved the planned strong growth in sales—especially in China. In America, we continued to improve operations and strengthened the sales and marketing approach.

Our Cromadex® distribution operation maintained its outstanding financial performance, while the Non-Stick Coatings business achieved a notable improvement in operating income.

We continued to focus on adding value through innovation in our Interpon® and Resicoat® products and services. We achieved our first commercial sales of UV-curing powder coatings for PVC flooring and launched the “Elements” special effects range in Europe for use by general trade coaters.

We have invested in building and strengthening our global management team and the organizational structure of our businesses. We have reshaped our strategy for the coming years, identifying opportunities where our strong customer focus, combined with an emphasis on innovation, can deliver maximum value for our business and for our customers.

Sales (millions of euros)

2004: 927*

2003: 880*

REALIGNING COST STRUCTURE TO MEET CHANGING BUSINESS CONDITIONS

CAR REFINISHES

General Manager: Rinus Rooseboom

2004 was a challenging year with the operational side of our business bearing up well in adverse market conditions, but with profitability suffering from too high costs. Volume steadily declined in mature markets and showed slow but steady growth in developing markets. Operating income was clearly down on the previous year. We energetically stepped up our cost containment efforts to align our cost structure with these market conditions. The restructuring program announced in July started to yield results in the course of 2004 but will not have its full effect until 2006.

In Car Repair we launched a worldwide retail brand approach to complete our full service range of products to the market. Our services brand Sikkens® aims at total bodyshop profitability. Our product brand Lesonal® aims at product performance. We also have a selective number of regional brands for the retail segment. Within our Automotive Aftermarket we achieved a steady stream of approvals and global deals with major car manufacturers.

For the services segment, we introduced Sikkens® e-Benchmarking, a web-based business analysis system. This easy-to-use benchmarking tool provides rapid analyses of a bodyshop’s performance compared to a variety of core groups, together with access to advice on how to improve profitability.

Our Commercial Vehicles business under the dedicated Sikkens® Autocoat® BT® brand grew as planned, with all regions contributing to growth. We also reached a number of global agreements with truck and bus companies.

In Automotive Plastic Coatings we increased our focus by changing from a regional organization to a global organization, with dedicated management but with shared key disciplines. In this way we were able to maximize both differentiation and synergy. We concluded a cross-license agreement with Origin-Electric to improve access to the Japanese market by benefiting from their approvals for automotive plastic coatings.

On the business development side, we developed a unique temporary paint system which can be peeled off after use. Known as Maskin®, the product can be applied to any nonporous surface, such as a vehicle body or windows, without risk of damage to the original finish.

* *Including Nobilas.*

Sales (millions of euros)	
2004:	**875**
2003:	832

FROM STRENGTH TO STRENGTH

MARINE & PROTECTIVE COATINGS

General Manager: Bill McPherson

Marine & Protective Coatings is the worldwide leader in High Performance Coatings Solutions for the Marine, Heavy Industry, Pleasure Boat, and Aerospace markets.

2004 resulted in new record levels of operating income despite a weaker U.S. dollar and significant raw material cost increases during the year. Growth was solid in all regions.

International® Marine Coatings benefited from a high level of newbuilding of ships, in particular in Korea and China. Dry-docking activity remained high as shipyards are fully committed until 2007. Full business operations were started in Japan from November 2004.

International® Protective Coatings maintained good levels of profitable growth led by organic expansion in the United States, China, and Central/Eastern Europe. Sales development of Chartek® fire proofing materials remained at a most satisfactory level during the year.

The Yacht Coatings business further improved its performance in the key markets in Europe and the United States with the International®/Interlux® brands. The Awlgrip® business also achieved excellent results. Growth continued in the Asia Pacific region.

In Aerospace Coatings, Akzo Nobel continued to challenge the difficulties in the airline industry, achieving growth and improved profitability in both Europe and the United States. Results for 2004 were much improved on the previous year.

The growth rate available in developing territories is reflected in our commitment to investment through balanced organic and acquisitive growth.

In April, Marine & Protective Coatings opened a new R&D laboratory in the United Kingdom as part of the business unit's ongoing investment in R&D facilities around the world.

NOBILAS CLAIMS & FLEET SOLUTIONS

General Manager: Cor de Grauw

EXCITING FUTURE

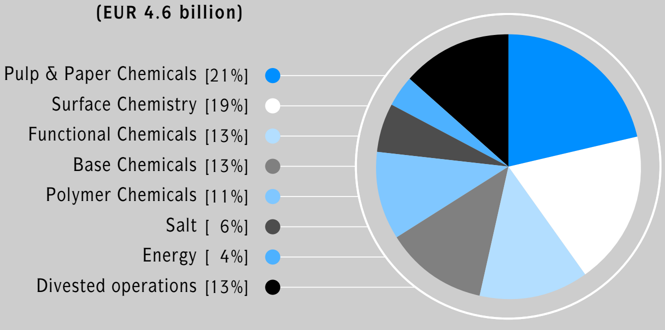
Nobilas provides accident management services to insurers, corporate fleet owners, car leasing, and rental companies. The first year in which we focused on building the organization and proving the concept progressed according to plan. Accelerated growth is the objective for next year.

In June, the business unit acquired UK-based AON Motor Accident Management company.

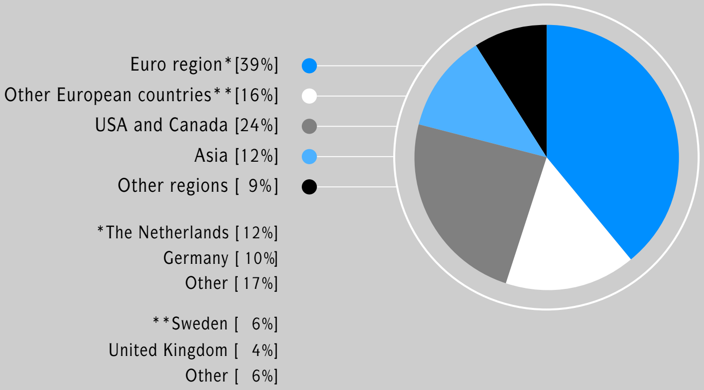
CREATING A PLATFORM FOR GROWTH

From a solid platform, the Company has climbed a steady growth path which has today positioned the organization as one of the world's leading chemical producers. This position in the industry is maintained through planned, focused growth in strategic markets aimed at consolidating the Company's global status and enhancing its reputation for quality and excellence.

2004 business unit sales (EUR 4.6 billion)



2004 net sales by destination



Millions of euros	**2004**	2003*
Net sales:		
– continued operations	**3,688**	3,654
– divested operations	**617**	816
	4,305	4,470
Operating income before nonrecurring items (EBIT):		
– continued operations	**315**	261
– divested operations	**39**	80
Depreciation and amortization	**280**	318
EBITDA	**634**	659
Capital expenditures	**269**	241
R&D expenditures	**122**	132
Invested capital at year-end	**2,043**	2,604
EVA	**101**	64
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**8.2**	7.6
– invested capital (ROI)	**15.2**	12.4
Net sales/invested capital	**1.85**	1.63
Capital expenditures/depreciation	**1.03**	0.82
Number of employees at year-end	**11,890**	14,410

** 2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.*

PERFORMANCE IMPROVED ACROSS THE BOARD

Akzo Nobel Chemicals experienced healthy profit growth triggered by increased global demand. Results were further boosted by cost savings and manufacturing efficiency improvements, partially offset by the impact of increased raw material and energy prices.

Sales and operating income excluding the divested businesses increased on 2003 by 1% and 21%, respectively. Improvements were achieved in particular by Polymer Chemicals, Functional Chemicals, Pulp & Paper Chemicals, and Base Chemicals. Earnings of Salt were under pressure. During the year the selected divestments of Catalysts, Phosphorus Chemicals, and Coating Resins were successfully carried out. The divestment program generated proceeds of approximately EUR 1 billion, which is above the annual sales of these businesses and reflects their solid value.

Key investment projects in 2004 included the EUR 50 million Pulp & Paper chemical factory island within the Veracel paper mill complex at Eunapolis in Brazil and the start of the EUR 160 million relocation of Chlorine and MCAA plants from Hengelo to Delfzijl. This project is supported by the Dutch government in order to end chlorine transports by rail in the Netherlands.

Our investment in China now comprises seven factories covering the Polymer, Paper and Functional Chemicals market segments. Our combined chemicals sales in China in 2004 aggregated EUR 130 million and are growing rapidly.

2004 was a year of streamlining, restructuring, and consolidation of the R&D activities in and across Chemicals' business units to improve the effectiveness of operations. Despite these organizational changes, exciting breakthrough technologies and products were developed.

We are actively pursuing a systematic innovation approach to add value to the Chemicals businesses. With the aim to start up and significantly grow (new) businesses an integrated team of business and R&D professionals—called The Innovations Unit—exploits ideas, internal competencies, and portfolio synergies. This approach has already led to promising results.

NEW STRATEGIC FOCUS

As a result of a strategic review carried out in the second half of 2004 we will, in 2005, further streamline the Chemicals portfolio in order to competitively realign the business for growth, profitability, and leadership positions in selected markets. These efforts will result in a smaller portfolio that is stronger, creates more value, and is better structured to meet our financial expectations. The Chemicals activities will be concentrated in five business units: Pulp & Paper Chemicals, Polymer Chemicals, Surfactants, Functional Chemicals, and Base Chemicals (the latter will comprise the Chlor-Alkali, Electrolysis Salt, and Energy businesses). We are committed to ensure that leading positions—which are key to our new strategy—will be established or consolidated. Expansion in growth markets such as China will also be prioritized. As a consequence of this new focus, the Company intends to divest several businesses that do not fit this new strategy, including Ink and Adhesive Resins, Oleochemicals, Salt Specialties, PVC Additives, Solar Salt Australia, and Methyl Amines/Choline Chloride. All the activities earmarked for divestment represent a total of around EUR 750 million in 2004.

PULP & PAPER CHEMICALS

General Manager: Jan Svärd

Sales (millions of euros)	
2004:	**980**
2003:	1,008

IMPROVEMENT DESPITE FIERCE COMPETITION IN GROWING MARKETS

Pulp & Paper Chemicals (Eka Chemicals) registered increasing demand for its pulp and paper chemicals, reflecting stronger growth of paper and board production in major markets. However, the gain in operating income, with a mixed picture for the various products and regions, was primarily driven by lower costs.

During the year Eka Chemicals further strengthened its concept of better and more efficient chemical processes. Our development of industrial IT applications and centralized control delivers higher quality performance and reduced supply chain and production costs. It also enables us to grow as we take a larger responsibility in our customers' value chain.

The European paper chemicals industry is running at high capacity utilization, and this positive trend is expected to continue into 2005. Higher power prices in Europe negatively impacted our production costs. Performance of our hydrogen peroxide activities in the European market is steadily improving, reflecting strongly risen demand, which we meet by increasing production capacity.

North America showed strong output growth for all paper grades, while imports decreased. Eka's operations went through a major restructuring phase during 2003, which continued to have effects on cost levels in 2004. The weaker dollar created better market conditions, which generated better results for chlorate and paper chemicals, particularly in the retention segment, where the use of new systems for wood-containing paper was a big success.

Growth in South America was fast, especially in Brazil and Chile. Our expansions in Brazil, in particular the EUR 50 million Chemical Island at the new Veracel mill, are on schedule. This well positioned plant and our new silica sol plant in Rio will be operational in spring 2005. High freight and duty costs for imported chemicals had a negative impact on the results. Our sales in the Andean region are increasing.

Paper chemicals developed strongly in China and Indonesia. In China, the rapidly expanding packaging segment brings opportunities for sales growth, particularly in retention and sizing. Agreements with major customers improved performance toward the end of the year.

Sales (millions of euros)

2004: 863

2003: 858

BETTER RESULTS DESPITE CURRENCY AND RAW MATERIALS IMPACT

SURFACE CHEMISTRY

General Manager: Frank Sherman

Despite difficult market circumstances with rising raw material prices and the weak U.S. dollar, Surface Chemistry improved its overall operating income in 2004 aided by cost reduction and volume growth. Market growth led to tighter capacity utilization in the second half of the year, allowing us to pass on higher raw material costs in selling prices.

Our Surfactants business registered improved results, mainly attributable to cost reduction programs, including the closure of the Littleborough site in the United Kingdom. These programs are still ongoing and will contribute to results in 2005. However, especially in the Americas, margins suffered from higher raw material prices and energy costs, while the product mix developed unfavorably. Selling prices are being increased to compensate for higher costs. Overall, Surfactants made another big step toward lifting profitability to target level. In March 2004, the new quat production facilities in Singapore were opened, underscoring Surfactants' commitment to the Asian growth region.

Oleochemicals' results ended lower than in 2003, as new capacity in the Asian region exerted a downward pressure on margins. Oleochemicals has set its focus on higher margin products based on proprietary technology, as is evidenced by new product introductions in the food segment.

Cellulosic Specialties continued to grow at above GDP rates driven by the volume gain of its Bermocoll® products (paint and building applications). The CMC range also recovered from the previous year's dip. Results improved significantly despite the weak U.S. dollar. In 2004, Cellulosic Specialties launched a program to improve efficiency at its production site in Örnsköldsvik, Sweden.

Expancel® (transferred from the former business unit Industrial Products) continued its growth path for Thermoplastic Microspheres, although increased competition caused some pressure on margins in 2004. Growth is driven by geo expansion as well as by new product applications. New drying capacity came on stream in the last quarter of 2004.

Surface Chemistry has announced that it is to divest its joint venture SEKAB in Sweden, which specializes in the production of ethanol-based bio-fuels.

FUNCTIONAL CHEMICALS

General Manager: Jon Meijnen

Sales (millions of euros)
2004: 613
2003: 604

STRONG PERFORMANCE BOLSTERED BY RESTRUCTURING

Functional Chemicals experienced a strong year amid overall flat sales and rising raw material prices. The benefits of restructuring efforts and incremental investments in capacity resulted in significantly improved operating income.

In spite of a steep rise in raw material prices, Ethylene Amines benefited from its capacity improvement investments and posted excellent growth in sales and operating income, underlining its strong worldwide position in this tight market. Aided by further improvement of our operations in China, lower costs and superior technology, the results of our monochloroacetic acid business showed a solid gain over the previous year. As a consequence of the decision to eliminate chlorine transports by rail, the investment to relocate the MCAA plant from Hengelo to Delfzijl in the Netherlands was approved.

The creation of a production joint venture in the United States with BASF resulted in further efficiency improvements for the North American Chelates operations. Coupled with improvements in the marketplace, this led to significantly better results.

Higher sales of sodium hydrosulfide and sulfuric acid failed to offset the effects of difficult market conditions in carbon disulfide and thiocyanates, resulting in lower results for Sulfur Products. The inability to pass on higher raw material prices in a weak market led to disappointing performance by our PVC Additives business. However, major restructuring of sales and marketing activities was completed and should bring substantial improvements.

BASE CHEMICALS

General Manager: René Scheffers

Sales (millions of euros)
2004: 575
2003: 544

STRONG PERFORMANCE, CONTINUING IMPROVEMENT

Despite record low caustic prices in the second quarter, operating income showed further improvement in 2004, mainly reflecting a healthy chlorine business, higher volumes, and continuing cost reductions.

In 2004, the EU fully approved the Dutch government's financial compensation for the relocation of the Chlorine and MCAA plants from Hengelo to Delfzijl in compliance with the covenant concluded with the authorities to cease regular chlorine transports in the Netherlands.

Capacity at the Rotterdam chlorine plant will be increased from approximately 500,000 to 600,000 tons per annum to compensate for the discontinuation of the transports to Rotterdam and to meet future growth of our local customer base. After this expansion the Rotterdam plant will be one of the largest in the world.

Plans have been approved to reduce the number of manufacturing sites from seven to five in the coming years and to close three chlorine plants based on outdated mercury and diaphragm technology.

As a consequence of these extensive restructuring processes our technology and cost base will be significantly improved.

In 2004, we substantially reduced our workforce, and even stronger reductions are foreseen for the coming three years.

Spurred by healthy demand, the results of 30% joint venture Methanor were at a reasonable level despite high energy prices.

Sales (millions of euros)	
2004:	**494**
2003:	492

STRONG DEMAND, IMPROVED RESULTS

POLYMER CHEMICALS

General Manager: Bob Margevich

Sales were near the 2003 level, despite the generally weak U.S. dollar. Two thirds of our global sales are U.S. dollar-related. Globally, we continued to benefit from strong demand in the polymer industry. The required margin improvements for our high polymer organic peroxide products in the Americas have not materialized yet. Price increases have been announced and are starting to be implemented.

Early in the year the business unit organization was changed from a regional to a global product line set-up. This aligns our business better with the worldwide polymer industry as well as with the organizational trends of our major customers.

Operating income was up substantially from the previous year, reflecting the first results of our cost savings and restructuring efforts. As part of this effort, we announced the move of our organic peroxide production from Emmerich, Germany, to Tianjin, China, and to Los Reyes, Mexico. Other decisions we announced in the course of the year included the discontinuation of part of our production in Itupeva, Brazil, Seneffe, Belgium, and our R&D activities in Dobbs Ferry, New York.

The antifouling and suspending agent products we acquired in 2003 performed well in Europe, but the introduction of these products in other parts of the world is making slower progress than anticipated.

Our growth in Asia Pacific in general and in China in particular is well on track. The new ketone peroxide and dimethyl phthalate plant in Tianjin, China, part of our majority-owned KANP joint venture, came on stream in the second quarter of 2004. In other areas, like cross linking peroxides produced in Ningbo, China, we posted double digit sales growth.

Our new business development projects made significant progress on their path to commercial success. In particular, the developments in high purity metal organics, continuous dosing technology for PVC production, and metal deposition chemicals are very promising.

We also recorded successes in R&D, in particular in the area of process yield improvements at several of our production units.

Sales (millions of euros)	
2004:	**274**
2003:	267

GROWING WITH THE CUSTOMER

SALT

General Manager: Peter Gommers

Higher sales were offset by a number of one-time charges and higher energy prices causing operating income to remain below the 2003 level. Capacity utilization rates at chemical customers were high throughout the year. In our specialties business, stringent cost control and focus on best fitting markets continued to bring income gains.

We expect global salt demand to show continued growth in the coming years. Salt for the chemical market in Northwestern Europe and Asia Pacific will show growth above GDP rates. In Hengelo, the Netherlands, we made a 400,000 tons-per-annum addition to our production capacity, which is likely to be the first in a succession of capacity expansions in the coming decade.

The solar salt facility in Onslow, Western Australia, registered its third consecutive year of more than 20% volume growth. We expect to achieve full capacity utilization next year.

Technology and research efforts show promising new developments in the areas of product quality and costs, both for our vacuum and solar salt operations.

Sales (millions of euros)	
2004:	**175**
2003:	171

SOLID ENERGY AND UTILITY SUPPLIER

ENERGY

General Manager: Gert van Ingen

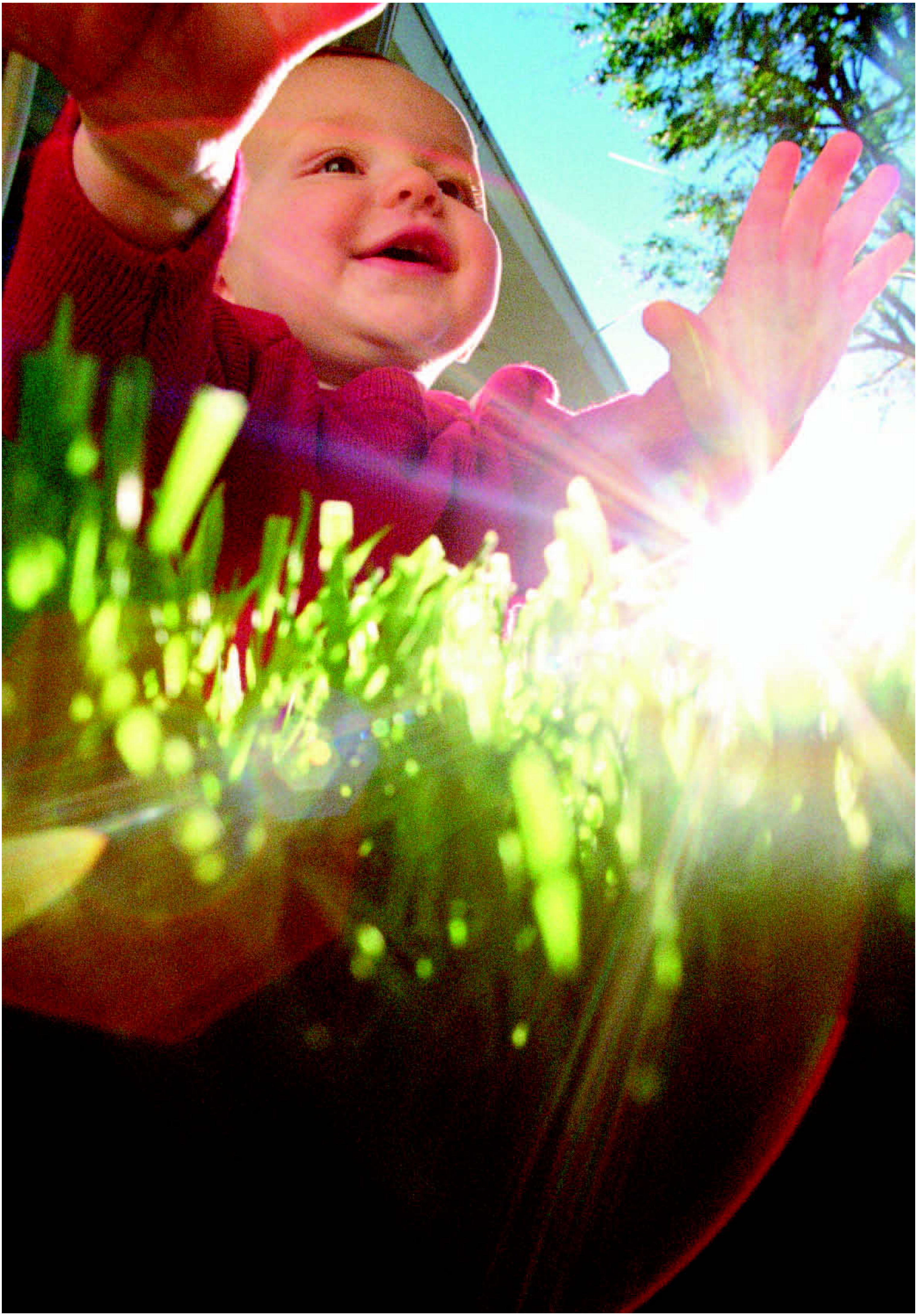
The Dutch government support scheme for the efficient cogeneration of CO_2-free electricity contributed positively to operating income. Our aim is to stimulate the improvement of energy efficiency in Akzo Nobel's processes and improve the efficiency of energy production by our joint ventures through Combined Heat and Power generation.

FLEXSYS (NONCONSOLIDATED)

Operating income of this 50%-owned rubber chemicals joint venture was better than in the previous year, which was principally caused by somewhat better economic conditions and the favorable effects of cost savings and production restructuring programs. The Nitro, West Virginia, Primary Accelerators Plant was closed down at the end of March 2004.

CREATING A PLATFORM FOR GROWTH

Careful nurturing of products is a cornerstone of the manufacturing processes at all our Chemicals businesses.



HUMAN RESOURCES

ONE PERFORMANCE APPRAISAL SYSTEM FOR AKZO NOBEL

In order to place a stronger focus on identified areas for improvement, the Board of Management has decided to implement a consistent approach to performance management throughout Akzo Nobel. The new Performance & Development Dialog (P&D Dialog) program, which is based on best practices from various business units and outside organizations, was launched in December in all business units. The new program includes six core Akzo Nobel competencies which will help embed our values and business principles (see chapter on Corporate Social Responsibility) in each employee's daily work and behavior. Also included in the process are three people management skills, which will drive people management excellence throughout the Company.

The establishment of this new, best-of-breed performance appraisal program throughout Akzo Nobel, will enable our global businesses to place a more consistent focus on high quality people management. The P&D Dialog supports the annual alignment of individual objectives with business direction, fosters ongoing performance and development dialog, and ensures each year a fair and transparent overall assessment and rating for every employee. The implementation is heavily supported by communication and training at business unit and country level and is targeted to involve the majority of employees in 2005, with completion envisaged in 2006.

OVERHAUL OF EXECUTIVE COMPENSATION

A major review of our executive compensation scheme took place during the summer of 2004. By the end of the year, this resulted in the announcement of the new remuneration program for all executives, which will remain strongly EVA-based. The program differentiates individual executive compensation via a strong link to the overall performance rating from the new P&D Dialog, drives teamwork between businesses by strengthening the focus on Akzo Nobel's results, and ensures alignment with market developments in terms of cash payment and equitable compensation.

FROM EMPLOYEE SHARES TO EMPLOYEE CARES

In April 2004, the Employee Share Plan was discontinued. The main reasons were the complexity and costs in administrating this relatively small program. A commitment was made by the Board of Management to find a replacement which is more practical and meaningful to all interested parties. Early in 2005, a plan was announced to create by June 2005 an Akzo Nobel Community Fund for projects proposed and conducted by employees at Akzo Nobel worldwide.

CORPORATE SOCIAL RESPONSIBILITY

OUR COMMITMENTS AND VALUES

Akzo Nobel's commitment to Corporate Social Responsibility (CSR) and Sustainable Development is reflected in our core values—entrepreneurial spirit, personal integrity and social responsibility—as stated in our Business Principles (see front cover foldout). CSR is an essential element of the Company's corporate governance.

Our Business Principles and values are the backbone of our decision-making processes. In our daily business practice, we aim to achieve long-term economic growth, social progress, and ecological balance. We want to be explicit about our CSR efforts and performance by making our progress transparent and measurable to all our stakeholders, inside as well as outside the Company.

CREATING A PLATFORM FOR GROWTH

From conception through to old age, our human pharmaceuticals business looks after you every step of the way.

OUR PRINCIPLES

Akzo Nobel recognizes that its employees, business partners, shareholders, and other stakeholders expect high standards of business conduct. In 2004, we concluded an extensive Business Principles training program for our employees, providing guidance on how to sustain high levels of ethical behavior, transparency, and consistency throughout the Company. In support of this process, the Board of Management issued Business Principles Specifications (see Akzo Nobel's website) on issues like child labor, activities in politically sensitive countries, and a Code of Conduct for Vendors. In this context, the internal annual Letter of Representation to be submitted to the Board of Management was also amended.

In 2004, Akzo Nobel became a signatory of the UN Global Compact, established by UN Secretary General Kofi Anan, and a member of the World Business Council for Sustainable Development, which consists of 170 multinational companies that accept a leadership role in defining the contribution of the business community to sustainable development. Moreover, Akzo Nobel actively supports the guiding principles of the Business Charter for Sustainable Development of the International Chamber of Commerce, the Responsible Care®* program of the chemical industry, and the Coatings Care®** program of the paint and printing ink industries.

OUR PLANET

Commitment to health, safety, and the environment (HSE) is an integral part of our company culture. All sites have Environmental Management Systems and Occupational Health and Safety Management Systems in place. The business units have also implemented tailored Product Stewardship Management Systems. Our Corporate Audit Protocol provides for an HSE performance audit of each Akzo Nobel site to be made at least every five years. After five years of continued improvement in the HSE audit results, our sites in Asia Pacific have now reached the same level of audit scores as our sites in Europe and in the Americas.

We published our HSE report for 2003 on Akzo Nobel's website in April 2004. In June 2005 we will publish our CSR report for 2004. In that report we will elaborate on our CSR vision, ambitions and targets, including HSE.

OUR ROLE IN SOCIETY

Akzo Nobel companies are encouraged to support community activities and give their employees the opportunity to play an active role in societal matters, for instance through community relations programs in areas such as education, sports, culture, arts, and healthcare as part of a long-standing Company culture. Most of our 170 sites are involved in community projects with financial or material support from the Company or with involvement of employees as volunteers, (partly) on Company time.

We continued the Education Industry Partnership Program, the Education Fund '94, the Akzo Nobel for Young Talent Program, the Akzo Nobel Art Foundation, and the Akzo Nobel Science Award.

On November 11, 2004, the Akzo Nobel Science Award was presented to Dr. J.J. Heijnen, Professor of Biochemical Engineering at Delft University. He received the award in recognition of his outstanding research in the field of environmental process technologies which permit substantial savings in energy and raw materials.

* *Responsible Care® is a registered trademark of the European Chemical Industry Council.*

** *Coatings Care® is a registered trademark of the National Paint and Coatings Association.*

RISK MANAGEMENT*

UNIDENTIFIED RISKS ARE A THREAT; IDENTIFIED RISKS ARE A MANAGERIAL ISSUE

Risk management is also one of the essential elements of the Company's corporate governance. Doing business inherently involves taking risks, and by taking measured risks we strive to be a sustainable company. This situation calls for creating a proper balance between entrepreneurial attitude and risk levels associated with business opportunities. We foster a high awareness of business risks and internal control procedures, geared to safeguarding transparency in our operations.

- Within Akzo Nobel all managers at all levels are responsible for risk management as an integral part of their day-to-day operations and decisions.
- They are all required to identify enterprise risks affecting their businesses and to manage them adequately.
- The Akzo Nobel Risk Management function supports and develops the framework that enables managers to fulfill these responsibilities.
- Risk boundaries are governed by Akzo Nobel's Company Statement, Business Principles, Internal Authority Schedules, and Corporate Directives in such areas as Finance & Control; Insurance; Health, Safety and Environment; Human Resources; Communications; and Legal.
- Risk reporting covers the perceived likelihood, the assessed impact, and the effectiveness of control measures in place to deal with risks. Reporting on these elements as well as those preemptive and remedial actions is an integral part of our Business Planning & Review cycle.
- The internal control system, audit procedures, and independent appraisals provide reasonable assurance of the effectiveness of our risk management approach.

Our Risk Management framework complies with the Enterprise Risk Management – Integrated Framework of COSO (the Committee of Sponsoring Organizations of the Treadway Commission). The procedures and results are reviewed by the Board of Management and discussed in the Supervisory Board.

The diversity of businesses within Akzo Nobel leads to a large number of different risk factors, each of which may result in a material impact on a particular business unit but may not materially affect the Company as a whole. The diversity of the Company's businesses and processes is its strength, as some of these factors may offset each other.

MAJOR RISK FACTORS

Under the explicit understanding that this is not an exhaustive enumeration, our major risk factors are listed below.

External Risks

The Company faces intense competition from new products and from lower-cost generic products.

The Company's products that are under patent protection face competition from competitors' proprietary products. This competition may increase as new products enter the market. The Company faces increasing competition from lower-cost generic products after patents on its products expire and from low-cost producers in other business areas. Loss of patent protection typically leads to loss of sales in the product's markets and could affect the Company's future results.

In 2002, the Company lost an important court case on its major product Remeron® in the United States, which in 2003 and 2004 led to strong generic competition, loss of market share, and a negative impact on performance.

* *Risk also relates to the fact that actual results could differ materially from "forward looking" statements made in this report. In this respect reference is made to the Safe Harbor Statement on page 1.*

Regulations which limit the prices we may charge for our products can reduce the Company's revenues and adversely affect its business and results of operations.
About 40% of the Company's earnings is derived from the healthcare markets, where prices are regulated in many countries.

Product regulation may adversely affect the ability to bring new products to market.
The introduction of new pharmaceutical products in the U.S. market may be prevented or delayed by the FDA.

Due to Akzo Nobel's business activities it is exposed to risks of environmental calamities.
The Company uses hazardous materials, chemicals, and biological and toxic compounds in its product development programs and manufacturing processes. We have been exposed and can be exposed to risks of accidental contamination. We could be exposed to events of noncompliance with environmental laws, regulatory enforcement, property damage and possible personal injury and any claims resulting therefrom. Contingency plans and crisis management are in place to mitigate these risks (see also note 19 on page 100).

The Company faces possible liabilities arising out of antitrust litigation.
The Company is involved in investigations by the antitrust authorities in the European Union, the United States, and other countries into alleged violations of the respective antitrust laws in these jurisdictions. The Company is dedicated to minimizing such risks with special emphasis on the practical application of the Company's Business Principles (see front cover foldout). See also note 19 on page 100.

Tax disputes and other litigation could adversely affect Akzo Nobel's business and results of operations.
There are pending a number of claims, all of which are contested. Akzo Nobel is also involved in disputes with tax authorities. While the outcome cannot be predicted with certainty, management believes that the final outcome will not materially affect the Company's consolidated financial position but could affect the timing of tax payments.

Product liability claims could adversely affect Akzo Nobel's business and results of operations.
Given the widespread impact that brand-name drugs have on the health of patient populations, pharmaceutical companies can be subject to product liability claims. The Company also runs the risk of product liability claims from its Coatings and Chemicals products. Presently, the Company is involved in product liability cases. However, it believes that any unaccrued costs and liabilities will not have a material adverse effect on the Company's consolidated financial position.

Bad publicity and damage to the Company's brands could adversely affect its business and results of operations.
The Company's diverse portfolio, decentralized brand approach, and response management system provide a certain degree of protection against such damage.

Exchange rate fluctuations can have a harmful impact on the Company's financial results.
The Company has operations in more than 80 countries and reports in euros. It is particularly sensitive to the relation between the euro and U.S. dollar, pound sterling, Swedish krona, and Latin American and Asian currencies. The Company has a hedging policy for certain currency exchange rate risks (see note 20 on page 102).

The Company's financial condition and results of operations could be adversely affected if the Company does not successfully mitigate risks associated with interest rate changes.
The Company has a central financing policy to minimize financing charges and manage interest rate-related risks (see note 20 on page 102).

Adverse stock market developments may affect assets of pension funds, causing higher pension charges and pension premiums payable.
This led to a substantial provision on the balance sheet in 2002 and to additional pension charges in 2002 and subsequent years (see pages 93 through 98).

A downgrading by credit rating agencies could result in higher financing costs or reduced availability of credit.
Ratings at year end were Standard and Poor's A– and Moody's A3.

The Company faces restricted political risks in certain countries due to its international character. Many of these risks are beyond its control and could adversely affect the business.
The Company aims to spread its activities geographically to benefit from opportunities and reduce the risk of political and economic instability.

Inability to access raw materials, growth in cost and expenses for raw materials, petroleum and natural gas, and changes in product mix may adversely influence the future results of the Company.
The Company aims to use its purchasing power and long-term relationships with suppliers to acquire raw materials and ensure their constant delivery at the best conditions. Akzo Nobel is not insensitive to price movements. In particular, energy prices pose a risk, aggravated by the unstable situation in the Middle East.

Strategic Decision Making Risks
A failure to manage expansion effectively could adversely affect Akzo Nobel's business. The Company may not be able to identify future acquisitions or alliances in time or may not be successful in integrating acquired businesses.
The Company continuously aims for sustainable growth of its business through development, production, and sale of new products and regularly adds new businesses through alliances, ventures, or acquisitions. We place a strong focus on integration of acquisitions as this is critical to achieve the expected results. Akzo Nobel's policies and directives are implemented without delay in newly acquired businesses.

Internal Risks
The Company's research and development efforts may not succeed or its competitors may develop more effective or successful products.
In order to remain competitive, the Company must commit substantial resources each year to research and development through its dedicated resources as well as through various collaborations with third parties. Especially in the Pharma businesses, the research and development process can take from six to fourteen years, from discovery to commercial product launch, and there is a substantial risk that the Company will not achieve its goals and accordingly may abandon a product on which it has spent substantial amounts. In this context it should be noted that European pharmaceutical companies who, unlike the U.S.-based multinationals, lack the background and leverage of a single domestic (European) market have been losing competitiveness. The Company is looking for more partners to share the burden and success of product development in this area.

Incidents in the production processes can adversely affect the Company's results.
It is the Company's policy to mitigate production risks by spreading of production and an adequate inventory policy combined with contingency planning and appropriate risk transfer arrangements (e.g. insurances).

If the Company's management of change is not adequate it may possibly lead to failure to attract the right people or the loss of key staff or knowledge, which could have an effect on productivity and reduced customer focus.
The Company puts emphasis on attracting, retaining, motivating, and educating staff, using Human Resources instruments and reduces uncertainty in the working environment through information and communication programs.

There may be current risks that the Company has not fully assessed and are currently identified as not having a significant impact on the business but which could in a later stage develop a material impact on the Company's business. The Company's risk management systems are aimed at timely discovery of such developments.

CORPORATE GOVERNANCE

General
Akzo Nobel N.V. is a public limited liability company ("Naamloze Vennootschap") established under the laws of the Netherlands. Its common shares are listed on Euronext Amsterdam and quoted on NASDAQ in the form of American Depositary Receipts.

Akzo Nobel's management and supervision structure is organized in a so-called two-tier system, comprising a Board of Management, solely composed of executive directors, and a Supervisory Board, solely composed of nonexecutive directors. The two Boards are independent of each other.

Akzo Nobel's corporate governance structure is based on the requirements of the Dutch Civil Code, the Company's Articles of Association, and the rules and regulations applicable to companies listed on Euronext Amsterdam and NASDAQ, complemented by several internal procedures. These procedures include a risk management and control system as well as a system of assurance of compliance with laws and regulations.

Over the last decade, Akzo Nobel has been consistently enhancing and improving its corporate governance standards in accordance with applicable laws and regulations. Most notable are the Dutch Corporate Governance Code adopted in 2003 ("the Code") and the U.S. Sarbanes-Oxley Act of 2002 and its implementation rules by the SEC and NASDAQ.

The Code contains principles and best practices for Dutch companies, with listed shares. As already stated in the 2003 Annual Report, Akzo Nobel agrees both with the general approach and with the vast majority of its principles and best practice provisions. Corporate governance at Akzo Nobel was placed on the agenda of the General Meeting of Shareholders of 2004 as a separate item for discussion of the intended implementation of the Code with shareholders. This specifically included a number of aspects where deviations from the Code were expected, as identified in the 2003 Annual Report. The Board of Management and the Supervisory Board have taken these discussions into account in formulating a position on the Company's corporate governance. One of the results is that the proposed amendment of the Articles of Association will be submitted to the General Meeting of Shareholders of 2005.

In this chapter, Akzo Nobel's current corporate governance is addressed and actual as well as expected deviations from the Code are explained, in accordance with the Code's "apply or explain" principle. Where relevant, the proposed amendment of the Articles of Association will be mentioned. A full elucidation of the proposed amendment will be added to the notes to the agenda of the General Meeting of Shareholders of April 21, 2005.

The Board of Management and the Supervisory Board believe that the Company's corporate governance structure as described here and proposed in the amendment of the Articles, is the most appropriate for Akzo Nobel at this point in time. Except for those aspects of the Company's governance structure which can only be amended with the approval of the General Meeting of Shareholders, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied as is described below, if this is considered to be in the interest of the Company and its affiliated enterprise. In case such adjustments are made, they will be published and reported in the annual report for the relevant year.

Board of Management

General

The Board of Management is entrusted with the management of the Company, which means, among other things, that it defines the strategic direction, establishes the policies, and manages the Company's day-to-day operations. The members of the Board of Management collectively manage the Company and are responsible for its performance. They are jointly and individually accountable for all decisions made by the Board of Management. In performing its duties, the Board of Management is guided by the interest of the Company and its affiliated enterprise.

The Chairman leads the Board of Management in its overall management of the Company to achieve its performance goals and ambitions. He is the main point of liaison with the Supervisory Board. The CFO is specifically responsible for the Company's financial affairs. The Board of Management has members with specific responsibility for the main product areas: Pharma, Coatings, and Chemicals.

Akzo Nobel's organizational model is based on business units. The General Managers are responsible for the performance of their business units. To safeguard consistency and coherence for the total organization, Corporate Directives have been established by the Board of Management.

For effective steering of the strategy and operations of the business units, the Board of Management has delegated certain authorities to Board Committees for Pharma, Coatings, and Chemicals. Furthermore, a Pensions Board Committee oversees the general pension policies to be implemented in the various pension plans of the Company. Board Committees consist of at least two Board members. Delegation of authorities to Board Committees and individual Board members is laid down in an internal authority schedule.

Appointment, conflicts of interest

The General Meeting of Shareholders appoints the members of the Board of Management. The Meeting of Holders of Priority Shares is entitled to make binding nominations for such appointments. As a rule, the members of the Board of Management step down at the Annual General Meeting in the year in which they reach the age of 62. Members of the Board of Management can be removed from office by the General Meeting of Shareholders.

Starting with the appointments made in 2004, members of the Board of Management are appointed for four-year terms, with the possibility of reappointment. This is in line with the Code's provision II.1.1. However, the contracts of the incumbent members of the Board of Management were not renegotiated, as this was not felt to be in the interest of the Company.

In the proposed amendment of the Articles of Association, the maximum four-year term for members of the Board of Management appointed as of 2004 will be formalized.

The Meeting of Holders of Priority Shares has the right to make binding nominations for the appointment of members of the Board of Management and the Supervisory Board. The priority shares are held by the Akzo Nobel Foundation. The Board of the Akzo Nobel Foundation consists of the members of the Board of Management and the Supervisory Board.

According to the Code's recommendation (provision IV.1.1) the General Meeting of Shareholders should be able to pass a resolution to cancel the binding nature of a nomination for the appointment of the Supervisory Board or the Board of Management. This provision also states that the Company may require that such resolution will be subject to a quorum, which may not exceed one third of the issued capital. In this connection it is noted that the Company's Articles of Association provide that the holders of priority shares have the power to draw up binding nominations for appointments as aforesaid. These nominations cannot be canceled by the General Meeting of Shareholders. The Company subscribes to the Code's principle in general and therefore proposes additional provisions relating to the nomination procedures. In the proposed amendment of the Articles of Association, aside from the existing nomination powers of the Meeting of Holders of Priority Shares, an additional nomination procedure will be introduced. This means that in normal circumstances the members of the Supervisory Board and the Board of Management will be appointed on the basis of a nonbinding nomination by the Supervisory Board. The Board of the Akzo Nobel Foundation has confirmed its intention to use its binding nomination rights only in case of exceptional circumstances, such as in the event of a (threatened) hostile takeover (reference is made to the description of antitakeover provisions and control, page 73). In both of the aforesaid situations, resolutions to appoint a person as a member of the Supervisory Board or the Board of Management require a simple majority. Of course, shareholders meeting the requirements of the Articles of Association also have the right to nominate members of the Supervisory Board or the Board of Management. Such appointments will require a two-thirds majority representing at least fifty percent of the outstanding share capital.

Although a deviation from provision IV.1.1 of the Code, the Supervisory Board and the Board of Management believe the Company is introducing provisions in this respect that will enhance the continuity of the Company's management and policies. In this connection it is observed that the Board of the Foundation will consist only of those members of the Supervisory Board who are not a member of the Audit Committee.

Members of the Board of Management are allowed to hold a maximum of two supervisory board memberships in other companies. This is in line with the Code (provision II.1.7). The exception to this rule is that in the year prior to their retirement, Board of Management members are allowed to hold more than two supervisory board memberships in order to allow them to prepare for their postretirement activities, provided this does not interfere with the execution of their tasks as members of the Board of Management. Acceptance of external supervisory board memberships is subject to approval by the Supervisory Board, which power has been delegated to the Chairman of the Supervisory Board.

The handling of (potential) conflicts of interest between the Company and members of the Board of Management is governed by the Rules of Procedure for the Board of Management. Decisions to enter into transactions under which Board of Management members would have conflicts of interests that are of material significance to the Company and/or to the relevant Board of Management member require the approval of the Supervisory Board.

Remuneration

Subject to the remuneration policy adopted by the General Meeting of Shareholders the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. For further information see the Remuneration Report on page 74.

The main elements of the employment contract of members of the Board of Management have been published. For appointments starting from 2004, the maximum remuneration in the event of dismissal is in principle one year's base salary. In case of dismissal of a Board Member appointed before 2004 the Supervisory Board will determine a severance payment upon the advice of the Remuneration Committee. Since it is not believed to be in the interest of the Company to renegotiate the existing contracts of the members of the Board of Management, the Company has decided not to follow Code provision II.2.7 for the members of the Board of Management appointed before 2004. However, the Supervisory Board has the intention to take the provisions of the Code as guidance for establishing severance payments.

In 2004, a new long-term incentive plan for the Board of Management, consisting of a performance share plan and a performance stock option plan, was approved by the General Meeting of Shareholders. In line with these plans, the Supervisory Board has drafted a remuneration policy, which will be submitted for adoption to the General Meeting of Shareholders of 2005. A description of the composition of the remuneration of the Board of Management members and the remuneration policy proposed for adoption is included in the Remuneration Report (see page 74) and the Financial Statements (see note b, page 106).

Risk management and (financial) reporting
The Company has internal risk management and control systems. The Risk Management system is explained in more detail in the Risk Management chapter (see page 61).

Pursuant to the U.S. Sarbanes-Oxley Act, Akzo Nobel has revised its procedures for internal and disclosure controls and auditor independence. The Disclosure Committee monitors the procedures established by the Company and advises the Board of Management to ensure adequate and timely disclosure of financial and nonfinancial information.

The internal procedure aimed at an effective operating system of internal controls for financial reporting is in the process of being amended on the basis of the requirements of Section 404 of the Sarbanes-Oxley Act. The 20-F filings to the SEC for the year 2002 and 2003 were accompanied by CEO and CFO certificates. To support these certificates, senior managers and controllers have signed backup certificates and confirmed their Letters of Representation.

Reference is made to the Board of Management's report (see page 26) for the statement on the adequacy and effectiveness of the internal risk management and control systems.

Rules of Procedure, Codes of Conduct, Complaints Procedures
In 2004, the Supervisory Board has adopted Rules of Procedure that address internal procedural issues for the Board of Management.

The members of the Board of Management are subject to the Akzo Nobel Rules on Inside Information, limiting their possibility to trade in Akzo Nobel shares. All transactions in Akzo Nobel shares executed by the Board of Management are notified to the Dutch Authority for the Financial Markets and, if necessary, other relevant authorities. The Akzo Nobel Rules on Inside Information provide that transactions in securities other than Akzo Nobel securities are prohibited if the person concerned has inside information regarding such securities. The rules also provide that the Compliance Officer may determine that transactions in securities other than Akzo Nobel securities are prohibited, irrespective of whether he or she has inside information and has notified the relevant designated persons thereof. Akzo Nobel has chosen not to follow the provisions of the Code (provision II.2.6) that require notification by members of the Board of Management of all changes in holdings of shares in Dutch listed companies, as it believes that on top of the cited restrictions this will create an unnecessary administrative burden.

A comprehensive code of conduct followed by officers and employees committed to individual and corporate integrity is one of the critical foundations of good corporate governance. Akzo Nobel's Company Statement and Business Principles set out the Company's position. They are to guide all our employees in their daily work. The Company has established several procedures to arrange for Company-wide dissemination of the Business Principles and training. It has also established procedures to monitor compliance with the Business Principles in general and certain of its provisions in particular and to provide for enforcement of the Business Principles. The Business Principles are set forth on the inside front cover foldout and are available on the Company's website.

The Board of Management has adopted a Code of Ethics for senior financial officers, effective January 1, 2004. The designated persons, including the CEO and the CFO, have to confirm annually in writing that they have adhered to this Code. The Code of Ethics can be found on the Company's website.

A complaints procedure enables employees to file complaints on practices violating Business Principles, Policy statements on Human Resources, HSE and Security, and Corporate Directives. This procedure ensures that employees have the possibility of reporting alleged irregularities without jeopardizing their legal position. Furthermore, there is a procedure for complaints regarding accounting, internal control, and auditing matters. As prescribed by the Sarbanes-Oxley Act, the Audit Committee is directly responsible for receiving and handling complaints based on this financial complaints procedure and for providing confidentiality for whistleblowers on such matters. These procedures are posted on the Company's website.

Supervisory Board

The overall assignment of the Supervisory Board is to exercise supervision over the policies adopted by the Board of Management and over the general conduct of the business of the Company and its subsidiaries. This specifically includes supervision of the realization of the Company's operational and financial objectives, the corporate strategy designed to achieve the objectives, and the main financial parameters and risk factors. The Supervisory Board also provides the Board of Management with advice. In fulfilling its assignments the Supervisory Board and its members are guided by the interests of the Company and its affiliated enterprise.

Appointment, independence, and composition

The members of the Supervisory Board are appointed by the General Meeting of Shareholders on the binding nomination by the Meeting of Holders of Priority Shares. Subject to adoption by the General Meeting of Shareholders of the proposed amendment of the Articles of Association, in the future the nomination procedures outlined above for the members of the Supervisory Board and of the Board of Management (see page 66 above) will be followed. As a general rule, based on the rotation schedule, a member's tenure is four years. In principle, members are eligible for reelection twice. However, in deviation of the Code (provision III.3.5), if it is considered in the interest of the Company, a member can be nominated for reelection more often. As stated in the Report of the Supervisory Board, the Supervisory Board believes it is in the interest of the Company to nominate Mr. Cohen again for reelection at the General Meeting of Shareholders of 2005.

The composition of the Supervisory Board is such that the members are able to act with due objectivity and independently of one another and of the Board of Management.
All Supervisory Board members meet the independence requirements as stated in Code provisions III.2.1, III.2.2 and III.2.3, except for Mr. van Lede and Mr. van den Brink. In this respect it should be noted that Mr. van Lede is a former member of the Board of Management of Akzo Nobel, who retired from this position in 2003. As a long-standing policy, the Company welcomes the recent knowledge and expertise of the affairs and business of the Company in one member of the Supervisory Board. Mr. van den Brink was a member of the Managing Board of ABN AMRO, one of the principal banks of the Company. He retired from this position in 2002. Mr. van den Brink is still a consultant on macroeconomic policies to this bank, but in this capacity he is not involved in its management. Although this is formally not in compliance with Code provision III.2.3, the Company is convinced that Mr. van den Brink should be considered as an independent Supervisory Board member.

No member of the Supervisory Board has more than five supervisory board memberships in Dutch listed companies.

In 2004, the Supervisory Board revised its Rules of Procedure, which include detailed provisions on how to deal with conflicts of interest and potential conflicts of interest between members of the Supervisory Board and the Company. The Rules of Procedure, encompassing the Profile and the Charters of the Committees, reflect the tasks and responsibilities of the Supervisory Board and are available on Akzo Nobel's website.

The Chairman of the Supervisory Board determines the agenda and chairs the meetings of the Supervisory Board, monitors the proper functioning of the Supervisory Board and its Committees, arranges for the adequate provision of information to the members of the Supervisory Board and acts on behalf of the Supervisory Board as the main contact for the Board of Management. He also initiates the evaluation of the functioning of the Supervisory Board and the Board of Management, and chairs the General Meeting of Shareholders. The Supervisory Board is chaired by Mr. Loudon, a former chairman of the Board of Management who retired from this position in 1994. This is a deviation from the Code (provision III.4.2). The Company believes that in view of the experience and expertise of Mr. Loudon as Chairman of the Supervisory Board, it is in the best interest of the Company that Mr. Loudon will remain Chairman until he retires in 2006.

Remuneration
Supervisory Board members receive a fixed annual remuneration that is determined by the General Meeting of Shareholders. In accordance with the Articles of Association, the Supervisory Board may vote a remuneration to one or more of its members who have been designated to exercise wholly or partly one or more powers or activities of the Supervisory Board for the work performed by them in such office.

The members of the Supervisory Board are subject to the Akzo Nobel Rules on Inside Information and report all transactions in Akzo Nobel shares to the applicable authorities. The Company has chosen not to follow provision III.7.3 of the Code that requires notification by members of the Supervisory Board of all changes in their holdings of shares in Dutch listed companies, as this is governed by the Company's own internal code. The same considerations apply as stated in this respect for the members of the Board of Management.

Committees
The Supervisory Board has established three Committees: the Audit Committee, the Nomination Committee, and the Remuneration Committee. Each Committee has a charter describing its role and responsibility and the manner in which it reports to the full Supervisory Board on its duties. These charters are included in the Rules of Procedure, published on the Company's website. The Committees report on their deliberations and findings to the full Supervisory Board.

The *Audit Committee* assists the Supervisory Board in its oversight of the quality and integrity of the accounting, auditing, reporting, and risk management practices of the Company. The Audit Committee focuses on these and a number of other subjects, included in its charter. The Chairman of the Audit Committee is Dr. Thunell, who in the opinion of the Supervisory Board meets the requirements of a financial expert pursuant to the U.S. Sarbanes-Oxley Act and the Code.

A major point of attention of corporate governance rules is the independence of the auditors. The Audit Committee has been delegated direct responsibility for compensation and oversight of the auditors and the services they provide to the Company. The auditors are prohibited from providing certain nonaudit services to the Company. In order to anchor this in the procedures of the Company, the Supervisory Board adopted the "Akzo Nobel Auditors Independence Policy" and the related "Akzo Nobel Audit Committee Preapproval Policy on Audit, Audit-Related, and Nonaudit Services." All the aforementioned documents and policies are available on Akzo Nobel's website.

The *Nomination Committee* and the *Remuneration Committee*, until 2005 combined in one committee, consist of the same members.

The *Nomination Committee* focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members, assessing the size and composition of both Boards, assessing the functioning of the individual members, making proposals for appointments and reappointments, and supervising the Board of Management in the selection of senior management. The role of the Nomination Committee will be formalized in the proposal for the amendment of the Articles of Association, which includes the proposed changes to the appointment procedure for members of the Supervisory Board and of the Board of Management described above.

The *Remuneration Committee* is responsible for drafting proposals to the Supervisory Board on the remuneration policy, the remuneration of individual members of the Board of Management, the remuneration schemes for Akzo Nobel executives involving Akzo Nobel shares, and preparing proposals by the Supervisory Board to the General Meeting of Shareholders concerning the remuneration of the members of the Supervisory Board.
The Remuneration Committee is chaired by Mr. Loudon. As Mr. Loudon is Chairman of the Supervisory Board and a former member of the Board of Management, this constitutes, for continuity reasons, a temporary deviation from Code provision III.5.11. This situation will no longer exist after Mr. Loudon's retirement in 2006.

Relations with Shareholders and Other Investors
At this point in time, Akzo Nobel has three classes of shares: common shares, cumulative preferred shares, and priority shares. The common shares are traded at the Euronext Amsterdam stock exchange and, in the form of American Depositary Receipts on NASDAQ in the United States. No preferred shares have been issued to date. It has been communicated that the preferred shares merely have a financing function, which means that, if necessary, they will be issued at or near to the prevailing quoted price for common shares. The priority shares are held by the Akzo Nobel Foundation. The Foundation's Board consists of the members of Akzo Nobel's Supervisory Board and Board of Management.

General Meetings of Shareholders are held at least once a year. The General Meeting of Shareholders is convened by public notice. The agenda and the notes to the agenda are published in advance and posted on the Company's website. The notes to the agenda contain all relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the "one share, one vote" principle. The General Meeting of Shareholders reviews the Annual Report and decides on adoption of the Financial Statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Board of Management. Holders of common shares in aggregate representing at least one percent of the total issued capital may submit proposals in writing for the agenda of the General Meeting at the Company's office, at least six weeks in advance. Such request shall be granted unless the Supervisory Board and the Board of Management are of the opinion that this is evidently not in the best interest of the Company or of an enterprise in which the Company has a direct or indirect interest, or if the proposed decision on the issue in question is not within the competence of the General Meeting of Shareholders. The General Meeting of Shareholders will be given all requested information, unless the Supervisory Board and the Board of Management are of the motivated opinion that this is contrary to an overriding interest of the Company.

The Company attaches great value to its relation with shareholders. Akzo Nobel was one of the key companies in the establishment of the Shareholders' Communication Channel—a project of Euronext Amsterdam, banks in the Netherlands, and several major Dutch companies—to enable communication between a company and its shareholders and amongst shareholders themselves. Akzo Nobel uses the Shareholders' Communication Channel to distribute the agenda of the Annual General Meeting and to allow shareholders who hold their shares through an associated bank, participation in the proxy voting at said meeting. Holders of American Depositary Receipts are also given the opportunity to vote by proxy.

In conformity with relevant laws and regulations, the Company provides all shareholders and other parties in the financial markets with equal and simultaneous information about matters that may influence the share price, thereby taking into account possible exceptions permitted by those laws and regulations.

Akzo Nobel actively communicates its strategy and the developments of its businesses to the financial world. Members of the Board of Management and business unit managers regularly attend analysts meetings in Europe and the United States. The quarterly results, press conferences, and the analysts' conference calls as well as the presentations at analysts meetings organized by the Company are all announced in advance, web-cast and accessible on line. Presentations to (institutional) investors take place at regular intervals and, in principle, are announced on the Company's website or by press releases (provision IV.3.1). Other meetings with analysts or investors are not normally announced in advance, nor can they be followed by webcast or any other means. Discussions in such meetings are always limited to information that is already in the public domain. This is in line with the requirement to ensure that all shareholders and other parties in the financial market have equal and simultaneous access to information which may influence the share price. In this respect the Company complies with applicable laws and regulations. In principle, analyst meetings, presentations to (institutional) investors, and direct meetings with investors do not take place shortly before publication of the quarterly and annual results.

Antitakeover Provisions and Control

According to provision IV.3.9 of the Code, the Company is required to provide an overview of its actual or potential antitakeover measures and of the circumstances in which they may be used. Currently, the Company does not have any measures with the sole aim to prevent the acquisition of decisive control by third parties without the prior agreement of the Supervisory Board and the Board of Management. In this respect it should be noted that the priority shares have the primary function to secure continuity and protect the Company against single majority decisions by a General Meeting of Shareholders with low attendance. The priority shares may, however, be considered to constitute also a form of antitakeover measure.

In the context of the nomination rights of the Meeting of Holders of Priority Shares the following can be noted. As stated above in connection with the nomination procedure for members of the Supervisory Board and of the Board of Management (see page 69 and 66, respectively), the Akzo Nobel Foundation has confirmed that it intends to make use of its binding nomination rights in the event of exceptional circumstances only. These circumstances include situations where in the opinion of the Board of the Foundation the continuity of the Company's management and policies is at stake. This may be the case if a public bid for the common shares of the Company has been announced or has been made or the justified expectation exists that such bid will be made without any agreement having been reached in relation to such bid with the Company. The same shall apply if one shareholder, or more shareholders acting in a concerted way, are holding a substantial percentage of the issued common shares of the Company without making an offer, or if, in the opinion of the Board of the Akzo Nobel Foundation, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the Company and its enterprise. In such cases the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the Company, its enterprise, and its shareholders and other stakeholders. In order to allow for sufficient time to conduct such an evaluation, the Board of the Akzo Nobel Foundation reserves the right to make use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances.

Of course, in connection with a hostile takeover bid, in general the Supervisory Board and the Board of Management reserve the right to use all powers available to them in the interest of the Company and its enterprise.

Auditors

The external auditor is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board. The appointment is for an indefinite period of time with a review every four years by the Audit Committee. The Audit Committee advises the Supervisory Board, which will communicate the results of this assessment to the General Meeting of Shareholders. The Audit Committee and the Board of Management annually report their dealings with the external auditor to the Supervisory Board and discuss the auditor's independence. The lead auditor in charge of the Akzo Nobel account will be changed every five years. The lead auditor is present at the General Meeting of Shareholders and may be questioned in relation to his statement on the fairness of the financial statements.

The external auditor attends all meetings of the Audit Committee as well as the meeting of the Supervisory Board in which the financial statements are approved. Furthermore, he receives the financial information underlying the adoption of the quarterly figures and is given the opportunity to respond to this information.

REMUNERATION REPORT

General
The remuneration policy and the individual service contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adopted by the General Meeting of Shareholders. The Remuneration Committee prepares all relevant information and provides advice to the Supervisory Board on all matters relating to the remuneration and service contracts of the Board of Management.

The objective of the Company's remuneration policy is to provide remuneration in a form that will attract, retain, and motivate the members of the Board of Management as top managers of a major international company. In the determination and differentiation of the remuneration levels of the CEO, the CFO, and the other members, due allowance is made for the individual's specific responsibilities. Remuneration is differentiated on a basis comparable to that in other large Dutch multinational companies. To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on short- and long-term performance of the individual Board member and the Company.

For an overview of the remuneration of the members of the Supervisory Board and the Board of Management, including pension costs, reference is made to note b on page 106.

Remuneration Policy
The Company's remuneration policy, including all structures and policies related to the remuneration and employment contracts of the Board of Management, was reviewed in light of the Dutch Corporate Governance Code. As a consequence, the Supervisory Board adjusted the remuneration packages of the Board of Management. The total remuneration package of the members of the Board of Management consists of:

- base salary
- performance-related short-term incentive
- performance-related stock options
- performance-related restricted shares
- pension provisions
- other benefits, including severance payments.

To ensure overall competitiveness of the remuneration provided to the Board of Management, the remuneration levels of the Board of Management are assessed against a peer group. The Remuneration Committee consults professional independent remuneration experts to ensure an appropriate comparison. Statistical models are used to modify the data of the peer group companies to assume a similar size as Akzo Nobel and a similar scope of responsibilities of the Board of Management. This remuneration package is based on a remuneration policy that will be submitted for adoption to the General Meeting of Shareholders in April 2005. It should be noted that the performance-related option and share plans for members of the Board of Management were approved by shareholders in April 2004.

It is the Company's policy to gradually move toward overall remuneration levels that are at the median level of the external benchmark of the following peer group of companies:

- Aegon
- Heineken
- Reed Elsevier
- TPG
- VNU
- Royal DSM
- Wolters Kluwer
- Royal Numico
- Royal Ahold
- KPN

Royal Ahold and KPN are not included in the peer group for the CEO. There have been no adjustments in the peer group as published in the Annual Report for 2003.

In line with the Company's remuneration policy, variable performance-related remuneration will be an important part of total compensation.

Base Salary
The base salary levels of the members of the Board of Management are almost without exception at or below the lower quartile of the peer group of companies used in the external comparison.

While the focus on variable performance-related compensation elements will continue, the base salaries need to be more aligned with the market median in order to remain competitive. The Supervisory Board considers each year whether the circumstances allow a reconsideration of the base salaries.

Short-Term Incentive (Annual Bonus)
The target short-term incentive (annual bonus) will be 80% of the base salary for the CEO and 65% of the base salary for the other members of the Board of Management. The bonus opportunity is linked to EVA in order to encourage the Board of Management to create long-term value for the Company's shareholders and stakeholders. The target EVA for the bonus will be determined annually by the Supervisory Board and will be based on budget. The Supervisory Board ensures that targets are realistic and sufficiently stretching.
EVA performance accounts for 70% of the annual bonus opportunity. The remaining 30% of the bonus opportunity will be based on individual targets. The threshold level of the EVA-related part of the bonus is 80% of the targeted EVA. In case of performance below the threshold level there will be no payout. The maximum bonus in any one year will not exceed 1.5 times the target bonus. The maximum bonus for the CEO will not exceed 120% of his base salary and 100% for the other members of the Board of Management. The Company will not disclose the targets as these qualify as commercially sensitive information. This bonus scheme is fully aligned with the bonus arrangement for Executives at Akzo Nobel.

Long-Term Incentives
The long-term incentives plan intends to stimulate the performance-driven culture at Akzo Nobel and is linked to stretching performance targets. This plan was presented in 2004 and consists of performance stock options and performance shares. Both schemes were approved by the General Meeting of Shareholders in April 2004.

The stock option plan will be conditional on performance upon vesting. The number of stock options that will be granted to the Board of Management is determined by the Supervisory Board. Market levels as well as Company-specific circumstances will be taken into account in determining the appropriate conditional number of options to be granted. The actual number of options which the Board of Management receives depends on the Company's performance during a three-year vesting period. The total option term is seven years.

The performance measure used to determine the number of options that vest is set by the average of the results of the comparison between planned and realized EVA on Invested Capital (EOI) or economic value created in relation to invested capital during the period of three consecutive years. This measure is used to encourage EVA performance over a longer period of time. The EOI targets are set annually by the Supervisory Board. These specific targets will not be disclosed as they qualify as commercially sensitive information.

As a policy, the exercise price of the stock options is the Euronext Amsterdam opening price on the first day after the General Meeting of Shareholders that the Akzo Nobel share is quoted ex dividend.

Stock options will not vest below 80% of the targeted EOI. The number of granted options is also the maximum number of options that vest upon achieving the targeted performance. If targeted performance is exceeded, there will be no increase in the number of options that vest.

The expected value of performance stock options for the Board of Management is based on the Binomial Option Pricing Model, which is in line with international accounting regulations. The calculations for the valuation will be reviewed by the Company's auditors.

The aim of the performance share plan is to align the interests of the Board of Management and the shareholders in order to improve the performance of the Company. Under the plan, shares will be granted to the members of the Board of Management provided that certain performance targets are achieved and the contract of employment is continued. These targets are determined by the Supervisory Board in the first quarter of the year of issue on the basis of the weighted average of the price of the Akzo Nobel share increased by the dividend paid over a period of three years (Total Shareholder Return). The TSR will be compared with the following peer group:

- Bayer
- CIBA Specialty Chemicals
- Clariant
- Degussa
- Dow Chemical Company
- Royal DSM
- Dupont de Nemours
- Imperial Chemical Industries
- Merck KGaA
- Novo Nordisk
- PPG Industries
- Schering
- Serono
- Solvay
- UCB
- Valspar

There have been no adjustments in the peer group as published in the Annual Report for 2003. Based on this peer group, Akzo Nobel will be ranked for its total return to shareholders. Independent external specialists will conduct this analysis to determine the number of shares that will vest over a three-year period. The determination of the final ranking (and thus the vesting of shares) will be reviewed by the Company's auditors at the end of the performance period.

Given the Company's historical performance, market expectations, and strategy, the following performance incentive zone will apply. There will be no shares that vest for a position below the tenth position of the sixteen peer companies. For the fifth position, all shares conditionally granted will vest. The maximum number of shares will vest only for the first position within the peer group. This is 150% of the target value of the number of shares conditionally granted.

The expected value of the performance share plan is based on probability analyses.
In valuating its incentive plans, the Company is assisted by independent external advisers.
All valuations are reviewed by the Company's auditors.

Pensions

The pension plan for all the members of the Board of Management appointed after January 1, 2002, is based on an income- and age-related defined contribution plan. The available premium is invested with a pension fund. The pension payment at pension age depends on the premiums received and the investment results during the period. The premium percentages to be paid for the Board member concerned are fixed by the Supervisory Board taking into account pension buildup (internally or externally) in the period preceding the appointment as Board member and the rules applicable in the countries of origin. External reference data can be used in determining market competitive levels of pension arrangements. If applicable, pension rights built up in the period preceding Board membership will be adjusted in conformity with the relevant rules and regulations. Members of the Board of Management normally retire in the year that they reach the age of 62. Members of the Board of Management pay a personal contribution.

Employment Agreements
Employment agreements for members of the Board of Management appointed in 2004 and subsequent years are concluded for a period of four years. In conformity with the Dutch Corporate Governance Code, the appointments as of 2004 will in principle be made for a period of four years, after which reappointments can take place for consecutive periods of four years each or so much shorter as will follow from the application of the date of retirement.
If reappointment does not take place and the employment agreement between the Board member concerned and Akzo Nobel N.V. is not continued, the Board member will be entitled to a severance payment, established in accordance with the Dutch Corporate Governance Code. The amount of this severance payment shall in principle not exceed the equivalent of one year of base salary, or in case of termination upon the first term of four years two years of base salary. The employment agreements for the members of the Board of Management appointed before 2004 have not been adjusted in this respect (see page 66). However, the Supervisory Board has the intention to take the provisions of the Code as guidance for establishing severance payments. The notice period by the Board member concerned shall be subject to a term of three months; notice by the Company shall be subject to a term of six months.

Remuneration Decisions for 2004

General
The remuneration decisions in 2004 were mainly influenced by the application of the revised remuneration policy as published in the Annual Report 2003, and the ensuing adjustment of the conditions of employment for new members of the Board of Management.

This policy, which will also be applied in the future, stresses the importance of the variable remuneration components. In 2004, the value of fixed and variable components at target levels breaks down as follows:

	CEO	Other Board members	Average
Fixed	39%	43%	42%
Variable	61%	57%	58%

This breakdown is in line with the policy to provide a highly performance-related remuneration package. The variable components are related to stretching performance targets. Therefore, the reward related to these components may be lower than indicated. Only in the situation that actual performance is above targeted performance may a reward be granted that is higher than indicated.

Base Salary 2004
The Supervisory Board decided not to adjust base salary levels for 2004. The base salary for members of the Board of Management appointed in 2004 amounted to EUR 460,500 and is equal to the base salaries of the other members of the Board of Management, with the execption of the CEO.

Short-term incentive (annual bonus) 2004
The short-term incentive (annual bonus) as described in the remuneration policy was applied for the first time in 2004.

The members of the Board of Management, going forward in that position during the whole of 2005, have informed the Remuneration Committee that they have the intention, during the next open period, to invest 50% of their 2004 net bonus in Akzo Nobel shares, which will be held for a period of not less than three years.

Long-Term Incentives 2004
In 2004 the Remuneration Committee fixed the number of options relating to the option arrangement 2001–2011. These options were granted on the condition that the number of options could (after three years) be reduced by a maximum of 50% if certain performance criteria were not met or not sufficiently met.

The Committee has fixed the number of options on the basis of the average of the EVA on Invested Capital during the years 2001–2003. The outcome of this calculation resulted in a discount of 5.6% of 50% of the number of granted options. Consequently, 97.2% of the number of options became unconditional.

Under the new option plan applicable as from the year 2004, 23,000 conditional options were granted to the CEO and 15,000 to the other members of the Board of Management. The members of the Board of Management who retired in 2004 received 20,000 (Mr. Fröhlich) and 10,000 options (Mr. Strömqvist).

The number of performance-related shares granted to the members of the Board of Management in 2004 amounted to 33,000 for the CEO and 22,000 for the other members. Board members who retired in 2004 did not receive any performance-related shares.

Remuneration Policy 2005
In 2005 no material changes in the remuneration policy for the members of the Board of Management are expected. Subject to the adoption of the remuneration policy as set forth above by the General Meeting of Shareholders, we will continue further implementation of the remuneration policy as set forth above, with emphasis on pay for performance.

FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of Akzo Nobel N.V. and its subsidiaries. Subsidiaries are companies over which Akzo Nobel N.V. directly and/or indirectly has control. All of the assets, liabilities, and results of the consolidated companies are included. Minority interest in equity and earnings is shown separately. Transactions between consolidated companies are eliminated.

Valuation

The principles of valuation and determination of income used in the consolidated financial statements are based on historical costs.

Translation of Foreign Currencies

In the balance sheet, amounts in foreign currencies are translated into euros at year-end exchange rates. Foreign exchange differences are included in income. Results on currency hedging contracts are also recognized in income to offset the foreign exchange differences on the related hedged items. Exchange differences on anticipatory hedges of firm commitments regarding sales and purchases are deferred on the balance sheet until the hedged transactions have been reflected in the accounts. The capitalized or accrued amounts are included in receivables or current liabilities.

Statements of income in foreign currencies are translated into euros at average exchange rates.

Foreign exchange differences resulting from translation into euros of shareholders' equities and of intercompany loans of a permanent nature with respect to subsidiaries outside the euro region are directly added to, or deducted from, equity.

Before being consolidated, the financial statements of subsidiaries established in hyperinflationary countries are adjusted for the effects of changing prices.

Exchange Rates of Key Currencies

The principal exchange rates against the euro used in preparing the balance sheet and the statement of income are:

	Balance sheet		Statement of income	
	2004	2003	**2004**	2003
USD	**1.364**	1.262	**1.243**	1.131
GBP	**0.708**	0.708	**0.680**	0.693
SEK	**9.017**	9.082	**9.123**	9.119

Principles of Valuation of Assets and Liabilities

Intangible Assets

Purchased goodwill is capitalized and amortized on a straight-line basis over the estimated useful life. In the majority of cases, economic life exceeds the rebuttable legal maximum of 5 years, because benefits are expected to be generated over this longer period. Goodwill is determined as the difference between the fair value of the consideration paid for new interests and the fair value of the purchased net assets at the date of acquisition. Development costs are capitalized if it is probable that sufficient future economic benefits will be generated by the intangible asset arising from development, and amortized on a straight-line basis over the estimated useful life, which in the majority of cases is 5 years. Other intangible assets, such as licenses, knowhow and intellectual property rights, are capitalized and amortized on a straight-line basis over their estimated useful life, which in the majority of cases is 10 to 15 years. In cases where the book value so computed permanently exceeds the value to the business an impairment charge is recognized.

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation. Cost includes the financing charges of significant capital investment projects under construction. Capital investment grants are deducted from property, plant and equipment.

Depreciation is computed by the straight-line method based on estimated useful life, which in the majority of cases is 10 years for plant equipment and machinery, and which ranges from 20 to 30 years for buildings. In cases where the book value so computed permanently exceeds the value to the business an impairment charge is recognized.

Financial Noncurrent Assets

Interests in companies where Akzo Nobel can exercise significant influence are treated as nonconsolidated companies and are stated at the amount of Akzo Nobel's share in shareholders' equity. The calculation of shareholders' equity is based as much as possible on the Akzo Nobel principles of valuation.

Loans to nonconsolidated companies are carried at face value less such provisions as are considered necessary.

For the valuation of deferred tax assets see deferred taxes.

Other financial noncurrent assets are stated at face value, at cost, or at lower market value. For pension prepayments reference is made to pensions and other postretirement benefits.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to the present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, and takes into account the stage of completion. The costs of inventories are determined using the first-in first-out (FIFO) method. Provisions are made for obsolescence.

Receivables

Receivables are stated at face amounts less such provisions as are considered necessary.

Cash and Cash Equivalents

Cash and cash equivalents are carried at face value, with the exception of marketable private borrowings and marketable securities, which are valued at the lower of cost or market value.

Provisions

Provisions are recorded when it is probable that a liability has materialized, and the amount involved is reasonably estimable. Provisions are stated at face value, except for certain long-term provisions, which have been discounted against present long-term interest rates.

Pensions and Other Postretirement Benefits

The Company accounts for the costs of pension plans and postretirement benefits other than pensions in accordance with U.S. accounting standards SFAS 87 and SFAS 106, respectively.

Most of the Company's defined benefit pension plans are funded with plan assets that have been segregated in a trust or foundation. For plans which are not seperately funded, the Company recognizes a provision for such amounts. Valuations of both funded and unfunded plans are carried out by independent actuaries. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets. In the event, however, that at any date the accumulated benefit obligation, calculated as the present value of the benefits attributed to employee service rendered prior to that date and based on current and past compensation levels, would be higher than the market value of the plan assets and/or the existing level of the pension provision, the difference is, pursuant to SFAS 87, added to provisions by means of recognition of an intangible asset for prior service costs with the balance, net of taxes, being charged to shareholders' equity.

In certain countries the Company also provides postretirement benefits other than pensions to its employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Deferred Taxes

Deferred tax assets and liabilities are based on temporary differences between the valuation of assets and liabilities for accounting purposes and the valuation for tax purposes. Measurement of deferred tax assets and liabilities is based upon the enacted tax rates expected to apply to taxable income in the years in which those timing differences are expected to be reversed. Deferred tax assets, including assets arising from losses carried forward, are recognized if it is more likely than not that the asset will be realized. Nonrefundable dividend taxes are taken into account in the determination of provisions for deferred taxes to the extent of earnings expected to be distributed by affiliated companies.

Stock-Based Compensation

The costs of the performance share plan for the Board of Management and the Employee Share Plan, whereby Akzo Nobel N.V. common shares are conditionally granted to Board members and employees, are expensed over the vesting period, effective for the rights granted from 2002 onwards.

Long-Term Borrowings and Short-Term Debt

Long-term borrowings and short-term debt are stated at face value.

Principles of Determination of Income

The determination of income is closely associated with the valuation of assets and liabilities. In addition, the following principles are observed in the preparation of the statement of income:

- Net sales is defined as the revenue from the sale and delivery of goods and services, net of rebates, discounts, and similar allowances, and net of sales tax. Net sales are recognized upon delivery of goods or when services are rendered.
- Costs of sales comprise the manufacturing costs of the goods and services sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing costs include such items as:
  – the costs of raw materials and supplies, energy, and other materials;
  – depreciation and the costs of maintenance of the assets used in production;
  – salaries, wages, and social charges for the personnel involved in manufacturing;
  – amortization of goodwill.
- Research costs and preparation and start-up expenses are charged to income as incurred.
- Royalty income is recognized on an accrual basis under other results.
- Nonrecurring items relate to income and expenses which because of their nature are disclosed separately to enhance the insight into the underlying result for the period. These include items such as restructurings and impairment charges, significant gains and losses on the disposal of businesses, and costs related to major law suits and antitrust cases. Operating income before nonrecurring items is one of the key figures management uses to assess the Company's performance, as this figure better reflects the underlying trends in the results of the activities.
- Interest on interest swaps and forward rate agreements is included in the statement of income under financing charges.
- Taxes on income comprise both current and deferred taxes, including effects of changes in tax rates.
- Income from nonconsolidated companies consists of Akzo Nobel's equity in earnings of these companies and interest on loans granted to them, with allowance being made for taxes relating to these items.

Earnings per Share

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year, which were as follows:

	2004	2003
Shares for basic earnings per share	**285,745,587**	285,691,957
Effect of dilutive securities	**660,310**	721,016
Shares for diluted earnings per share	**286,405,897**	286,412,973

CONSOLIDATED STATEMENT OF INCOME

Millions of euros	NOTE	2004		2003	
Net sales			**12,688**		13,051
Cost of sales			**(6,851)**		(6,933)
Gross margin			**5,837**		6,118
Selling expenses		**(3,255)**		(3,317)	
Research and development expenses		**(823)**		(887)	
General and administrative expenses		**(676)**		(742)	
Other results	1	**127**		175	
			(4,627)		(4,771)
Operating income before nonrecurring items			**1,210**		1,347
Nonrecurring items	2		**90**		(283)
Operating income, after nonrecurring items			**1,300**		1,064
Financing charges	3		**(123)**		(166)
Operating income less financing charges			**1,177**		898
Taxes [1)]	4		**(298)**		(254)
Earnings of consolidated companies after taxes			**879**		644
Earnings from nonconsolidated companies		**41**		36	
Nonrecurring items nonconsolidated companies		**(29)**		(29)	
	5		**12**		7
Earnings before minority interest			**891**		651
Minority interest			**(35)**		(49)
Net income			**856**		602
Net income excluding nonrecurring items			**770**		811
In EUR:					
Basic net income per share			**3.00**		2.11
Basic net income excluding nonrecurring items per share			**2.69**		2.84
Diluted net income per share			**2.99**		2.10
Diluted net income excluding nonrecurring items per share			**2.69**		2.83

1) *Includes EUR 25 million tax credit for nonrecurring items in 2004 (2003: EUR 112 million).*

CONSOLIDATED BALANCE SHEET

BEFORE ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2004		2003	
Assets					
Noncurrent assets					
Intangible assets[1]	7		**561**		590
Property, plant and equipment	8		**3,535**		3,967
Financial noncurrent assets:	9				
– nonconsolidated companies		**318**		353	
– deferred tax assets	10	**351**		429	
– deferred tax asset for minimum pension liability		**354**		361	
– other financial noncurrent assets		**730**		723	
			1,753		1,866
			5,849		6,423
Current assets					
Inventories	11	**1,978**		2,133	
Receivables	12	**2,767**		2,671	
Cash and cash equivalents	13	**1,811**		727	
			6,556		5,531
Total			**12,405**		11,954
Equity and liabilities					
Equity	14				
Capital and reserves		**3,795**		3,326	
Minimum pension liability[2]		**(759)**		(824)	
Akzo Nobel N.V. shareholders' equity		**3,036**		2,502	
Minority interest		**140**		140	
			3,176		2,642
Provisions[3]	15		**3,719**		3,923
Long-term borrowings	16		**2,694**		2,717
Short-term debt					
Short-term borrowings	17	**258**		441	
Current liabilities	18	**2,558**		2,231	
			2,816		2,672
Total			**12,405**		11,954

[1] *Includes capitalized prior service costs related to the minimum pension liability of EUR 137 million at December 31, 2004 (December 31, 2003: EUR 165 million).*

[2] *Includes minimum pension liability for nonconsolidated companies of EUR 10 million (2003: EUR 8 million).*

[3] *Includes provision for minimum pension liability amounting to EUR 1,240 million at December 31, 2004 (December 31, 2003: EUR 1,342 million).*

CONSOLIDATED STATEMENT OF CASH FLOWS

Millions of euros	2004		2003	
Total earnings before minority interest	**891**		651	
Depreciation and amortization	**593**		652	
Cash flow		**1,484**		1,303
Other adjustments to reconcile earnings to cash provided by operations:				
– pretax gain on divestments	**(509)**		(30)	
– impairments	**74**		138	
– equity in earnings of nonconsolidated companies	**(52)**		(14)	
– dividends from nonconsolidated companies	**123**		17	
– changes in provisions	**(107)**		115	
– changes in deferred tax assets	**58**		(64)	
– change in accrued prepaid pension costs	**48**		65	
– other changes	**(2)**		(14)	
		(367)		213
Change in working capital		**156**		(119)
Net cash provided by operations		**1,273**		1,397
Investments in intangible assets	**(28)**		(27)	
Capital expenditures	**(551)**		(581)	
(Investments)/repayments in nonconsolidated companies	**(29)**		78	
Acquisition of consolidated companies[1]	**(80)**		(101)	
Proceeds from sale of interests[1]	**1,036**		203	
Other changes in noncurrent assets[2]	**6**		(23)	
Net cash used for investments		**354**		(451)
		1,627		946
New long-term borrowings	**22**		782	
Repayment of long-term borrowings	**(12)**		(635)	
Changes in short-term borrowings	**(179)**		(489)	
Net cash used for financing activities		**(169)**		(342)
		1,458		604
Dividends paid		**(366)**		(370)
		1,092		234
Effect of exchange rate changes on cash and cash equivalents		**(8)**		(27)
Change in cash and cash equivalents		**1,084**		207
Cash and cash equivalents at beginning of year		**727**		520
Cash and cash equivalents at end of year		**1,811**		727

See note 21.

1) *Net of cash of acquired or divested interests.*

2) *Excluding deferred tax assets and accrued prepaid pension costs.*

GENERAL

Unless stated otherwise, all amounts are in millions of euros.

Affiliated Companies

A list of affiliated companies, drawn up in conformity with sections 379 and 414 of Book 2 of the Netherlands Civil Code, has been filed with the Trade Registry of Arnhem.

Changes in Consolidated Interests

In September 2003 Akzo Nobel announced its plan to sell Catalysts, Coating Resins, and Phosphorus Chemicals from its Chemicals portfolio. In 2004 these divestments were completed. Effective July 31, 2004, Catalysts and Phosphorus Chemicals were divested for EUR 616 million and EUR 231 million, respectively, resulting in an after-tax gain of EUR 331 million and EUR 68 million, respectively.
In December 2004, Coating Resins was divested for EUR 110 million, resulting in an after-tax gain of EUR 31 million.

In July 2004, the German decorative paint wholesaler Timpe & Mock was acquired for an amount of EUR 35 million, including EUR 17 million goodwill.

In March 2003, the CIRS SpA antifouling and suspending agents business was acquired for EUR 36 million, including EUR 32 million goodwill.

Effective June 30, 2003, the Impregnated Papers business was divested for EUR 112 million, resulting in a gain of EUR 2 million after taxes.

During 2004 and 2003, Akzo Nobel acquired other businesses in strategic markets and geographic areas. Also several other activities were divested in 2004 and 2003. None of these were significant to the consolidated financial statements.

All acquisitions were accounted for on the basis of the purchase accounting method.

Segment Information

The 2003 comparative figures for Coatings and Chemicals have been adjusted for a minor regrouping of activities between these two segments.

	Net sales to third parties		Group net sales		Operating income before nonrecurring items		Operating income, after nonrecurring items		Earnings from nonconsolidated companies	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Pharma	**3,246**	3,550	**3,246**	3,550	**522**	692	**398**	538	**1**	–
Coatings	**5,236**	5,144	**5,249**	5,160	**421**	414	**360**	369	**2**	(1)
Chemicals	**4,192**	4,347	**4,305**	4,470	**354**	341	**762**	257	**35**	36
Other	**14**	10	**38**	31	**(87)**	(100)	**(220)**	(100)	**3**	1
	12,688	13,051	**12,838**	13,211	**1,210**	1,347	**1,300**	1,064	**41**	36
Intergroup revenues			**(150)**	(160)						
			12,688	13,051						

	Total assets		Total liabilities excluding borrowings		Capital expenditures		Investments in intangible assets		Depreciation and amortization	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
Pharma	**2,999**	3,153	**735**	792	**158**	210	**18**	8	**168**	176
Coatings	**3,088**	3,008	**1,331**	1,284	**122**	124	**3**	4	**135**	147
Chemicals	**2,763**	3,310	**1,098**	1,126	**269**	241	**7**	15	**280**	318
Miscellaneous and eliminations, including cash and cash equivalents	**3,237**	2,130	**3,113**	2,952	**2**	6			**10**	11
Nonconsolidated companies	**318**	353								
	12,405	11,954	**6,277**	6,154	**551**	581	**28**	27	**593**	652

	Sales by country of destination 2004	2003	Total assets 2004	2003	Capital expenditures 2004	2003
The Netherlands	**826**	825	**2,799**	2,942	**189**	173
Germany	**1,159**	1,147	**823**	798	**23**	27
Sweden	**506**	510	**846**	773	**60**	55
United Kingdom	**831**	840	**944**	913	**29**	26
Other European countries	**4,012**	3,963	**2,098**	2,074	**81**	110
United States and Canada	**2,443**	2,944	**1,636**	2,014	**52**	81
Latin America	**726**	704	**454**	400	**61**	18
Asia	**1,535**	1,453	**835**	848	**47**	81
Other regions	**650**	665	**284**	302	**9**	10
	12,688	13,051	**10,719**	11,064	**551**	581
Eliminations and cash and cash equivalents			**1,368**	537		
Nonconsolidated companies			**318**	353		
			12,405	11,954		

CONSOLIDATED STATEMENT OF INCOME

Note [1] **Other Results**

	2004	2003
Special payments	**38**	88
Royalties	**76**	55
Results on sale of redundant assets	**5**	5
Currency exchange differences	**(4)**	16
Other items	**12**	11
	127	175

In 2004, special payments include the payment for the full transfer of Arixtra® to Sanofi-Synthélabo and the early entrance fee for a marketing license for Remeron® in Germany.
In 2003, special payments related to the cooperation agreement with Pfizer for asenapine.

Note [2] **Nonrecurring Items**

The following nonrecurring items were recognized:

	2004	2003
Gains on divestments	**509**	25
Antitrust cases	**(110)**	
Remeron® court cases	**(89)**	
Asset impairments at:		
– Pharma	**(31)**	(114)
– Coatings	**(16)**	(5)
– Chemicals	**(27)**	(19)
Restructurings at:		
– Pharma	**(20)**	(40)
– Coatings	**(38)**	(40)
– Chemicals	**(63)**	(90)
– Other	**(4)**	
Environmental charges	**(21)**	
	90	(283)

The gains on divestments in 2004 mainly related to the divestment of Catalysts, Phosphorus Chemicals, and Coating Resins. It should be noted that no final settlement has been reached yet for some of these divestments, so that amounts recognized at this moment are best estimates and could change in a later stage, once the final settlement has been reached. The asset impairments relate to the closure of Organon's production site in West Orange, New Jersey, Chemicals' chlorine production in Bohus, Sweden, and several other minor impairments.
Environmental charges relate to risks at derelict sites of companies acquired in the past.

Note [3] **Financing Charges**

	2004	2003
Interest received and similar income	**19**	18
Interest paid and similar expenses	**(142)**	(184)
	(123)	(166)

Interest paid was reduced by EUR 4 million (2003: EUR 6 million) due to the capitalization of financing expenses of capital investment projects under construction.

Note [4] **Taxes**

Pretax income (including earnings from nonconsolidated companies) was EUR 1,192 million (2003: EUR 901 million). Tax charges/(benefits) are included in the statement of income as follows:

	2004	2003
Operating income less financing charges	**298**	254
Nonconsolidated companies	**3**	(4)
	301	250

The classification of taxes as current and deferred taxes is as follows:

	2004	2003
Current tax	**346**	213
Deferred tax	**(45)**	37
	301	250

The reconciliation of the corporation tax rate in the Netherlands to the effective consolidated tax rate is as follows:

Percentage	2004	2003
Corporate tax rate in the Netherlands	**35**	35
Effect of lower tax rates in certain countries	**(3)**	(3)
Tax-exempt income/non-deductible expense	**(6)**	(1)
Nontaxable income from nonconsolidated companies (excluding partnerships)	**(2)**	(1)
Change in valuation allowance	**1**	(2)
	25	28

Note [5] **Earnings from Nonconsolidated Companies**

Earnings from nonconsolidated companies were net of a tax charge of EUR 6 million (2003: EUR 4 million) and increased compared to last year. Lower earnings as a result of the divested Catalysts joint ventures were more than offset by higher earnings for Flexsys, Acordis, and Dyo Sadolin. The net nonrecurring loss in 2004 mainly related to antitrust charges recognized at Flexsys and net nonrecurring charges for Acordis, and includes a tax credit of EUR 3 million. The nonrecurring loss in 2003 mainly related to restructuring and antitrust charges recognized at Flexsys and included a tax credit of EUR 8 million.

Note [6] **Salaries, Wages, and Social Charges**

	2004	2003
Salaries and wages	**2,382**	2,535
Pension and other postretirement costs	**419**	471
Other social charges	**489**	499
	3,290	3,505

Employees

Average number of employees	2004	2003
Pharma	**20,000**	21,300
Coatings	**28,900**	29,400
Chemicals	**13,600**	14,500
Other units	**1,100**	1,200
	63,600	66,400
Number of employees at December 31	**61,400**	64,600

Note [7] **Intangible Assets**

	Total	Goodwill	Licenses, knowhow, and intellectual property rights	Prior service costs for minimum pension liability	Development costs
Balance at December 31, 2003					
Cost of acquisition	775	339	260	165	11
Amortization/impairment	(185)	(58)	(124)		(3)
Book value	590	281	136	165	8
Changes in book value					
Acquisitions	48	47	1		
Divestitures	(5)	(1)	(4)		
Investments	28		25		3
Amortization	(53)	(28)	(22)		(3)
Impairments	(11)	(11)			
Change related to minimum pension liability	(28)			(28)	
Changes in exchange rates	(8)	(7)	(1)		
Total changes	(29)	–	(1)	(28)	–
Balance at December 31, 2004					
Cost of acquisition	778	370	258	137	13
Amortization/impairment	(217)	(89)	(123)		(5)
Book value	**561**	**281**	**135**	**137**	**8**

Note [8] **Property, Plant and Equipment**

	Total	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process
Balance at December 31, 2003						
Cost of acquisition	9,837	2,736	5,692	902	446	61
Depreciation/impairment	(5,870)	(1,130)	(4,027)	(671)		(42)
Book value	3,967	1,606	1,665	231	446	19
Changes in book value						
Acquisitions	8	–	4	4		
Divestitures	(301)	(90)	(181)	(6)	(24)	–
Capital expenditures	551	146	362	75	(34)	2
Transfer between categories		(51)	(3)	(2)	(2)	58
Disinvestments	(32)	(7)	(17)	(3)	(1)	(4)
Depreciation	(540)	(107)	(354)	(78)		(1)
Impairments	(63)	(4)	(20)	(14)		(25)
Changes in exchange rates	(55)	(26)	(23)	(3)	(3)	
Total changes	(432)	(139)	(232)	(27)	(64)	30
Balance at December 31, 2004						
Cost of acquisition	9,141	2,576	5,186	830	382	167
Depreciation/impairment	(5,606)	(1,109)	(3,753)	(626)		(118)
Book value	**3,535**	**1,467**	**1,433**	**204**	**382**	**49**

The book value of property, plant and equipment financed by installment buying and leasing and not legally owned by the Company was EUR 44 million at December 31, 2004 (at December 31, 2003: EUR 104 million).

Note [9] **Financial Noncurrent Assets**

	Total	Nonconsolidated companies: Share in capital	Nonconsolidated companies: Loans	Deferred tax assets	Deferred tax asset for minimum pension liability	Other
Balance at December 31, 2003	1,866	345	8	429	361	723
Acquisitions/deconsolidations/investments	176	62	21			93
Divestitures/repayments	(70)	(28)	(12)	(1)		(29)
Amounts recognized as income/(expense)	(53)	52		(57)		(48)
Dividends received	(123)	(123)				
Change related to minimum pension liability	(7)				(7)	
Changes in exchange rates	(36)	(7)		(20)		(9)
Balance at December 31, 2004	**1,753**	**301**	**17**	**351**	**354**	**730**

Nonconsolidated Companies

Chemicals joint ventures accounted for EUR 255 million of Akzo Nobel's share in the capital of nonconsolidated companies at December 31, 2004 (at December 31, 2003: EUR 244 million).

Some Akzo Nobel companies are general partners in a number of partnerships that are included in the balance sheet under nonconsolidated companies. Akzo Nobel's equity in the capital of these partnerships was EUR 60 million at year-end 2004 (at December 31, 2003: EUR 63 million). Equity in 2004 earnings was EUR 5 million, against a loss of EUR 15 million in 2003. At year-end 2004, these partnerships accounted for EUR 1 million of short-term receivables from nonconsolidated companies (at December 31, 2003: EUR 6 million).

Other Financial Noncurrent Assets

Other financial noncurrent assets include accrued prepaid pension costs of EUR 489 million (at December 31, 2003: EUR 477 million).

Note [10] **Deferred Tax Assets and Provisions**

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities are presented below.

Asset/(liability)	**2004**	2003
Net operating loss carryforwards	**96**	169
Provisions	**352**	320
Intangible assets	**46**	57
Property, plant and equipment	**(109)**	(172)
Accrued prepaid pension costs	**(132)**	(119)
Other	**(328)**	(376)
	(75)	(121)
Valuation allowance	**(53)**	(40)
Net deferred taxes	**(128)**	(161)

At December 31, 2004, losses carried forward amounted to EUR 332 million, of which EUR 113 million is not recognized in the balance sheet. Of the total losses carried forward EUR 7 million will expire within one year, and EUR 84 million within five years. For EUR 97 million of losses, there is no expiration date. Of the net deferred taxes EUR 70 million is expected to reverse in 2005.

Classification of the deferred tax assets and liabilities, which is determined at a fiscal entity level, is as follows:

Asset/(liability)	**2004**	2003
Deferred tax assets	**351**	429
Deferred tax provisions	**(479)**	(590)
	(128)	(161)

In assessing the valuation of deferred tax assets, management considers whether it is more likely than not that these deferred tax assets will be realized. The ultimate realization thereof is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carryforward period are revised.

For the movement schedule of deferred tax provisions see note 15.

Note [11]

Inventories

	2004	2003
Raw materials and supplies	**596**	586
Semifinished goods	**400**	474
Finished products and goods for resale	**977**	1,067
Inventory prepayments	**5**	6
	1,978	2,133

Provisions for obsolescence deducted from the inventory book values totaled EUR 146 million at December 31, 2004 (at December 31, 2003: EUR 160 million).

Note [12]

Receivables

	2004	2003
Trade receivables	**1,975**	1,956
Taxes	**335**	246
Receivables from nonconsolidated companies	**33**	32
Prepaid expenses	**118**	106
Other receivables	**319**	360
	2,780	2,700
Discounted portion	**(13)**	(29)
	2,767	2,671

Provisions for doubtful accounts deducted from the book values of receivables aggregated EUR 165 million (at December 31, 2003: EUR 166 million).

For details on receivables from nonconsolidated companies see note 9.

Note [13]

Cash and Cash Equivalents

	2004	2003
Short-term investments	**1,529**	484
Cash on hand and in banks	**282**	243
	1,811	727

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings, and marketable securities immediately convertible into cash.

At December 31, 2004, the amount of cash and cash equivalents was freely available.

Note [14] **Equity**

	Capital and reserves	Minimum pension liability	Akzo Nobel N.V. shareholders' equity	Minority interest	Equity
Balance at December 31, 2003	3,326	(824)	**2,502**	140	**2,642**
Income for the year	856		**856**	35	**891**
Dividend	(343)		**(343)**	(23)	**(366)**
Share plan for Board of Management and employees	(2)		**(2)**		**(2)**
Changes in minority interest in subsidiaries				(8)	**(8)**
Change related to minimum pension liability		65	**65**		**65**
Changes in exchange rates	(42)		**(42)**	(4)	**(46)**
Balance at December 31, 2004	**3,795**	**(759)**	**3,036**	**140**	**3,176**

	2004		2003	
Net income		**856**		602
Share plan for Board of Management and employees	**(2)**			
Change related to minimum pension liability	**65**		294	
Changes in exchange rates	**(42)**		(149)	
Total changes directly charged to equity		**21**		145
Comprehensive income		**877**		747

For details on the changes in Akzo Nobel N.V. shareholders' equity see note f to the balance sheet of Akzo Nobel N.V.

Note [15] **Provisions**

	Total	Deferred taxes	Pensions and other postretirement benefits	Restructuring of activities	Environmental costs	Other
Balance at December 31, 2003	3,923	590	2,529	289	203	312
Amounts recognized as (income)/expense	582	(102)	322	128	64	170
Divestiture	(10)	(2)	(2)	(2)	(1)	(3)
Utilization	(641)		(363)	(172)	(22)	(84)
Change in minimum pension liability	(102)		(102)			
Changes in exchange rates	(33)	(7)	(20)	(2)	(2)	(2)
Balance at December 31, 2004	**3,719**	**479**	**2,364**	**241**	**242**	**393**

The current portion of provisions amounted to EUR 500 million (at December 31, 2003: EUR 616 million).

Deferred Tax Provisions

For details on the total position for deferred taxes see note 10.

Provisions for Pensions and Postretirement Benefits other than Pensions

Akzo Nobel has a number of defined benefit pension plans covering the majority of employees. The benefits for these plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment.

Obligations under the defined benefit plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions.
Plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate.

Akzo Nobel also provides certain healthcare and life insurance benefits for most of the Company's retired employees in the United States and the Netherlands. The Company accrues for the expected costs of providing such postretirement benefits during the years that the employee renders the necessary services.

Valuations of the obligations under the pension and other postretirement plans are carried out by independent actuaries. The measurement date for the pension and postretirement plans in the Netherlands is December 31. The measurement date for most foreign plans is September 30, with due allowance for contribution and benefit payments during the fourth quarter.

Below a table is provided with a summary of the changes in the pension benefit obligation and plan assets for 2004 and 2003.

	The Netherlands		Foreign		Total	
	2004	2003	**2004**	2003	**2004**	2003
Benefit obligation						
Balance at beginning of year	**(4,138)**	(4,023)	**(4,229)**	(4,332)	**(8,367)**	(8,355)
Acquisitions		(3)		(15)		(18)
Settlements/curtailments	**167**		**1**		**168**	
Service costs	**(130)**	(141)	**(79)**	(76)	**(209)**	(217)
Contribution by employees	**(22)**	(22)	**(17)**	(10)	**(39)**	(32)
Interest costs	**(212)**	(207)	**(236)**	(225)	**(448)**	(432)
Plan amendments				(2)		(2)
Benefits paid	**202**	193	**249**	270	**451**	463
Actuarial gains and losses	**(242)**	65	**(91)**	(117)	**(333)**	(52)
Changes in exchange rates			**104**	278	**104**	278
Balance at end of year	**(4,375)**	(4,138)	**(4,298)**	(4,229)	**(8,673)**	(8,367)
Plan assets						
Balance at beginning of year	**3,383**	3,086	**2,948**	2,896	**6,331**	5,982
Acquisitions		3				3
Settlements/curtailments	**(75)**		**(1)**		**(76)**	
Contribution by employer	**220**	148	**96**	102	**316**	250
Contribution by employees	**22**	22	**17**	10	**39**	32
Benefits paid	**(198)**	(187)	**(216)**	(238)	**(414)**	(425)
Actual return on plan assets	**354**	311	**282**	382	**636**	693
Changes in exchange rates			**(82)**	(204)	**(82)**	(204)
Balance at end of year	**3,706**	3,383	**3,044**	2,948	**6,750**	6,331
Funded status	**(669)**	(755)	**(1,254)**	(1,281)	**(1,923)**	(2,036)
Unrecognized net loss	**592**	546	**1,096**	1,176	**1,688**	1,722
Unrecognized prior service costs	**123**	145	**12**	17	**135**	162
Net balances	**46**	(64)	**(146)**	(88)	**(100)**	(152)

The net balance of the pension benefit plans is recognized in the Consolidated Balance Sheet as follows:

	The Netherlands		Foreign		Total	
	2004	2003	**2004**	2003	**2004**	2003
Prepaid pension costs (under other financial noncurrent assets)	**49**		**440**	477	**489**	477
Provisions for pensions and other postretirement benefits (under provisions)	**(246)**	(319)	**(1,583)**	(1,652)	**(1,829)**	(1,971)
Intangible assets	**123**	145	**14**	20	**137**	165
Charged against shareholders' equity	**120**	110	**983**	1,067	**1,103**	1,177
	46	(64)	**(146)**	(88)	**(100)**	(152)

For all plans, the accumulated benefit obligation exceeded plan assets both at December 31, 2004, and at December 31, 2003.

Details for the minimum pension liability are as follows:

	The Netherlands		Foreign		Total	
	2004	2003	**2004**	2003	**2004**	2003
Accumulated benefit obligation	**(3,903)**	(3,698)	**(4,187)**	(4,117)	**(8,090)**	(7,815)
Credit/(charge) to shareholders' equity for minimum pension liability:						
– before taxes	**(10)**	206	**84**	238	**74**	444
– after taxes[1)]	**(11)**	134	**78**	168	**67**	302

The 2004 and 2003 net periodic pension costs for the defined benefit pension plans were as follows:

	The Netherlands		Foreign		Total	
	2004	2003	**2004**	2003	**2004**	2003
Service costs for benefits earned during the period	**130**	141	**79**	76	**209**	217
Interest costs on projected benefit obligations	**212**	207	**236**	225	**448**	432
Expected return on plan assets	**(228)**	(211)	**(203)**	(182)	**(431)**	(393)
Amortization of prior service costs	**14**	15	**3**	5	**17**	20
Amortization of net actuarial loss	**10**	23	**63**	68	**73**	91
Amortization of transition (asset)/obligation		(7)		7		–
Settlement/curtailment (gain)/loss	**(23)**		**3**	5	**(20)**	5
	115	168	**181**	204	**296**	372

The principal defined benefit pension plans cover more than 50% of Akzo Nobel's employees.
The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 41 million in 2004 and EUR 39 million in 2003.

1) *Includes the effect of changes in enacted tax rates.*

The weighted average assumptions underlying the computations were:

Percent	The Netherlands 2004	The Netherlands 2003	Foreign 2004	Foreign 2003	Total 2004	Total 2003
Pension benefit obligation at December 31:						
– discount rate	**4.5**	5.3	**5.5**	5.6	**5.0**	5.4
– rate of compensation increase	**2.5**	2.5	**4.0**	3.8	**3.2**	3.2
Net periodic pension costs:						
– discount rate	**5.3**	5.3	**5.6**	6.0	**5.4**	5.6
– rate of compensation increase	**2.5**	3.0	**3.8**	4.2	**3.2**	3.6
– expected return on plan assets	**6.8**	6.8	**6.7**	6.7	**6.7**	6.8

The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans.

Akzo Nobel's primary objective with regard to the investment of pension plan assets is to ensure that in each individual scheme sufficient funds are available to satisfy future benefit obligations.
For this purpose so-called asset and liability management (ALM) studies are made periodically at each pension fund. For each of the pension plans an appropriate mix is determined on the basis of the outcome of these ALM studies, taking into account the national rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. The pension plan asset allocation at December 31, 2004 and 2003, and the target allocation for 2005 for the pension plan in the Netherlands by asset category are as follows:

Percent	Target allocation 2005	Percentage of plan assets at December 31, 2004	2003
Equity securities	30–50	44	42
Long-term interest-earning investments	40–60	45	46
Real estate	7.5–12.5	10	9
Other	0–10	1	3
Total		100	100

The weighted pension plan asset allocation at December 31, 2004 and 2003, and the target allocation for 2005, for the foreign pension plans by asset category are as follows:

Percent	Target allocation 2005	Percentage of plan assets at December 31, 2004	2003
Equity securities	50–55	49	51
Long-term interest-earning investments	35–40	38	36
Real estate	5–10	8	9
Other	0–5	5	4
Total		100	100

Postretirement benefit plans concern healthcare benefits plans in the Netherlands and the United States. Below a table is provided with a summary of the changes in the accumulated postretirement benefit obligations and plan assets for 2004 and 2003.

	The Netherlands		The United States		Total	
	2004	2003	**2004**	2003	**2004**	2003
Benefit obligation						
Balance at beginning of year	**(193)**	(156)	**(375)**	(368)	**(568)**	(524)
Settlements/curtailments	**5**		**(1)**		**4**	
Service costs	**(7)**	(7)	**(15)**	(15)	**(22)**	(22)
Interest costs	**(10)**	(8)	**(22)**	(24)	**(32)**	(32)
Benefits paid	**8**	7	**18**	17	**26**	24
Actuarial gains/(losses)	**41**	(29)	**21**	(55)	**62**	(84)
Changes in exchange rates			**29**	70	**29**	70
Balance at end of year	**(156)**	(193)	**(345)**	(375)	**(501)**	(568)
Plan assets						
Balance at beginning of year			**1**	2	**1**	2
Benefits paid			**(1)**	(1)	**(1)**	(1)
Actual return on plan assets			**–**	–	**–**	–
Changes in exchange rates			**–**	–	**–**	–
Balance at end of year			**–**	1	**–**	1
Funded status	**(156)**	(193)	**(345)**	(374)	**(501)**	(567)
Unrecognized net loss	**30**	80	**78**	109	**108**	189
Unrecognized prior service costs	**7**	8	**2**	2	**9**	10
Net balances	**(119)**	(105)	**(265)**	(263)	**(384)**	(368)

The net balances of other postretirement benefit plans are all recognized in the Consolidated Balance Sheet under provisions for pensions and other postretirement benefits (under provisions).

The 2004 actuarial gains in the United States include the effect of the Medicare Prescription Drug Improvement and Modernization Act of 2003, which introduces prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans, which will both begin on January 1, 2006.

Net periodic other postretirement benefit costs are as follows:

	The Netherlands		The United States		Total	
	2004	2003	**2004**	2003	**2004**	2003
Service costs for benefits allocated to the period	**7**	7	**15**	15	**22**	22
Interest costs on accumulated postretirement obligation	**10**	8	**22**	24	**32**	32
Amortization of prior service costs	**1**	–		–	**1**	–
Net actuarial loss recognized	**4**	3	**3**	3	**7**	6
Curtailment loss	**–**		**1**		**1**	
	22	18	**41**	42	**63**	60

Weighted average assumptions for postretirement benefits were as follows:

Percent	The Netherlands 2004	The Netherlands 2003	The United States 2004	The United States 2003
Discount rate for net periodic benefit cost	**5.3**	5.3	**6.3**	6.8
Discount rate for benefit obligations at December 31	**4.5**	5.3	**6.0**	6.3
Assumed healthcare cost trend rates at December 31:				
– healthcare cost trend rate assumed for next year	**–**	4.0	**9.0**	9.5
– rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**–**	4.0	**5.0**	5.0
– year that the rate reaches the ultimate trend rate	**2005**	2004	**2009**	2009

In line with plan agreements, allowances under the healthcare plan in the Netherlands are assumed not to increase anymore.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	The Netherlands		The United States		Total	
	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost	2	(2)	6	(5)	8	(7)
Effect on postretirement benefit obligation	13	(11)	49	(41)	62	(52)

Cash Flows

The Company expects to contribute EUR 237 million to its pension plans in 2005, of which EUR 149 million for the pension plan in the Netherlands and EUR 88 million for the foreign pension plans.

The following benefit payments, which take into account the effect of future service, are expected to be paid:

	Pensions			Other postretirement benefits		
	The Netherlands	Foreign	Total	The Netherlands	The United States	Total
2005	197	239	436	8	17	25
2006	205	244	449	8	18	26
2007	214	247	461	9	19	28
2008	225	247	472	9	20	29
2009	235	252	487	10	21	31
2010–2014	1,357	1,322	2,679	59	125	184

Provisions for Environmental Costs

For details on environmental exposures see note 19.

Other Provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases of EUR 180 million. See note 19.

Note [16] **Long-Term Borrowings**

	2004	2003
Debentures:		
– issued by Akzo Nobel N.V.	**2,314**	2,340
– issued by consolidated companies	**194**	211
Private borrowings	**9**	15
Debt to credit institutions	**94**	77
Other borrowings	**83**	74
	2,694	2,717

At December 31, 2004, the total amount of long-term credit facilities arranged by Akzo Nobel was EUR 1.5 billion (at December 31, 2003: EUR 1.5 billion). Neither at the end of 2004 nor at the end of 2003 the facilities were used.

During 2004, the average interest rate was 4.9% (2003: 5.1%).

Aggregate maturities of long-term borrowings are as follows:

	2005	2006/2009	after 2009
Debentures:			
– issued by Akzo Nobel N.V.	227	1,337	750
– issued by consolidated companies	2	92	100
Private borrowings	9		
Debt to credit institutions	48	21	25
Other borrowings	16	16	51
	302	1,466	926

For details on debentures issued by Akzo Nobel N.V. see note g to the balance sheet of Akzo Nobel N.V.

At December 31, 2004, as at December 31, 2003, none of the borrowings was secured by means of mortgages, etc.

For details on financial instruments see note 20.

Note [17] **Short-Term Borrowings**

	2004	2003
Debt to credit institutions	**241**	416
Borrowings from nonconsolidated companies	**17**	25
	258	441

Akzo Nobel has a commercial paper program in the United States, which at December 31, 2004, as at December 31, 2003, had a maximum of USD 1.0 billion (year-end 2004: EUR 0.7 billion; year-end 2003: EUR 0.8 billion), and a Euro commercial paper program, which at December 31, 2004, as at December 31, 2003, had a maximum of EUR 1.5 billion. Both at December 31, 2004, and December 31, 2003, there was no commercial paper outstanding.

For details on financial instruments see note 20.

Note [18] **Current Liabilities**

	2004	2003
Prepayments by customers	**17**	14
Suppliers	**1,146**	1,091
Debt to nonconsolidated companies	**2**	4
Taxes and social security contributions	**531**	361
Amounts payable to employees	**289**	329
Dividends	**1**	3
Pensions	**5**	10
Other liabilities	**567**	419
	2,558	2,231

Note [19] **Commitments and Contingent Liabilities**

Environmental Matters

The Company is confronted with substantial costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against the Company in various countries.

It is the Company's policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has materialized and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and cleanups proceed and additional information becomes available. Environmental liabilities can change substantially by the emergence of additional information on the nature or extent of contamination, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors of a similar nature. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

As stated in note 15, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 242 million at December 31, 2004 (at December 31, 2003: EUR 203 million).

While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion based on information currently available, would not have a material effect on the Company's financial position but could be material to the Company's results of operations in any one accounting period.

Antitrust Cases

Akzo Nobel is involved in investigations by the antitrust authorities in the European Union, the United States, and Canada into alleged violations of the respective antitrust laws for some products in these jurisdictions. The Company is fully cooperating with the authorities in these investigations. In addition, the Company is defending civil damage claims in relation to some of these alleged antitrust violations.
At December 31, 2003, the Company had a provision for antitrust cases of EUR 75 million. Fines, civil damage settlements, and legal costs incurred in 2004 in connection with these cases amounted to EUR 5 million (2003: EUR 27 million).

In 2004, based on an estimate of probable fines, civil damage claims, and costs to be paid over a number of years to come – taking into account legal advice and the current facts and circumstances – the Company added EUR 110 million to the provision for antitrust cases. This also includes the fines of EUR 21 million, imposed by the European Commission in December 2004 in connection with Akzo Nobel companies' involvement in a cartel for choline chloride, and of EUR 84 million, imposed by the European Commission in January 2005 for involvement in a monochloroacetic acid cartel, even though the Company is still considering whether or not to appeal one or both of the decisions. At December 31, 2004, the provision for antitrust cases amounted to EUR 180 million.

It should be understood, however, that in light of possible future developments such as (a) the outcome of investigations of the various antitrust authorities, (b) potential additional lawsuits by (direct or indirect) purchasers, (c) possible future civil settlements, and (d) rulings or judgments in the pending investigations or in related civil suits, the antitrust cases are likely to result in additional liabilities and related costs. The Company at this point in time cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence. The Company believes that the aggregate amount of any additional fines and civil damages to be paid will not materially affect the Company's financial position. The aggregate amount, however, could be material to the Company's results of operations or cash flows in any one accounting period.

With regard to Flexsys, a 50/50 joint venture for rubber chemicals with Solutia Inc., authorities in the United States, Canada, and Europe are investigating alleged antitrust violations in the rubber chemicals industry. We have been informed by Flexsys management that it is cooperating with the authorities and will continue to do so. We are also aware of a number of purported class actions and an individual action having been filed against Flexsys in federal court (by direct purchasers) and in various state courts (by alleged indirect purchasers) in the United States, and in the province of Quebec, Canada. The Company has been named as codefendant in the federal actions and in state actions in Florida and Massachusetts. Flexsys has recognized certain provisions for these cases and the Company does not believe that it will be liable for funding any judgments against, settlements made by, or related costs incurred by Flexsys. The carrying value of the Company's investment in Flexsys, however, may be affected by these cases.

Other Litigation (including Remeron® cases)
In December 2002 summary judgment of noninfringement was obtained by certain generic drug manufacturers, sued by the Company under the U.S. Hatch-Waxman Act, alleging inducement of infringement by such manufacturers of the Company's U.S. patent protecting the use of mirtazapine (Remeron®) in combination with one or more SSRIs for the treatment of depression. Three of the generic drug manufacturers sued by the Company filed antitrust claims against the Company as counterclaims in the infringement actions brought by the Company. In addition, antitrust claims were filed against the Company in the United States on behalf of nine large chain store and grocery store pharmacies, and by alleged classes of direct and indirect purchasers of Remeron®. These cases were consolidated in the Federal District Court of New Jersey. In addition to these cases, the state attorneys general of the States of Texas, Florida, and Oregon opened civil investigations to determine if the Company's conduct violated their respective laws and the Federal Trade Commission (FTC), working with the State Attorneys General, opened a civil investigation to determine whether the Company violated federal law.

In April 2004, the Company reached settlements with the three generic manufacturers in an aggregate amount of USD 28 million. In September 2004, the Company reached a settlement with the indirect purchaser class (class of consumers and third party payers in the United States who paid for mirtazapine during the relevant period) for total consideration of USD 36 million. This settlement also resolved the claims and investigations of the three state attorneys general that had commenced investigations as well as the claims of all other states. The FTC announced that in light of the states' settlement it was closing its investigation without taking any action. The indirect purchasers' and state attorneys' general settlement is subject to certain conditions including, but not limited to, approval by the Federal District Court of New Jersey. In September 2004, the Company also settled with the nine large chain store and grocery store plaintiffs in an aggregate amount of USD 24 million. The Company continues to believe that its actions in obtaining and enforcing its intellectual property rights were appropriate. However, given the costs and risks of defending these actions, the Company took the opportunity to resolve these matters. Including legal costs the Company recognized a total pretax charge of EUR 89 million for the Remeron® cases during 2004.

The action brought by an alleged class of direct purchasers remains pending in the Federal District Court in Newark, New Jersey. In September 2004, the District Court granted, in part, the Company's motion to dismiss claims brought by those direct purchasers while denying the plaintiff's motion for partial summary judgment. The Company's motion for summary judgment as to the remaining claims and the motions of the plaintiff for partial summary judgment as to aspects of the claims remain outstanding, as does the plaintiff's motion for class certification. No trial date has been set. The Company will continue to defend this remaining claim vigorously.

There are pending against Akzo Nobel N.V. and its subsidiaries a number of other claims, all of which are contested. The Company is also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, the Company believes, based upon legal advice and information received, that the final outcome will not materially affect the consolidated financial position of the Company but could be material to the Company's result of operations or cashflows in any one accounting period.

Commitments
Purchase commitments for property, plant and equipment aggregated EUR 96 million at December 31, 2004. At December 31, 2003, these commitments totaled EUR 80 million. In addition, the Company has purchase commitments for raw materials and supplies incident to the ordinary conduct of business.

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated EUR 557 million at December 31, 2004 (at December 31, 2003: EUR 504 million). Payments due within one year amount to EUR 165 million (2003: EUR 153 million); payments due after more than five years amount to EUR 123 million (2003: EUR 84 million).

Guarantees related to nonconsolidated companies totaled EUR 5 million (at December 31, 2003: EUR 9 million). As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2004, the risk ensuing from these liabilities was EUR 92 million (at December 31, 2003: EUR 139 million).

Note [20] **Financial Instruments**

Foreign Exchange Risk Management
The Company routinely enters into forward exchange contracts to hedge transaction exposures. These principally arise with respect to assets and liabilities or firm commitments related to sales and purchases. The purpose of Akzo Nobel's foreign currency hedging activities is to protect the Company from the risk that the eventual functional currency net cash flows resulting from trade transactions are adversely affected by changes in exchange rates.

At December 31, 2004, outstanding contracts to buy currencies totaled EUR 1.1 billion (at December 31, 2003: EUR 1.4 billion), while contracts to sell currencies totaled EUR 0.9 billion (at December 31, 2003: EUR 1.6 billion). These contracts mainly relate to U.S. dollars, Canadian dollars, Swedish kronor, pounds sterling, and Japanese yen.

The Company does not use financial instruments to hedge the translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries and nonconsolidated companies.

Interest Risk Management
In principle, the Company manages interest risk by financing noncurrent assets and a certain portion of current assets with equity, provisions, and long-term borrowings with fixed interest rates. The remainder of current assets is financed with short-term debt, including floating rate short-term borrowings.
In line with this policy, a number of swap contracts and forward rate agreements have been entered into.

The Company swapped EUR 500 million fixed rate liabilities with an interest rate of 5.625% with floating rate LIBOR-related liabilities of USD 445 million and a remaining maturity of 4 years.

The Company swapped fixed rate liabilities with an interest rate of 4.25% with floating rate EURIBOR-related liabilities for an amount of EUR 650 million and a remaining maturity of 6 years.

The Company concluded forward rate agreements whereby the interest on deposits was fixed for an average volume of EUR 300 million in the range from 2.18% to 2.46%, ending October 2005.

Fixed rate liabilities with an interest rate of 6.3% were swapped with floating rate EURIBOR-related liabilities for an amount of EUR 145 million and a remaining maturity of 1 year. Floating rate EURIBOR-related liabilities were swapped with fixed rate liabilities with an interest rate of 5.3% for an amount of EUR 145 million and a remaining maturity of 1 year.

Credit Risk

Under the agreements concluded for its financial instruments, the Company is exposed to credit loss in the event of nonperformance by the counterparty to any one of these agreements. In the event of a counterparty's default, the resulting exposure would equal the difference between (a) the prevailing market interest rate and exchange rate and (b) the agreed swap interest and exchange rate.
The Company has no reason to expect nonperformance by the counterparties to these agreements, given their high credit ratings.

Due to the geographical spread of the Company and the diversity of its customers, the Company is not subject to any material concentration of credit risks.

Commodities

In order to hedge the price risk of natural gas, the Company has entered into swap contracts for the underlying fuels, with an average volume of 32,000 ton coal, 30,000 barrels of crude oil and 12,000 ton heavy fuel oil for the period January through October 2005, whereby the price is fixed. The Company also concluded futures contracts for the purchase of 1.0 million m^3 of gas, reasonably spread over the period January through June 2005.

Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments do not differ materially with the exception of the following:

	December 31, 2004		December 31, 2003	
Asset/(liability)	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Foreign currency contracts	**11**	**12**	93	91
Interest rate currency swaps	**175**	**237**	148	202
Interest swap contracts	**–**	**32**	–	4
Forward rate agreements	**–**	**–**	–	–
Long-term borrowings	**(2,694)**	**(2,868)**	(2,717)	(2,834)
Petroleum swaps		**–**		
Gas futures		**–**		2
Petroleum options				2

The fair value of foreign currency contracts, swap contracts, forward rate agreements, petroleum options, and gas futures was estimated by calculation and obtaining quotes from dealers and brokers.

The fair value of the Company's long-term borrowings was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt with similar maturities.

The carrying amounts of cash and cash equivalents, receivables, short-term borrowings, and other current liabilities approximate fair value due to the short maturity period of those instruments.

The Company has no other signficant financial instruments.

Note [21] CONSOLIDATED STATEMENT OF CASH FLOWS

The consolidated statement of cash flows is based on a comparison of initial and final balance sheet amounts, in which currency translation differences, changes in investments in affiliated companies, etc. are eliminated. For some items the elimination can be derived directly from the notes to the balance sheet. For certain other items the elimination is shown below.

	Working capital	Long-term borrowings	Short-term borrowings
Changes in 2004 balance sheet items	(386)	(23)	(183)
Eliminations:			
– changes in exchange rates	26	46	5
– changes in consolidation	204	(13)	(1)
Changes in 2004 financial position	(156)	10	(179)

Supplemental cash flow disclosures

	2004	2003
Cash paid during the year for:		
– interest	**139**	159
– income taxes	**217**	124

AKZO NOBEL N.V. STATEMENT OF INCOME

Millions of euros	NOTE	2004	2003
Net income from affiliated companies	a	895	629
Other net income		(39)	(27)
Net income		856	602

AKZO NOBEL N.V. BALANCE SHEET

BEFORE ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2004	2004	2003	2003
Assets					
Noncurrent assets					
Financial noncurrent assets	c		7,944		8,351
Current assets					
Receivables	d	93		167	
Cash and cash equivalents	e	1,451		370	
			1,544		537
Total			9,488		8,888
Shareholders' Equity and Liabilities					
Shareholders' equity	f				
Subscribed share capital		572		572	
Additional paid-in capital		1,803		1,803	
Statutory reserves		85		85	
Cumulative currency translation differences		(1,070)		(1,045)	
Other reserves		1,635		1,395	
Undistributed profits		770		516	
Capital and reserves		3,795		3,326	
Minimum pension liability		(759)		(824)	
			3,036		2,502
Long-term borrowings	g		6,283		6,274
Short-term debt	h		169		112
Total			9,488		8,888

The accompanying notes are an integral part of these financial statements.

NOTES TO AKZO NOBEL N.V. STATEMENT OF INCOME AND BALANCE SHEET

GENERAL

Unless stated otherwise, all amounts are in millions of euros.

Foreign currency has been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income given on pages 80 through 83. As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code.

STATEMENT OF INCOME

Note [a] **Net Income from Affiliated Companies**

Net income from affiliated companies relates to Akzo Nobel N.V.'s share in the earnings of its affiliates. For further details see note c.

Note [b] **Remuneration and Shares of the Members of the Supervisory Board and the Board of Management**

Pursuant to the Dutch "Disclosure of Remuneration of Board Members Act," total remuneration and shares held by members of the Supervisory Board and the Board of Management are specified below.

Supervisory Board

In respect of their functions the members of the Supervisory Board received the following remuneration:

Euros	**2004**	2003
Aarnout Loudon, *Chairman* [1]	**59,000**	56,100
Frits Fentener van Vlissingen [3]	**16,000**	47,200
Maarten van Veen [1] [4]	**48,000**	47,200
Virginia Bottomley [1]	**48,000**	45,700
Dolf van den Brink [5]	**32,000**	
Uwe-Ernst Bufe [2]	**48,000**	32,000
Abraham Cohen [2]	**48,000**	47,200
Cees van Lede	**41,000**	27,300
Alain Mérieux	**41,000**	41,000
Lars Thunell [2]	**48,000**	47,200
Karel Vuursteen [1]	**48,000**	45,700

In accordance with the articles of association and good corporate governance practice, the remuneration of Supervisory Board members is not dependent on the results of the Company. The Company does not grant stock options and/or shares to its Supervisory Board members and does not provide loans to them. Travel expenses and facilities for members of the Supervisory Board are borne by the Company and reviewed by the Audit Committee.

[1] *Member of the Remuneration Committee and member of the Nomination Committee.*
[2] *Member of the Audit Committee.*
[3] *Until May 1, 2004, Deputy Chairman and member of the Audit Committee.*
[4] *From May 1, 2004, Deputy Chairman.*
[5] *From May 1, 2004, member of the Supervisory Board and member of the Audit Committee.*

The shares in the Company owned by Supervisory Board members serve as a long-term investment in the Company. Details on shareholdings of Supervisory Board members are set out below.

Number of shares	
Virginia Bottomley	500
Abraham Cohen	4,000
Cees van Lede	5,500
Maarten van Veen	297
Karel Vuursteen	400

Former members of the Supervisory Board did not receive any remuneration.

Board of Management

Active Members

The individual service contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adapted by the General Meeting of Shareholders. For more detailed information on the decisions of the Remuneration Committee with respect to the service contracts of the Board of Management see pages 74 through 78 of this Annual Report.

Overview of Remuneration 2004

The members of the Board of management received the following salaries, performance-related bonuses, emoluments, and other compensations.

Salaries, Performance-Related Bonuses, and Other Emoluments

	Salary		Bonus		Other emoluments	
Euros	**2004**	2003	**2004**	2003	**2004**	2003
Hans Wijers, *Chairman*	**644,900**	614,000	**628,500**	338,400	**6,000**	5,300
Leif Darner, *from July 1, 2004*	**230,300**		**207,300**		**3,100**	
Fritz Fröhlich, *Deputy Chairman, until May 1, 2004*	**184,100**	552,200	**129,900**	284,000	**1,700**	6,400
Rob Frohn, *from May 1, 2004*	**307,000**		**276,300**		**4,300**	
Rudy van der Meer	**460,500**	460,500	**392,400**	235,500	**3,000**	5,000
Dag Strömqvist, *until July 1, 2004*	**214,900**	460,500	**144,600**	235,500	**1,400**	4,500
Toon Wilderbeek	**460,500**	460,500	**414,500**	240,000	**6,000**	5,000

Other emoluments concern employers' charges (social contributions and healthcare contributions).

Other compensations

Other compensations for members of the Board of Management borne by the company amounted to EUR 95,300 for Mr. Darner, related to relocation cost, compensation for living expenses and contributions to an international school, EUR 38,600 for Mr. Frohn, related to relocation cost and compensation for living expenses related to the move to the Netherlands, and EUR 133,900 for Mr. Wilderbeek, related to compensation for his stay in the United States.

In 2004, Mr. Fröhlich and Mr. Strömqvist retired as members of the Board of Management as of May 1 and July 1, respectively. They did not receive any other compensations.

Pension charges

After deduction of any contributions made by members of the Board of Management, pension expenses borne by the company were as follows:

Euros	**2004**	2003
Hans Wijers	**281,300**	198,100
Leif Darner, *from July 1, 2004*	**44,500**	
Fritz Fröhlich, *until May 1, 2004*	**463,900**	436,200
Rob Frohn, *from May 1, 2004*	**119,900**	
Rudy van der Meer	**15,100**	359,300
Dag Strömqvist, *until July 1, 2004*	**95,600**	286,800
Toon Wilderbeek	**300,700**	237,200

Incentives

In 2004, conditional and performance-related stock options and shares were granted to the members of the Board of Management. The stock options for 2001-2011 were fixed in 2004.

The aggregate numbers of (conditional) stock options held by the members of the Board of Management are as follows:

Number of options	Year of issue	Exercise price in EUR	Outstanding at December 31, 2003	Granted in 2004	Lapsed in 2004	Outstanding at December 31, 2004	Expiry date
Hans Wijers	2002	46.53	14,850			14,850	April 25, 2012
	2003	19.51	29,700			29,700	April 22, 2010
	2004	31.45		23,000		23,000	April 25, 2011
Value outstanding options, *in EUR*						568,800	
Leif Darner	1999	42.50	4,500		4,500		
	2000	44.82	4,950			4,950	April 27, 2005
	2001	46.75	4,950			4,950	April 30, 2006
	2002	46.53	4,950			4,950	April 25, 2009
	2003	19.51	4,950			4,950	April 22, 2010
	2004	31.45		15,000		15,000	April 25, 2011
Value outstanding options, *in EUR*						182,900	
Fritz Fröhlich, *retired at May 1, 2004*	1999	42.50	27,000		27,000		
	2000	44.82	29,700			29,700	April 27, 2010
	2001	46.75	29,700		832	28,868	April 30, 2011
	2002	46.53	29,700			29,700	April 25, 2012
	2003	19.51	29,700			29,700	April 22, 2010
	2004	31.45		20,000		20,000	April 25, 2011
Value outstanding options, *in EUR*						802,000	
Rob Frohn	1999	42.50	1,200		1,200		
	2000	44.82	4,950			4,950	April 27, 2005
	2001	46.75	4,950			4,950	April 30, 2006
	2002	46.53	4,950			4,950	April 25, 2009
	2003	19.51	4,950			4,950	April 22, 2010
	2004	31.45		15,000		15,000	April 25, 2011
Value outstanding options, *in EUR*						182,900	
Rudy van der Meer	1999	42.50	24,000		24,000		
	2000	44.82	26,400			26,400	April 27, 2010
	2001	46.75	26,400		739	25,661	April 30, 2011
	2002	46.53	26,400			26,400	April 25, 2012
	2003	19.51	26,400			26,400	April 22, 2010
	2004	31.45		15,000		15,000	April 25, 2011
Value outstanding options, *in EUR*						693,600	
Dag Strömqvist, *retired at July 1, 2004*	1999	42.50	6,000		6,000		
	2000	44.82	3,300			3,300	April 27, 2005
	2000	44.82	13,200			13,200	April 27, 2010
	2001	46.75	26,400		739	25,661	April 30, 2011
	2002	46.53	26,400			26,400	April 25, 2012
	2003	19.51	26,400			26,400	April 22, 2010
	2004	31.45		10,000		10,000	April 25, 2011
Value outstanding options, *in EUR*						615,700	
Toon Wilderbeek	1999	42.50	4,500		4,500		
	2000	44.82	6,600			6,600	April 27, 2005
	2001	46.75	6,600			6,600	April 30, 2006
	2002	46.53	3,300			3,300	April 25, 2009
	2002	46.53	13,200			13,200	April 25, 2012
	2003	19.51	26,400			26,400	April 22, 2010
	2004	31.45		15,000		15,000	April 25, 2011
Value outstanding options, *in EUR*						484,700	

In 2004, no stock options were exercised by members of the Board of Management.

For more details on the lapsed options 2001–2011 see page 78 of this annual report.

In 2004 the following performance-related shares were granted to the members of the Board of Management:

Number of shares	Year of issue	Granted in 2004	Outstanding rights at December 31, 2004	Value at January 1,2004	Expiry date
Hans Wijers	2004	33,000	33,000	357,700	December 31, 2010
Leif Darner	2004	22,000	22,000	238,500	December 31, 2010
Rob Frohn	2004	22,000	22,000	238,500	December 31, 2010
Rudy van der Meer	2004	22,000	22,000	238,500	December 31, 2010
Toon Wilderbeek	2004	22,000	22,000	238,500	December 31, 2010

The value of the performance-related options is determined at December 31, 2004. The value of the performance-related shares is determined on grant date, January 1, 2004. For further details on the valuation of the stock options and performance-related shares see page 76 of this annual report.

Shareholdings

Akzo Nobel N.V. common shares held by members of the Board of Management at December 31, 2004, were:

Number of shares	
Hans Wijers	1,604
Rob Frohn	1,000
Rudy van der Meer	1,183

As a policy, the company does not provide loans to members of the Board of Management.

Former Members of the Board of Management

In 2004, charges relating to former members of the Board of Management amounted to EUR 547,900 (2003: EUR 656,700), mainly related to pension expenses.

Note [c] **Financial Noncurrent Assets**

	Total	Consolidated companies: Share in capital	Consolidated companies: Loans[1)]	Other financial noncurrent assets
Balance at December 31, 2003	8,351	1,962	6,369	20
Investments/disinvestments	(384)	(384)		
Equity in earnings	895	895		
Dividends received	(920)	(920)		
Loans granted	1,178		1,178	
Repayment of loans	(1,199)		(1,196)	(3)
Change related to minimum pension liability	65	65		
Changes in exchange rates	(42)	(9)	(33)	
Balance at December 31, 2004	**7,944**	**1,609**	**6,318**	**17**

Note [d] **Receivables**

	2004	2003
Receivables from consolidated companies	**28**	19
Receivables from nonconsolidated companies	**10**	6
Taxes	**–**	–
Other receivables	**55**	142
	93	167

Note [e] **Cash and Cash Equivalents**

	2004	2003
Short-term investments	**1,434**	357
Cash on hand and in banks	**17**	13
	1,451	370

At December 31, 2004, the amount of cash and cash equivalents was freely available.

1) *Loans to these companies have no fixed repayment schedule.*

Note [f] **Shareholders' Equity**

	Subscribed share capital	Additional paid-in capital	Statutory reserves	Cumulative translation differences	Other reserves	Undistri-buted profits	Capital and reserves	Minimum pension liability	Share-holders' equity
Balance at December 31, 2002	572	1,803	82	(896)	923	732	**3,216**	(1,118)	**2,098**
Purchase of common shares – net					–		**–**		**–**
Net income						602	**602**		**602**
Dividend						(343)	**(343)**		**(343)**
Addition to other reserves					475	(475)			
Capitalized development cost			3		(3)		–		**–**
Changes related to minimum pension liability								294	**294**
Changes in exchange rates in respect of affiliated companies				(149)			**(149)**		**(149)**
Balance at December 31, 2003	572	1,803	85	(1,045)	1,395	516	**3,326**	(824)[1]	**2,502**
Share plan for Board of management and employees					(2)		**(2)**		**(2)**
Delivery of purchased common shares					–		**–**		**–**
Net income						856	**856**		**856**
Dividend						(343)	**(343)**		**(343)**
Addition to other reserves					259	(259)			
Capitalized development cost					–		**–**		**–**
Changes related to minimum pension liability								65	**65**
Divested companies				17	(17)				
Changes in exchange rates in respect of affiliated companies				(42)			**(42)**		**(42)**
Balance at December 31, 2004	**572**	**1,803**	**85**	**(1,070)**	**1,635**	**770**	**3,795**	**(759)**[1]	**3,036**

Subscribed Share Capital

Authorized capital stock of Akzo Nobel N.V. is EUR 1,600,019,200 and consists of 48 priority shares of EUR 400, 600 million common shares of EUR 2, and 200 million cumulative preferred shares of EUR 2. Subscribed share capital consists of 48 priority shares, 286,147,260 common shares, and no preferred shares. In 2004, no common shares were issued. In connection with Akzo Nobel's stock option plan, the Company held 374,021 common shares at December 31, 2004 (December 31, 2003: 455,303, when it included shares for Akzo Nobel's Employee Share Plan).

Stock Options

Options are granted to all members of the Board of Management, Senior Vice Presidents, and Executives. The number of participants was 733 in 2004 (2003: 762). The options for Senior Vice Presidents and Executives expire after five years. Options granted from 2002 onwards expire after seven years. Options (conditional) granted to members of the Board of Management as from 2000 expire after ten years. Options granted from 2003 onwards expire after seven years. All outstanding options from the series 1999, which were excercisable immediately upon grant, lapsed in 2004. Options issued as from 1999 cannot be excercised during the first three years. The Company currently does not purchase own shares in connection with its stock option plan.

No financing facilities exist for option rights or tax payable thereon. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share of EUR 2 or one American Depositary Receipt (ADR). The exercise price is the Euronext Amsterdam opening price on the first day that the Akzo Nobel share is quoted ex dividend or the opening price for an ADR on NASDAQ/NMS on the first day that the Akzo Nobel ADR is quoted ex dividend. For a certain portion of option rights granted in 2002 common shares were purchased. See also the disclosures under subscribed share capital.

1) *Includes minimum pension liability for nonconsolidated companies of EUR 10 million (2003: EUR 8 million).*

Outstanding Option Rights (including Board of Management)

Year of issue	Exercise price in EUR	Outstanding at December 31, 2003	Granted in 2004	Lapsed in 2004	Outstanding at December 31, 2004	Expiry date
Unconditional options						
1999	42.50	1,025,000		1,025,000		April 25, 2004
2000	44.82	863,160		9,460	853,700	April 27, 2005
2000	44.82	148,500			148,500	April 27, 2010
2001	46.75	863,280		10,780	852,500	April 30, 2006
2001	46.75	148,500		4,158	144,342	April 30, 2011
		3,048,440		1,049,398	1,999,042	
Conditional options						
2002	46.53	872,680		20,240	852,440	April 25, 2009
2002	46.53	176,550			176,550	April 25, 2012
2003	19.51	988,130		13,200	974,930	April 22, 2010
2004	31.45		904,480	4,500	899,980	April 25, 2011
		2,037,360	904,480	37,940	2,903,900	
	in USD					
American Depositary Receipts						
Unconditional options						
2001	41.69	142,010		4,400	137,610	April 30, 2006
Conditional options						
2002	42.05	147,730		7,040	140,690	April 25, 2009
2003	21.21	195,360		13,750	181,610	April 22, 2010
2004	37.25		216,800	11,100	205,700	April 25, 2011
		485,100	216,800	36,290	665,610	
Total		5,570,900	1,121,280	1,123,628	5,568,552	

In 2004, no stock options were exercised.

Performance Share Plan for the Board of management

In 2004, a performance share plan for the Board of Management was introduced. Under this plan the Supervisory Board grants a number of conditional shares to the Board of Management each year. The actual number of shares the Board of Management will receive depends on the Company's Total Shareholder Return (TSR) performance over a three-year period, compared with TSR performance of a specified peer group. For further details see page 76 of this Annual Report. At December 31, 2004, the base number of common shares granted was 121,000.

Employee Share Plan

Under the Akzo Nobel Employee Share Plan, Akzo Nobel N.V. common shares were conditionally granted to the employees. Generally, these rights vested if the employee had remained in the Company's service for a period of three years. The number of shares granted varied from country to country.

In November 2003, the Board of Management decided to accelerate the settlement of this plan. The rights for all shares granted became unconditional at May 1, 2004.

Statutory Reserves

At the Annual Meeting of Shareholders of April 26, 2001, an amendment of the Articles of Association was approved whereby the par value of the priority shares was adjusted from NLG 1,000 to EUR 400 and of the common shares and the cumulative preferred shares from NLG 5 to EUR 2. As the revised par values are somewhat lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, the Company recognized a statutory reserve of EUR 77 million for this reduction in subscribed share capital. Statutory reserves also include EUR 8 million for capitalized development costs, as well as the reserves relating to the earnings retained by affiliated companies after 1983. The latter statutory reserves have been calculated by the so-called collective method.

Dividend Proposal

It is proposed that dividend on priority shares of EUR 768 and on common shares of EUR 343 million will be distributed. Following acceptance of this proposal, holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 will be made payable from May 2, 2005.

Note [g] **Long-Term Borrowings**

	2004	2003
Debentures	**2,314**	2,340
Debt to consolidated companies	**3,969**	3,934
Other borrowings	**–**	–
	6,283	6,274

Debentures

	2004	2003
7% 1995/05	**227**	227
5⅜% 1998/08	**512**	512
5⅝% 2002/09	**825**	851
4¼% 2003/11	**750**	750
	2,314	2,340

Debt to Consolidated Companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 2.6% in 2004 and 2003.

Note [h] **Short-Term Debt**

	2004	2003
Debt to consolidated companies	**6**	4
Borrowings from nonconsolidated companies	**11**	15
Taxes and social security contributions	**69**	11
Other liabilities	**83**	82
	169	112

Akzo Nobel has a Euro commercial paper program, which at December 31, 2004, had a maximum of EUR 1.5 billion (at December 31, 2003: EUR 1.5 billion). Both at December 31, 2004 and at December 31, 2003, there was no commercial paper outstanding.

Note [i] **Liabilities Not Shown in the Balance Sheet**

Akzo Nobel N.V. is parent of the fiscal unit Akzo Nobel N.V., and is therefore liable for the liabilities of the fiscal unit as a whole.

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Netherlands consolidated companies. These debts, at December 31, 2004, aggregating EUR 0.7 billion (at December 31, 2003: EUR 0.9 billion), are included in the consolidated balance sheet.

Additionally, at December 31, 2004, guarantees were issued in behalf of consolidated companies in the amount of EUR 1.1 billion (at December 31, 2003: EUR 1.4 billion), including guarantees issued by Akzo Nobel N.V. in relation to the exemption of certain Irish companies[1], under section 5(c) of the Companies (Amendment) Act 1986 Ireland.

The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated Balance Sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., as disclosed in Note 19 of the Notes to the Consolidated Financial Statements.

Guarantees relating to nonconsolidated companies amounted to EUR 5 million (2003: EUR 9 million).

Arnhem, February 3, 2005

The Board of Management
Hans Wijers
Leif Darner
Rob Frohn
Rudy van der Meer
Toon Wilderbeek

The Supervisory Board
Aarnout Loudon
Maarten van Veen
Virginia Bottomley
Dolf van den Brink
Uwe-Ernst Bufe
Abraham Cohen
Cees van Lede
Alain Mérieux
Lars Thunell
Karel Vuursteen

1) These companies are Organon Ireland Limited, Organon Research and Development Limited, Nourypharma Ireland Limited, Intervet Ireland Limited, Intervet Laboratories Limited, Akzo Nobel Car Refinishes (Ireland) Limited, Akzo Nobel Decorative Coatings Ireland Limited, Akzo Nobel Decorative Coatings Ireland (Sutton) Limited, Crown Berger Ireland Limited, Crown Berger Distribution Limited, Akzo Nobel Decorative Coatings (Property) Limited, B.J.N. Irish Holdings Limited, Blundell Permoglaze (Ireland) Limited, and The Walpamur Company (Ireland) Limited.

OTHER INFORMATION

AUDITORS' REPORT

Introduction
We have audited the 2004 financial statements of Akzo Nobel N.V., Arnhem, as included in this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope
We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Arnhem, February 3, 2005

KPMG Accountants N.V.

PROFIT ALLOCATION AND DISTRIBUTIONS IN ACCORDANCE WITH THE ARTICLES OF ASSOCIATION

Article 43 *43.6*
The Board of Management shall be authorized to determine, with the approval of the Supervisory Board, what share of profit remaining after application of the provisions of the foregoing paragraphs shall be carried to reserves. The remaining profit shall be placed at the disposal of the General Meeting of Shareholders, with due observance of the provisions of paragraph 7, it being provided that no further dividends shall be paid on the preferred shares.

43.7
From the remaining profit, the following distributions shall, to the extent possible, be made as follows:
(a) to the holders of priority shares: six percent per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends;
(b) to the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the General Meeting of Shareholders may decide to carry to reserves, shall permit.

43.8
Without prejudice to the provisions of paragraph 4 of this article and of paragraph 4 of article 20, the holders of common shares shall, to the exclusion of everyone else, be entitled to distributions made from reserves accrued by virtue of the provision of paragraph 7b of this article.

43.9
Without prejudice to the provisions of article 42 and paragraph 8 of this article, the General Meeting of Shareholders may decide on the utilization of reserves only on the proposal of the Board of Management approved by the Supervisory Board.

Article 44 *44.7*

Cash dividends by virtue of paragraph 4 of article 20, article 42, or article 43 that have not been collected within five years of the commencement of the second day on which they became due and payable shall revert to the Company.

PROPOSAL FOR PROFIT ALLOCATION

With due observance of article 43, paragraph 6, of the Articles of Association, EUR 513 million of net income is carried to other reserves.

Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of EUR 768 and on common shares of EUR 343 million will be distributed.

Following the acceptance of this proposal, the holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 will be made available from May 2, 2005.

SPECIAL RIGHTS TO HOLDERS OF PRIORITY SHARES

The priority shares are held by “AKZO NOBEL STICHTING” (Akzo Nobel Foundation), whose board is composed of the members of the Supervisory Board and the Board of Management. They each have one vote on the board of the Foundation, thus complying with the provisions of article 10 of annex X of the AEX Listing and Issuing Rules.

The Meeting of Holders of Priority Shares has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments of the Articles of Association are subject to the approval of this meeting.

FINANCIAL SUMMARY

Consolidated Statement of Income

Millions of euros	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
Net sales	**12,688**	13,051	14,002	14,110	14,003	14,432	12,482	10,914	10,182	9,751
Operating income before nonrecurring items	**1,210**	1,347	1,492	1,571	1,641	1,238	1,147	1,041	846	850
Financing charges	**(123)**	(166)	(204)	(257)	(245)	(245)	(179)	(93)	(88)	(87)
Taxes	**(323)**	(366)	(399)	(417)	(462)	(323)	(336)	(316)	(251)	(266)
Earnings from nonconsolidated companies	**41**	36	38	69	65	52	45	54	41	62
Earnings from normal operations, after taxes	**805**	851	927	966	999	722	677	686	548	559
Minority interest	**(35)**	(40)	(35)	(36)	(43)	(25)	(16)	(17)	(16)	(20)
Net income excluding extraordinary and nonrecurring items	**770**	811	892	930	956	697	661	669	532	539
Extraordinary and nonrecurring items, after taxes	**86**	(209)	(74)	(259)	(9)	(508)	(129)	15		(16)
Net income	**856**	602	818	671	947	189	532	684	532	523
EBITDA	**1,803**	1,999	2,173	2,245	2,305	2,009	1,825	1,638	1,392	1,345
Common shares, in millions at December 31	**285.8**	285.7	285.7	285.9	285.9	285.9	285.3	285.2	284.7	284.3
Dividend	**343**	343	343	343	343	286	278	275	242	226
Dividend in % of net income excluding extraordinary and nonrecurring items	**45**	42	38	37	36	41	42	41	45	42
Per common share, in EUR										
Net income	**3.00**	2.11	2.86	2.35	3.31	0.66	1.86	2.40	1.87	1.83
Net income excluding extraordinary and nonrecurring items	**2.69**	2.84	3.12	3.25	3.34	2.44	2.32	2.35	1.87	1.89
Dividend	**1.20**	1.20	1.20	1.20	1.20	1.00	0.98	0.97	0.85	0.79
Shareholders' equity	**10.62**	8.76	7.34	10.07	9.42	7.28	7.36	14.58	12.54	10.85
Number of employees at December 31	**61,400**	64,600	67,900	66,300	68,400	68,000	85,900	68,900	70,700	69,800
Salaries, wages, and social charges	**3,290**	3,505	3,552	3,416	3,285	3,777	3,368	2,969	2,820	2,725
Ditto, as % of net sales	**25.9**	26.9	25.4	24.2	23.5	26.2	27.0	27.2	27.7	27.9
Ratios										
Operating income before nonrecurring items as percentage of net sales	**9.5**	10.3	10.7	11.1	11.7	8.6	9.2	9.5	8.3	8.7
Operating income before nonrecurring items as percentage of invested capital	**15.8**	16.0	16.5	16.8	18.4	12.8	14.1	15.2	13.2	14.2
Net income excluding extraordinary and nonrecurring items as percentage of shareholders' equity	**27.8**	35.3	35.9	33.4	40.0	33.3	21.1	17.3	16.0	17.8
Interest coverage	**9.8**	8.1	7.3	6.1	6.7	5.1	6.4	11.2	9.6	9.8
EBITDA coverage	**14.7**	12.0	10.7	8.7	9.4	8.2	10.2	17.6	15.8	15.5
Share price										
Highest	**33.79**	32.44	54.50	57.85	59.15	52.40	58.58	42.84	26.99	23.79
Lowest	**24.87**	16.00	27.25	33.73	37.30	30.00	25.87	26.29	19.97	18.60
Year-end	**31.38**	30.60	30.23	50.15	57.20	49.80	38.80	39.66	26.77	21.06

Consolidated Balance Sheet

Millions of euros, December 31	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
Intangible assets	**561**	590	629	508	388	326	166	133	134	168
Property, plant and equipment	**3,535**	3,967	4,402	4,568	4,501	4,435	5,311	4,420	4,304	3,848
Financial noncurrent assets	**1,753**	1,866	2,217	1,895	2,000	1,878	1,401	880	846	752
Noncurrent assets	**5,849**	6,423	7,248	6,971	6,889	6,639	6,878	5,433	5,284	4,768
Inventories	**1,978**	2,133	2,206	2,270	2,267	2,091	2,291	1,835	1,760	1,648
Receivables	**2,767**	2,671	2,815	3,229	3,135	2,981	2,823	2,267	1,981	1,907
Cash and cash equivalents	**1,811**	727	520	455	416	932	536	317	404	317
Current assets	**6,556**	5,531	5,541	5,954	5,818	6,004	5,650	4,419	4,145	3,872
Total assets	**12,405**	11,954	12,789	12,925	12,707	12,643	12,528	9,852	9,429	8,640
Capital and reserves	**3,795**	3,326	3,216	2,918	2,702	2,086	2,112	4,163	3,575	3,091
Minimum pension liability	**(759)**	(824)	(1,118)	(40)	(8)	(4)	(11)	(5)	(6)	(6)
Shareholders' equity	**3,036**	2,502	2,098	2,878	2,694	2,082	2,101	4,158	3,569	3,085
Minority interest	**140**	140	137	138	159	154	190	118	108	88
Equity	**3,176**	2,642	2,235	3,016	2,853	2,236	2,291	4,276	3,677	3,173
Provisions	**3,719**	3,923	4,368	2,960	2,797	2,432	2,582	1,963	1,891	1,834
Long-term borrowings	**2,694**	2,717	2,797	2,235	2,729	2,678	2,672	914	975	1,233
Short-term borrowings	**258**	441	979	2,267	1,967	2,803	2,663	778	1,128	735
Current liabilities	**2,558**	2,231	2,410	2,447	2,361	2,494	2,320	1,921	1,758	1,665
Short-term debt	**2,816**	2,672	3,389	4,714	4,328	5,297	4,983	2,699	2,886	2,400
Total equity and liabilities	**12,405**	11,954	12,789	12,925	12,707	12,643	12,528	9,852	9,429	8,640
Invested capital										
Of consolidated companies	**7,227**	8,117	8,692	9,395	9,257	8,573	9,206	7,035	6,706	6,133
In nonconsolidated companies	**318**	353	491	575	673	644	466	579	561	525
Total	**7,545**	8,470	9,183	9,970	9,930	9,217	9,672	7,614	7,267	6,658
Property, plant and equipment										
Capital expenditures	**551**	581	689	822	725	797	819	641	836	750
Depreciation	**540**	599	622	635	631	740	661	587	537	488
Ratios										
Net sales/invested capital	**1.65**	1.55	1.55	1.51	1.57	1.50	1.54	1.59	1.59	1.63
Gearing	**0.36**	0.92	1.46	1.34	1.50	2.03	2.09	0.32	0.46	0.52
Equity/noncurrent assets	**0.54**	0.41	0.31	0.43	0.41	0.34	0.33	0.79	0.70	0.67
Inventories and receivables/current liabilities	**1.85**	2.15	2.08	2.25	2.29	2.03	2.20	2.14	2.13	2.14

For definitions of certain financial ratios and concepts see back cover foldout.

Business Segment Statistics

Millions of euros	**2004**	2003	2002	2001	2000	1999	1998	1997	1996	1995
Pharma										
Net sales	**3,246**	3,550	4,008	4,044	3,839	2,865	2,323	2,094	1,793	1,713
Operating income [1]	**522**	692	768	831	765	577	461	409	348	336
Invested capital [2]	**2,387**	2,506	2,475	2,558	2,367	2,081	1,399	1,243	1,083	894
Operating income [1]										
– as percentage of net sales	**16.1**	19.5	19.2	20.5	19.9	20.1	19.8	19.5	19.4	19.6
– as percentage of invested capital	**21.3**	27.8	30.5	33.7	34.4	35.4	34.9	35.2	35.2	39.3
EBITDA	**690**	868	948	995	932	717	566	499	428	404
Capital expenditures	**158**	210	297	317	214	199	173	107	107	124
Average number of employees	**20,000**	21,300	21,700	21,000	21,200	18,300	16,200	15,500	15,100	14,300
Coatings [3]										
Net sales	**5,249**	5,160	5,444	5,520	5,497	5,203	4,517	3,568	3,175	2,921
Operating income [1]	**421**	414	443	407	426	406	354	306	242	194
Invested capital [2]	**2,057**	2,043	2,221	2,351	2,279	2,158	2,136	1,409	1,300	1,231
Operating income [1]										
– as percentage of net sales	**8.0**	8.0	8.1	7.4	7.7	7.8	7.8	8.6	7.6	6.6
– as percentage of invested capital	**20.5**	19.4	19.4	17.6	19.2	18.9	19.9	22.6	19.1	16.0
EBITDA	**556**	561	596	565	573	550	474	407	327	275
Capital expenditures	**122**	124	128	176	161	151	174	116	103	98
Average number of employees	**28,900**	29,000	28,800	29,700	29,700	30,100	27,200	21,600	20,500	20,300
Chemicals [3]										
Net sales	**4,305**	4,470	4,675	4,675	4,811	4,217	3,723	3,756	3,769	3,598
Operating income [1]	**354**	341	366	359	466	387	334	347	271	287
Invested capital [2]	**2,043**	2,604	2,893	3,176	3,108	2,841	2,700	2,776	2,702	2,436
Operating income [1]										
– as percentage of net sales	**8.2**	7.6	7.8	7.7	9.7	9.2	9.0	9.2	7.2	8.0
– as percentage of invested capital	**15.2**	12.4	12.1	11.4	15.7	14.0	12.2	12.7	10.6	11.8
EBITDA	**634**	659	699	699	802	688	608	604	514	500
Capital expenditures	**269**	241	251	315	338	315	298	277	435	359
Average number of employees	**13,600**	14,900	15,300	15,800	16,000	15,300	14,700	15,000	16,200	16,500
Acordis/Fibers										
Net sales						2,242	1,947	1,606	1,540	1,626
Operating income [1]						(110)	20	(2)	(2)	45
Invested capital [2]							1,682	1,144	1,155	1,156
Operating income [1]										
– as percentage of net sales						(4.9)	1.0	(0.1)	(0.1)	2.8
– as percentage of invested capital						(6.4)	1.4	(0.2)	(0.2)	4.3
EBITDA						48	152	108	98	146
Capital expenditures						107	135	83	144	140
Average number of employees						17,400	16,100	13,700	14,500	15,200

1) *Before nonrecurring items.*
2) *At December 31.*
3) *Comparitive figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.*

Regional Statistics

Millions of euros	**2004**	2003	2002	2001	2000	**2004**	2003	2002	2001	2000
	The Netherlands					*USA and Canada*				
Net sales by destination	**826**	825	816	720	787	**2,443**	2,944	3,723	3,802	3,596
Net sales by origin	**2,624**	2,546	2,662	2,533	2,214	**2,220**	2,604	3,318	3,263	3,198
Operating income[1]	**115**	212	191	219	360	**11**	190	149	190	237
Capital expenditures	**189**	173	197	235	156	**52**	81	177	220	193
Invested capital[2]	**1,942**	2,354	2,062	1,821	2,231	**1,251**	1,627	2,158	2,542	2,034
Number of employees[2]	**11,300**	12,700	13,000	12,700	12,800	**8,400**	9,500	10,600	10,300	10,600
	Germany					*Latin America*				
Net sales by destination	**1,159**	1,147	1,084	1,052	1,064	**726**	704	767	917	944
Net sales by origin	**1,043**	1,088	1,051	1,070	1,134	**490**	470	506	660	704
Operating income[1]	**119**	89	78	82	83	**76**	60	99	104	91
Capital expenditures	**23**	27	36	52	51	**61**	18	31	33	35
Invested capital[2]	**506**	619	642	687	570	**304**	259	265	429	419
Number of employees[2]	**4,100**	4,100	4,700	4,200	4,700	**4,400**	4,600	4,700	4,500	4,700
	Sweden					*Asia*				
Net sales by destination	**506**	510	517	512	538	**1,535**	1,453	1,513	1,429	1,466
Net sales by origin	**1,152**	1,102	1,184	1,088	1,268	**1,084**	1,022	1,064	1,039	1,132
Operating income[1]	**88**	80	89	67	79	**168**	173	161	113	122
Capital expenditures	**60**	55	36	71	74	**47**	81	41	54	35
Invested capital[2]	**529**	555	585	716	734	**550**	567	598	560	553
Number of employees[2]	**4,000**	4,300	4,500	4,500	4,700	**9,200**	9,000	8,800	7,900	7,600
	United Kingdom					*Other regions*				
Net sales by destination	**831**	840	963	1,036	1,052	**650**	665	668	678	677
Net sales by origin	**846**	798	911	924	966	**311**	321	290	267	362
Operating income[1]	**(50)**	(78)	13	38	55	**47**	59	58	46	56
Capital expenditures	**29**	26	25	36	56	**9**	10	10	17	29
Invested capital[2]	**750**	760	947	1,232	1,194	**210**	224	215	230	206
Number of employees[2]	**4,200**	4,600	4,900	5,200	5,600	**2,300**	2,300	2,300	2,200	2,400
	Other European countries									
Net sales by destination	**4,012**	3,963	3,951	3,964	3,879					
Net sales by origin	**2,918**	3,100	3,016	3,266	3,025					
Operating income[1]	**636**	562	654	712	558					
Capital expenditures	**81**	110	136	104	96					
Invested capital[2]	**1,185**	1,152	1,220	1,178	1,316					
Number of employees[2]	**13,500**	13,500	14,400	14,800	15,300					

1) *Before nonrecurring items.*
2) *At December 31.*

For definitions of certain financial ratios and concepts see back cover foldout.

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FINANCIAL CALENDAR

- Report for the 1st quarter 2005
  April 19, 2005

- Annual Meeting of Shareholders
  April 21, 2005

- Quotation ex 2004 final dividend
  April 25, 2005

- Payment of 2004 final dividend
  May 2, 2005

- Report for the 2nd quarter 2005
  July 20, 2005

- Report for the 3rd quarter 2005
  October 19, 2005

- Quotation ex 2005 interim dividend
  October 20, 2005

- Payment of 2005 interim dividend
  October 27, 2005

- Report for the year 2005
  February 7, 2006 (target)

- Annual Meeting of Shareholders
  April 26, 2006

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DEFINITIONS

EBIT (Earnings Before Interest and Taxes)
Operating income before nonrecurring items

EBITDA
EBIT before **D**epreciation and **A**mortization

Net income per share
Net income divided by the weighted average number of common shares outstanding during the year

Shareholders' equity per share
Akzo Nobel N.V. shareholders' equity divided by the number of common shares outstanding at December 31

Invested capital
Total assets less cash and cash equivalents, less current liabilities, and exclusive of amounts related to the minimum pension liability

ROI (Return On Investment)
EBIT divided by 1% of the average of invested capital at the beginning and at the end of the year

Gearing
Net interest-bearing borrowings divided by equity

Net interest-bearing borrowings
Long-term borrowings plus short-term borrowings less cash and cash equivalents

Interest coverage
EBIT divided by financing charges

EBITDA coverage
EBITDA divided by financing charges

In the computation of ratios, the amounts used for invested capital and shareholders' equity represent averages of the amounts at the beginning and the end of the year.

FOR DEFINITIONS SEE INSIDE COVER