AKZO NOBEL

Year of transformation

ANNUAL REPORT 2007

2007: Year of transformation

2007 has been an incredible year. One of the most eventful and exciting in the long, proud history of Akzo Nobel. The company has been transformed.

Akzo Nobel divested its pharmaceutical activities (Organon BioSciences) to Schering-Plough and acquired Imperial Chemical Industries plc (ICI) to create one of the world's foremost industrial companies.
We're bigger, stronger, more focused.

We are now not only the largest global industrial coatings manufacturer, but also the number one in decorative paints, as well as being a major worldwide supplier of specialty chemicals.

The company has significantly increased its presence in key emerging markets and has strategically positioned itself for sustainable growth. We are stronger, not only in terms of revenue, market share, and geographical presence, but also in terms of our ability to develop innovative products, to satisfy the growing needs of our customers, and to skillfully manage and invest in our business.

We're evolving. We're progressing. We adapt to change and are prepared to successfully meet the challenges – and exploit the opportunities – that the future may bring.

We're committed to making a better tomorrow.

2007: Key developments

Transaction

An offer of EUR 11 billion was accepted for the sale of Organon BioSciences (OBS). As a result, Akzo Nobel abandoned plans to proceed with a partial IPO of the OBS business.

Organon BioSciences

March

Q1

January

Relocation

Akzo Nobel announced that it would be relocating its head office from Arnhem in the Netherlands to the Dutch capital, Amsterdam, in summer 2007.

January
Akzo Nobel Car Refinishes was awarded the privilege of becoming Hyundai Motor Company's first globally approved aftermarket supplier.

February
The company's Canadian Sico® coatings brand launched an even greener range of its popular environmentally-friendly product line.

April
Akzo Nobel announced a EUR 250 million Chemicals investment in a new multi-site at Ningbo in China, with the first facilities to be constructed by the company's Functional Chemicals business.

The company strengthened its leading position in the global protective coatings market after signing an agreement to acquire the worldwide Ceilcote® business from the German-based KCH Group.

The Marine & Protective Coatings business' International® Paint brand won the Queen's Award for Innovation in the UK for the success of its Intersleek® 700 antifouling coating.

Expansion

The company officially opened two sites in China. Decorative Coatings opened a facility in Langfang, while Functional Chemicals inaugurated a new polysulfides production plant in Taixing. Chairman Hans Wijers also announced new strategic targets for China including a revenue target of USD 2 billion by 2012.

June

Q2

Q3

August

Acquisition

Akzo Nobel announced that the company had made a recommended cash offer of EUR 11.5 billion (GBP 8.1 billion) for Imperial Chemical Industries plc (ICI).

May

Akzo Nobel significantly broadened its position in the North American wood coatings market after signing an agreement to acquire Chemcraft Holdings Corporation, North America's largest privately-owned manufacturer of industrial wood coatings.

The company's Pulp & Paper Chemicals business, Eka Chemicals, announced details of a EUR 50 million investment in Brazil to supply, store, and handle all chemicals for a greenfield pulp mill being built in Três Lagoas, Brazil.

Akzo Nobel's first ever share buyback program commenced.

July

Powder Coatings officially opened its first production site in Russia, situated in the industrial belt surrounding Moscow at Orekhovo-Zuevo.

The company announced its intention to delist from the NASDAQ stock exchange, and deregister from the U.S. Securities and Exchange Commission (SEC). The more simplified structure of a single listing in Amsterdam is expected to generate cost savings of around EUR 7 million per annum.

Recognition

The company was ranked number one in the Chemicals sector on the prestigious Dow Jones Sustainability Indexes.

Dow Jones Sustainability Indexes
Member 2007/08

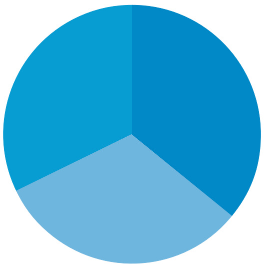
September

Q4

December

Integration

Akzo Nobel finalized plans for new segments of the company. The integrated organization was set up to operate in three business areas – Decorative Paints, Performance Coatings, and Specialty Chemicals.



REVENUE BY SEGMENT

IN PERCENTAGES	
Decorative Paints	**36**
Performance Coatings	**32**
Specialty Chemicals	**32**

September
Akzo Nobel's Polymer Chemicals site in Pasadena in the United States received prestigious Star recognition for its implementation of a comprehensive health and safety management system.

October
At Analyst Meetings held in London and New York, the company announced that a higher dividend payout ratio was being proposed – a minimum of 45 percent of net income before incidentals.

November
At Extraordinary General Meetings held in Amsterdam and London, shareholders of Akzo Nobel and ICI approved Akzo Nobel's proposed acquisition of the UK-based company.

The divestment of Organon BioSciences for EUR 11 billion was completed.

December
Akzo Nobel announced that the company had been selected to globally supply a full range of coatings products for application to Shell's worldwide retail network of service stations and business signage.

Akzo Nobel at a glance

- Continued strong performance in transformational year
- EBITDA[1] up 15 percent to EUR 1,271 million
- Net income[1] up 29 percent to EUR 580 million
- Dividend up 50 percent to EUR 1.80 per share

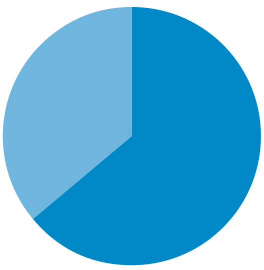
[1] Continuing operations before incidentals.

Akzo Nobel is a Fortune Global 500 company and is listed on the Euronext Amsterdam stock exchange.

The company is also the Chemicals industry leader on the Dow Jones Sustainability Indexes and is included on the FTSE4Good Index.

Based in the Netherlands, we are a multicultural organization serving customers throughout the world with coatings and chemicals products.

We employ around 43,000 people and conduct our activities in these two segments, with operating subsidiaries in more than 80 countries.



CONTRIBUTION TO REVENUE

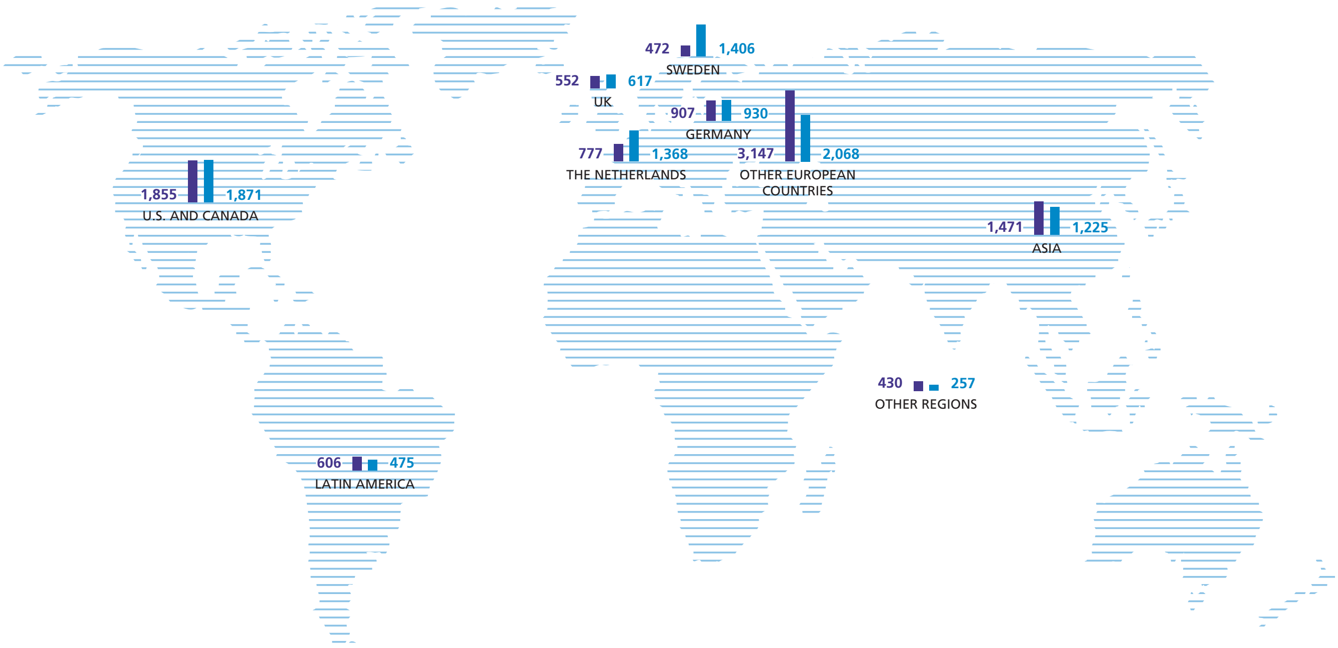
IN PERCENTAGES	
Akzo Nobel Coatings	64
Akzo Nobel Chemicals	36

EMPLOYEES BY REGION

NUMBER OF EMPLOYEES YEAR-END 2007	
U.S. and Canada	6,100
Latin America	2,700
Asia	8,400
The Netherlands	4,900
Germany	3,100
Sweden	3,700
UK	3,000
Other European countries	9,000
Other regions	1,700
TOTAL	**42,600**

REVENUE BY DESTINATION AND ORIGIN

MILLIONS OF EUROS



■ Revenue by destination
■ Revenue by origin

REVENUE BY DESTINATION

MILLIONS OF EUROS	
U.S. and Canada	1,855
Latin America	606
Asia	1,471
The Netherlands	777
Germany	907
Sweden	472
UK	552
Other European countries	3,147
Other regions	430
TOTAL	**10,217**

REVENUE BY ORIGIN

MILLIONS OF EUROS	
U.S. and Canada	1,871
Latin America	475
Asia	1,225
The Netherlands	1,368
Germany	930
Sweden	1,406
UK	617
Other European countries	2,068
Other regions	257
TOTAL	**10,217**

Key figures

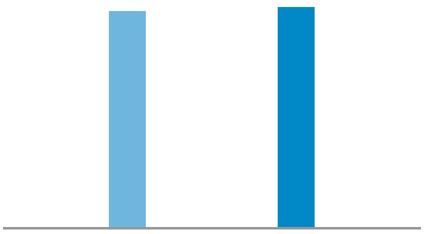
ECONOMIC DATA

MILLIONS OF EUROS	2007	2006	%
Information on the statement of income before incidentals			
Revenue	10,217	10,023	2
EBITDA	1,271	1,104	15
EBIT	916	733	25
Net income from continuing operations	580	449	29
After incidentals			
EBIT from continuing operations	747	859	(13)
Net income from discontinued operations	8,920	438	
Net income, attributable to shareholders	9,330	1,153	709
Cash flows and research and development			
Net cash from operating activities	643	574	12
Capital expenditures	359	371	(3)
Depreciation	330	349	(5)
Research and development expenses	282	280	1
Ratios in percent			
EBITDA margin (before incidentals)	12.4	11.0	
EBIT margin (before incidentals)	9.0	7.3	
Research and development expenses as percentage of revenue	2.8	2.8	
Interest coverage (after incidentals)	6.2	8.1	
Net income as percentage of shareholders' equity (after incidentals)	85	28	
Moving average ROI (before incidentals)	16.8	13.3	
People, health, safety, and environment			
Average number of employees during the year	43,000	42,600	1
Average revenue per employee (in thousands of euros)	238	235	1
Volatile organic compound (VOC) emission to air (in metric kilotons)	3.8	4.9	
Number of serious incidents	2	3	
Total reportable rate of injuries per million hours	5.8	6.8	
Number of lost time injuries of contractors	55	72	
Total illness absence rate (in percentage)	2.2	2.3	

REVENUE

MILLIONS OF EUROS

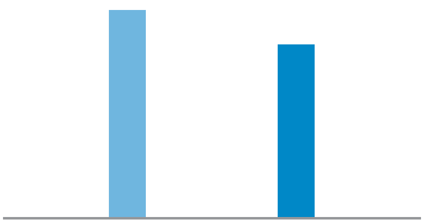
2006	2007
10,023	**10,217**



AUTONOMOUS GROWTH

IN PERCENTAGES

2006	2007
6	**5**



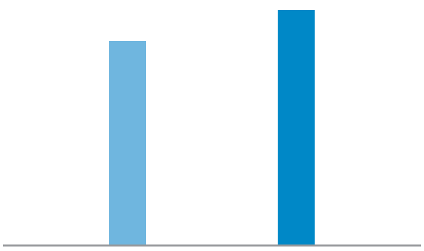
AUTONOMOUS GROWTH IN 2007

+ 5%

EBITDA[1]

MILLIONS OF EUROS

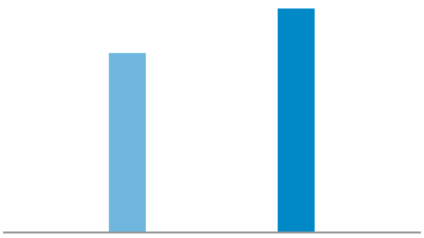
2006	2007
1,104	**1,271**



EBIT[1]

MILLIONS OF EUROS

2006	2007
733	**916**



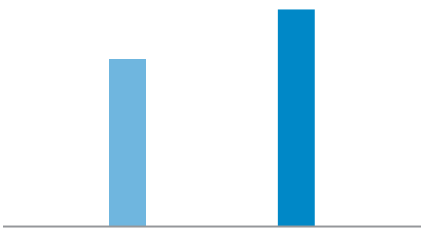
EBIT[1]

+ 25%

NET INCOME[1]

MILLIONS OF EUROS

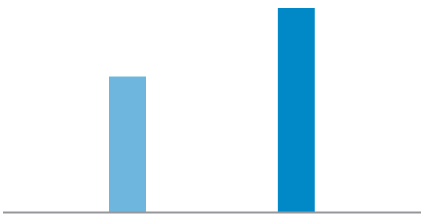
2006	2007
449	**580**



DIVIDEND PER SHARE

IN EUROS

2006	2007
1.20	**1.80**



DIVIDEND PER SHARE

+ 50%

[1] Continuing operations before incidentals.

Shareholder information

- Share price increased in value by 19 percent
- Transformation completed
- Dividend: increased 50 percent to proposed EUR 1.80 per share

Akzo Nobel share price

In 2007, Akzo Nobel shares again performed well, increasing in value by 19 percent. Total Shareholder Return (TSR) for the full year, including dividend, was 21 percent and Akzo Nobel ranked #2 compared with its new peer group. Trading volumes of our common shares increased by 50 percent compared with previous years.

The Board of Management and the Supervisory Board are proposing a dividend of EUR 1.80, an increase of 50 percent compared with the dividend of the last five years, which was stable at EUR 1.20. It is the company's policy to distribute at least 45 percent of net income before incidentals as dividend. In May 2007, Akzo Nobel launched its initial share buyback program of EUR 1.6 billion, which was concluded at the end of August.

The company attaches great value to maintaining an open dialog with the financial community in order to promote transparency. Management gave presentations at a number of industry conferences, as well as in meetings with investors and analysts.

In 2007, a lot of time was spent with investors in order to explain the rationale of the proposed acquisition of ICI. In October 2007, new targets were presented to the financial community at well attended analyst meetings in London and New York. An intention to return EUR 3 billion to shareholders upon completion of the Henkel on sale in 2008 was also presented.

In addition to the Annual General Meeting (AGM) in April, there was an Extraordinary General Meeting (EGM) in November 2007, where the acquisition of ICI was approved. At the meetings, 40 to 50 percent of the capital was represented.

In the Netherlands, Akzo Nobel uses the Shareholders' Communication Channel to distribute the agenda of the AGM, and to allow shareholders who hold their shares through an associated bank, to participate in proxy voting at the AGM.

During 2007, the company decided to deregister and terminate the reporting obligations under the U.S. Securities Act of 1934, and to delist from the NASDAQ stock exchange. Akzo Nobel will continue to provide a high standard of corporate governance, information and disclosure in line with the standard the company set itself during 2006. Akzo Nobel has a sponsored level 1 ADR program and ADRs can be traded at the OTCQX platform in the United States.

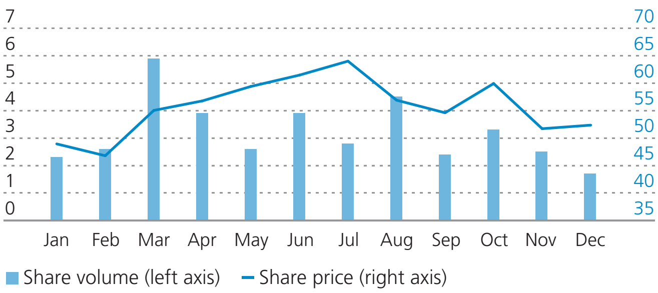
Akzo Nobel's common shares are listed at Euronext Amsterdam. For the financial calendar and contact details with Investor Relations, reference is made to *pages 156 and 160*.

SHARE INFORMATION

	2007	2006	2005
Year-end (in euros)	**54.79**	46.18	39.15
Year-high (in euros)	**65.56**	49.41	40.18
Year-low (in euros)	**44.41**	38.30	30.82
Year-average (in euros)	**55.48**	43.92	34.31
Average daily trade in shares:			
– In millions of euros	**151.8**	79.2	35.2
– In millions of shares	**2.7**	1.8	1.0
Number of shares outstanding at year-end	**262.3**	287.0	285.8
Market capitalization at year-end (in billions of euros)	**14.4**	13.3	11.5
Net income per share (in euros)	**33.82**	4.02	3.36
Dividend yield (%)	**3.2**	2.7	3.5

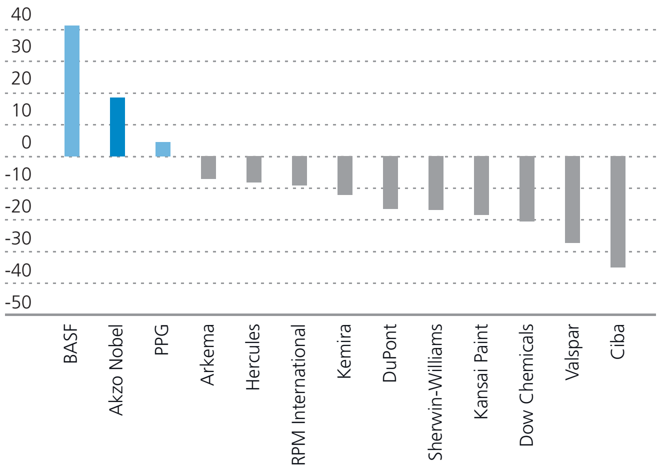
SHARE PRICE PERFORMANCE AND SHARE VOLUME IN 2007

IN BILLIONS OF EUROS — IN EUR



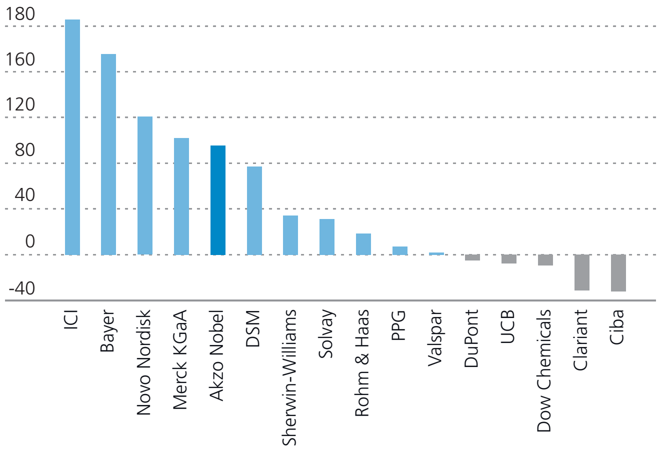
TOTAL SHAREHOLDER RETURN IN 2007

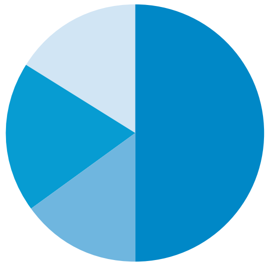
AKZO NOBEL VERSUS PEERS DURING PERIOD JAN 1, 2007 - DECEMBER 31, 2007 (%)



TOTAL SHAREHOLDER RETURN OVER THE LAST THREE YEARS

AKZO NOBEL VERSUS PEERS DURING PERIOD JAN 1, 2005 - DECEMBER 31, 2007 (%)

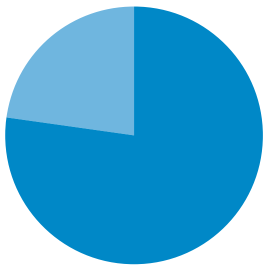




GEO-MIX SHAREHOLDERS 2007

AT YEAR-END THE DISTRIBUTION OF AKZO NOBEL SHARES WAS:

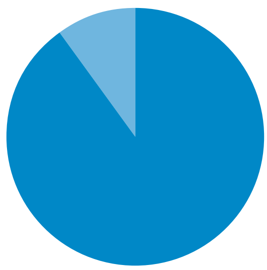
IN PERCENTAGES	2006	**2007**
U.S.	50	**50**
UK	11	**15**
The Netherlands	20	**19**
Rest of world	19	**16**



LEADING BROKER RECOMMENDATIONS

NUMBER OF RECOMMENDATIONS YEAR-END 2007

Buy	**17**
Hold	**5**
Sell	**0**



INSTITUTIONS-RETAIL 2007

IN PERCENTAGES	
Institutions	**90**
Retail	**10**

Acquisition of ICI

- Transformational deal and a perfect strategic fit with Decorative Coatings
- Geographic expansion into high-growth markets
- Portfolio strengthened with leading brands and innovative technologies

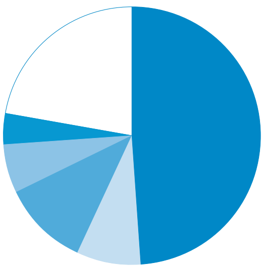
ICI KEY BRANDS

Akzo Nobel and Imperial Chemical Industries (ICI) reached agreement on the terms of a recommended cash offer by Akzo Nobel for the entire issued and to be issued share capital of ICI in August 2007. The offer price valued the entire existing issued ordinary share capital of ICI at approximately EUR 11.5 billion (GBP 8.1 billion).

In addition to the deal – which included an extra 5p in dividend over the second half of 2007, on top of a 4.95p interim dividend already declared by ICI over the first half of 2007, valuing ICI at 679p a share – Akzo Nobel also agreed a back-to-back sale of ICI's Adhesives and Electronic Materials activities to German company Henkel for EUR 4 billion (GBP 2.7 billion).

The transaction, which was approved by Akzo Nobel and ICI shareholders in November 2007, consolidated Akzo Nobel's position as the world's largest maker of paints and coatings, as well as generating estimated pre-tax cost synergies of EUR 280 millions (broken down on *page 9*).

Akzo Nobel's purchase of ICI – finalized on January 2, 2008 – was the second largest acquisition ever by a Dutch company. The combination provides well developed access to fast-growing markets in Asia and Latin America and adds an experienced and skilled workforce, as well as boosting the company's portfolio with new technologies and household brands such as Dulux® and Glidden®.



INTEGRATION OF ICI

- ICI Paints (integrated into Akzo Nobel)
- Regional & Industrial (integrated into Akzo Nobel)
- Specialty Starches (intended for new ownership)
- Specialty Polymers (integrated into Akzo Nobel)
- Electronic Materials (on sale to Henkel in 2008)
- Adhesives (on sale to Henkel in 2008)

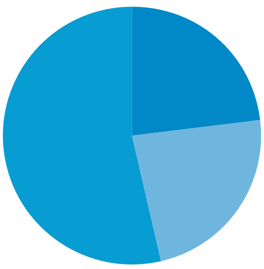
PRO FORMA AKZO NOBEL - ICI 2007 FIGURES

MILLIONS OF EUROS	2007
Revenue	14,442
EBITDA[1]	1,870
EBITDA margin, in %	12.9
EBIT[1]	1,410
EBIT margin, in %	9.8
Net income[1]	942
Net income[2]	796

[1] Before incidentals, and EUR 146 million fair value adjustment charge.
[2] Before incidentals.

OTHER SYNERGIES WITH ESTIMATED POST-TAX NPV OF EUR 375 MILLION, OF WHICH 75 PERCENT IS CASH RELATED

- Opportunities to grow revenue faster
- Reduction in working capital
- Consolidation of manufacturing sites
- Opportunity costs of building position in Asia by Akzo Nobel



ESTIMATED ANNUAL PRETAX COST SYNERGIES OF EUR 280 MILLION

MILLIONS OF EUROS	
Raw materials	65
Streamlining operations	65
SG&A & corporate	150

A YEAR OF TRANSFORMATION THE IMAGE PRESENTED ON THE FRONT COVER WAS USED IN A GLOBAL ADVERTISING CAMPAIGN TITLED "SOMETHING TO SHOUT ABOUT", CELEBRATING OUR COMBINED COMMITMENT FOR A BETTER TOMORROW.

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, products in the pipeline, and product approvals. Such statements should be carefully considered, and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, 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.

Disclaimer

In this report, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units.
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 "Segment performance," they refer to the business concerned.

This Annual Report is also available in Dutch. In the event of any discrepancies between the two versions, the English report will prevail.
The symbol ® indicates trademarks registered in one or more countries.

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Chairman's statement

Dear stakeholder,

Akzo Nobel's roots can be traced back as far as 1777 and there have been many milestones along the way which have helped our business to continuously develop and evolve.
But there can be no doubt that 2007 will be remembered as one of the most momentous – and exciting – years in the long history of our company.

In the space of 12 months, we completed a strategic transformation which dramatically changed the focus of our operations. It began with the divestment of our pharmaceutical activities (Organon BioSciences) to Schering-Plough for EUR 11 billion. This was finalized in November 2007, and while it marked the end of an era for the company, it made sound business sense. This was followed by the acquisition of Imperial Chemical Industries plc (ICI), a deal which closed on January 2, 2008, and opened an historic new chapter for us all. I must admit that these major developments rather put the relocation of our corporate headquarters to Amsterdam in the Netherlands in the shade, which in itself was still an important event.

These major transactions transformed Akzo Nobel from a conglomerate into a focused industrial force; a true global leader in coatings and specialty chemicals. We have brought together two great companies with proud histories of sustained achievement. Together, our combined global presence, technologies, products, brands, and expertise will help our customers, and Akzo Nobel, to become even more successful. Through an on sale of certain ICI assets to Henkel AG, we expect the acquisition to be value enhancing within three years. This is fully in line with our strategic goal of medium-term value creation. The deal has also enabled the company to commit to a share buyback program totaling EUR 4.6 billion, with EUR 1.6 billion of that amount having already been repurchased during 2007.

Global leader

Akzo Nobel is the new global leader in decorative paints – in addition to already being the world's largest industrial coatings manufacturer. We significantly strengthened our presence in China, India, Brazil, and other emerging markets in Asia Pacific and Latin America. Increasing our presence in these markets has long been one of the company's strategic priorities and while we have made steady progress over recent years, the acquisition of ICI has elevated Akzo Nobel into key leadership positions in a number of attractive regions. The acquisition of ICI also gives us a leading position in North America, the world's largest market for decorative coatings. Our Chemicals portfolio has been enhanced as well, following the addition of ICI's Specialty Polymers and Regional and Industrial businesses. We now have a strong, well balanced specialty chemicals organization which is well positioned to exploit opportunities for growth and build on its worldwide leadership positions. We have created a strong platform for future growth and

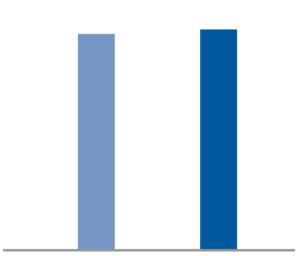
ANNUAL PER HOUSEHOLD SPENT ON PAINTS AND COATINGS

COUNTRY	IN EUROS
India	10
Indonesia	16
China	19
Brazil	38
Argentina	46
Thailand	46
Mexico	55
Russia	60
Poland	80
Western Europe	129
U.S.	165

REVENUE

MILLIONS OF EUROS

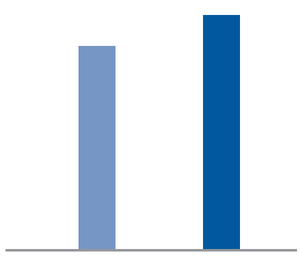
2006	**2007**
10,023	**10,217**



EBITDA[1]

MILLIONS OF EUROS

2006	**2007**
1,104	**1,271**



[1] Continuing operations before incidentals.

our scale and expertise will allow us to build strategic relationships with leading raw material producers and to invest in new technologies to meet the increasing challenges of higher performance and sustainability. Attracting talented, ambitious, and dynamic individuals from all over the world to our exciting new company will be another key factor as we move forward into the future.

Increased dividend

Of course, it's only natural for shareholders to ask how we can best illustrate our confidence in the future of the new Akzo Nobel. The answer is simple. By announcing, as we did, our intention to raise future dividend payments, realizing a payout ratio of 45 percent of net income and before the fair value adjustment charge in respect of the ICI acquisition. This increased payout ratio, together with a cash return during the year by way of a share buyback, has allowed our shareholders to benefit from the strategic transformation of the company. Our Total Shareholder Return for the last three years was 96 percent, elevating the company from ninth position, in 2006, to fifth in its peer group in 2007.

Operational performance

I am proud of the fact that during a period of so much strategic activity, our employees kept their eye on the ball. This commitment to successful daily operations is underlined in the graphs above, which illustrate a very satisfying performance throughout our portfolio, both in top and bottom line. I am also very pleased with the impressive results of our specialty chemicals businesses – which delivered an unprecedented 22 percent moving average ROI. Indeed, the success of our Chemicals operations is very significant. Following an extensive realignment of the portfolio, the five growth platforms we established have performed extremely well. The focus has clearly shifted away from streamlining our activities and we are now concentrating on investing in expansion opportunities. I would also like to mention the significant improvement achieved by our Decorative Coatings activities, which – together with the excellent results at Marine & Protective Coatings – was one of the main drivers behind the overall bottom line improvement within the Coatings business. Given the ongoing consolidation in the coatings industry, our increased scale and solid financial footing bodes well as we look to further consolidate our leadership status.

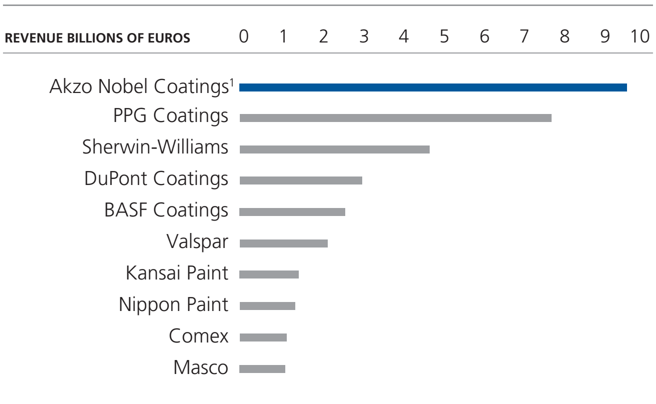
New Akzo Nobel

It goes without saying that our strategic agenda, which accelerated greatly during 2007, has an impact on all areas of the organization. So as well as improving operationally, we have also been concentrating on other key areas in order to lay the foundations for the new Akzo Nobel. One of these is talent development. We have made major progress in rolling out our improved talent review system, with investments for management development programs having significantly increased in all regions. Furthermore, the coordination of Human Resource policies between our various businesses in key countries such as China has been significantly stepped up. A lot of time and effort has also been put into evaluating our corporate brand positioning and brand architecture in the context of our broader culture change program. You can expect to see the results of this extensive project rolled out during the course of 2008.

A sustainable future

We have also focused sharply on sustainability and social responsibility. For more than a decade now, Akzo Nobel has been at the forefront of investing in both of these vital business areas, long before it became more "fashionable". A couple of years ago, we decided to become even more ambitious in measuring our performance in these areas and benchmarking ourselves against our peers. It was therefore a well deserved tribute to everyone in our company who has been seriously engaged in this field that in 2007 Akzo Nobel was ranked as the Chemicals sector leader on the prestigious Dow Jones Sustainability Indexes. But it won't stop there. We are determined to further accelerate our sustainability efforts because we are committed to excellence in all aspects of our global activities. Our success lies in the future, and Akzo Nobel is dedicated to continuing to identify sustainable solutions while building distinctive capabilities for customers and other stakeholders.

TOP TEN COATINGS COMPANIES 2007

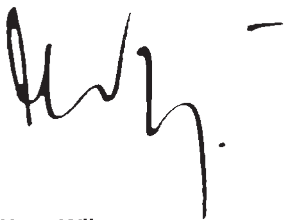


[1] Including ICI Paints.

Building momentum

There are various signals which indicate that the macro economic conditions in 2008 will become more challenging. The ongoing pressure created by raw material prices, volatility in major currencies and a slowdown in overall growth in North America and Europe will make for a testing environment. However, we are confident that our strategic transformation has maneuvered the company into a position of strength. In the years to come we will deliver on our promise of outgrowing our markets and further improving the bottom line. Much of our energy during 2008 will be devoted to successfully integrating ICI's businesses into our own organization and achieving the first round of synergies. We have dedicated teams in place working hard to ensure a fast and effective integration process, which is expected to realize annual cost synergies of around EUR 280 million by 2010. Our efforts are being channeled into building on the momentum we have already created and making sure that the enlarged Akzo Nobel delivers on the full potential that this combination offers.

It's been an extremely eventful and exciting year and my colleagues on the Board of Management and I are extremely proud to be leading our talented and committed employees as we begin this new chapter in the history of Akzo Nobel. We have every confidence that the future will be both successful and full of opportunities.



Hans Wijers
CEO and Chairman of the Board of Management

BOARD OF MANAGEMENT

Leif Darner

(1952, Swedish)

Board Member responsible for Chemicals

Initial appointment 2004

Leif Darner joined the Board of Management of Akzo Nobel in 2004 as the member responsible for Chemicals. After graduating from Gothenburg University, he held several management positions before being appointed General Manager of Powder Coatings Scandinavia at Courtaulds in 1985. In 1993, Mr. Darner was appointed Chief Executive of Coatings Northern Europe. Then in 1997 he served as Worldwide Director of Yacht Paint and Protective Coatings. In 1998, Courtaulds became part of Akzo Nobel and Mr. Darner was appointed Manager of Akzo Nobel Marine & Protective Coatings, a post he held from 1999 until 2004, when he was appointed to the Board of Management of Akzo Nobel. Subject to shareholder approval of his reappointment, Mr. Darner will take the responsibility within the Board of Management for Performance Coatings as of May 1, 2008.

Hans Wijers

(1951, Dutch)

Chief Executive Officer

Board Member responsible for Coatings

Initial appointment 2002

Hans Wijers joined Akzo Nobel in 2002 as a Board member, followed by his appointment as Chairman in May 2003. Mr. Wijers studied Economics at the University of Groningen. He obtained a Ph.D. in Economics while teaching at the Erasmus University Rotterdam in 1982. He was senior consultant/partner with various Dutch consulting firms including The Boston Consulting Group. He served as Dutch Minister for Economic Affairs (1994 to 1998), after which he returned to The Boston Consulting Group as Senior Vice-President until his appointment as Board member of Akzo Nobel in 2002. Outside Akzo Nobel, Mr. Wijers holds a number of prominent positions in society such as Chairman of the "Oranje Fonds" and Vice-President of the Young Pianist Foundation. He is a member of the European Roundtable of Industrialists.

Rob Frohn

(1960, Dutch)

Chief Financial Officer

Initial appointment 2004

Rob Frohn joined the Board of Management of Akzo Nobel in 2004 as CFO. He graduated from the University of Groningen and joined Akzo Nobel as a business analyst in 1984. After several jobs in control and finance in the Netherlands and the United States, Mr. Frohn made the switch to a management position in 1994. Following several General Manager positions within Surface Chemistry, part of the company's chemicals operations, he was appointed in 2000 to lead the business unit, based in Sweden. He returned to the Netherlands in 2004 when he was appointed as CFO and member of the Board of Management of Akzo Nobel. Subject to shareholder approval of his reappointment, Mr. Frohn will take the responsibility within the Board of Management for Specialty Chemicals as of May 1, 2008.

Report of the Board of Management

2007 – strong operational focus during transformational year:

- 5 percent autonomous growth
- EBIT[1] up 25 percent; reaping the benefits from margin management and cost savings
- EBITDA[1] margin further improved to 12.4 percent
- EUR 8.5 billion profit on the divestment of Organon BioSciences
- ICI acquisition completed as of January 2, 2008
- Pension deficit significantly down from EUR 1.8 billion to EUR 1.1 billion
- Initial EUR 1.6 billion share buyback program completed
- Dividend increased 50 percent from EUR 1.20 to EUR 1.80 per common share
- Akzo Nobel tops DJSI sustainability ranking

Strategy and growth factors

Akzo Nobel is a Fortune Global 500 company and Chemicals industry leader on the Dow Jones Sustainability Indexes, with leading positions in the world's paints, coatings, and specialty chemicals markets. We supply well established brands and key products to industrial customers and consumers, from a global network of more than 80 countries.

The company has been successful in implementing an ambitious strategic agenda designed to transform Akzo Nobel and enhance shareholder value. This long-term plan, initiated several years ago, culminated in 2007 with two major transactions. To lay the foundations for the new strategic focus, Akzo Nobel reached an agreement in March to divest its pharmaceutical business (Organon BioSciences). This was followed in August by an agreement to acquire Imperial Chemical Industries plc (ICI) which was completed on January 2, 2008. Prior to 2007, we had created the platform for this transformation by streamlining our portfolios – particularly in Chemicals – improving our operational results, enhancing our capital structure, and establishing a leadership position in creating value through sustainable business.

The new organization (established in January 2008) operates in three business areas – Decorative Paints, Performance Coatings, and Specialty Chemicals. We are now focused on maintaining momentum and leadership through accelerated growth (particularly in emerging markets), leveraging our global leadership positions and continuous improvement of profitability through operational excellence. In particular we are committed to capturing the full synergies of the ICI acquisition. Akzo Nobel is on track to create one of the world's leading industrial companies with a unique brand. We have a strong portfolio of businesses in attractive growth markets and we remain committed to financial discipline. Capital allocation is focused on building sustainable leadership positions, reflected in returns significantly above the cost of capital and substantial operational cash flows.

PEER GROUP EBITDA PERFORMANCE

PEER GROUP EBITDA MARGINS	2007
DuPont	19.5
Hercules	18.3
BASF	17.7
PPG Industries	14.7
Sherwin-Williams	14.3
Dow Chemical Company	13.7
Akzo Nobel[1,2]	**12.9**
Kansai Paint	12.7
RPM International Inc.[3]	12.7
Kemira OYI	12.4
CIBA Specialty Chemicals	12.1
Valspar Corporation	11.7
Arkema Group	9.1
Median	**12.7**

[1] Continuing operations before incidentals.
[2] Akzo Nobel-ICI pro forma 2007.
[3] Consensus estimate.

Paints and Coatings

Akzo Nobel is the world's largest manufacturer of decorative paints and performance coatings, supplying products to a broad spectrum of customers from heavy industrial to consumer applications. It is a very attractive industry, which provides strong, stable, and sustainable cash flows with low cyclicality and modest capital investment requirements.

We are focused on:

- Growth in the emerging markets of Asia, Eastern and Central Europe, and South and Central America through a combination of organic growth and selected acquisitions
- Strengthening our position in key mature markets mainly through small and medium sized acquisitions.

Our ambition is to consolidate our position as the world leader in Decorative Paints and Performance Coatings in all our product markets and key geographic countries and regions. We intend to be an active consolidator in the industry and continue to use our scale to further develop our leading positions in technology and sustainability.

Specialty Chemicals

Our Specialty Chemicals portfolio is now focused on a limited number of businesses with leading market positions. Overall, the business is similar to Paints and Coatings in offering relatively stable and sustainable cash flows from a less cyclical base and with average investment demands.

Having realigned the portfolio, the focus of our Specialty Chemicals activities has moved to full concentration on profitable growth in those markets where we have a competitive advantage, and can achieve above-average financial returns. We aim to strengthen our leading positions by investing in organic growth, particularly in the emerging markets, and through participating in industry consolidation.

Across the portfolio, we will continue to scrutinize our activities in mature markets for opportunities to improve productivity.

Well balanced portfolio

The basic business models of all our business areas are now very similar, which enables us to fully leverage our scale and size to create value. We are creating, modifying, and using chemical compounds in all of the business areas in which we operate. We continue to develop sound joint research and development programs in similar technologies to enable us to leverage this common thread to give us a technical edge. For example, the cellulose-based thickeners developed by our Cellulosic Specialties business are used in the company's decorative wall paints. The surface properties of our coatings are also improved by using colloidal silica produced by the Pulp & Paper Chemicals business. Both examples highlight the increasing collaboration between our coatings and chemicals activities.

Financing

Akzo Nobel intends to maintain a solid investment grade rating in the single A- to BBB+ range. Building on the cornerstones of a solid capital structure and a commitment to financial discipline, the objective is to operate a flexible growth strategy, and to avoid over-exposure to the volatility of the financial markets. We continue to proactively deal with pension deficits and aim for a well-spread maturity of our long-term debt and a strong liquidity position. We now have a single listing in Amsterdam, having delisted from the NASDAQ exchange during 2007.

Economic Value Added (EVA®)[1]

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 the amortization of incidentals to capital, and inclusion of service costs for pensions. In 2007, the EVA excluding Organon BioSciences amounted to EUR 315 million (2006: 250 million).

[1] EVA® is a registered trademark of Stern Stewart & Co.

Financial review

CONDENSED CONSOLIDATED STATEMENT OF INCOME

MILLIONS OF EUROS	2007	2006	%
Continuing operations (Coatings and Chemicals)			
Revenue	10,217	10,023	2
Operating cost	(9,470)	(9,164)	
Operating income (EBIT)	747	859	(13)
Net financing charges	(120)	(106)	
Results from of associates and joint ventures	(20)	87	
Income tax	(166)	(96)	
Profit for the period from continuing operations	441	744	(41)
Profit for the period from discontinued operations (Organon BioSciences)	8,920	438	
Profit for the period	9,361	1,182	
Minority interests	(31)	(29)	
Net income	9,330	1,153	709
Earnings per share, in EUR:			
– Net income before incidentals from continuing operations	2.10	1.57	34
– Net income	33.82	4.02	740
Interest coverage	6.2	8.1	

In accordance with IFRS, incidentals are reported on the applicable income and expense lines in the statement of income.

Revenue – 5 percent autonomous growth

2007 revenue amounted to EUR 10.2 billion, up 2 percent on 2006, mainly realized in the emerging markets. Autonomous growth was 5 percent, with both Coatings and Chemicals contributing to the 2 percent volume growth and 3 percent selling price increase. Currency translation had a negative impact of 2 percent. Acquisitions added two percent, mainly attributable to Sico and Chemcraft at Coatings.
The Chemicals divestment program – which was completed during the year – coupled with the outsourcing of services, led to a 3 percent decrease. Total revenue of Akzo Nobel in 2007 developed as follows:

TOTAL REVENUE DEVELOPMENT

PERCENTAGES VERSUS 2006	Total	Volume	Price	Currency translation	Acquisition / divestments
Coatings	5	2	2	(2)	3
Chemicals	3	3	4	(2)	(2)
AKZO NOBEL	2	2	3	(2)	(1)[1]

[1] Included is the effect of the divestment of certain activities in Other.

EBIT up 25 percent; EBITDA improved 15 percent

Operating income before incidentals rose 25 percent to EUR 916 million (2006: EUR 733 million). The EBIT margin was 9.0 percent, compared with 7.3 percent in 2006. Both Coatings and Chemicals realized strong autonomous growth and reaped the benefits from margin management and cost saving actions. The improvement in EBIT reported as Other was mainly caused by favorable IAS 39 fair value adjustments.

EBITDA before incidentals grew 15 percent to EUR 1,271 million, with both Coatings and Chemicals contributing to this increase. The EBITDA margin rose to 12.4 percent (2006: 11.0 percent). Coatings achieved an EBITDA margin of 11.3 percent compared with 10.6 percent in 2006. Chemicals' EBITDA margin increased from 15.8 percent to 16.8 percent in 2007.

Including incidentals, operating income decreased 13 percent to EUR 747 million, with an EBIT margin of 7.3 percent (2006: 8.6 percent). Incidentals in 2007 on balance were a loss of EUR 169 million, compared with a gain of EUR 126 million in 2006. The 2007 losses mainly related to restructuring and impairment charges at several Coatings and Chemicals sites. In addition, a provision of EUR 66 million was recognized for post-retirement healthcare costs due to the loss of a court case in the Netherlands, which the company intends to appeal. The 2006 figures included gains for several divestments from the Chemicals divestment program started in 2005 and special benefits in respect of the U.S. post-retirement benefit schemes.

INCIDENTALS

MILLIONS OF EUROS	2007	2006
Special charges/benefits	(55)	28
Results on divestments	(23)	206
Restructuring and impairment charges	(62)	(104)
Charges related to major legal, antitrust and environmental	(29)	(4)
TOTAL INCIDENTALS	**(169)**	126

Net financing charges included incidental expenditures of EUR 40 million for the financing of the ICI acquisition, which had to be expensed into 2007 in accordance with IFRS. Excluding these expenses, net financing charges decreased from EUR 106 million to EUR 80 million in 2007, mainly due to the EUR 10.7 billion net cash proceeds from the divestment of Organon BioSciences on November 19. Interest coverage was 6.2 (2006: 8.1).

The results from associates and joint ventures was a loss of EUR 20 million, compared with a profit of EUR 87 million in 2006. The 2007 result included incidental charges of EUR 47 million, related to the completion of the Chemicals divestment program started in 2005. In 2006, incidental gains of EUR 39 million were recognized, mainly related to Acordis. The results from associates and joint ventures decreased after the divestment of Flexsys on May 1, 2007.

The income tax charge in 2007 was 27 percent, compared with 11 percent in 2006. The 2007 tax charge included an incidental benefit of EUR 37 million (2006: EUR 125 million), attributable to agreements with tax authorities in several countries on transfer pricing issues related to the company's corporate income tax filings covering a period of several years. In addition, 2007 earnings included non-tax-deductible incidental charges, while in 2006 tax-free incidental gains were realized. The tax charge on operational earnings, excluding incidentals, amounted to approximately 29 percent in both years.

Operational net income substantially up

Net income from continuing operations before incidentals increased 29 percent to EUR 580 million. On this basis, earnings per share rose 34 percent to EUR 2.10 (2006: EUR 1.57). The increase in earnings per share was higher than the net income increase because the share buyback program reduced the number of shares outstanding. Including incidentals, net income from continuing operations was down 43 percent to EUR 410 million. Earnings per share including incidentals decreased 40 percent to EUR 1.49 (2006: EUR 2.50).

In 2007, the results of Organon BioSciences were included until November 19, the date on which it was divested to Schering-Plough for EUR 11 billion. The profit on the divestment amounted to EUR 8,460 million.

Net income amounted to EUR 9,330 million (2006: EUR 1,153 million), by far the highest ever achieved by the company. Earnings per share were EUR 33.82, compared with EUR 4.02 in 2006.

Net income breaks down as follows:

NET INCOME

MILLIONS OF EUROS OR PERCENTAGES	Net income before incidentals			Net income	
	2007	2006	%	**2007**	2006
Continuing operations	**580**	449	29	**410**	715
Discontinued operations[1]	**458**	423		**8,920**	438
AKZO NOBEL	**1,038**	872	19	**9,330**	1,153

[1] In 2007, the Organon BioSciences results were included until November 19, the date on which it was divested to Schering-Plough.

Workforce

Akzo Nobel's workforce totaled 42,600 employees, slightly down from the 42,690 employees at year-end 2006 for Coatings and Chemicals, excluding the employees of Organon BioSciences. Growth of our business in emerging markets resulted in a workforce expansion of 990, while restructuring programs in the mature markets resulted in a decrease of 520. Acquisitions added 580 employees, while divestments resulted in an outflow of 1,140.

On January 2, 2008, our total number of employees increased by 26,380 due to the acquisition of ICI. The on sale to Henkel will result in a significant decrease in employees thereafter. Excluding other acquisitions and divestments, our workforce is expected to decrease due to the implementation of ICI integration programs and other restructuring programs, while it will expand from investments in growth in strategic priority areas.

INFORMATION ON SEGMENTS

MILLIONS OF EUROS OR PERCENTAGES	2007	2006[1]	%
Revenue			
Coatings	6,537	6,209	5
Chemicals	3,639	3,522	3
Corporate, other, and eliminations	41	292	
TOTAL	10,217	10,023	2
EBITDA before incidentals			
Coatings	737	658	12
Chemicals	610	558	9
Corporate, other, and eliminations	(76)	(112)	
TOTAL	1,271	1,104	15
EBITDA margin	12.4	11.0	
EBIT (operating income) before incidentals			
Coatings	594	518	15
Chemicals	408	339	20
Corporate, other, and eliminations	(86)	(124)	
TOTAL	916	733	25
EBIT margin	9.0	7.3	
EBIT (operating income)			
Coatings	557	604	(8)
Chemicals	382	321	19
Corporate, other, and eliminations	(192)	(66)	
TOTAL	747	859	(13)
EBIT margin	7.3	8.6	

[1] The figures for 2006 have been reclassified because the Chemicals activities divested are now included under Other at company level. This includes the results on divestments for these activities.

Coatings – benefiting from autonomous growth and cost savings

- Autonomous revenue growth 4 percent – both volumes and prices 2 percent higher
- EBIT before incidentals up 15 percent – benefiting from margin management and cost saving programs
- EBITDA margin of 11.3 percent (before incidentals)
- Decorative Coatings – substantial EBIT improvement
- Industrial Activities – solid performance despite slow demand; acquisition of Chemcraft completed
- Marine and Protective Coatings – another record year
- Car Refinishes – improved performance.

Chemicals – record year

- 7 percent autonomous growth – negative impact from currency (two percent) and divestments (two percent)
- EBIT before incidentals up 20 percent
- EBITDA margin of 16.8 percent (before incidentals)
- Active margin management offsetting impact of steep raw material and energy price rise
- Moving average ROI (before incidentals) at all-time high of 21.7 percent
- All business units turned in solid EBIT increases.

EUR 9.4 billion increase of cash position – due to proceeds from Organon BioSciences divestment

Cash and cash equivalents less debts to credit institutions increased EUR 9.4 billion during 2007, compared with an increase of EUR 464 million in 2006. The difference was mainly attributable to the net proceeds (less cash disposed of) from the divestment of Organon BioSciences of EUR 10.7 billion, partially offset by the EUR 1.6 billion share buyback program.

Net cash from operational activities increased 12 percent from EUR 574 million in 2006 to EUR 643 million in 2007. The decrease of working capital was somewhat lower than in 2006, due to the strong 6 percent autonomous revenue growth of the company in the fourth quarter of 2007. Changes in provisions include pension top-up payments made in the UK. Tax payments decreased significantly from 2006, when tax assessments for several years were settled in certain tax jurisdictions.

Capital expenditures amounted to EUR 359 million, slightly below the 2006 level. Capital expenditures were 108 percent of depreciation (2006: 106 percent). Expenditures were up at Coatings, but down at Chemicals. We expect that capital expenditures in 2008 will be somewhat over depreciation and the 2007 level. 2007 acquisition expenditures predominantly related to Chemcraft. Last year's expenditures mainly concerned Sico. The currency swap for investing purposes concerned the payments on the forward exchange contracts to hedge the currency risk on the ICI acquisition.

Proceeds from the sale of interests both in 2007 and 2006 include installment payments for the divestment of a Coatings plant near Barcelona, Spain (divested in 2006), and proceeds from the sale of several Chemicals activities under the divestment program initiated in 2005, including Flexsys in 2007. Included in net cash from financing activities from discontinued operations is the EUR 10.7 billion net proceeds (less cash disposed of) from the divestment of Organon BioSciences.

Included in "Other changes in non-current assets" is a payment of EUR 286 million into an escrow account of the Akzo Nobel pension fund in the UK.

The full statement of cash flows can be found on *page 104*.

CONDENSED CONSOLIDATED BALANCE SHEET, AS OF DECEMBER 31

MILLIONS OF EUROS	**2007**	2006 pro forma[1]	2006
Total non-current assets	**4,274**	4,136	5,734
Total current assets	**14,969**	8,649	7,051
Total assets	**19,243**	12,785	12,785
Akzo Nobel N.V. shareholders' equity	**11,032**	4,144	4,144
Minority interests	**97**	119	119
Total equity	**11,129**	4,263	4,263
Total non-current liabilities	**3,685**	4,564	4,864
Total current liabilities	**4,429**	3,958	3,658
TOTAL EQUITY AND LIABILITIES	**19,243**	12,785	12,785
Number of shares outstanding, in millions	**262.3**		287.0
Invested capital	**5,197**		8,060

[1] In the December 31, 2006 pro forma column, Organon BioSciences has been treated as if it qualifed as a discontinued operation as of that date.

Strong balance sheet – temporary high cash position in anticipation of ICI acquisition

Invested capital at December 31, 2007, amounted to EUR 5.2 billion, down EUR 2.9 billion on December 31, 2006. EUR 2.6 billion of the decrease related to the divestment of Organon BioSciences. Currency translation caused a reduction of EUR 0.2 billion.

During 2007, equity increased EUR 6.9 billion. Retained income amounted to EUR 9.0 billion, while the share buyback program resulted in a EUR 1.6 billion decrease. Losses on forward exchange contracts deferred in equity during 2007 amounted to EUR 0.5 billion.

The company started a share buyback program for EUR 1.6 billion on May 3, 2007, which was completed on August 27, 2007. The total number of shares repurchased and canceled under this program was 26,736,674 common shares. These shares were repurchased at an average price of EUR 59.84. The total number of common shares outstanding at December 31, 2007, amounted to 262,322,775.

Akzo Nobel intends to return an additional EUR 3 billion to its shareholders, commencing in 2008, subject to shareholder approval, completion of the sale of Organon BioSciences (OBS), and completion of the on sale of certain ICI activities to Henkel.

In the context of the intended acquisition of ICI, the company has concluded forward exchange contracts and currency swaps to hedge the currency risk on the transaction.

As of December 31, 2007, contracts had been concluded for GBP 5.3 billion net. These contracts are accounted for as cash flow hedge.

The net interest-bearing cash position at December 31, 2007, was EUR 8.0 billion, compared with a net borrowings position of EUR 1.1 billion at year-end 2006. This was the result of the EUR 10.7 billion net proceeds from the OBS divestment, partially offset by the EUR 1.6 billion share buyback concluded in 2007. This cash position is temporary and will be used for the acquisition of ICI on January 2, 2008.

Akzo Nobel anticipates that no additional funds will have to be raised for the financing of continued operations.

Pension funding status improved by EUR 0.7 billion

The funded status of the company's pension obligations at December 31, 2007, was an underfunding position of EUR 1,126 million, compared with EUR 1,818 million at year-end 2006. The improvement was caused by additional payments made especially into the UK pension fund, higher discount rates, divestments, and currency translation.

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 a broad range of processes and procedures designed to provide control by the Board of Management over the company's operations. These processes and procedures include measures regarding the general control environment, such as a Code of Conduct including Business Principles, Corporate Directives and Authority Schedules, as well as specific measures, such as a risk management system, a system of controls, and a system of letters of representation by responsible management at various levels within the company.

All these processes and procedures are aimed at a reasonable level of assurance that the significant risks of the company are identified and managed and that the company's operational and financial objectives are met in compliance with applicable laws and regulations. The individual components of the above set of internal controls are in line with the COSO Enterprise Risk Management framework.

An Internal Control Officer has been appointed to ensure these measures are assessed for adequacy and effectiveness. With respect to support to, and monitoring of, compliance with laws and regulations including the company's Business Principles, a Compliance Committee has been established. Internal Audit provides assurance to the Board whether Akzo Nobel's Internal Control processes, as designed and represented by management, are adequate and functioning correctly.

The company has delisted from the NASDAQ and deregistered from the SEC. However, management's attention has not wavered from assessing the adequacy of the design of the internal controls systems throughout the organization.

While the company routinely works towards continuous improvement of its processes and procedures regarding its financial reporting, the Board of Management is of the opinion that these processes and procedures:

- Provide a reasonable level of assurance that this Annual Report does not contain any material misstatements
- Have operated properly in the year 2007, and
- Will also operate properly in 2008.

It should be noted that the year 2008 will be geared towards integrating the newly acquired operations from ICI into the Akzo Nobel Governance and Control framework.

For a detailed description of the risk management system with regard to the strategic, operational and compliance risks and the principal risks identified, reference is made to the Risk Management chapter (see *page 84* onwards).

The above opinions and conclusions have been discussed with the Audit Committee, the Supervisory Board and the external auditor.

Dividend – increase from EUR 1.20 to EUR 1.80 per common share proposed

For 2007, a total dividend of EUR 1.80 per common share will be proposed at the Annual General Meeting of Shareholders on April 22, 2008. On October 31, 2007, an interim dividend of EUR 0.40 was already declared and paid. Adoption of this proposal will result in a total dividend payment of EUR 472 million, representing a payout ratio of 45.5 percent relative to net income before incidentals. This is in line with the earlier announced increased minimum payout ratio of 45 percent before incidentals and before the fair value adjustment charge in respect of the ICI acquisition. Subject to shareholder approval of this dividend proposal, the Akzo Nobel share will trade ex-dividend from April 24, 2008, and the final dividend will be made payable on May 7, 2008.

Building momentum

There are various signals which indicate that the macro economic conditions in 2008 will become more challenging. The ongoing pressure created by raw material prices, volatility in major currencies and a slowdown in overall growth in North America and Europe will make for a testing environment. However, we are confident that our strategic transformation has maneuvered the company into a position of strength. In the years to come we will deliver on our promise of outgrowing our markets and further improving the bottom line.

The Board of Management
Amsterdam, March 5, 2008

Report of the Supervisory Board

Maarten van den Bergh (1942, Dutch) Chairman

Initial appointment 2005
Current term of office 2005 - 2009

Former President of Royal Dutch Petroleum Company; Former Vice-Chairman Committee of Managing Directors of Royal Dutch/ Shell Group plc; Former Chairman of the Board of Lloyds TSB Group plc; Nonexecutive Director of Royal Dutch Shell plc; British Airways plc; and BT Group plc.

Karel Vuursteen (1941, Dutch) Deputy Chairman

Initial appointment 2002
Current term of office 2006 - 2010

Former CEO of Heineken; Deputy Chairman and Member of the Board of Directors of Heineken Holding; Member of the Supervisory Board of ING Group and TOMTOM N.V.; Member of the Supervisory Board of Henkel; and Member of the Advisory Board of CVC Capital Partners Nederland.

Virginia Bottomley (1948, British)

Initial appointment 2000
Current term of office 2004 - 2008

Former Secretary of State for Health and Member of the British Cabinet; Member of the House of Lords; Former Secretary of State for National Heritage; Governor of the London School of Economics; Governor of the Ditchley Foundation; Nonexecutive Director of BUPA; Executive Director of Odgers Ray & Berndtson; and Trustee of the Economist newspaper.

Peggy Bruzelius (1949, Swedish)

Initial appointment 2007
Current term of office 2007 - 2010

Former CEO ABB Financial Services; Former Executive Vice-President SEB; Vice-Chairman AB Electrolux; Nonexecutive Director Scania AB, Axfood AB, Syngenta AG and Husqvarna AB; Chairman Board of Directors Lancelot Asset Management; Director Axel Johnson AB; Governor Stockholm School of Economics; Chairman of the Swedish National Agency for Higher Education; Member European Advisory Board of Lehman Brothers.

Louis Hughes (1949, American)

Initial appointment 2006
Current term of office 2006 - 2010

Chairman and CEO of GBS Laboratories LLC; Former President and COO of Lockheed Martin; Former Executive Vice-President of General Motors; Nonexecutive Chairman of Maxager Technology Inc.; Member of the Supervisory Board of MTU Aero Engines Holding AG; Member of the Board of Directors of AB Electrolux, Sulzer AG and ABB AG; and Executive Advisor of Wind Point Partners.

Dolf van den Brink (1948, Dutch)

Initial appointment 2004
Current term of office 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 Board of Nyenrode University; and Member of the Supervisory Board of Samas Groep.

Uwe-Ernst Bufe (1944, German)

Initial appointment 2003
Current term of office 2007 - 2011

Former CEO of Degussa AG; Vice-Chairman Investment Banking and Deputy Chairman of the Supervisory Board of UBS Deutschland AG; Former member of the Supervisory Board of Altana; and Member of the Supervisory Boards of Solvay and Umicore SA.

Antony Burgmans (1947, Dutch)

Initial appointment 2006
Current term of office 2006 - 2010

Former Chairman of Unilever NV and Unilever plc; Nonexecutive Director of BP plc; Member of the Supervisory Board of SHV Holdings NV and AEGON NV, and Member of the Advisory Board of CVC Capital Partners Nederland.

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 2007, as prepared by the Board of Management and approved by the Supervisory Board in its meeting of March 5, 2008.

The 2007 financial statements were audited by KPMG Accountants N.V. The Auditors' Report appears on *page 150*. 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 2007 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 is of the opinion that the 2007 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 general meeting of shareholders adopts the 2007 financial statements as presented in this Annual Report. At the September 2007 meeting of the Supervisory Board, the proposal for a higher dividend payout, a minimum of 45 percent of net income, was approved. We propose that the General Meeting of Shareholders resolves that the total dividend for 2007 on each of the common shares outstanding will be EUR 1.80 and that this amount, less the interim dividend of EUR 0.40 – which was made payable in October 2007 – will be made payable on May 7, 2008. 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 2007, and the members of the Supervisory Board for their supervision of management.

Supervisory Board activities

The Supervisory Board met 15 times during the course of 2007, which included a number of meetings dedicated to the intended IPO and ultimate sale of Organon BioSciences (OBS) and the acquisition of Imperial Chemical Industries (ICI), as well as one meeting fully dedicated to the company's strategy. All meetings were plenary sessions with the full Board of Management present and were well attended by the Supervisory Board members.

The Supervisory Board held a separate meeting, which was attended in part by the CEO, during which the Supervisory Board conducted a self-assessment and appraised its committees, working methods, procedures, and performance, as well as evaluating the functioning of the Board of Management and its individual members. The Supervisory Board also assessed its relationship with the Board of Management and discussed the composition of the Supervisory Board and its committees.

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

In 2007, the Supervisory Board again devoted considerable time to discussions on the company's strategy, in particular the sale of Organon BioSciences (OBS) and the acquisition of ICI. The Supervisory Board reviewed and discussed in-depth with the Board of Management the overall company strategy and strategic options, including objectives, associated risks, and the mechanisms for controlling financial risks.

On November 5, 2007, an Extraordinary General Meeting of Shareholders (EGM) was held at which the proposal to acquire ICI was approved. The Supervisory Board approved the decision to acquire Imperial Chemical Industries (ICI) under the agreed terms on August 13, 2007.

Other discussion topics included:

- Investment in a multi-site in Ningbo, China
- Akzo Nobel in China
- Return of value to shareholders
- Delisting from NASDAQ and deregistration from the SEC
- Sustainibility at Akzo Nobel
- Pensions.

The Supervisory Board met with senior management of the business units on at least two occasions and visited two sites while in Suzhou, China, for the June meeting of the Supervisory Board.

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

Composition of the Supervisory Board

At the 2007 General Meeting of Shareholders, Mrs. Bruzelius, former CEO of ASEA Brown Boveri AB, and Former Executive Vice-President of Skandinaviska Enskilda Banken, was appointed to the

Supervisory Board for a four-year term. By May 1, 2008, the terms of office of Baroness Bottomley and Mr. Van den Brink will have expired. Baroness Bottomley and Mr. Van den Brink are available and recommended for reappointment.

It will be proposed at the 2008 General Meeting of Shareholders that Mr. Peter Ellwood, the former chairman of ICI, be appointed to the Supervisory Board for a four-year term. For this purpose it will be proposed at the 2008 General Meeting of Shareholders to increase the number of Supervisory Board members to nine. All nominations are made in accordance with the membership profile, which can be found on Akzo Nobel's corporate website.

Board of Management changes

The first four-year term of each of Messrs. Darner and Frohn will expire as of July 1, 2008, and May 1, 2008, respectively. It will be proposed at the 2008 General Meeting of Shareholders that Messrs. Darner and Frohn be reappointed for a second four-year term as members of the Board of Management. Furthermore, Mr. Keith Nichols will be proposed as a member of the Board of Management of Akzo Nobel for a four-year term commencing May 1, 2008. For this purpose it will be proposed at the 2008 General Meeting of Shareholders to increase the number of Board of Management members to four.

Audit Committee

The Audit Committee consists of three members and is chaired by Mr. Van den Brink. The Audit Committee had seven regular meetings in 2007. As a rule, the CEO, the CFO, the director of corporate control, the internal auditor, and the lead partner of the external auditor, KPMG, attend all regular meetings. After every Audit Committee meeting, the Audit Committee holds a separate meeting with only the internal auditor present, and one with only the external auditor present. In addition, the Audit Committee met once without management being present to conduct self-evaluation and appraise performance.

The Audit Committee regularly discussed financial statements, the Annual Report on Form 20-F for SEC filing, internal and external control procedures, risk management, internal auditing reports, planning, tax, and the external auditor's performance and independence. Before each announcement of quarterly results, the Audit Committee was informed of the figures and consulted on the reports and press releases to be published. As a result of the delisting from NASDAQ and deregistration from the SEC, the requirement to prepare, review and file a form 20-F report no longer applies as of the financial year 2007.

The Audit Committee further discussed items such as:

- Annual Compliance Report
- Draft prospectus for the intended Organon BioSciences IPO
- SOx 404 implementation, in control project
- Pensions
- KPMG's approach to auditing the company, engagement letter, fees and audit plan
- Internal Audit Plan 2007
- Highlights of transfer pricing policies within Akzo Nobel
- Delisting from NASDAQ and deregistration from the SEC.

Issues discussed in Audit Committee meetings are reported back to the full Supervisory Board in subsequent meetings of this Board.

Remuneration Committee

The Remuneration Committee consists of three members and is chaired by Mr. Vuursteen. The Committee met three times in 2007, with three of the meetings being combined sessions with the Nomination Committee. In 2007, the Remuneration Committee made recommendations on the remuneration and remuneration policy for the members of the Board of Management, including personal targets.

Information on remuneration of the Board of Management and of the Supervisory Board can be found on *page 141* in the Supervisory Board's remuneration report.

Nomination Committee

The Nomination Committee consists of three members and is chaired by Mr. Van den Bergh. The Committee met three times in 2007, with three of the meetings being combined sessions with the Remuneration Committee. The Nomination Committee made proposals for an increase in the number of Supervisory Board members and members of the Board of Management, as well as the appointment of Mr. Ellwood to the Supervisory Board in 2008 and for the appointment of Mr. Nichols to the Board of Management in 2008.

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 2007.

The Supervisory Board
Amsterdam, March 5, 2008

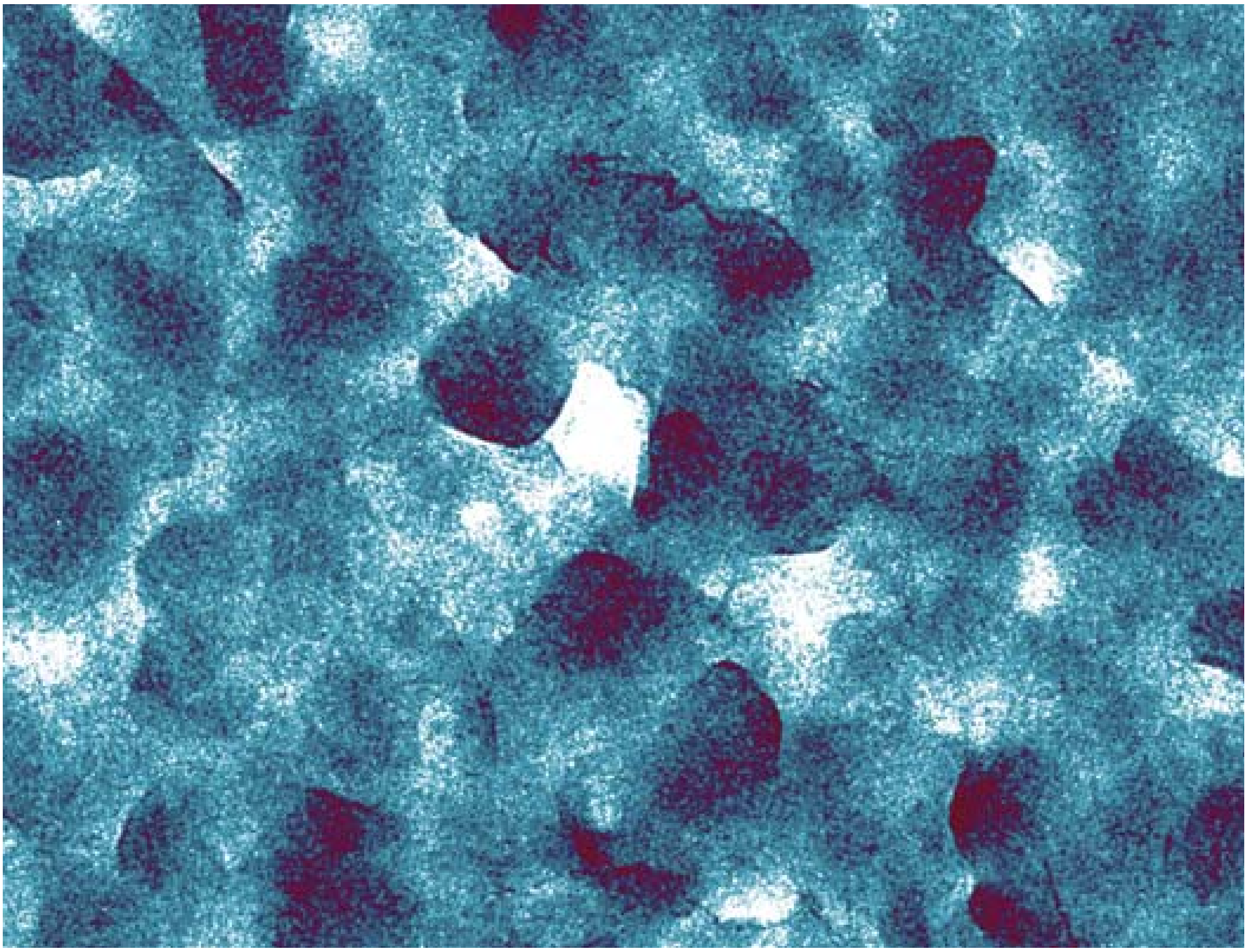
Akzo Nobel Coatings

Akzo Nobel is the world's largest coatings manufacturer and holds leading positions in most of its businesses.

The company develops, manufactures, and markets innovative, high quality products and services for nearly all markets.

The portfolio includes decorative paints; products for industrial applications including powder and specialty coatings; car refinishes; marine, protective and aerospace coatings; and coatings-related products such as wood and building adhesives.

Akzo Nobel is using nanotechnology to develop coatings which are highly wear resistant and very easy to clean, thus extending the lifetime of products.



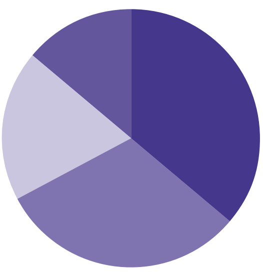
AKZO NOBEL COATINGS KEY BRANDS

Decorative Coatings
Supplies a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself markets, including paints, lacquers, and varnishes.

Industrial Activities
Akzo Nobel Industrial Activities comprises the company's Industrial Finishes and Powder Coatings businesses. The former focuses on the development, marketing, and manufacturing of factory applied wood, coil, and plastic coatings, and industrial wood adhesives. The latter is the largest global manufacturer of powder coatings, with products being supplied to eight key market sectors.

Marine & Protective Coatings
The global market leader for marine paints and antifouling coatings used in shipbuilding, ship maintenance and repair, and by yacht and other pleasure craft owners.

Car Refinishes
One of the world's leading suppliers of paints and services for the car repair, commercial vehicles and automotive plastics markets.



2007 REVENUE SPLIT

IN PERCENTAGES	
Decorative Coatings	36
Industrial Activities	31
Marine & Protective Coatings	19
Car Refinishes	14

EMPLOYEES BY REGION

NUMBER OF EMPLOYEES AT YEAR-END 2007	
U.S. and Canada	4,560
Latin America	2,010
Asia	7,370
The Netherlands	1,990
Germany	2,350
Sweden	1,520
UK	2,900
Other European countries	8,140
Other regions	1,700
TOTAL	**32,540**

KEY FIGURES

MILLIONS OF EUROS	2007	2006	%
Revenue	6,537	6,209	5
EBITDA[1]	737	658	12
EBITDA margin[1], in %	11.3	10.6	
EBIT[1]	594	518	15
EBIT margin[1], in %	9.1	8.3	
EBIT, after incidentals	557	604	(8)
EBIT margin, after incidentals, in %	9.1	8.3	
Capital expenditures	158	135	
Invested capital at year-end	2,756	2,653	
Moving average ROI[1], in %	21.1	20.2	
Number of employees	32,540	31,660	

[1] Before incidentals.

Akzo Nobel Coatings Year in review

"The inherent strength of our portfolio enabled us to deliver growth in strategic global markets and deliver solid results"

HANS WIJERS
BOARD MEMBER RESPONSIBLE FOR AKZO NOBEL COATINGS

Akzo Nobel Coatings had a very successful year. We achieved significant top line growth and a substantial improvement in the bottom line, consolidating our position as the world's leading coatings company. The business grew organically, as well as through selective acquisitions, and the inherent strength of our portfolio enabled us to grow in strategic global markets and deliver solid results.

One of the main drivers for this was a significant performance improvement at Decorative Coatings. Under the leadership of General Manager Rinus Rooseboom and Board Member Leif Darner, a new global strategy was implemented at the beginning of the year which involved merging the Decorative Coatings Europe and Decorative Coatings International activities. This was done to reduce complexity – in formulations and product range for example – and it allowed us to better leverage our scale in R&D, purchasing, and production. It required a lot of hard work, but the rewards of this more cohesive strategy have been substantial, with improvements being realized in almost all key financial parameters.

We aspire to improve our performance year on year, just by doing things in a more coordinated and better planned way. Major progress has also been made with regards to enhancing local customer focus, so now we have a great base on which to build.

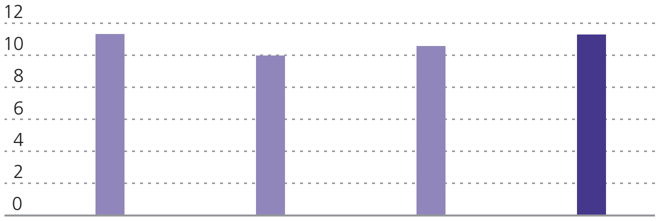
Another important driver was the Marine & Protective Coatings business, which again produced an exceptional year. This was in spite of significant raw material price challenges, especially in metals, which impacted the Marine activities in particular. However, both Protective and Aerospace Coatings had an excellent 2007, achieving impressive growth and further improving the business' financial performance. An important deal was also completed in the United States with the acquisition of the worldwide Ceilcote® business, which was integrated into our Protective Coatings activities.

It is appropriate at this point to mention that there were several other notable achievements during 2007. The most prestigious was the presentation of the UK's Queen's Award for Enterprise in the Innovation category to our Marine & Protective Coatings business for its Intersleek® 700 antifouling coating. Marine & Protective also introduced Intersleek® 900 in 2007. This second generation system – which has already been extremely well received by the shipping industry – serves to further underline our continuing commitment to developing a constant stream of innovative and environmentally responsible products that meet customer and market needs.

EBITDA MARGINS[1]

IN PERCENTAGES

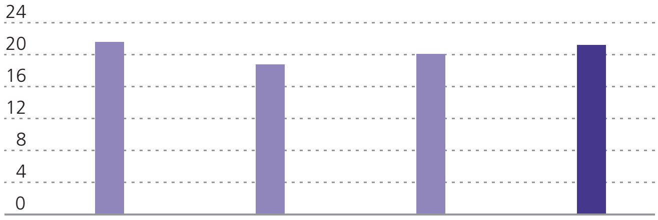
2004	2005	2006	**2007**
11.3	10.0	10.6	**11.3**



MOVING AVERAGE ROI[1]

IN PERCENTAGES

2004	2005	2006	**2007**
21.6	18.8	20.2	**21.1**



[1] Before incidentals.

A lot of economic attention during the year focused on the downturn in the U.S. housing market. However, this only had a major impact on one of our businesses – Industrial Finishes. The depressed market impacted volumes, but the business still managed to post good results in this challenging environment. There were positive developments in both top and bottom line and – bearing in mind that 2006 was such an incredibly good year for Industrial Finishes – all things considered it was a great effort from the whole team. There was some significant expansion activity as well. We acquired the U.S. industrial wood coatings business Chemcraft®, which enabled us to add scale and value in a number of key sectors in the mature North American market.

Although the economic conditions in the U.S. were far from ideal, Powder Coatings managed to bounce back from significant margin pressure and continued to expand, further consolidating its leading global position by boosting its presence in several important markets – new facilities were opened in Russia, the Czech Republic, Turkey, and China. Expanding the global reach of all our activities remains a key focus, with Powder Coatings in particular targeting accelerated growth in India, where the business has made significant inroads.

Growth was also achieved at Car Refinishes, notably in Asia, while substantial progress has been made with regard to the restructuring in Europe. One important development was the signing of a six-year supply agreement with the Royal Bank of Scotland, the largest insurer in the UK. Car Refinishes will supply Sikkens® products to 180 of the largest bodyshops in the UK to be used for the repair of RBS-insured vehicles. Developing the business with key accounts such as this is a central strategy for Car Refinishes in Europe, the Middle East and Asia.

Looking at Akzo Nobel Coatings in terms of strategy, our focus remains on continuing to pursue rapid growth in the emerging markets, using our technological expertise and customer-focused approach to consolidate our market-leading positions. One way to achieve this is to use our worldwide scale, highlighted by the recent creation of a Global Image Solutions team. This has been established to target multinational companies who are undergoing brand changes and require a range of coatings products from different business areas. The team had major early success, securing a contract to supply a full range of coatings products for application to Shell's worldwide retail network of service stations and business signage.

Having the expertise, products, brands, and capability to serve customers on this scale is what sets Akzo Nobel apart. We are working hard to continue pioneering more advanced, eco-friendly technologies and we will continue to seize every opportunity to grow the business and further improve performance and profitability.

Akzo Nobel Decorative Coatings

"Our turnaround has been based on growth, operational excellence and leadership"

RINUS ROOSEBOOM
DECORATIVE COATINGS GENERAL MANAGER

Decorative Coatings supplies a full range of interior and exterior decoration and protection products for both the professional and do-it-yourself markets, including paints, lacquers, and varnishes. The extensive product range is marketed under international and local brand names including Sikkens®, Astral®, Crown®, Levis®, Sico®, Marshall®, and Flexa®. Decorative Coatings also supplies building adhesives and floor leveling compounds, and offers services such as mixing machines, color concepts and advice, as well as training courses for applicators.

Can you briefly sum up your business' 2007 performance?

This was the first year of operations under the new set-up, after we officially combined the Decorative Europe and Decorative International organizations in January 2007. Bearing this in mind, the results were more than satisfying. We achieved volume growth, also in the mature markets, for the first time in a number of years, while profitability improved significantly.

What were the main factors that contributed to this turnaround?

We changed the business models. The Decorative International business had been geared towards growth in the emerging markets, but it didn't generate the required growth levels. The model for Decorative Europe, on the other hand, was very centralized and focused on cost synergies, but it resulted in a lack of focus on the customers. So we changed our approach and took more advantage of our scale, without losing local ownership. We also concentrated more on margin management. But perhaps more importantly, we brought back pride and ownership of the business, particularly at local level, but also at central level.

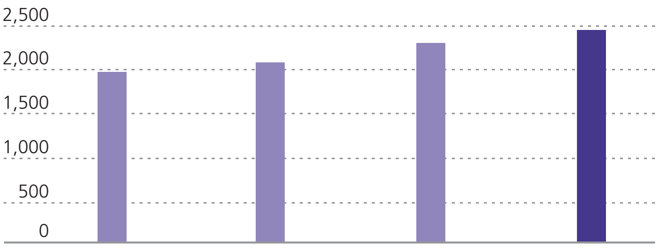
How did the business perform in its various geographic regions?

Looking at Europe, we had an excellent year in the UK, Nordics, Baltics, and Russia. We gained share in the retail and professional markets throughout the region, and continued to do well in the Benelux, notably Belgium, as well as improving in Eastern Europe. There was also strong results improvement in Central Europe.
In Southern Europe, we had fantastic performance in Italy and Greece, good development in France, and major improvements

REVENUE DECORATIVE COATINGS

MILLIONS OF EUROS

2004	2005	2006	**2007**
1,929	2,038	2,259	**2,407**



in Spain in both revenue and results. But we experienced setbacks in Morocco and Turkey.

In the United States, we have been integrating the Flood® organization which we acquired in 2006 into our existing wood care activities. We made good progress and we are looking to create growth in the large-scale outlets segment. The U.S. housing slump did not have a severe impact on the Deco business because our products are mostly used in maintenance and redecoration, not in new building.

This was also the first year when we were able to reap all the benefits from the 2006 Sico® acquisition in Canada. Despite a paint market which was hesitatant and volumes not growing quickly, we have been doing well. Results were in line with expectations and our market share has increased.

In Asia Pacific, where we have basically a marketing platform, we are continuing to develop the business, although it's fragmented between China, Indonesia, Vietnam, and Papua New Guinea. We are progressing well in Vietnam, where we achieved good volume growth and the bottom line is improving, while in China we realized double digit organic growth, but still on a small level. So there was progress, but we want to speed this up.

In South America, there was strong development in our wood care position in Argentina. A number of years ago we decided to focus purely on wood care in Argentina and we are the clear leader in this market segment, where our Cetol® brand is very profitable. We also strengthened the organization in Brazil and increased both volume and profitability.

Were there any other important developments?

We took a major decision with regard to reinvesting in advertising and sales promotion in relation to our retail branding, most notably in the UK, and this led to a big upturn in results. In the past, we protected our results by cutting advertising budgets, but when you do that the reputation of your brand suffers. So we reversed our strategy and the results improved greatly. Furthermore, we attacked our main profitability challenges, particularly in Germany, where we had to solve some distribution issues. We changed the business model, improved operational excellence, and as result we realized a tremendous profit improvement.

In China, we opened a new facility for paint products in Langfang, which underlined our commitment to growing in Asia. Centenary celebrations were also held for the Balakom® brand in the Czech Republic, an event which highlighted our focus on emerging markets.

The excellent performance of our Building Adhesives activities was also important. There was growth and bottom line improvement and we are targeting growth acceleration for this business in Europe, to the extent that we do not exclude acquisitions.

Were there any notable product launches?

We're very much focused on compliance with future environmental legislation, which was reflected in a number of product introductions. In Canada we launched the zero emission Sico® Design line, while our high solids Sikkens® Rubbol® XD range – which was introduced in the Netherlands in 2006 – was rolled out in other European markets. Another major stream of our product development involves offering additional functional performance. In 2007 we also launched façade coating Herbol® Symbiotec® in Germany (other countries will follow in 2008), and introduced a range of ultra-fast drying flooring compounds.

What are the key areas of focus as the business continues to progress?

Our turnaround has been based on growth, operational excellence, leadership and a determination to become successful and these areas will remain key to our continued development as we bring the business back to the required levels of profitability. There's been a tremendous swing in results and we have to continue that momentum and properly channel the fighting spirit which has been restored to the business.

Akzo Nobel Decorative Coatings

Cleaner living

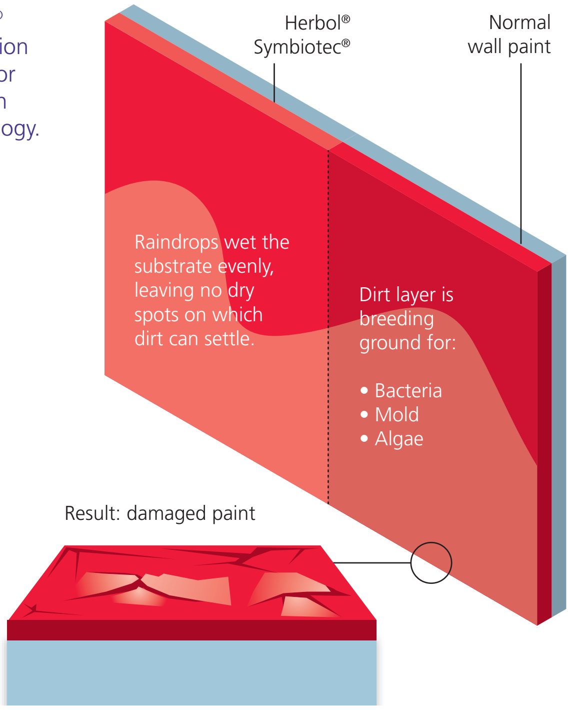
Dirt attraction is one of the biggest problems in façade maintenance. It not only causes an aesthetic problem, but the build up of a dirt layer also forms an ideal breeding ground for micro-organisms such as bacteria, mold, and algae – which attack and destroy the protective paint. In close cooperation with a key partner, Akzo Nobel's Decorative Coatings business has developed Herbol® Symbiotec®, a second generation dirt-repellant exterior wall paint.

Based on innovative nanobinder technology, the coating attracts water rather than mimicking the Lotus effect (which repels it). This means that raindrops wet the substrate evenly, leaving no dry spots on which dirt can settle. Because Herbol® Symbiotec® also exhibits extremely low thermoplasticity (it does not become softer upon heating, by sunlight for example) it is virtually impossible for dirt to stick. Façades coated with the product therefore stay cleaner for longer and remain more aesthetically attractive.

Since the inorganic nanoparticles are incorporated homogeneously into the binder, a high degree of color retention is achieved which lasts for an extended period, while chalking (separation of pigments) is also prevented. An additional technical advantage is that the three-dimensional network of organic and inorganic compounds in the coating results in excellent moisture management, helping to maintain the insulating properties of wall and insulation systems.

The effectiveness of this pioneering product could have an important impact on the global deco market, which is worth around USD 40 billion.

Herbol® Symbiotec® is a second generation dirt-repellant exterior wall paint, based on nanobinder technology.



Akzo Nobel Industrial Activities: Industrial Finishes

"Our strategy remained intact as we continued to invest and grow in our strategic markets"

BOB TAYLOR
INDUSTRIAL FINISHES GENERAL MANAGER

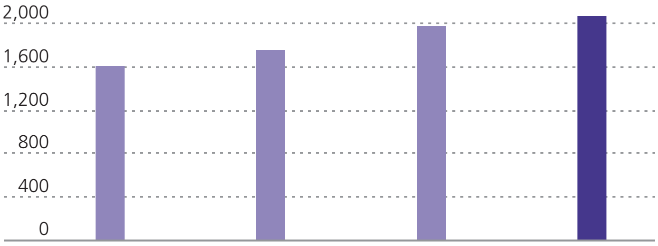
Industrial Finishes focuses on the development, marketing, and manufacturing of factory applied wood, coil, and plastic coatings, and industrial wood adhesives. Wood coatings decorate and protect furniture, kitchen cabinetry, and building products, including flooring, siding, doors, windows, and trim. Coil coatings are applied to coiled steel and aluminum prior to manufacturing and are used in the metal building products market for roofing, siding, garage and entry doors, and gutters. Coil coatings also serve the HVAC (e.g. air conditioners, heaters, furnaces, and ventilation units) and appliance markets.

The Coil business also features extrusion coatings for the commercial construction industry that are applied to some of the world's most prestigious high-rise buildings. Plastics coatings are supplied to the consumer electronics industry for use on cell phones, music players and computers. They are also sold to the cosmetic packaging and sporting equipment industries for use on items such as bicycles, helmets and ski equipment. The wood adhesives business provides bonding solutions for laminated beams, wood flooring, furniture, and other wood applications.

REVENUE INDUSTRIAL ACTIVITIES

MILLIONS OF EUROS

2004	2005	2006	**2007**
1,592	1,740	1,959	**2,052**



Would you briefly summarize the business' 2007 results?

It was a successful year despite the fact that we faced a number of challenges throughout our global businesses. The main one was the U.S. housing recession, which had a significant impact on our business in North America and Asia Pacific. The other major challenge faced by the entire business was the continued and rapid increase in oil prices which put pressure on our raw material costs and margins. Nonetheless, our strategy remained intact as we continued to invest and grow in our strategic markets.

How did you cope with the challenging business environment?

I think we have to give a lot of credit to our employees, who absolutely rose to the occasion. We were faced with a very tenuous business climate, but our people realized that we were in a difficult situation and worked diligently to deliver a tremendous year against the odds. We grew in emerging markets and we developed green technology. More importantly, we remained committed to the success of our customers, which has been the hallmark of our own success over the years.

How did the business perform in its global markets?

We continued to invest and achieve growth in our emerging markets of China, Vietnam, India, Russia, the Nordics, and Eastern Europe. Looking at the regions in a little more detail, we were very successful in securing volume in Russia, and our business activities progressed well in Poland and Romania. We have also been flourishing in the strategic markets of Vietnam, India, and China. Our market approach in many regions has been validated by top line growth.

Were there any other key developments?

In July we finalized the acquisition of North American wood coatings manufacturer Chemcraft. This transaction was important because it not only broadened and strengthened our industrial wood coatings portfolio, but also enabled us to leverage Chemcraft's focus on distribution in areas of the North American market where we lacked a significant presence.

Did you notice an increase in demand for greener technologies?

There's a continued drive across all our businesses and geographies for greener technology and all of our R&D programs around the world are dedicated to developments in this field. It means something different for each of our businesses, but what's interesting is that the demand is coming from the customers and the marketplace. In the past, it was mainly driven by our own initiatives and the regulatory push, but now there's more of a desire to be green from a marketing perspective. Our key differentiating factor is our portfolio of green technologies, complemented by our renowned global color and design capabilities. That's how we help to create value for our customers.

What efforts are you putting into increasing customer focus?

Industrial Finishes is, from top to bottom, a customer focused organization. We think in terms, not of improving our own profitability, but what we can do to improve our customers' profitability. If we're good at that, then our results will follow. Our existence is built around following these customers worldwide and anticipating their needs. We pride ourselves on developing the finest, greenest technologies; keeping our finger on the pulse of market trends and developments, and providing global production capabilities to help our customers thrive in an ever-changing global business environment. Ultimately, our mission is to migrate, change and innovate with our customers faster than our competitors.

A world of color

Color is one of the most important factors that influences consumer purchasing, particularly when it comes to choosing something like a new cell phone. Demand for more choice and style has never been so intense. Because as consumer products have evolved with technology, and digital devices have gone from oddity to everyday necessity, fashion has become as important as function.

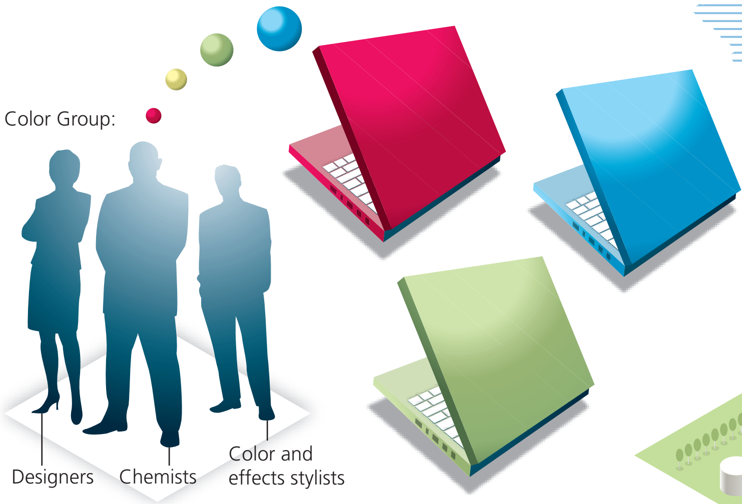
When looking for the right finish, leading brands turn to Akzo Nobel Specialty Plastics, part of the company's Industrial Finishes business. Their dedicated global Color Group features some of the organization's finest designers, chemists, and color and effects stylists.

They meet throughout the year to compile trend and market behavior analyses, as well as discussing customer-generated requests for specific color and technology development.

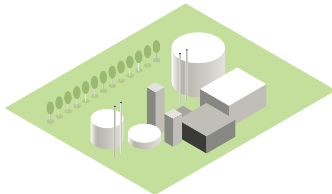
Equipped with the resources to investigate groundbreaking new technologies, Specialty Plastics has patented and pioneered many of today's most exciting advances in coatings technology, such as Reflex, Flexxpress®, Suede, Crackling and Marbling.

China is a key growth market and Industrial Finishes has moved quickly to establish another production facility – in Tianjin – where a new 3,000 square meter plant is currently under construction. The facility, expected to be operational in April 2008, will produce specialty plastics to support the explosion of the mobile telephone and IT markets in China and South East Asia.

When looking for the right finish, leading brands turn to Akzo Nobel Specialty Plastics, part of the company's Industrial Finishes business.



Industrial Finishes is constructing a new plant in Tianjin. The facility will produce specialty plastics for mobile phones and IT markets.



Specialty Plastics has patented and pioneered many of today's most exciting advances in coatings technology.

- 3,000 square meter plant
- Operational in April 2008

Akzo Nobel Industrial Activities: Powder Coatings

"It was a record year for us in terms of expansion and opening new facilities"

ROB MOLENAAR
POWDER COATINGS GENERAL MANAGER

Powder Coatings is the largest global manufacturer of powder coatings and a world leader in powder coatings technology. Powder coatings – solvent-free paints applied to metal and other conductive surfaces – are used on everything from metal furniture to window frames, radiators, pipes, and cars and even wood and plastic. Products are supplied to eight key market sectors – appliance, architectural, automotive, functional, furniture, general industry, general trade coaters and IT – under the global brands Interpon® and Resicoat®. The business also includes non-stick coatings, whose products are used on house ware and a wide range of other specialist industrial applications.

How would you sum up this year's performance?

Powder Coatings delivered solid results. In terms of the top line we realized good volume increases and the business is clearly on a growth path. We were able to grow substantially above market rates in all markets. Our focus on expansion in Eastern Europe and Asia was maintained, and we continuously improved our return on capital employed in the developed markets of Western Europe and the United States. Despite the price hikes in raw materials and increasing energy costs, our income improved over the previous year. This was due to a strong focus in four key areas: relentless product formula engineering efforts; product re-allocations to different factories; mitigating raw material price increases due to our global purchasing leverage; and applying price increases in the marketplace.

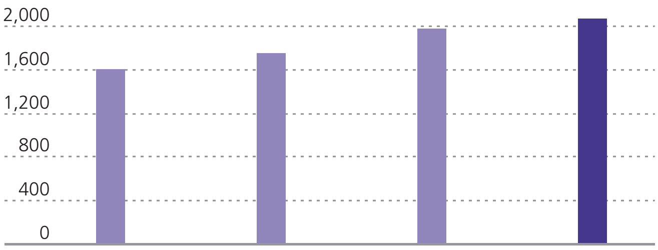
Can you put a geographic perspective on your performance?

As customers are shifting towards the emerging markets, so we are moving with them. We've been relocating with our customers to Eastern Europe, and have continued to follow the migration of the U.S. industry base to China. We're also seeing much more attention nowadays on the South American continent. In all these areas our results have been improving. Furthermore, we drastically reengineered our models in Europe and the United States, restructuring our organization to align our cost base according to the growth in those markets. We optimized our factories in Europe and inaugurated the business' first fully automated powder line in Italy. In the United States, we consolidated our operations from Cleveland to Nashville and expanded the Nashville facility.

REVENUE INDUSTRIAL ACTIVITIES

MILLIONS OF EUROS

2004	2005	2006	**2007**
1,592	1,740	1,959	**2,052**



How busy was the business in terms of expanding its activities during 2007?

It was a record year for us in terms of expansion and opening new facilities. We inaugurated a factory in Moscow, expanded our facilities in the Czech Republic, increased capacity in Turkey, and are in the process of opening a facility in Dubai. We also opened a factory in Chengdu in central China, where there's a migration from the higher cost areas of the country's east coast to the lower cost areas of the interior. All of these activities endorse the fact that we are on a growth path. Global scale is crucial to our business. It means we can provide customers with consistency all around the world; it enables us to leverage our purchasing power, and we can use our size to focus on innovation and developing better products for our customers.

Did any of your products have a particularly good year?

Our functional powders – a technology which was developed in Germany – performed extremely well, achieving growth of more than 20 percent. This was driven by a combination of increased focus, expanding the business globally and leveraging the technology we have in-house in Germany. The business itself supplies the petrochemical industry with products for the interior and exterior of gas and oil pipes and it clearly has enormous potential. We also introduced Interpon® D3000 to the architectural market in the United States, a product which has already started to gain market share. More importantly, however, it is transforming the market, moving it away from liquid application on window frames to powder application. So we're changing the industry – it's shifting more towards powder application due to the performance of our product.

What were the year's other key events?

We became a preferred supplier to Fiat Group in a partnership with Akzo Nobel's Car Refinishes business, providing products for agricultural equipment such as tractors. We also signed an agreement with PSA Peugeot Citroen in France, along with Akzo Nobel Specialty Plastics. We supply the clear coat and primer for PSA's wheels, while Specialty Plastics supply the basecoat. Both are great examples of dedicated Akzo Nobel business units working very well together by focusing on improving the results of our customers.

Were there any other developments you were particularly proud of?

I am extremely proud of the fact that employees at our Chinese site in Suzhou achieved 1.5 million hours without a Lost Time Injury. That's something we should all feel proud of. Focus on HS&E is, and remains, extremely important. With 26 Powder factories around the world, our business has developed a HS&E conscious culture and we take it extremely seriously. Something else we are proud of is our global reach and alignment. Many of our global customers standardize their global operations and are seeking innovative global solutions to enhance their performance. Our coordinated approach in purchasing, R&D, and marketing is clearly focused on the needs of our global customers, standardized product ranges and maintaining global consistency.

What's been happening in the field of innovation?

During 2007, we re-focused our lab at Felling in the UK and turned it into an Innovation Center. Progress has been made in many fields, particularly in the area of applying powder on top of wood and plastic substrates. Our development in curing powder at lower temperatures and/or through radiation is making excellent progress. We have also developed an exterior powder coating for application to automotive bodies which is being supplied to the market in India. In addition, our expansion in color and design has given us better penetration and higher margins in the furniture and architecture segments. We are convinced that successful innovations such as these will allow powder coatings to become much more prominent in the entire coatings market. It's an exciting technology with enormous potential.

Akzo Nobel Industrial Activities: Powder Coatings

Driving forward

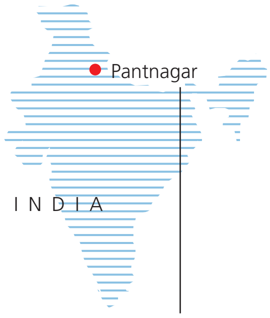
A revolution in vehicle manufacture has been taking place in India. Tata is producing inexpensive cars which millions of people can now afford. Their production has called for new ways of thinking and new technology. Quality without compromise.

One of these vehicles is the Ace truck, which is coated with durable products supplied by Akzo Nobel's Powder Coatings business. The system supplied by the company is not only cost-effective, but it also needed only a third of the investment which Tata would have been required to make if using a conventional coatings system. So far, around 10,000 Ace trucks have been coated and are now on the market in two colors – Arctic White and Irish Cream – with shades of black and red next in line.

There are various advantages to using a powder coating on a vehicle. For example, it's more environmentally-friendly (no VOC emissions and no effluent plant are required) and it's cost-effective. Furthermore, thanks to a new automatic line, a vehicle can complete the coating process in 55 minutes, with 190 Ace trucks being produced every day at Tata's factory in northern India.

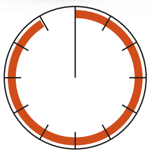
Having established a benchmark for performance and appearance through this partnership with Tata, the next planned step is to take it one step further and meet passenger car standards with Akzo Nobel's powder technology.

The Ace truck is coated with durable products supplied by Akzo Nobel's Powder Coatings business.



190 Ace trucks are produced every day. They are coated at Tata's factory in northern India.

Powder coating:
- Cost-effective
- Low investment
- Environmentally-friendly



One vehicle can complete the coating process in 55 minutes.

Around 10,000 Ace trucks have been coated.

Akzo Nobel
Marine & Protective Coatings

"We've grown across every market and every geographical area in the world"

BILL MCPHERSON
MARINE & PROTECTIVE COATINGS GENERAL MANAGER

Akzo Nobel is the global market leader for marine paints and antifouling coatings used in shipbuilding, ship maintenance and repair, and by yacht and other pleasure craft owners. Marine & Protective Coatings, through the International® brand name, manufactures fire retardant products for large plants and offshore installations, as well as protective coatings for structures such as bridges, stadia, and landmarks, including the Sydney Harbour Bridge, the London Eye in the UK, and the Beijing Olympic complex. Marine & Protective Coatings is also home to Akzo Nobel's Aerospace Coatings activities.

How would you sum up your 2007 results?
It's been an excellent year, the third in a row when we've achieved double digit revenue growth. We're reaping the benefits of the new growth strategy we introduced at the end of 2004, designed to enable us to build on a solid financial platform, expand the business, and grow EVA. Our growth has been almost exclusively organic in nature.

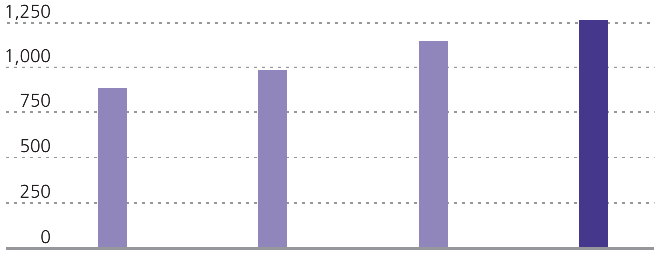
Can you expand on the 2007 performance from a geographic perspective?
We've grown across every market and every geographical area in the world. In China, our growth rate was extremely good. However, our highest growth rate on a country by country basis was in India, where our revenue has increased significantly. For a long time it was a low growth economy with a lot of potential, but India is opening up now and we're seeing substantial growth there. We've also seen good progress in Eastern and Central Europe. This has mainly been due to our successful strategy of putting resources into all the emerging markets in the world and being prepared to take risks in terms of allocating the resources early on in the development process.

Have you faced any particular challenges?
Rising raw material prices meant that our contribution margin – the difference between the selling price and the price at which you buy raw materials – fell for the third year in a row. We had to pay a lot more for raw materials such as copper, zinc, solvents, and epoxy resins. All of them increased in price by at least double digit figures. In the case of copper and zinc, over a three-year period they have increased by a range of 200 to 300 percent. So we've been faced with the most severe test in terms of raw material price

REVENUE MARINE & PROTECTIVE COATINGS

MILLIONS OF EUROS

2004	2005	2006	**2007**
879	975	1,130	**1,251**



inflation. In some business areas – specifically Marine and to a lesser extent in Yacht – we didn't pass on the full effect of those price increases to our customers. So we've actually taken a hit to our contribution margins, although we managed some recovery in 2007 largely aided by volume growth from the market and from our own internal economies. We had to work hard to preserve our net margins in 2007, however, because the fall in the U.S. dollar and the rising Korean won also caused some pressure.

Did any of your products have a particularly good year?

At the end of February we launched Intersleek® 900, a new foul release marine coating which gives improved environmental benefits. It is based on our own patented technology of fluoropolymers and has been very well received by the market. Another Marine product which has performed particularly well this year is Intershield® 300, which is used as a ballast tank coating. This year it's been the highest single volume of product that we've sold in the specialty product category, notably in Korea, but also in Europe and China.

In Protective Coatings, Intertherm® CSA751 has also done very well. It was launched in 2006 and sales have been excellent. It's a high added-value product for metal surfaces in chemical plants, where changes in temperature can range from anywhere between zero and 400 degrees Celsius. In addition, we expanded sales of Chartek® 1709 into the onshore hydrocarbon market in the United States, which could be significant for the future.

Superyachts are another market where we had a good year. The order book is very long and has increased in length over the last 12 months by 20 percent. In 2006, if you put all the superyachts that were on order end to end, they would have stretched for eight kilometers. In 2007, the line would have been more than ten kilometers long. We supply products for the entire craft, inside and out, so it's been an excellent market for us this year. Our Aerospace activities benefited from the product range we introduced in 2006. This business has moved to a new level of performance, largely by meeting specific customer needs.

Were there any other key milestones in 2007?

Our Intersleek® 700 antifouling coating received the Queen's Award for Enterprise in the Innovation category, which is a very prestigious honor in the UK. As part of the award, I visited Buckingham Palace to meet the Queen, which was obviously a very proud moment for both the company and me. We also opened a new R&D facility at Felling in the UK, and this year we marked the centenary of our U.S. operations, which we celebrated with a series of extremely successful customer-related events. Another key event was the acquisition of the Ceilcote® business in the United States, which has already resulted in sales into new geographical areas in order to generate added value. In addition, towards the end of the year we completed the construction of a new protective coatings plant at Suzhou in China, which we believe is the biggest of its kind in the country.

The partnership between our Aerospace Coatings business and a university in the United States was also an important milestone. Together we developed a breakthrough primer which replaces harmful strontium chromates with magnesium-based technology. During the fourth quarter, we coated a number of aircraft with this new primer technology, with a view to eventually targeting the civil aviation market.

Can you say anything about your product pipeline?

We have been putting a higher proportion of our revenue into R&D and filling our product pipeline every year since 2004. In every market segment, we have products that we know we are going to launch in 2008 and beyond. We recognize that if we're going to put our customers first, one of the things that we can do to help is to give them products that will make them even more competitive. Putting customers first is closely linked with introducing new products that will increase their profitability and make their lives easier, be it a product which will cure at a faster rate, something that can be applied with fewer coats, or a product which enhances performance. Essentially, what we try to do is give them more than they want, but never less than they expect.

Akzo Nobel Marine & Protective Coatings

Smooth operator

In 2007, less than a decade after introducing its revolutionary, silicone-based Intersleek® 700 foul release technology for deep sea scheduled ships, Akzo Nobel's International® Paint business launched its next generation Intersleek® 900 system.

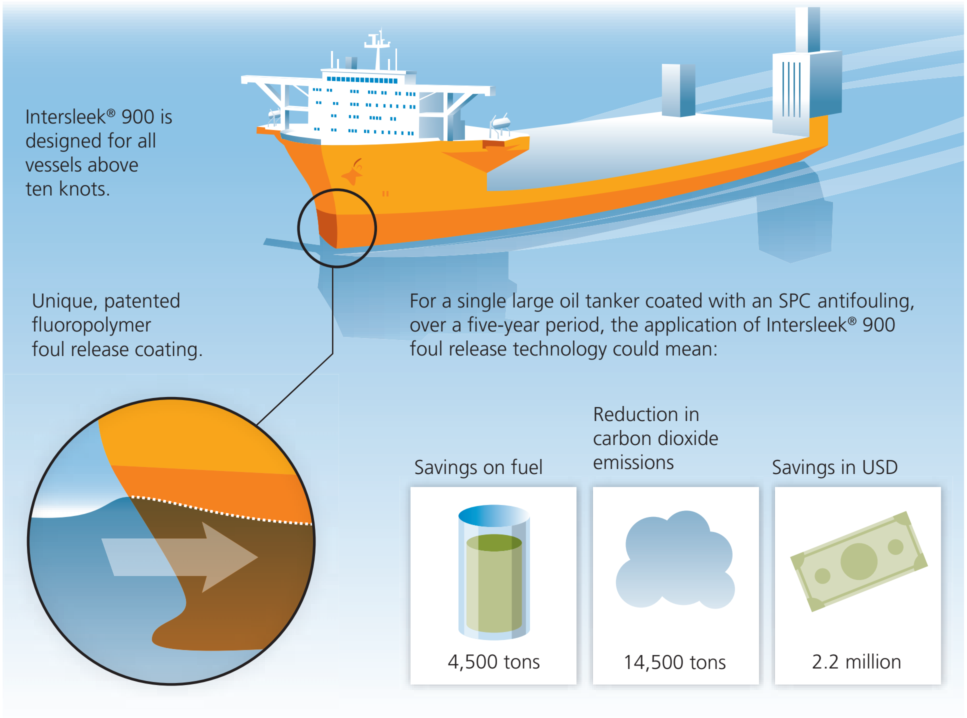
Setting even higher performance standards with improved fuel efficiency and reduced emissions, Intersleek® 900 is a unique, patented foul release coating based on fluoropolymer chemistry which represents the very latest advances in fouling control technology.

Exceptionally smooth, with unprecedented low levels of average hull roughness, Intersleek® 900 is designed for all vessels above ten knots, and has excellent foul release capabilities and good resistance to mechanical damage.

In terms of fuel efficiency and reduced emissions, Intersleek® 900 offers predicted savings of 2 percent in comparison with Intersleek® 700 and 6 percent when compared with SPC (self-polishing copolymer) antifoulings (depending on in service conditions).

For a single large oil tanker coated with an SPC antifouling, over a five-year period, the application of new Intersleek® 900 foul release technology could mean savings of more than 4,500 tons of fuel, a reduction in carbon dioxide emissions of more than 14,000 tons, and USD 2.2 million.
With a total foul release track record of more than 300 ships burning around 11 million tons of fuel per year, a conservative estimate indicates that Intersleek® technology is already delivering, in comparison with SPC antifoulings, reduced CO_2 emissions of almost two million tons per year.

The Intersleek® 900 system is a foul release technology for deep sea scheduled ships.



Akzo Nobel Car Refinishes

"In 2007 we achieved a record number of aftermarket approvals with car makers worldwide"

JIM REES
CAR REFINISHES GENERAL MANAGER

Car Refinishes is one of the world's leading suppliers of paints and services for the car repair, commercial vehicles and automotive plastics markets. It sells coatings for car body refinishing, or recoating, to customers including bodyshops, distributors, fleet owners, automotive suppliers and major bus and truck producers. Brands include Sikkens®, Lesonal®, Dynacoat®, Wanda®, and Autocoat® BT. Operating in more than 60 countries, Car Refinishes has specialists around the world who understand local markets and can serve local needs. Its state-of-the-art customer services, color and technology solutions include offering technical and logistical support and the delivery of training programs.

How would you summarize your business' 2007 performance?

All but one of our activities and regions experienced growth in revenue and profit, generally outperforming the markets. We improved return on invested capital, while operating costs were well under control. We effectively managed our raw material costs, primarily through value engineering, although we saw some pressure. There was one important exception, however. Our Commercial Vehicles activities in North America – which is a cyclical business – suffered a decline in revenue after being impacted by lower unit builds from some of North America's largest truck and transportation equipment makers.

Can you put a geographic perspective on the year's results?

On the Car Refinishes side, we beat the markets in both Asia and the EMEA (Europe, Middle East and Africa) region. Good growth was also achieved in South America and we were very strong in India. Within Automotive Plastic Coatings (APC), Europe turned in a record year, while the Americas region outperformed the market in our largest segment, which is bodyshop collision repair. Throughout EMEA – particularly in Western Europe – APC's focus on its strategic customers has proved effective.

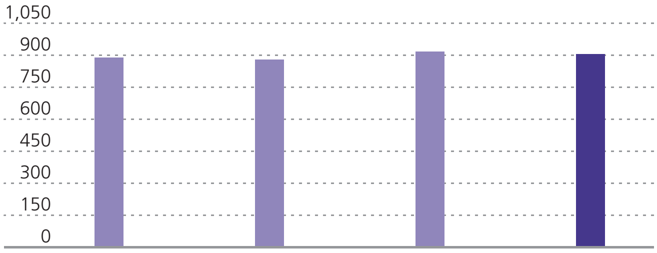
Did any of your product brands have a particularly good year?

Our Sikkens® brand continued to get even stronger. It grew in all regions, boosted by the business' best-in-class color matching and technology capabilities. Sikkens® Autoclear® LV Superior became a trendsetter with its low level of VOCs and unmatched performance; while Sikkens® Autoclear® UV continued to lead the

REVENUE CAR REFINISHES

MILLIONS OF EUROS

2004	2005	2006	**2007**
893	886	922	**910**



market in low energy, high speed curing technology. The widening acceptance of our Sikkens® Autowave® waterborne basecoat also boosted the brand's 2007 performance.

Were there any other key developments?

A key aspect of our refinish business is the focus on creating a best-in-class global approach to key account management with the automobile makers. This clearly paid off for us in 2007 because it resulted in a record number of aftermarket approvals with car makers worldwide. We also opened a number of new facilities, including a polymer research center and a waterborne production unit, both located in Sassenheim, the Netherlands. In addition, we installed a new automatic dispensing unit at Pontiac, Michigan, in the United States, which allowed us to complete the closure of the North Brush plant. We were busy in India as well, doubling the size of our research facility in Bangalore in order to create a world class product development and color technology center. Other notable events included rolling out our waterborne basecoats in Canada and California; the launch of the Wanda® brand in the United States; and the presentation of a State Quality Award to our APC plant in Garcia, Mexico.

How will you continue to drive the renewed growth of the business?

One of the things that makes us unique is that we're the only leading global supplier of vehicle refinishing products that does not have an OEM supply position for automobiles. Our primary focus is on the aftermarket and we are extremely skilled in key areas such as focusing on color and technology and marketing differentiation. For example, getting color matched in the aftermarket involves a lot of process steps and the more complexity you can take out of that process the better. We help our customers identify the color, mix it and spray it, so they get it right first time. So we will continue to concentrate on marketing our capabilities in the vehicle refinish business because they clearly mark us out as the suppliers most capable of improving our customers' operations, resulting in the profitable growth of our business.

Can you say anything about your product pipeline?

We're finalizing the development of a new UV primer, a low VOC (volatile organic compounds) basecoat, and a HAPs (hazardous air pollutants) free basecoat. We are also using the latest techniques to measure and digitize color so that we can use that data all over the world. We believe our expertise in color and color measurement is where we set ourselves apart, it's a key differentiator, and we're always looking to further improve our technological know-how.

What is being done to further increase the business' environmental efforts?

There are developments ongoing relating to renewable feedstocks. Work is also continuing to remove VOCs and HAPs from our products. The increasing acceptance of our Sikkens® Autowave® waterborne basecoat in Europe – and its launch in Canada and California – underlines the value the market puts on this particular technology, and by end of 2007 we converted nearly all our collision repair customers in the EU to waterborne basecoats. This move towards a greener industry is something we have helped to pioneer to a certain extent and we will continue to ramp up our efforts in this field.

Akzo Nobel Car Refinishes

The perfect match

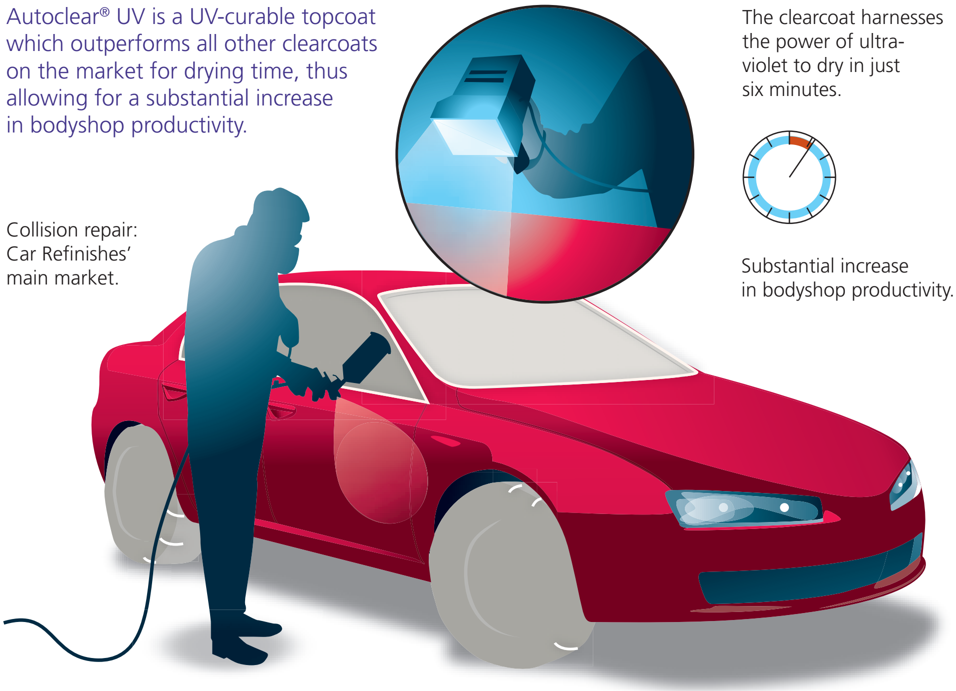
2007 was a record year for Akzo Nobel's Car Refinishes business in terms of the number of aftermarket approvals – both technical and commercial – secured with car makers worldwide. (The term aftermarket simply refers to sales and services relating to a vehicle following its emergence from the production line, such as collision repair – car refinishes' main market).

These approvals came from some of the biggest names in the industry, including Toyota, GM, Ford, Hyundai, and Skoda. A key factor in this notable success has been the strategic focus on creating a best-in-class approach to global key account management. To drive this process, the business puts significant emphasis on effectively marketing its capabilities to the industry's major players. In fact, Car Refinishes was the first in the industry to successfully align cross-functional resources, coordinate activities and provide standardized processes on a global basis – while at the same time delivering value propositions locally anywhere in the world – for its key customers.

What's also remarkable about Car Refinishes is the unique nature of its operations. It's the only leading supplier of vehicle refinishing products (number three globally) which does not have an OEM (original equipment manufacturer) supply position for automobiles. In other words, the business does not supply coatings for new cars, but is the third biggest worldwide in repainting them. Commanding such a distinctive position requires expertise and cutting-edge technology, not to mention skillful management and top class marketing ability, all of which is embodied in the highly successful key account management philosophy.

Autoclear® UV is a UV-curable topcoat which outperforms all other clearcoats on the market for drying time, thus allowing for a substantial increase in bodyshop productivity.

The clearcoat harnesses the power of ultra-violet to dry in just six minutes.



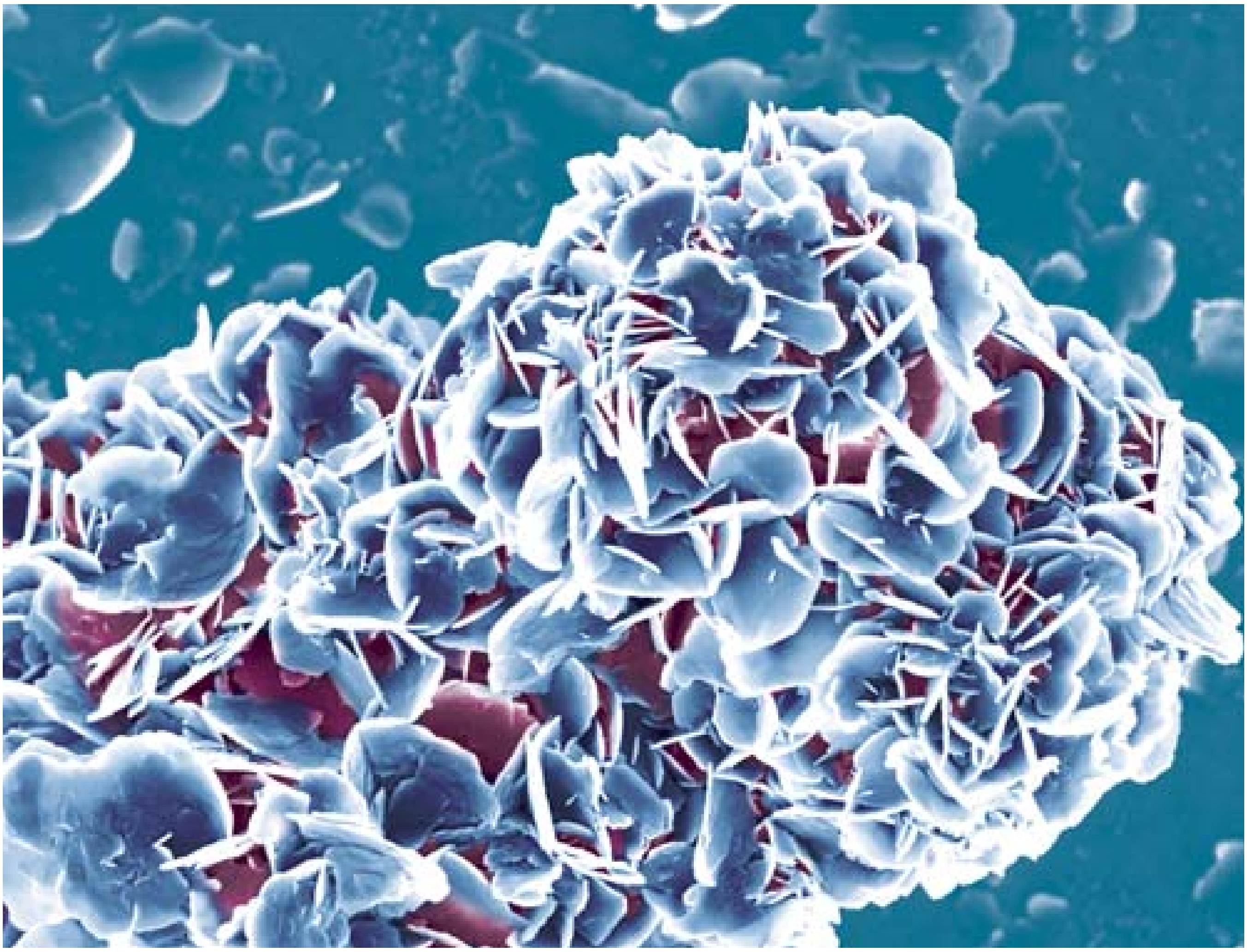
Collision repair: Car Refinishes' main market.

Substantial increase in bodyshop productivity.

Akzo Nobel Chemicals

Akzo Nobel is one of the world's leading specialty chemicals producers, holding leading or strong global positions in many markets. A key supplier to the polymer production and processing industries, the company is also the world leader in pulp bleaching chemicals, and an important producer of salt, functional chemicals, and surfactants. Focused on superior technologies and innovation, Akzo Nobel is committed to sustainable growth, with the clear aim of consolidating or establishing leadership positions in strategic markets.

Perkalite® is an organically modified synthetic clay based on layered double hydroxides. It can be delaminated to nanoscale level, resulting in improved polymer properties, such as thermo-mechanical and flame retardant.



AKZO NOBEL CHEMICALS KEY BRANDS

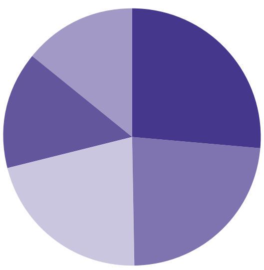
Pulp & Paper Chemicals
The world's leading producer of bleaching chemicals used in the manufacture of paper pulp, and a supplier of specialty chemicals.

Base Chemicals
Producers of salt and energy, chlor-alkali products, and derivatives such as monochloracetic acid. Also Europe's largest producer of vacuum salt and a leading supplier of chlorine, caustic lye, and MCA.

Functional Chemicals
Consists of a number of different businesses that manufacture and sell a variety of chemical intermediates and performance chemicals on a global scale.

Surfactants
A global producer of surface-active agents used in a wide variety of applications. Its specialty surfactants and surfactant intermediates are used by industrial as well as consumer product companies.

Polymer Chemicals
The world's leading producer of organic peroxides, and a major producer of metal alkyls and co-catalysts.



2007 REVENUE SPLIT

IN PERCENTAGES	
Pulp & Paper Chemicals	27
Base Chemicals	23
Functional Chemicals	21
Surfactants	15
Polymer Chemicals	14

EMPLOYEES BY REGION

NUMBER OF EMPLOYEES AT YEAR-END 2007	
U.S. and Canada	1,430
Latin America	680
Asia	970
The Netherlands	2,150
Germany	720
Sweden	2,130
UK	40
Other European countries	760
Other regions	20
TOTAL	**8,900**

KEY FIGURES

MILLIONS OF EUROS	2007	2006	%
Revenue	3,639	3,522	3
EBITDA[1]	610	558	9
EBITDA margin[1], in %	16.8	15.8	
EBIT[1]	408	339	20
EBIT margin[1], in %	11.2	9.6	
EBIT, after incidentals	382	321	19
EBIT margin, after incidentals, in %	10.5	9.1	
Capital expenditures	191	223	
Invested capital at year-end	1,870	1,960	
Moving average ROI[1], in %	21.7	17.8	
Number of employees	8,900	9,300	

[1] Before incidentals.

Akzo Nobel Chemicals
Year in review

"Performance is now very high and the emphasis is clearly on investing in profitable growth"

LEIF DARNER
BOARD MEMBER RESPONSIBLE FOR AKZO NOBEL CHEMICALS

In many ways, 2007 was a proof year for the logic behind operating a refocused Chemicals portfolio alongside Akzo Nobel's Coatings businesses in a revamped specialty chemicals company. Having crystallized Chemicals into five strong platforms with clear strategic direction and solid financial performance, we now have a strong, well balanced overall portfolio which can exploit opportunities for growth.

All of our Chemicals businesses are now targeting growth and continued performance improvement. We have switched from streamlining, rationalization and cost savings to expansion and exploring organic and acquisition opportunities. Performance is now very high and the emphasis is clearly on investing in profitable growth.

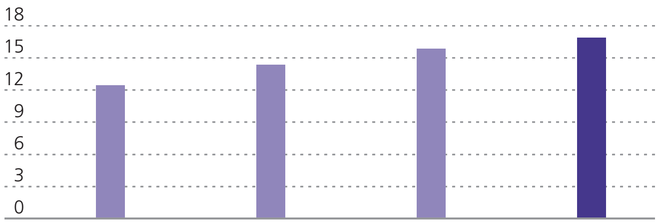
The new Chemicals portfolio is now close to 22 percent ROI, having improved from a level of around 15 percent three years ago. This has been achieved by concentrating on our areas of strength and having clearly defined management targets. The improvement can largely be attributed to focusing on high performance.

The strategic intent to escalate investments in growth was underlined during 2007 with the announcement of plans to build a grassroots EUR 250 million multi-site at Ningbo in China. The main user will initially be the Functional Chemicals business, which will be constructing China's first ever ethylene amines plant. Before that, however, we will build a chelates facility there, which is expected to be operational in 2009. It's a clear sign that Functional Chemicals – which opened a new polysulfide production plant in Taixing in June – is well positioned to meet the growth in China. There are further plans in preparation for Polymer Chemicals to install an organic peroxides plant, and for the Functional Chemicals business to also set up a manufacturing base for cellulosic products, while the additional opportunity exists for Coatings businesses to utilize the location.

EBITDA MARGINS[1]

IN PERCENTAGES

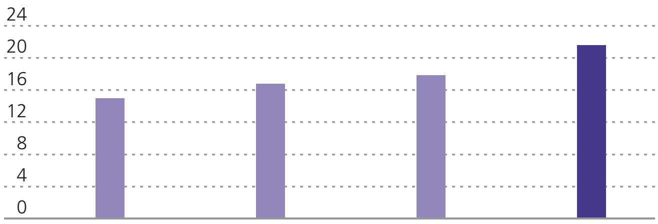
2004	2005	2006	**2007**
12.4	14.4	15.8	**16.8**



MOVING AVERAGE ROI[1]

IN PERCENTAGES

2004	2005	2006	**2007**
15.0	16.8	17.9	**21.7**



[1] Before incidentals.

A further example of this increasing focus on investment was evident in Brazil, where our Pulp & Paper Chemicals business is building another major chemical island to supply a new pulp mill. This total commitment of EUR 50 million – announced in May – highlights our leading position in the bleaching chemicals market globally.

Like Pulp & Paper, Polymer Chemicals is another globally focused business which had a very good year. The Polymer business has put a strong focus on controlling margins and during 2007 was able to pass on raw material price increases, with good results being achieved in all activities.

Base Chemicals proved to be another success story. As part of the recent portfolio realignment, we pooled three businesses – Energy, Salt and Chlor-Alkali – with the main focus on operational excellence. As a result, I think we have developed what is one of the world's most efficient chlor-alkali chains. It's a very strong business, which is concentrated on Europe, and we are looking at how we can expand into central and eastern regions of the continent.

Surfactants, which is very much a global business, is also being prepared for further growth and investment. It has gone through an important transformation, moving away from being a bulk supplier of commodities to focusing more on specific applications where added value in technology means a lot to the customer. We now have a clear picture of which activities will give us higher returns and we made a move towards expanding our operations by starting a marketing joint venture in China with Feixiang Chemicals Ltd.

In Chemicals, and throughout the whole company, we are striving for excellence. We have a competitive edge in technology, in our market knowledge, in our relationships with customers and this drives our good performance. As well as establishing a streamlined and very strong specialty chemicals portfolio, we have also instilled an enormous amount of pride and confidence in our people throughout the organization. The ambition now is to grow faster than our competitors in these selected market segments.

We will grow through organic investments, and through acquisitions, anywhere we see strategic opportunities that also make financial sense.

Akzo Nobel Pulp & Paper Chemicals

"China is a major market, which is why we opened our second paper chemicals plant in the country"

JAN SVÄRD
PULP & PAPER CHEMICALS GENERAL MANAGER

Pulp & Paper Chemicals, which trades as Eka Chemicals, is the world's leading producer of bleaching chemicals used in the manufacture of paper pulp. Eka supplies process chemicals and performance chemicals that improve the properties of paper, as well as systems and integrated services for the pulp and paper industry. Eka also produces specialty chemicals, having synergies in the pulp and paper business, with applications in areas such as water treatment, explosives, coatings, and the pharmaceutical industry.

How would you sum up the business' 2007 results?

We saw a strong improvement in all our businesses and markets, even though we had to contend with heavy raw material price increases, primarily for electricity. We managed our costs well, there was strong demand for our products, notably sodium chlorate – particularly in the Americas and Asia – and we were able to compensate for raw material price rises in most areas. Overall it was a very good year.

Can you give an overview of your performance in geographic terms?

There was strong growth in Asia Pacific and South America. However, there were three challenges for the paper industry in the European region, namely the high value of the euro, competition for fiber, and energy costs. More than 40 percent of our turnover is in Europe, so these were difficult conditions.

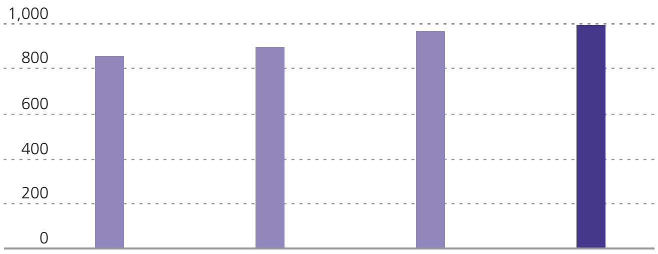
We continued to invest in paper chemicals in China and bleaching chemicals in Latin America. The Chinese paper industry is growing extremely quickly, where the main problem is the supply of pulp. China is a major market, which is why we opened our second paper chemicals plant in the country, in Guangzhou. Due to this growing demand for pulp, we also see potential for our bleaching chemicals in China.

In Latin America, Brazil is a key area for us. During 2007, the business secured a contract to supply chemicals and build a chemical island for Votorantim Celulose e Papel (VCP) at Três Lagoas, which involves a total investment of EUR 50 million, thus strengthening our leading position.

REVENUE PULP & PAPER CHEMICALS

MILLIONS OF EUROS

2004	2005	2006	**2007**
854	893	966	**993**



Were there any other key developments?

A new application for our Purate® water treatment process was successfully introduced to replace biocides for slime control in paper production. We supplied several new chlorine dioxide units monitored by our Eka Process Information System, the latest one being at Metsä Botnia Rauma mill in Finland. These contracts underline the fact that our pioneering chlorine dioxide concept has been accepted globally as the most efficient method of bleaching chemicals supply and processing.

Why is this concept proving so successful?

Apart from being more efficient, it allows customers to concentrate on their core operations, while we take care of processing of chemicals on site. Chlorine dioxide generation for the ECF (elemental chlorine-free) process we use is becoming so widespread, that pulp mills are modifying their operations to accommodate our technology. The industry is becoming more and more environmentally conscious, and we're ahead of the curve. We don't only supply chemicals, however, we also solve problems for our customers, by supplying eco-friendly technologies and supporting them in reducing their energy and fiber consumption and improving quality.

Are there any interesting products in the pipeline?

Two areas in particular within paper production are growing. One of them is tissue, the other is packaging. For the latter we have developed new products for improved retention and strength. In addition, we are developing an additive which improves normal copier paper and enables photo quality printing in the rapidly growing inkjet segment. A concept has also been developed which helps mills to reduce the very high energy consumption in mechanical pulp processing. Essentially, we want to combine our versatile strengths to develop cutting-edge technology.

How do customers benefit from the close cooperation you have?

Developing solutions that benefit our customers is vital to the success of our business. We allow them to concentrate on their core operations. Our vision is not only to be a preferred chemicals supplier, but also to establish even closer relationships. We know the paper industry is striving hard for cost reductions. We're doing the same.

An efficient way to create further cost reductions in the industry is to have tighter cooperation along the supply chain. By installing remote control of chemical handling operations at more and more of our customers' sites we can manage inventories, have automatic ordering and track processing performance, all from our main control centers. By combining industrial IT, engineering, and chemistry, we are taking care of chemicals management and handling at our customers' sites in a mutually beneficial way.

Pure and simple

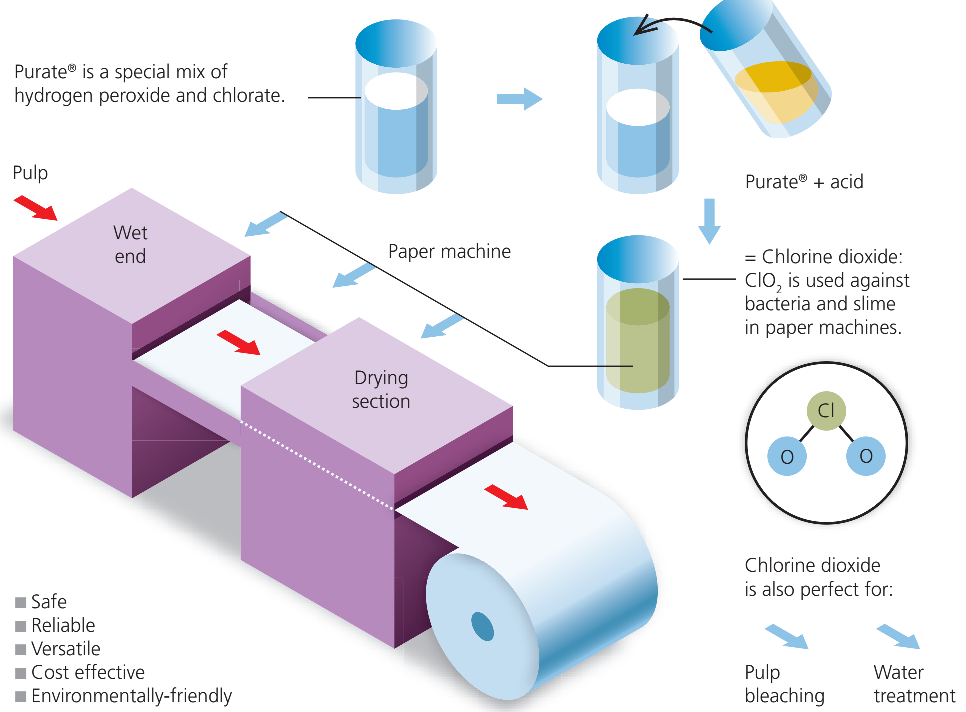
As one of the leading suppliers of chemicals to the global pulp and paper industry, Eka Chemicals is continually developing new products, services, and technologies for its customers. However, this doesn't always mean devising something completely new, sometimes an innovation can simply involve adapting existing applications.

For many years now, the business has supplied its Purate® process technology for water treatment, which has been widely used by municipal authorities, for example. During 2007, a new application was established which now enables Purate® to be used to combat growth of micro-organisms and slime in paper production.

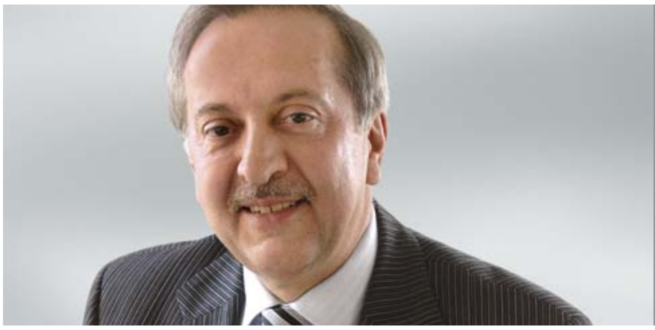
So instead of organic biocides, the Purate® system is employed at the paper machine to provide chlorine dioxide. Not only is it more economic, but it is also more efficient and safer for the environment. Thousands of tons of chlorine dioxide are produced daily for bleaching at large pulp mills, while chlorine dioxide supplied for this particular end-use is made by a special mix of hydrogen peroxide and chlorate in small-scale processing equipment on site.

More than 40 years of experience has gone into making Purate® technology simple, safe, reliable, versatile and cost effective.

During 2007, a new application was developed which now enables Purate® to be used in paper production.



Akzo Nobel Base Chemicals



"The platform is clearly there to further grow the business"

WERNER FUHRMANN
BASE CHEMICALS GENERAL MANAGER

Base Chemicals produces salt and energy, chlor-alkali products, and derivatives such as monochloracetic acid. It is Europe's largest producer of vacuum salt and a leading supplier of chlorine, caustic lye, and MCA used in the chemical, detergent, construction, food, pulp and paper, and plastic industries. Its products are essential in daily life and are used in the manufacture of, for example, vehicles, glass, pharmaceuticals, and textiles, and in disinfectants for swimming pools. Joint ventures operated with Dutch energy companies enable Akzo Nobel to make efficient use of combined heat and power (cogeneration) to assist in the production of chlorine and vacuum salt.

Can you give a brief overview of the business' performance this year?

It has been an excellent year. We reaped the benefits of recent restructuring and efficiency improvement measures and as a consequence we achieved very good results. We were also helped by favorable market conditions. The year was not without its challenges, however, because we continued to see steep rises in energy prices. Energy is our main raw material, so obviously we had to compensate for these increases.

What was 2007 like in your various markets?

Our Salt and Energy activities felt the pressure of the energy price hikes so we initiated various measures at our Salt business to offset these, including projects to reduce dependency on our primary fuel source, which is gas. As well as purchasing energy, we also generate it together with joint venture partners, and we benefited from temporary favorable market conditions in this area.

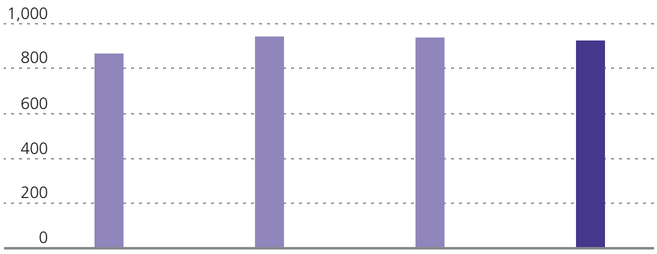
The Chlor-Alkali business (which produces chlorine, caustic lye, and hydrogen) also faced higher raw material costs, the main one being power. This could partly be compensated for through cost savings, with the remainder being offset by market conditions. All in all, this business continued to perform at a high level.

Looking at our downstream products, Ecosystems and MCA, they both operated under different market conditions. While Ecosystems is closing the sustainability loops in the Chlor-Alkali clusters and follows the business in terms of results and profitability, MCA had a tougher year under very particular circumstances. MCA is facing an increasingly competitive environment. However, we made great strides in improving the

REVENUE BASE CHEMICALS

MILLIONS OF EUROS

2004	2005	2006	**2007**
822	893	891	**877**



performance of the new MCA plant in Delfzijl in the Netherlands following the challenging start-up experienced in 2006. The facility is now running smoothly and, during what was its first full year of operation, it exceeded design capacity. So the overall performance of MCA improved considerably on the previous year.

Were there any other key developments?

We introduced several measures to reduce our dependency on gas, the main one being the opening of a new woodchip-fired boiler at our Salt plant in Mariager, Denmark. We are also working on various projects with waste recycling companies in the Netherlands and Germany which are at an advanced stage of decision making.

What progress is being made regarding the use of more renewable energy?

Our business is inherently energy intensive and efficiency improvements are the best way to positively contribute to the environment while continuing to supply our customers with the same high standard of quality and service. We have done a lot in this field in the past and we are continuing our efforts to further improve energy efficiency. We are already running two pilot plants for assessing fuel cell technology and converting hydrogen into electricity.

Exploration in the field of carbon management is also ongoing. There are two options here. One is the conversion of carbon dioxide into products, the second is carbon capture. We are investigating to what extent we can re-use our salt caverns for this, which could eventually lead to a situation where we would have the first carbon neutral chemical manufacturing site.

That's a goal we are pursuing and we are ramping up our efforts to make resources available. When it comes to energy efficiency, emissions, safety, and progression rates of eco-friendly product technologies, we certainly belong in the top quartile of the industry. We have set stringent safety and emissions targets and apply the highest sustainability standards throughout the business.

How is Base Chemicals positioned in terms of targeting growth?

We have streamlined and optimized our business in terms of cost reduction and we are well positioned for growth to further strengthen our leadership positions in the marketplace. When you have a solid sustainibility profile, good performance, and useful products operating in strong clusters, then the platform is clearly there to further grow the business by expanding existing capacities and acquiring new ones.

Akzo Nobel Base Chemicals

Salt of the Earth

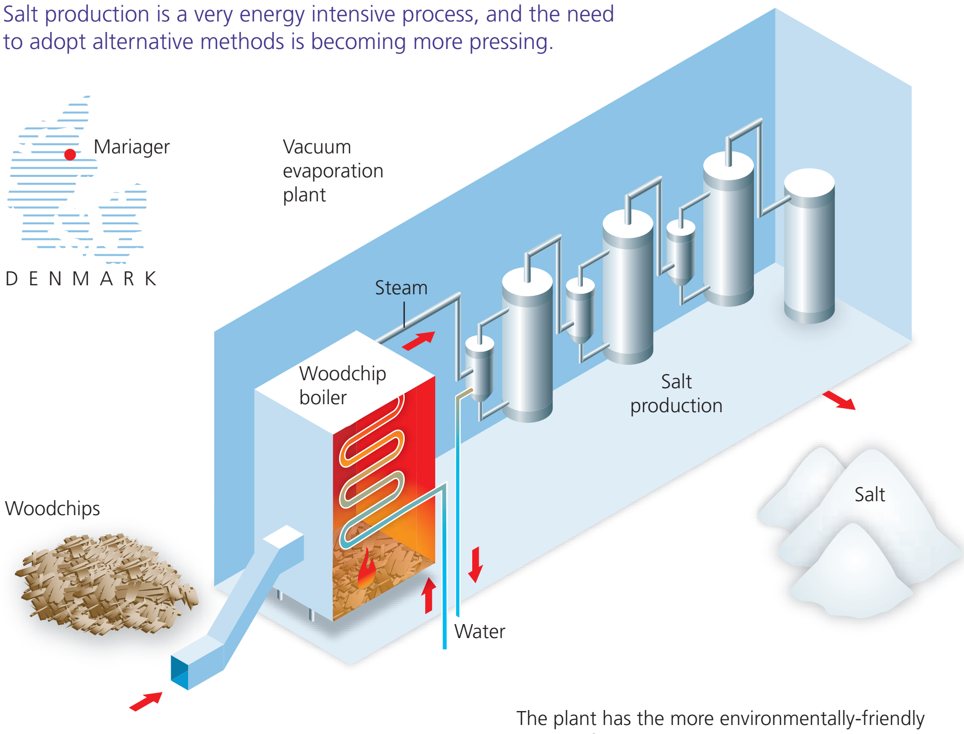
Salt production is a very energy intensive process, and in these days of soaring energy costs and growing environmental concerns, the need to adopt alternative methods is becoming more pressing.

One of Akzo Nobel's salt production sites is located in Mariager, Denmark. The facility – one of the most modern and efficient vacuum evaporation plants in the world – staged a landmark ceremony during 2007, when a woodchip-fired boiler was inaugurated. The EUR 7 million investment means that the plant now has the more environmentally-friendly option of using the new boiler to generate the steam needed for the energy-intensive production process, rather than relying entirely on gas.

Being less dependent on natural gas, Mariager is now more flexible and less vulnerable to the effects of future energy price hikes. Using woodchips is also a far cheaper, and more sustainable, alternative (they come from forest management activities in Denmark). So the investment is both cost-effective and more eco-friendly.

The site also has another way of recouping some of its costs. Since 1999, Mariager has been using a cogeneration power plant, which means that as well as producing steam for the salt production process, the plant also generates electricity as a by-product. This electricity – equal to roughly the annual consumption of around 65,000 households – is delivered to the public grid, offsetting part of the cost of the gas it burns.

Salt production is a very energy intensive process, and the need to adopt alternative methods is becoming more pressing.



The plant has the more environmentally-friendly option of using the woodchip boiler to generate steam, rather than relying entirely on gas.

Akzo Nobel Functional Chemicals

"For most of our businesses, worldwide demand has been growing year on year"

BOB MARGEVICH
FUNCTIONAL CHEMICALS GENERAL MANAGER

Functional Chemicals consists of a number of different businesses that manufacture and sell a variety of chemical intermediates and performance chemicals on a global scale. It is a worldwide leading supplier of ethylene amines, chelates, cellulosic specialties, sulfur products, and polysulfides. It is also one of the leading producers of salt specialties in Europe. Many of these chemicals can be found in everyday items such as detergents, personal care products, crop protection, micronutrients, building materials, paint, pharmaceuticals, and food.

How would you sum up the business' 2007 performance?

Overall, we had a very good year, both financially and in the market place. In many ways it was a year of recovery, because some of our activities underperformed in 2006 and they really picked up in 2007. So we achieved a much better performance overall, even taking into account the pressure of raw material prices and currency developments.

What were the main factors that influenced your results?

For most of our businesses, worldwide demand has been growing year on year and this was certainly a factor in 2007. For example, over the last four years, our revenue has been growing by an average of six percent. We have also been effective at preserving our margins and looking at our cost base, as well as increasing our volume by investing in expansion for most of our businesses. Many of these new investments came on stream either during 2006 or in early 2007 and we more or less filled that extra capacity from day one, all of which has helped to build our bottom line. Another important aspect was the fact that we achieved good growth in Asia Pacific, particularly China.

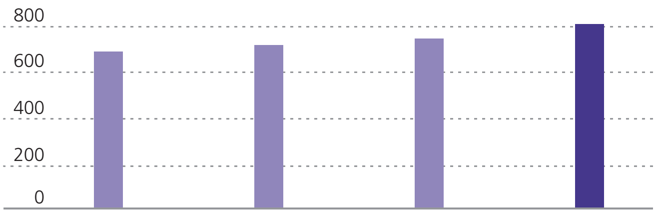
Can you give a broader geographic overview of the year?

The European market has been strong, perhaps stronger than most experts would have predicted over the last few years. We have been expanding with the market in Asia, which in some cases translates into double digit growth. China is an obvious focus and we have already started to increase our presence there, with a new polysulfides facility having opened in Taixing in June.

REVENUE FUNCTIONAL CHEMICALS

MILLIONS OF EUROS

2004	2005	2006	**2007**
682	702	732	**794**



In North America, however, the market was somewhat weaker, largely due to the housing slowdown. This had some impact because a number of our products are used in building and construction materials.

Did you face any particular challenges?

Rising raw material costs continued to squeeze margins. We saw a 3 percent rise in prices during 2007, as compared with 2006, while over the last three years, raw material costs have soared by a total of around 20 percent. So we've had to attempt to counteract that, which we've done by embracing the company's Margin Management program and being smarter with how we market our products.

What kind of year was it for your various business activities?

Ethylene Amines produced a big improvement over 2006, when we experienced production problems. In fact, the business doubled its performance in terms of bottom line and the production capacity – which was increased in 2006 – is now being fully utilized.

We have two activities within Cellulosic Specialties, Bermocoll® (which supplies products used in paint and building materials), and CMC (which supplies water-soluble cellulose derivatives for various markets, including the food and healthcare industries). Bermocoll® has been facing eroding margins in recent years, but we saw some recovery in 2007, while CMC also made progress after previously underperforming. In CMC's case, we had better volumes, lower costs, and focused more on areas where our technologies are preferred over the competition.

Chelates have been showing a strong improvement over the last six years, but the results were lower in 2007, mainly due to significant cost issues and production problems. However, the market is strong and there are some good business opportunities for us to explore.

Within Sulfur Derivatives, again there are two areas. Polysulfides is a growing business enjoying good growth, mainly in applications for insulated glass. Volumes were good, but we felt pressure due to margin erosion. The other arm of this activity is Sulfur Products, which operates in two regions. In Europe, conditions proved challenging, while in North America, they were much more attractive. Overall, we achieved good profitability, although there was not much growth in the market, except for in Asia.

Salt Specialties the only regional activity we operate – the others businesses are all global in nature – had an excellent year. This has been an underperforming unit but good cost savings have been realized and we are on our way to again meeting profitability targets. Our people in both Salt Specialties and Ethylene Amines should feel proud of what they've accomplished in terms of turning their businesses around.

Were there any other key developments?

Plans were approved to build a EUR 250 million grassroots Akzo Nobel multi-site at Ningbo in China, where Functional Chemicals will be the dominant user. It will manufacture ethylene amines and chelates, as well as producing its own key raw materials. We are also working on a third production option for our Cellulosic Specialties activities. It's a significant development because the new facility will reinforce our presence in an important market and will enable us to supply the growing needs of our customers in China and the entire Asia Pacific region.

What does the new investment mean for your customers?

The Ningbo investment highlights the importance we attach to locating close to our customers. Whenever possible, we try to move with them in order to meet their requirements for high quality, consistent products, and provide unrivalled service and reliable supply. The worldwide scale of our activities is crucial to our success and our global reach underlines our commitment to focusing on the needs of our customers, wherever they may be.

Akzo Nobel Functional Chemicals

Hungry for success

Akzo Nobel's commitment to expanding its global specialty chemicals activities is perfectly encapsulated by the company's substantial grassroots investment in Ningbo, China. Two facilities – for the manufacture of ethylene amines and chelating agents – are being constructed on a new EUR 250 million multi-site.

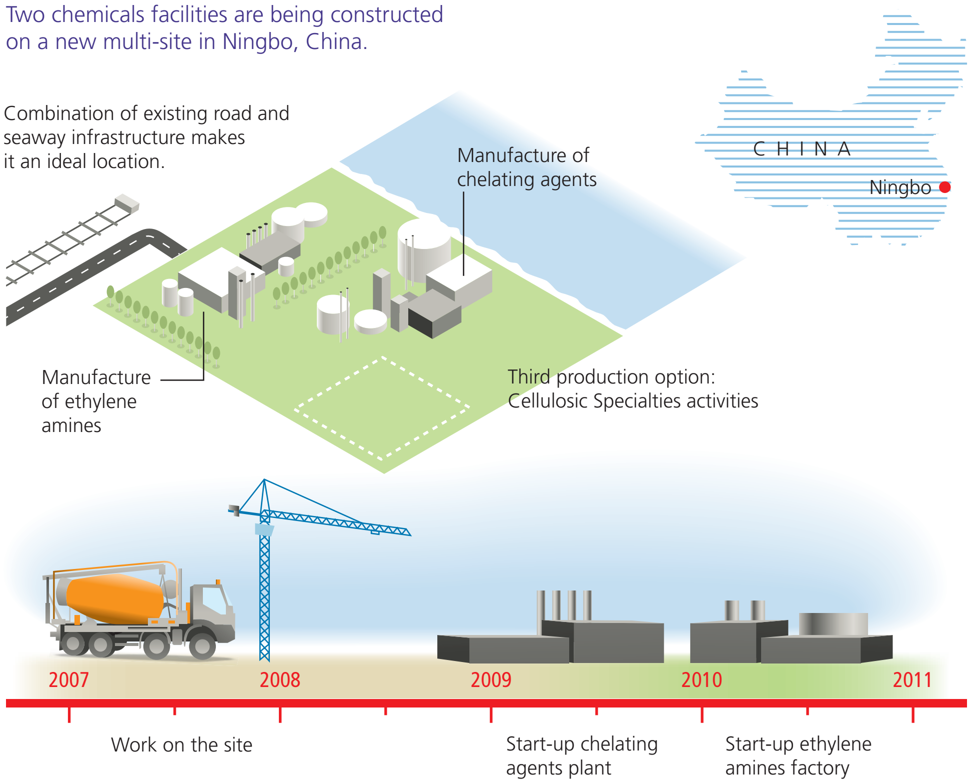
The predominant user will be the company's Functional Chemicals business, which will not only produce its own key raw materials, but is also developing a third production option for its Cellulosic Specialties activities. There is also room and site infrastructure to accommodate other Akzo Nobel businesses.

Work on the site is already underway, with the chelating agents plant (which will produce the company's Ferrazone® iron fortificant among other products) expected to start up in 2009, followed by the ethylene amines factory in early 2010. Both facilities – which will create several hundred new jobs – will utilize state-of-the-art technology and meet high, worldwide Akzo Nobel HSE standards.

The combination of existing road and seaway infrastructure makes it an ideal location with respect to the Chinese market, reinforcing the company's position and enabling Akzo Nobel to better supply the growing needs of its customers in the entire Asia Pacific region.

Located within the Ningbo Chemical Industry Zone, the new plants are being constructed on what will be one of the biggest sites for the company's activities in the world.

Two chemicals facilities are being constructed on a new multi-site in Ningbo, China.



Akzo Nobel Surfactants

"It's been a very exciting year with regard to our efforts to promote green chemistry"

FRANK SHERMAN
SURFACTANTS GENERAL MANAGER

Surfactants is a global producer of surface-active agents used in a wide variety of applications. Its specialty surfactants and surfactant intermediates are used by industrial as well as consumer product companies. Surfactants are used to combine or separate two different materials to emulsify, disperse, clean, wet, anti-cake, aggregate, foam, defoam, disinfect and soften. Key markets include agro chemicals, household and institutional cleaning, oil field applications, and petroleum additives. In addition, surfactants products are used in fabric care, personal care, asphalt paving, mining, and coatings.

Could you briefly sum up your 2007 results?

The business benefited from robust demand in most markets and made good progress in improving profitability, despite the challenging economic environment. Sales volume grew by 11 percent, while revenue was up 6 percent due to the negative impact of currency exchange rates.

What were the main factors that influenced your 2007 performance?

There was strong demand throughout the surfactant industry during the year. High grain prices and good weather drove the agro chemical market; biofuel demand led to more pesticide production globally; the mining and asphalt activities were stimulated by infrastructure investments in the emerging markets, especially China; while high oil and gas prices stimulated demand in the oilfield and fuel additive sectors.

2007 also presented many challenges, including competitive pressure from low cost countries and spiraling raw material prices – the latter in particular impeding our efforts to improve margins. With low cost competitors from China having expanded capacity to grow exports, this has resulted in depressed margins. An additional factor was the weaker U.S. dollar. More than 60 percent of our business is in the Americas and Asia, which meant that currency translations negatively impacted revenue growth, as well as profitability.

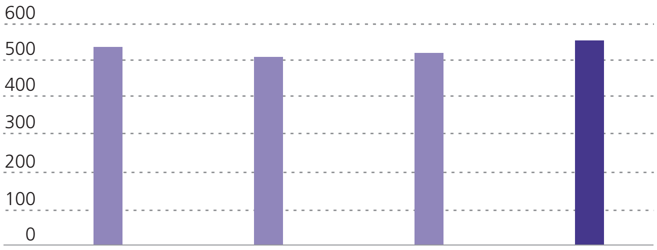
How did your business cope with these challenges?

We were forced to introduce a number of price increases during the year. This was facilitated by the company's Margin

REVENUE SURFACTANTS

MILLIONS OF EUROS

2004	2005	2006	**2007**
538	511	523	**556**



Management program, which we have introduced worldwide. Piloted in Europe in 2006 and rolled out to other regions this year, the program eliminates market leakage and reduces variances across market segments. By the end of the year unit margins recovered, although we suffered a time lag in passing through raw material cost increases into our product prices.

Have you made progress with regard to geographic developments?

Much of the growth this year was in the emerging markets. We launched a marketing joint venture with Feixiang Chemicals Ltd, which enabled us to take a leading position in the Chinese market, where demand for surfactants is experiencing double digit growth rates. Our local manufacturing presence and diversification efforts in South America are also helping to create new business opportunities. Furthermore, we are making inroads into Eastern Europe and the former CIS countries, where the agro chemical, asphalt, and mining markets are booming. Building a local presence in emerging markets will help us to be more responsive to local customers, as well as acting as a currency hedge as we align assets and costs with revenue.

Have there been any notable product trends?

It's been a very exciting year with regard to our efforts to promote green chemistry, which is attracting a lot more attention and recognition. We have a long history of developing environmentally-friendly products, and demand for this type of technology is now increasing in a number of markets. For example, oilfield drilling in the North Sea is highly regulated and is becoming even more environmentally stringent, playing to our product line strength. The Detergent Directive in Europe, which requires biodegradable household and institutional cleaners, has also created new opportunities. Many of our cleaning products are biodegradable, low or no VOC, more concentrated, and – for many applications – more effective. Our short chain sugar-based surfactants are also starting to take off in several applications including the oilfield, agro chemical, and cleaning sectors. We have also developed a patented ignition improver – allowing buses to run on 100 percent ethanol fuel – which is creating a lot of interest in several major cities throughout Europe and South America. So it's clear that the sustainability and green chemistry trend is a strong driver across many markets.

What about your pipeline?

We're busy developing new products for the petroleum and agro chemical markets, as well as working on oil and lube additive formulations, and diversifying from our core herbicide adjuvants into insecticide and fungicide formulation additives. Most of our developments come through collaborations with our customers whereby we apply our surface science to solve their application challenges.

Were there any other key developments during the year?

We swapped a surfactant business with CECA, a division of Arkema, in mid-2007 to focus our attention on fewer, value-added market segments. Another key development was the final approval of the REACH legislation in Europe, which will have a significant impact on our business. Surfactants produce more than 40 percent of the substances that have to be registered by Akzo Nobel to comply with REACH. This registration process is particularly difficult for a specialty chemical business with a broad product line such as ours. We have taken a leadership position in preparing for REACH and hope to turn it into an opportunity. Shutting down our McCook facility in the middle of the year was also something of a milestone, albeit a bittersweet one. A lot of our chemistry has been pioneered at this U.S. site since it opened in 1949. However, it was closed as part of our recent restructuring program in an attempt to focus on applications and markets where we add the most value. We also relocated our U.S. research facilities to Brewster, NY, affording us a new facility with a lower cost structure.

Any other achievements worth mentioning?

Receiving the company's internal CSR Award early in the year was a source of personal pride for me, as well as every employee across the entire business. We are trying to leverage our CSR success in other areas, including expanding customer partnerships and improving overall performance. This award was certainly a boost for all of us in Surfactants.

Always moving ahead

With the interest in using alternative fuels continuing to escalate, scientists around the world are working hard to develop suitable innovative technologies.

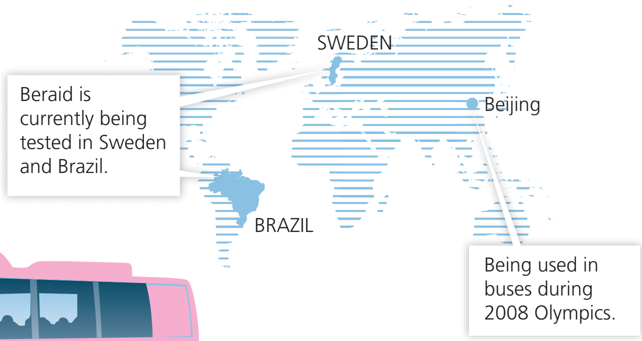
Scandinavia has been particularly active. In Sweden, for example, bio-ethanol (E 95) has been used in modified diesel engines since the mid-1980s, using ignition improvers developed and produced by Akzo Nobel Surfactants. In fact, in several municipalities around Europe, trials are ongoing involving buses with modified diesel engines which are being fueled with bio-ethanol. One of the major benefits of this is a reduction in greenhouse gases.

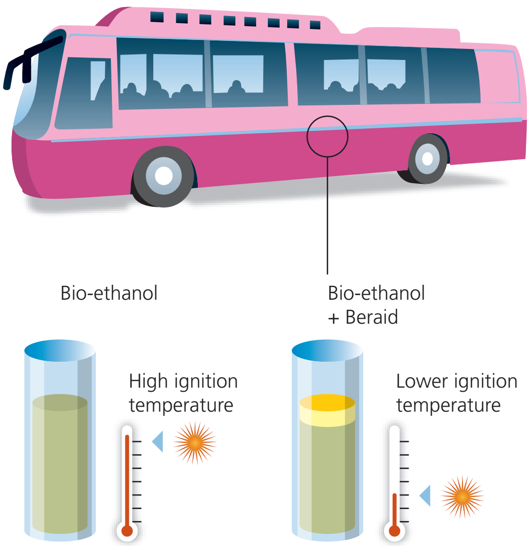
However, problems related to cold start and idling mean that when using ethanol fuel, an ignition improver must be added in order to produce acceptable engine performance.

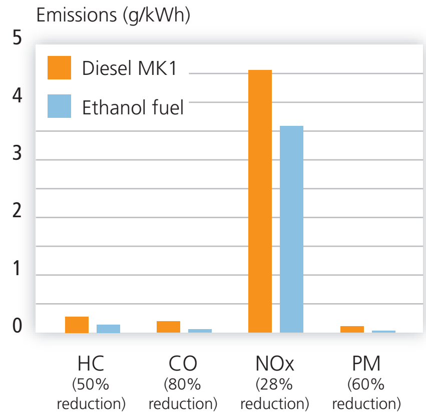
Akzo Nobel's Surfactants business has developed and supplied such an additive for more than 20 years. The company's latest ignition improving product is currently being used in Sweden, where 500 buses are running, and it is also being tested in several other European countries, as well as Brazil.

Furthermore, in August 2008, a number of buses running on bio-ethanol using the company's ignition improver will be in operation for demonstration purposes in Beijing for the Olympic Games. Adopting the use of alternative fuels is being encouraged more and more, particularly in Europe, where a directive has been issued to promote the use of renewable fuels for public transport.

Akzo Nobel's Surfactants business developed Beraid, an ignition improver for bio-ethanol.







Akzo Nobel Polymer Chemicals

"We now have a stronger product portfolio and a more cost competitive base to work from"

ALAN KWEK
POLYMER CHEMICALS GENERAL MANAGER

Polymer Chemicals is the world's leading producer of organic peroxides, and a major producer of metal alkyls and co-catalysts – chemicals used primarily in the production of thermoplastic resins and elastomers, and compounds that make a wide range of plastic goods. Our peroxides are widely used in polyolefins, acrylics, polystyrene, PVC, rubber and elastomers, which are in turn used for the manufacture of plastic bags, mobile phones, automotive parts, shoe soles, and wire and cables. Polymer Chemicals also manufactures high purity metalorganics, chemicals used in consumer electronics such as LEDs (light emitting diodes) for lighting, and for lasers inside CD and DVD players.

How would you summarize your business' 2007 performance?

We finished the year quite strongly, despite having to cope with very difficult market conditions such as increased oil prices and rising raw material costs. The strength of the euro also posed a challenge. But we've become more cost competitive and we maintained profitability, while putting more emphasis on growth and concentrating on value.

What were the main factors that influenced your results?

The biggest contributor was our production and operational efficiency, which helped us to lower the cost of doing business. With raw material prices continuing to soar, we looked at how we could maintain profitability. This included carrying out a critical analysis of our customers. We were also able to pass on some of the price increases, which helped to improve margins. Using the purchasing power of Akzo Nobel has been another important factor. When you buy a lot of raw materials and can use the combined company's strength as a purchaser, it can give you a lot of leverage. We now have a stronger product portfolio and a more cost competitive base to work from.

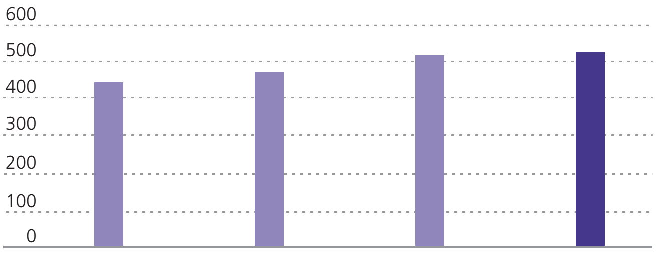
How was the year in terms of your geographic operations?

We continued to do well in Europe, while in Asia we are very strong. We are growing very quickly there, particularly in China, which is a big market for us. We entered the market early and that's been very important. In North America, however, it was a difficult year because of the housing slowdown. One of our major businesses is High Polymer Specialties (HPS) which supplies the

REVENUE POLYMER CHEMICALS

MILLIONS OF EUROS

2004	2005	2006	**2007**
442	471	516	**524**



PVC industry with chemicals for the manufacture of pipes used in, for example, domestic water and sewerage systems. So we inevitably felt the impact. HPS also supplies the commercial sector of the U.S. construction industry and sales there were good, but there was very limited growth in HPS overall as the business could not compensate for the housing downturn. However, we see the slowdown as being a temporary situation and remain committed to investing in North America.

Our other two main activities both performed well. Cross-Linking Peroxides, Thermoset Chemicals, and Polymer Additives gained volume, while our Organometallic Specialties had a good year in terms of revenue growth. What's important is that our business is expanding and we have become much more global than most of our competitors.

Were there any notable milestones during the year?

Our business had initial plans approved to build a second facility in Ningbo, China, which will be located on Akzo Nobel's new multi-site. It will produce organic peroxides and production is scheduled to start in 2010. Another important development was the completion of our recent restructuring program. All the cost savings have been realized and we are now gearing the business for a growth phase, which is exciting because it means a new mindset and a new set of challenges.

Can you say anything about your product pipeline?

We are working on several interesting projects that will add a lot of value to our customers. However, it is still too early for us to reveal the specifics. These projects will either enhance our customers' processes, improve the end product performance, or be more environmentally-friendly. This is an area where we will be investing a lot more going forward. Essentially, we are looking to improve and expand on all our technologies and find new applications in our core markets.

How are you improving your focus on your customers?

All our ongoing development projects are geared towards addressing customers' future needs and solving their problems. Problems they might not even realize that they have. So we are increasing our focus while organizing ourselves into a business which doesn't sell a product, but one which sells a solution.

Akzo Nobel Polymer Chemicals

Productive pipeline

Customer focus is fundamental to all of Akzo Nobel's activities and developing new and more effective solutions for the company's business partners around the world has become an inherent part of our daily operations.

Devising and providing additional services and technologies is integral to fully meeting the needs of customers in all industries.

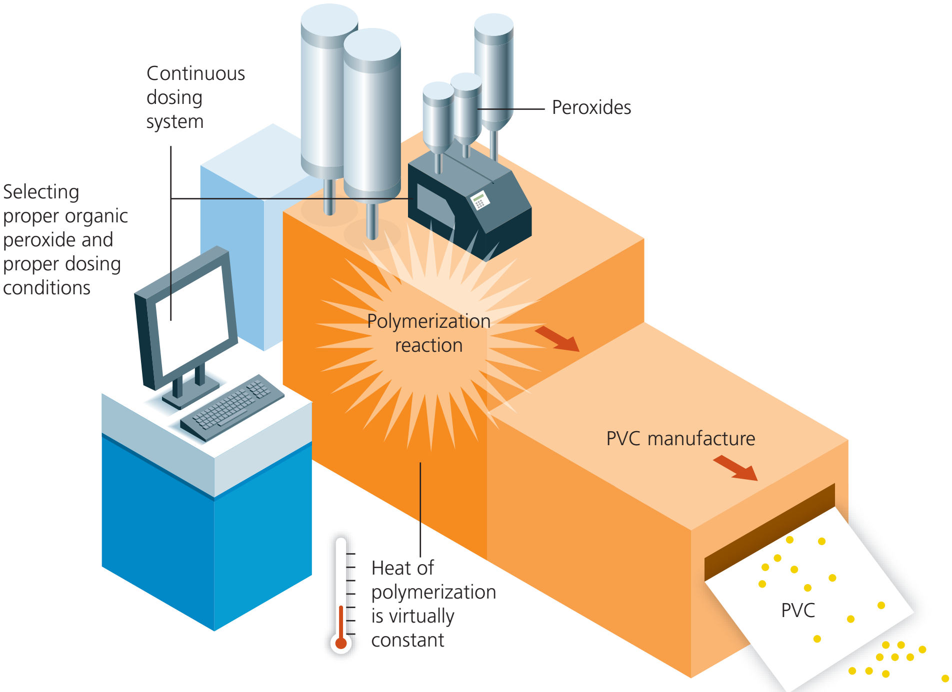
The continuous initiator dosing (CID) technology developed recently by Polymer Chemicals is a perfect example of this commitment to customer success. Essentially, CID is a process improvement technology which improves reactor output and product quality during the manufacture of PVC.

Controlled dosing of certain (fast) peroxides to the polymerization mixture at the reaction temperature allows for accurate control of the polymerization rate and related polymerization heat generation, while also resulting in a high yield of resin with low levels of residual peroxide.

Since being introduced in 2006, CID technology has been well received by the PVC industry. By selecting the proper organic peroxide and the proper dosing conditions, it is possible to shorten polymerization time, thus increasing customer production capacity and improving overall final resin properties.

The resulting higher polymer yields and lower residual peroxide levels in the resin provide our customers with key operational improvements without significant capital investment or major changes to current operations.

CID is a process improvement technology which improves reactor output and product quality during the manufacture of PVC.



Behind the scenes

The hectic behind the scenes activity which has taken place at Akzo Nobel during the last 12 months of transformation has largely gone unnoticed by the outside world. But the sheer scale of the collective effort should not be ignored, because it has been crucial in helping the company to successfully negotiate one of the most frenzied periods of activity in its long history.

In order to give an insight into how the transformation of the company has required a huge contribution from all areas of the organization, key members of the corporate staff explain how solid daily operation and careful management have helped to ensure Akzo Nobel's ongoing success.

1 **TON GEURTS**
DIRECTOR OF SOURCING

"For Akzo Nobel Sourcing, 2007 was a busy year in terms of putting the right governance, structure and systems of the new purchasing set-up in place.

Our role is to support, in the most effective way, the needs of the businesses, to work with them proactively and to contribute in the best way we can to their bottom line.

We have a governance model where we have a Procurement Council made up of Purchasing Directors representing all business units, plus the Management Team from Sourcing. Together we act as the co-owners of the total spend of Akzo Nobel.

As well as finalizing work streams, fine-tuning the organizational set-up and putting the appropriate processes in place, we have also standardized the savings conventions and established a business intelligence workforce. It is a truly global operation and we are making sure that the sourcing function is embedded in the business, because it is business."

2 **PAUL GRIMMELIKHUIZEN**
DIRECTOR OF INTERNAL AUDIT

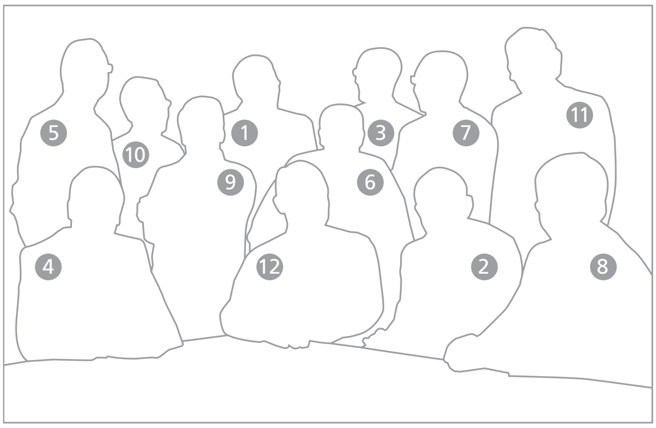
"Akzo Nobel puts a strong emphasis on internal control. It is our responsibility to assess the effectiveness of these internal controls throughout the company. There is one global audit team which works to the same procedures and methods and uses the same tools at every site. There is often a misunderstanding about internal audit. Our responsibility is not to audit the financial statements. We review processes and the external auditor audits the financial statements. So we audit the pipelines and the audit firm audits the outcome.

We now get more quality from our audits and can add more value to the businesses by reviewing their processes. We have also created a business unit auditor function, which allows us to gain a better understanding of what's happening throughout the company. It means we can focus our audits and take more of a risk-based approach."

3 **HEIKO HUTMACHER**
SENIOR VICE-PRESIDENT OF HUMAN RESOURCES

"Driving the progress of the company's Talent Factory initiative is one of the main focuses within Human Resources. In essence, we are striving to create one Akzo Nobel culture, and the Talent Factory is a crucial part of that.

An essential element of this drive for continuous employee improvement is the Performance & Development Dialog appraisal process, which is now being used by all employees in Akzo Nobel. It's a perfect example of how the company is making one culture a reality by taking one best practice program and introducing it on a global basis. What's important now is that we deliver to the businesses, and the employees, and move



to the next level by putting in place further tools and processes worldwide.

A key task in this context is to offer people the opportunity to work in other areas of the company as another way to stimulate a high performance culture within Akzo Nobel, with a clear focus on talent development and leadership."

4 JO LENNARTZ
DIRECTOR OF TECHNOLOGY

"The appointment of a Director of Technology during 2007 was a clear signal that Akzo Nobel regards technology as being vital to the success of the company.

Essentially, Technology is the key function which drives competitive advantage and we now have the opportunity to strengthen our focus and tap into the enormous talent pool that we have working for us in this field.

Now that the structure is in place, with the central Technology functions reporting to one responsible manager, we have a perfect foundation on which to build. We want to create more opportunities for people to learn from each other, and facilitate cross-fertilization and better synergies. We are also working to build a stronger external network, with universities and other knowledge institutes for example. By working more closely together we can get even more value out of the capabilities that exist throughout the company."

5 JOHN MCLAREN
DIRECTOR OF CORPORATE COMMUNICATIONS

"It's been an incredible year for the company and as Corporate Communications we have focused a lot of attention on explaining Akzo Nobel's strategic direction to all our stakeholders. It's essential that everyone, both internally and externally, has a clear grasp of what we're doing, why we're doing it and how we're doing it. As a department we operate on several levels – including internal communications, media relations, corporate branding, digital media, and events – but the same basic rules of clear, effective messaging remain constant. Quality is another pre-requisite, but this stamp of excellence is something which applies to all areas of the organization.

In some ways, 2007 could be looked upon as a year of preparation, as well as transformation. The divestment of Organon BioSciences, the acquisition of ICI, the relocation of the company's headquarters, they all helped to shape what lies ahead as Akzo Nobel continues to focus and transform. Our challenge will be to fully explain that change, and effectively communicate the company's strategic vision."

6 **KEITH NICHOLS**
SENIOR VICE-PRESIDENT OF FINANCE

"The scale of change taking place throughout the company obviously dominated the department's activities during 2007, although there was also a lot happening in terms of business as usual. An opportunity such as this – to strategically change a large quoted company like Akzo Nobel – comes along perhaps once in a lifetime and although it's been challenging, everything has gone relatively smoothly.

Within each of the separate areas, Tax, Treasury, Investor Relations, and Insurance, there were also specific matters to attend to. Tax had certain issues involving the disentanglement of Organon BioSciences for example, while Treasury has been going through its own evolution in terms of process reviews. The focus on creating one Akzo Nobel also saw Insurance work more closely with other functional areas such as Sourcing, a combination which brought some purchasing power to our insurance renewal arrangements for 2008.

Now we're looking to introduce more standardization and transparency in order to deliver operational efficiencies, demonstrate value added, and meet the challenges ahead."

7 **MARTIN POTTER**
DIRECTOR OF CORPORATE CONTROL

"We continued to make changes during 2007 in order to create one, focused Control and Accounting team. We no longer use different styles and frameworks for each of the business areas. Instead, we have a well aligned organization, with one method of working, set up to emphasize particular skills.

This team works in four areas – external reporting, which supports the CFO; the corporate accounting team, which manages the consolidation and handles all the internal reporting; internal control, which facilitates a proper "in control" environment; and economic affairs, which supports the decision support and information needs of the Board of Management and Corporate Staff.

The result has been a continued improvement in the quality of governance and control and further standardization of the process in accounting and reporting inside the company. More improvements are also planned for 2008.

Another important development was the company's decision to delist from NASDAQ and the deregistration from the SEC. The absence of a U.S. listing means that we can now develop our "in control" framework to be more efficient, yet effective, and emphasize our perspectives on strong business management."

8 **PIET SCHALKWIJK**
DIRECTOR SPECIAL PROJECTS AND DIRECTOR INTELLECTUAL PROPERTY

"From my perspective the year's major milestone occurred in August when the company announced its intended acquisition of ICI. From that moment on, in anticipation of completion of the deal, we began preparing for the integration so that we would hit the ground running when the transaction was finalized.

As integration leader, I can clearly see that the process was – and continues to be – focused on creating one company and one team, with the new company being founded on the best of both Akzo Nobel and ICI. Because the integration is not only about getting bigger. It's also about getting better.

As deals go this has been rather complex and various aspects, such as the on sale to Henkel, will only be completed during the course of 2008. But we focused early on defining the integration approach, setting the synergy targets and providing clarity about the future leadership of the combined organization, in particular the proposed composition of the new Board of Management and its direct reports, which are all crucial steps at the beginning of an integration process. Proper communication with all employees worldwide has also been paramount.

During the same month that we announced the ICI acquisition, we also moved our global headquarters in the Netherlands from Arnhem to Amsterdam. This proved to be another challenging and rewarding project which also reflected the creation of the new Akzo Nobel."

9 **JAN KAREL VAN DER STAAY**
GENERAL COUNSEL

"There are two critical aspects to the legal function at Akzo Nobel. We have to serve the businesses – via their own dedicated legal managers – in the ordinary course of business. Needless to say, we also have to safeguard the legal integrity of the company, in close cooperation with our colleagues at other corporate departments. This interaction is important because all the corporate staff departments must continue to cooperate in order to maintain a coherent vision for the company. Together we have to adopt a joint, consistent, sustainable approach to ensure that our company is fit for the future.
As a department, essentially we have to deal with external laws and internal rules and principles. However, at the end of the day, it all comes down to individual business behavior. It's about transparency, integrity, accountability, and taking responsibility. Promoting and monitoring a culture committed to compliance. But all geared towards serving the business interests in the context of the interests of the group as a whole."

10 **BILL STUBBINS**
DIRECTOR OF INFORMATION MANAGEMENT

"Unifying Akzo Nobel from an IT perspective has been an ongoing project for a number of years now. In terms of cost and efficiency, the benefits of uniting IT infrastructure components are significant. We made excellent progress during 2007, reaching a landmark figure of 1,000 sites worldwide on a single network early in the year. The so-called OneHub program – which connects the company to suppliers and customers to enable e-business – has been another success.

In addition, OneVoice – combined telephone services – is really starting to accelerate, and our OneWeb project, which will create a global, unified intranet, is starting to gain momentum. Other major projects related to IT security, data centers and end-user computing are also in the pipeline, which will have a significant impact in the near future.

Creating effective shared services to facilitate true collaboration can be challenging in a global company such as Akzo Nobel, but the successes we are having prove that working together as one can be highly beneficial for all concerned."

11 **ANDRÉ VENEMAN**
DIRECTOR OF CORPORATE SOCIAL RESPONSIBILITY

"Sustainability is shaping business throughout Akzo Nobel. The company has gone beyond the basics of putting governance and compliance systems in place and having a solid grasp of risk and reputation management. To be a true leader, you must understand that while being successful is indeed about integrity, it is also about creating business opportunities from sustainability.

Having been ranked as the Chemicals industry leader on the Dow Jones Sustainability Index in 2007, we are now recognized as part of this elite group of leaders. Not only do we have global HSE standards in place, but we can also point to more than 100 examples around the world where we are providing eco-efficient solutions for our customers.

This unified approach is focused on achieving the best economic performance, against the smallest environmental footprint. In a world where companies with distinctive capabilities to create sustainable value will prosper, Akzo Nobel is committed to shaping a successful future for all stakeholders."

12 **DEREK WELCH**
DIRECTOR OF CORPORATE STRATEGY

"Any year which involves negotiating deals worth more than EUR 27 billion must be regarded as somewhat historic and 2007 can certainly be classed as such. But it's safe to say that the hard work is far from over. The challenge now is to make the transformed, more focused company work. It has to be properly integrated and we have to get the synergies. So there's still a lot to do in terms of completing the journey which really started back in 2004, when Akzo Nobel refocused its Chemicals portfolio, and followed up with the Decorative Coatings reorganization. That was basically the beginning of a long-term change process, because it laid the foundations for what we are doing now. Of course, the ongoing integration doesn't mean that the door is closed to other developments. We're still continuing to look at other opportunities that come our way, because the company will continue to grow, both organically and through acquisitions."

Sustainability at Akzo Nobel: Summary for investors

Akzo Nobel is well positioned to accelerate sustainable growth. Building on our strong market positions and brands, our customer focused culture, and our capability to transform, the focus of our sustainability strategy is on value creation and competitiveness.

In a globalizing and increasingly competitive world, sustainability related risk exposure and business opportunities vary widely between, and within, sectors. For this reason, our 2007 Sustainability Report is focused on the investor community. It is about how we manage key Environmental, Social and Governance (ESG) risks, how our businesses create sustainable value, how we included sustainability aspects in the acquisition process of ICI and how we are accelerating sustainable growth to become even more competitive.

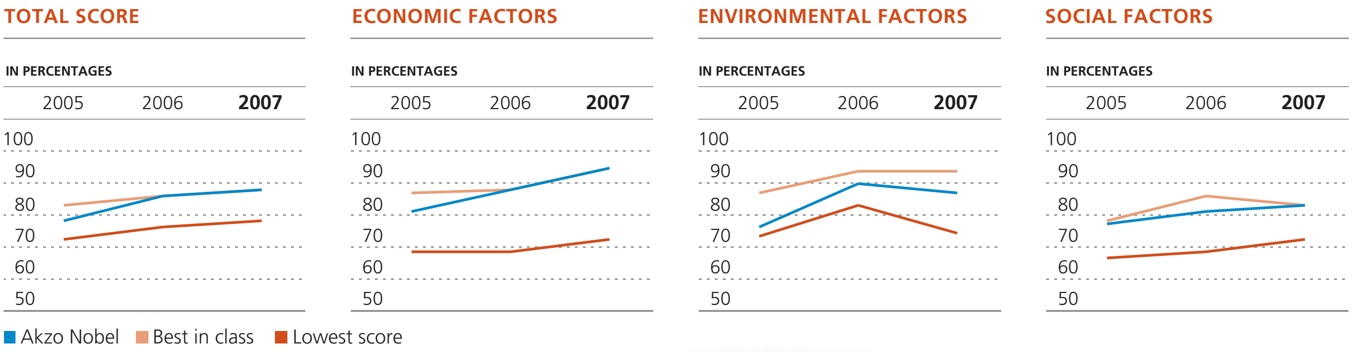
Managing sustainability

Akzo Nobel's comprehensive Corporate Social Responsibility policy is managed through a rigorous and effective governance structure which includes representation from Board of Management level to corporate staff and the business unit managers. Key sustainability issues are included in the day-to-day planning processes of our businesses and in the non-financial Letter of Representation. During 2007, our sustainability management system has been reviewed exhaustively by an external auditor in order to attain a high level of assurance. This rigorous embedding of sustainability into our business cycles contributed significantly to our number one ranking in the Dow Jones Sustainability Indexes.

Talent management

As the markets we compete in are subject to constant change, it is important to hire the best employee talent, as well as continually improving our employees' skills. Therefore, the development of our workforce is a top priority for our company. We invest significantly in building and maintaining the talent factory we need to secure our market positions and ambitions.

DJSI WORLD INDEXES FIGURES AND DEVELOPMENT AKZO NOBEL



Dow Jones Sustainability Indexes
Member 2007/08

FTSE4Good

Carbon strategy

Among a number of sustainability issues, carbon strategy is a top priority. Energy efficiency and zero or low carbon energy consumption are key performance indicators. In 2005, Akzo Nobel set 2010 targets for these indicators. In 2007, Akzo Nobel's energy bill totaled EUR 750 million, 10 percent of total operating costs. Compared with base year 1990, our energy efficiency improved by 21 percent.

The contribution of several of our products to the carbon reduction of our customers is even more interesting. Increasing demand for products that reduce the carbon footprint of our customers opens up a window for future business opportunities.

During 2008, our carbon strategy will be reviewed, including an assessment of the carbon footprint in some of our key value chains.

Creating value from eco-efficient solutions

Eco-efficient solutions help to create value for our business and for our customers. An initial inventory has shown that 18 percent of our turnover is based on products which display a distinctly better environmental performance when compared with competing high quality products in our markets. They provide top line growth opportunities because of their improved performance in areas such as raw material use, manufacturing processes and product innovation. We have a target to increase the share of eco-efficient solutions to at least 30 percent of turnover in 2015.

By adjusting their product portfolios, our businesses have anticipated on both chemicals legislation (REACH, Global Harmonizing System) and the EU VOC 2010 directive.

By doing so, we will comply with emerging regulation well in advance. In the long run, the costs of compliance are expected to be more than offset by new business opportunities.

Sustainable supply chains

In line with our 2004 objectives, during 2007 more than 80 percent of all Akzo Nobel suppliers signed our Vendor Policy – covering EUR 4 billion of product related spend. This vendor policy includes relevant environmental, social and governance issues.
As a next step – being an element of our World Class Purchasing Policy – we have set up a program of supportive visits to key suppliers in order to foster dialog on ESG benefits and to build partnerships. In this way, our businesses are creating a healthy supplier base which enables them to compete in both mature and emerging markets.

The Chemicals industry sector of the DJSI consists of approximately 90 companies. Membership is restricted to the top 10 percent of companies with the highest scores on environmental, social and governance performance.

After the due diligence on sustainability, which was part of the acquisition, Akzo Nobel and ICI have concluded that the new company will benefit from mutually reinforcing sustainability capabilities.

Business Principles

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 that 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 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.

Akzo Nobel Art Foundation

Tom Heerschop – "Z.T. 2005/044" – mixed technique – 70 x 98 - 2005 – Akzo Nobel Art Foundation collection

Tony Matelli – "Hopes and Dreams" – urethane, thread, paper, vinyl paint – 290 x 218 x 142 – 1999 – Akzo Nobel Art Foundation collection

Creating an inspiring working environment

A special part of Akzo Nobel's activities in the area of sustainability is the relationship of the company with the colorful world of art. The corporate collection of the Akzo Nobel Art Foundation (founded in 1995) serves as a source of inspiration and creative reflection for employees and visitors in the working environment. It is also a reflection of the understanding that leading edge product development is based on the same kind of inspiration and independent thinking that belong to the stimulating world of art. As Joseph Beuys said: "Every person possesses creative talents, everyone is an artist in their own field."

Independent outside research on the efficiency of the corporate organization concluded that the Akzo Nobel art collection is considered to be an important instrument in implementing Akzo Nobel's desire to support young talent and create an inspiring working environment for employees.

Based on an approved study from a University of Groningen student among Akzo Nobel employees, all respondents were of the opinion that the working environment is more attractive and inspiring because of art. Frans Joseph Duijnstee said: "As a chairman of the head office works council I believe that the art policy is an essential element of the ethos of the working conditions in this organization."

Not being the main goal for the art collection, it is also considered a responsible investment in terms of social responsibility and finance. Acting on the principle that culture and art are among the most interesting elements in the developments of society, Akzo Nobel supports young international artists.

Risk management

Unidentified risks are a threat; identified risks are a managerial issue

Doing business inherently involves taking risks, and by taking measured risks we strive to be a sustainable company. Risk management is one of the essential elements of the company's corporate governance. This 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.

Akzo Nobel risk management framework

Through our risk management framework we want to provide reasonable assurance that our business objectives can be achieved and our obligations to customers, shareholders, employees, and society can be met. The Akzo Nobel risk management framework encompasses the following elements:

- **Policy.** Our risk management policy is to ensure that risks are timely identified, adequately understood, properly assessed and effectively responded to by responsible employees at all levels within the company.
- **Process.** Our risk management process provides a structured approach to risk identification, risk assessment, control assessment and response to risks. It is a management process that can be applied at all levels and project areas in the organization and enables sharing of best practices and knowledge.
- **Language.** A common risk language facilitates communications and decision-taking on risks.
- **Accountabilities.** 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. Clarity on risk boundaries that determine the freedom of action or choice in terms of risk-taking and risk acceptance is provided to all managers. Risk boundaries are governed by Akzo Nobel's Company Statement, Business Principles, Internal Authority Schedules, and Corporate Directives.
- **Reporting.** 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 pre-emptive and remedial actions, is an integral part of our Business Planning & Review cycle.
- **Assurance.** Annual assurance is provided by line management regarding the extent of compliance with the risk management policy. The internal control framework, audit procedures, and independent appraisals provide reasonable assurance of the effectiveness of our risk management framework.
- **Monitoring, development and support.** The Akzo Nobel risk management function consists of a Corporate Risk Manager with a central staff and experts in the business units. The corporate risk management staff monitors the risk management process and supports and develops the framework that enables managers to fulfill their responsibilities by providing tools, training, facilitation and knowledge.

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.

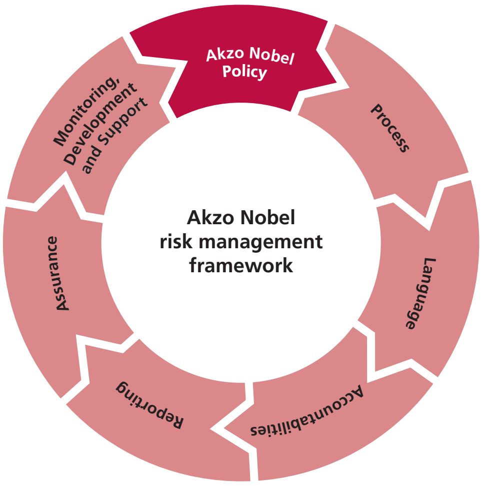
The Akzo Nobel risk management framework is mature. In 2008 the focus will be on implementation of the framework in newly acquired businesses.

Major risk factors

Within Akzo Nobel a large number of different risk factors have been identified, each of which may result in a material impact on a particular business unit, but may not materially affect the company as a whole.

Under the explicit understanding that this is not an exhaustive enumeration, our major risk factors are listed below. 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 at a later stage develop a material impact on the company's business. The company's risk management systems endeavor the timely discovery of such incidents.

AKZO NOBEL RISK MANAGEMENT FRAMEWORK



MAJOR RISK FACTORS ASSESSED BY AKZO NOBEL

Risk factors	Internal	External
Strategic	Strategy implementation Identification of major transforming technologies Integration of acquisitions	Global economic downturn International operations Stakeholder support
Operational	People attraction and retention Change project management Production risks Raw material sourcing Cost structure adaptation	Environmental liabilities Product liabilities Bad publicity Energy price differences Seasonality
Financial		Tax disputes, litigation, indemnification, guarantees, regulatory action Exchange rate fluctuations Interest rate changes Pensions Credit rating
Compliance		Laws and regulations

Identified risks		*Risk management*
Strategic risks		
External		
A global economic downturn can have a harmful impact on the company's business and results of operations.		
Because the company conducts international operations, it is exposed to a variety of risks, many of them beyond its control, which 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.
Failure to get support of the company's stakeholders for its strategy could adversely affect the company and its businesses.	>	The company endeavors to define and implement a clear strategy and continuously seeks dialog with stakeholders.
Internal		
A failure to implement the company's strategic agenda effectively could adversely affect the company and its businesses.	>	The feasibility of the company's strategic agenda is continuously monitored by the Board of Management and Supervisory Board. Specific attention is paid to areas such as macroeconomic developments, general market developments, geographical spread, emerging markets, political risks, future acquisitions and divestments.
The company may not be able to identify major transforming technologies.	>	The company continuously aims for sustainable growth of its business through research and development, production, and sale of new products and regularly adds new businesses and technologies through alliances, ventures, or acquisitions.
The company may not be successful in integrating acquired businesses and not reach the full synergy effects.	>	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.

Identified risks		*Risk management*
Operational risks		
External		
Seasonality may adversely affect the operating results of the company's business.	>	A portion of the company's business is seasonal due to weather conditions. A lag in earnings may not be offset during the corresponding financial year.
Differences in energy prices pose a risk to the competitiveness of several of the company's chemical businesses.	>	The company operates some energy intensive businesses. A non-level playing field for energy can affect the competitive position of these businesses.
Bad publicity and damage to the company's brands could adversely affect its business and results of operations.	>	The company's diverse portfolio, brand approach, and response management system provide a certain degree of protection against such damage.
Product liability claims could adversely affect the company's business and results of operations.	>	Presently, the company is involved in a number of 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. The company has a central policy to optimize insurance coverage.
The company's business will continue to expose it to risks of environmental liabilities.	>	The company uses hazardous materials, chemicals, and biological and toxic compounds in several product development programs and manufacturing processes. We have been, and can be exposed to, risks of accidental contamination. We could be exposed to events of non-compliance with environmental laws, regulatory enforcement, property damage, and possible personal injury and property damage claims resulting therefrom. Contingency plans and crisis management are in place to mitigate these risks (*see also note 27 on page 137*).

Identified risks		*Risk management*
Operational risks		
Internal		
The company's ambitious growth plans may not be achieved when we fail to attract and retain the right people.	>	The company puts emphasis on attracting, retaining, motivating, and educating staff, using Human Resources instruments such as the talent factory and provides clarity in the working environment through information and communication programs. Special focus is required in the emerging markets.
If the company's management of change projects is not adequate this may possibly lead to loss of key staff or knowledge or other business disruption, which could have a negative effect on productivity and customer focus.	>	The company undertakes significant projects in the areas of sourcing, IT, Human Resources and various business areas that require significant project management. The company holds a lot of project management experience. Our best employees are involved in the management of critical projects which are supervised by the Board of Management.
Inability to swiftly adapt the cost structure of the company's businesses to changes in the economic environment could adversely affect the company's operational results.	>	The company continuously monitors macro-economic developments and general market trends. Our businesses practice operational excellence for continuous monitoring of its cost structure and the company has a Margin Management program in place. Changes in the economic environment shifts the allocation of the company's global resources in alignment with the new optimum.
Risks in production processes can adversely affect the company's results of operations.	>	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 (for example insurances).
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 safeguard their constant delivery at the best conditions. Akzo Nobel is sensitive to price movements that may lead to erosion of margins and allow product substitution. A global sourcing strategy enables us to bundle the purchasing power both in product related and non-product related requirements. The company's businesses continuously monitor the markets in which the company operates for developments and opportunities.

Identified risks		*Risk management*
Financial risks		
External		
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 26 on page 131*).
A downgrading by credit rating agencies could result in higher financing costs or reduced availability of credit.	>	Ratings at year-end were Standard & Poor's A- (A minus) and Moody's A3.
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 centralized the treasury function to minimize financing charges and manage interest rate related risks (*see note 26 on page 131*).
Adverse stock market developments may affect assets of pension funds, causing higher pension charges and pension premiums payable.	>	The company's pension policy is to offer a defined contribution scheme where appropriate. For the defined benefit schemes, the company's pension funds follow a diversified investment policy and actively manage their investment portfolio to match their required risk profiles. In recent years the deficit reduced significantly. Adverse stock market developments led to a substantial provision on the balance sheet in 2002 and to additional pension charges in 2002 and subsequent years (*see note 22 on page 126*).
The outcome of tax disputes, litigation, indemnification and guarantees, and regulatory action could adversely affect the company'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.
Compliance risks		
External		
The company may be held responsible for any liabilities arising out of non-compliance with laws and regulations.	>	For instance, with respect to antitrust laws, the company is involved in investigations by the antitrust authorities in the European Union, the U.S., and other countries into alleged violations of the respective antitrust laws in these jurisdictions and is engaged in civil litigation in this respect. The company is dedicated to minimizing such risks with special emphasis on the practical application of the company's Business Principles (*see page 82*). The company operates under a comprehensive competition law compliance program including training, monitoring and assessment tools.

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. 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 non-executive directors. The two Boards are independent of each other and are accountable to the General Meeting of Shareholders for the performance of their functions.

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, 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. Even though Akzo Nobel has delisted from NASDAQ and deregistered from the SEC, the company will continue to build on the improvements it has made to its corporate governance over the last few years.

The Code contains principles and best practices for Dutch companies with listed shares. 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 2004 and 2005 General Meetings of Shareholders as a separate item for discussion. This specifically included a number of aspects where Akzo Nobel's corporate governance deviates from the Code, as explained in the 2004 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 an amendment of the Articles of Association which was approved by the Annual General Meeting of Shareholders in 2005.

In this chapter, Akzo Nobel's corporate governance is addressed and deviations from the Code are explained, in accordance with the Code's "apply or explain" principle.

The Board of Management and the Supervisory Board believe that the company's corporate governance structure as described here 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 described below, if this is considered to be in the interest of the company. If 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 enterprises.

The Chief Executive Officer (CEO) 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 Chief Financial Officer (CFO) is specifically responsible for the company's financial affairs. The Board of Management has members with specific responsibilities for the company's main business areas: Decorative Paints, Performance Coatings and Specialty Chemicals.

The General Managers are responsible for the performance of their respective businesses and report to the individual member of the Board of Management who is responsible for the business areas to which the business unit belongs. To safeguard consistency and coherence for the total organization, Corporate Directives have been established by the Board of Management.

To effectively steer the strategy and operations of the business units, Business Area Boards have been constituted for each of the segments Coatings and Chemicals. Furthermore, a Pensions Board Committee oversees the general pension policies to be implemented in the various pension plans of the company. Business Area Boards are chaired by the member of the Board of Management responsible for that business area. The CFO chairs the Board Committee Pensions. The authority of the Business Area Boards and the Board Committees is laid down in an internal authority schedule.

Representative authority, including the signing of documents, is vested in at least two members of the Board of Management jointly. The Board of Management may appoint corporate agents, whose powers of attorney will be determined by the Board of Management upon their appointment.

The tasks and responsibilities, as well as internal procedural matters for the Board of Management, are addressed in the Rules of Procedure for the Board of Management. The Rules of Procedure have been adopted by the Supervisory Board and are available on Akzo Nobel's corporate website.

Appointment, conflicts of interest

The General Meeting of Shareholders appoints the members of the Board of Management. 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.

As of 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 contract of Mr. Wijers, who was appointed before 2004, was not renegotiated, as this was not felt to be in the interest of the company.

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 Foundation Akzo Nobel. The Board of the Foundation Akzo Nobel consists of the members of the Supervisory Board who are not members of the Audit Committee.

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. Under the Articles of Association, the binding nature of the nominations by the holders of priority shares cannot be canceled by the General Meeting of Shareholders.

The company subscribes to the Code's principle in general and therefore – as described in the 2004 Annual Report and discussed at the General Meeting of Shareholders in 2005 – it has been decided that in normal circumstances, the members of the Supervisory Board and the Board of Management will be appointed on the basis of a non-binding nomination by the Supervisory Board. The Board of the Foundation Akzo Nobel has confirmed its intention to use its binding nomination rights only in the case of exceptional circumstances, such as in the event of a (threatened) hostile takeover (reference is made to the description of anti-takeover provisions and control, see *page 95*). In normal circumstances, resolutions to appoint a person as a member of the Supervisory Board or the Board of Management will therefore require a simple majority of the votes cast. Of course, shareholders meeting the requirements laid down in the Articles of Association are also entitled to nominate members of the Supervisory Board or the Board of Management. According to the Articles of Association, such appointments will require a two-thirds majority representing at least 50 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 hold the view that these provisions will enhance the continuity of the company's management and policies.

Members of the Board of Management are allowed to hold a maximum of two supervisory board memberships or non-executive directorships in other listed 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 or non-executive directorships in order to allow them to prepare for retirement, as long as this does not interfere with the performance of their tasks as members of the Board of Management. Acceptance of external supervisory board memberships or non-executive directorships 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 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 and will be mentioned in the annual report for the relevant year. In 2007, no transactions were reported under which a member of the Board of Management has had a conflict of interest that is of material significance to the company.

Remuneration

In line with the remuneration policy, adopted by the General Meeting of Shareholders in 2005, the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. A description of the composition of the remuneration of the

Board of Management members and the remuneration policy is included in the Remuneration Report (see *page 96*) and the Financial Statements (see *pages 141* to *144*).

The main elements of the employment contract of members of the Board of Management have been published on the company's corporate website. For appointments starting from 2004, the maximum remuneration in the event of dismissal is in principle one year's base salary. In the event of the 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 intends to take the provisions of the Code as guidance for establishing severance payments.

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 84*).

Akzo Nobel has strict 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 non-financial information.

Though no longer subject to SOx requirements, an "In-Control" department is now operational to secure compliance.

Reference is made to the Board of Management's report (see *page 22*) for the statements in respect of the internal risk management and control systems.

Rules of procedure, codes of conduct, complaints procedures

The members of the Board of Management are subject to the Akzo Nobel Rules on Inside Information, which limits their opportunities to trade in Akzo Nobel – and in certain circumstances – other company's shares. Transactions in Akzo Nobel shares executed by members of the Board of Management are notified to the Dutch Authority for the Financial Markets in accordance with Dutch law and, if necessary, to other relevant authorities. The members of the Supervisory Board and certain employees are subject to the same limitations under the Akzo Nobel Rules on Inside Information.

The Akzo Nobel Rules on Inside Information provide that executing transactions in Akzo Nobel securities, as well as securities other than Akzo Nobel securities, is prohibited if the person concerned has inside information regarding such securities. Furthermore, the Compliance Officer may determine that members of the Board of Management, members of the Supervisory Board, and certain designated employees, may not carry out transactions in Akzo Nobel securities or other securities, both during a closed period and outside a closed period.

Akzo Nobel has chosen not to follow the provisions of the Code (provisions II.2.6 and III.7.3) requiring notification by members of the Board of Management and Supervisory Board of all changes in holdings of shares in Dutch listed companies, as it believes that in addition to 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 Code of Conduct, which includes the Business Principles, sets out the company's position. It guides 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 page 82 and are available on the company's corporate website.

The Board of Management has adopted a Code of Ethics for senior financial officers. 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 corporate website.

A complaints procedure enables employees to file complaints concerning practices that violate any internal or external rules or regulations. This procedure ensures that employees have the opportunity to report alleged irregularities without jeopardizing their legal position.

Supervisory Board

The overall responsibility 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. This specifically includes supervision of the achievement 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 duties, the Supervisory Board and its members are guided by the interests of the company.

Appointment, independence, and composition

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures which are the same as those outlined above for the members of the Board of Management (see *page 91*). As a general rule, based on the rotation schedule, a Supervisory Board member's tenure is four years. In principle, members are eligible for re-election twice. However, in deviation from the Code (provision III.3.5), a member can be nominated for re-election more often if, in a specific case, this is considered to be in the company's interest.

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 den Brink. As a long-standing policy, Akzo Nobel 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. He retired from this position in 2002. Mr. van den Brink is still a consultant on macroeconomic policies to this bank, but will retire from this position on May 1, 2008.

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

The Supervisory Board is governed by 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. In 2007, no transactions were reported under which a member of the Supervisory Board has had a conflict of interest that is of material significance to 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 corporate 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. As of May 1, 2006, the Supervisory Board is chaired by Mr. Van den Bergh.

The Supervisory Board is assisted by the Secretary. All members of the Supervisory Board have access to the advice and services of the Secretary, who is responsible for ensuring that the Supervisory Board procedures are followed and that the Supervisory Board acts in accordance with its statutory obligations under the Articles of Association.

Remuneration

Supervisory Board members receive a fixed annual remuneration and attendance fee which is determined by the General Meeting of Shareholders. More information on the Remuneration of the Supervisory Board members can be found on *page 141*.

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 discharges its duties and reports to the full Supervisory Board. These charters are included in the Rules of Procedure, published on the company's corporate website. The committees report on their deliberations and findings to the full Supervisory Board.

The Audit Committee assists the Supervisory Board in overseeing the quality and integrity of the accounting, auditing, reporting, and risk management practices of the company, as well as on a number of other subjects, as included in its charter. The Chairman of the Audit Committee is Mr. Van den Brink.

One area of particular focus in corporate governance is the independence of the auditors. The Audit Committee has been delegated direct responsibility for the compensation and the oversight of the auditors and the services they provide to the company. The auditors are prohibited from providing certain non-audit services to the company. In order to anchor this in the company's procedures, the Supervisory Board adopted the "Akzo Nobel Auditors Independence Policy" and the related "Akzo Nobel Audit Committee Pre-approval Policy on Audit, Audit-Related, and Non-audit Services". All the aforementioned documents and policies are available on Akzo Nobel's corporate website.

The Nomination Committee, chaired by Mr. Van den Bergh, 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 on the selection of senior management.

The Remuneration Committee is responsible for drafting proposals to the Supervisory Board on the remuneration policy for the Board of Management, for overseeing the remuneration of individual members of the Board of Management and the remuneration schemes for Akzo Nobel executives involving Akzo Nobel shares. The Committee also prepares Supervisory Board proposals to the General Meeting of Shareholders concerning the remuneration of the members of the Supervisory Board. The Remuneration Committee is chaired by Mr. Vuursteen.

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

Relations with shareholders and other investors

Akzo Nobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. As a consequence of the delisting from NASDAQ, common shares are also traded over-the-counter on OTCQX (organized by Pink Sheets) in the U.S. in the form of American Depositary Receipts. On December 31, 2007, a total of 262,322,775 common shares had been issued and 48 priority shares had been issued, amounting to 99.997 percent and 0.003 percent respectively of the total issued and outstanding capital. By December 31, 2007, the company had been notified by Paulson and ING Group that its participation in the company's share capital was over 5 percent. No cumulative preferred shares have been issued to date. It has been communicated that the cumulative 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 Foundation Akzo Nobel. The Foundation's Board consists of members of Akzo Nobel's Supervisory Board who are not members of the Audit Committee. The meeting of holders of priority shares has the nomination rights for the appointments of members of the Board of Management and of the Supervisory Board (see *page 91*) and the right to approve amendments to the Articles of Association of the company.

The General Meeting of Shareholders of April 25, 2007, authorized the Board of Management for the period of 18 months after that date and subject to approval of the Supervisory Board, to issue shares in the capital of the company up to a maximum of 10 percent of the issued share capital, to cancel the pre-emption rights for existing shareholders for those shares, and to purchase shares of the company. In the same General Meeting of Shareholders, the Board of Management was given a mandate to acquire up to a maximum of 10 percent of the issued share capital of the company and to cancel these shares, all as part of returning EUR 1.6 billion in value to Akzo Nobel's shareholders. The shares were cancelled on December 1, 2007.

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 corporate 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 1 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 requests 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. The General Meeting of Shareholders will be provided with 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 shareholder relations. 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.

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 markets. Members of the Board of Management and business 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, and are available as webcasts and accessible online. Presentations to (institutional) investors are held at regular intervals and, in principle, are announced on the company's website or by press releases. 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 that 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 are not held shortly before publication of the quarterly and annual results.

Anti-takeover 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 anti-takeover measures and of the circumstances in which they may be used.

The priority shares may be considered to constitute a form of anti-takeover measure. In relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board (see *page 91*), the Foundation Akzo Nobel has confirmed that it intends to make use of such rights in 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 a bid will be made without any agreement having been reached in relation to such a bid with the company.

The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold 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 Foundation Akzo Nobel, 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. 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 shareholders and other stakeholders. In order to allow for sufficient time to conduct such an evaluation, the Board of the Foundation Akzo Nobel 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.

In the event of 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.

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 and is reviewed 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 seven years. KPMG's current lead partner, Mr. Weusten, has held this position since July 2007. The lead auditor is present at the General Meeting of Shareholders and may be questioned with regard 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 at which the financial statements are approved. Furthermore, he receives the financial information underlying reports of the quarterly figures and is given the opportunity to respond to this information.

Remuneration report

Introduction

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 as adopted by the General Meeting of Shareholders in April 2005 and revised in April 2006.

The company's remuneration policy, including all structures and policies related to the remuneration and employment contracts of the Board of Management, is in line with the Dutch Corporate Governance Code.

This remuneration report describes the remuneration policy of Akzo Nobel and remuneration paid to individual members of the Board of Management in 2007.

Remuneration policy

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.

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 shares
- Pension provisions.

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

- Aegon
- Ciba Specialty Chemicals
- Clariant
- Heineken
- ICI
- Reed Elsevier
- Rhodia
- Royal Ahold
- Royal DSM
- Royal KPN
- Royal Numico
- Solvay
- TNT
- Wolters Kluwer

The Remuneration Committee consults professional independent remuneration experts to ensure an appropriate comparison. Royal Ahold, Royal KPN and Wolters Kluwer are not included in the peer group for the CEO. The peer group includes five direct competitors of Akzo Nobel. The Supervisory Board is of the opinion that it is relevant to incorporate compensation data from direct competitors to ensure that information relating to the specific industry pay levels and policies is available.

Changes in the peer group are made only if companies no longer qualify to serve as a peer group company. ICI and Royal Numico will be replaced in 2008.

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.

Remuneration elements

Overview

For communication purposes, the table below presents a summarizing overview of the remuneration of the current members of the Board of Management. Reference is made to note b on page 141 of the financial statements for more details.

OVERVIEW

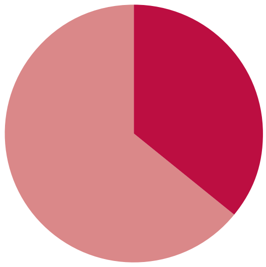
NAME AND POSITION	Year	Base Salary (EUR)	Bonus[1] (EUR)	Share awards[2] (EUR)	Option awards[3] (EUR)	Pension premium paid (EUR)
Hans Wijers, Chief Executive Officer	2007	705,500	1,036,500	500,700	138,000	557,900
Leif Darner, Board Member Chemicals	2007	504,000	450,000	328,700	90,600	228,400
Rob Frohn, Chief Financial Officer	2007	504,000	450,000	328,700	90,600	149,800

[1] Actual bonuses disclosed relate to the performance in 2007, but paid out in 2008.
[2] The fair value of the share-based awards as per January 1, 2007. The fair value is the amount for which an item could be exchanged or settled between knowledgeable willing parties. Costs under IFRS deviate from the value attributed to the individual awards at the date of grant, due to differences in calculation method. Under IFRS the fair value of the share-based award is charged to the statement of income over the vesting period. For the costs recognized for share-based awards under IFRS, reference is made to note f on page 146.
[3] The fair value of the option award as per January 1, 2007. For the costs recognized for options under IFRS, reference is made to note f on page 146.

All members of the Board of Management are entitled to other benefits, such as a company car and representation allowance, needed for the execution of their role and in line with market norms.

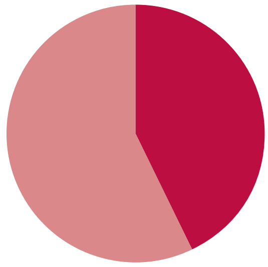
In 2007, the value of fixed and variable cash components at target levels breaks down as follows:

The table below summarizes the remuneration package of the members of the Board of Management of Akzo Nobel. The elements of the remuneration package are addressed in more detail in the paragraphs below.



CEO

IN PERCENTAGES	
Base salary	**36**
Variable compensation	**64**



BOARD MEMBERS

IN PERCENTAGES	
Base salary	**43**
Variable compensation	**57**

TOTAL REMUNERATION PACKAGE

	Element	Vehicle	Performance measure	Payout at minimum performance	Target payout as % of base salary	Maximum payout as % of base salary[1]
Fixed	**Base salary**	Cash	Not applicable	100%	100%	100%
Variable	**Short-term incentive**	Cash	EVA: 70% Personal: 30%	0%	CEO: 100% Member: 65%	CEO: 150% Member 100%
	Long-term incentive	Performance-related restricted shares (75%)	Relative Total Shareholder Return	0%	CEO: 56% Member: 52%	CEO: 84% Member: 78%
		Performance-related stock options (25%)	EVA on Invested Capital	0%	CEO: 19% Member: 17%	CEO: 19% Member: 17%

[1] The maximum percentages for shares and stock options relate to the performance test and assume that the share price remains unchanged.

Base salary

The objective of the base salary is to enable recruitment and retention of top managers of a major international company.

Base salaries of members of the Board of Management have increased by 3 percent in 2007 in order to bring remuneration levels more in line with median market levels of the reference market.

In spite of the salary adjustment in 2007, the base salary level of the CEO and the other members of the Board of Management remains significantly below the median level of the peer group of companies used in the external comparison. For the other members, the average percentage amounts to approximately 30 percent below the median level.

Short-term incentive (annual bonus)

The objectives of the short-term incentive are to reward economic value creation (EVA) for our shareholders and other stakeholders, to measure individual and collective performance and to encourage progress in the achievement of long-term strategic objectives.

A total of 70 percent of the bonus opportunity is linked to EVA; the remaining 30 percent is based on individual and qualitative personal targets. On the outcome of these elements, the Remuneration Committee applies an overall rating based on the principles of the Performance and Development Dialog, an appraisal system which was implemented throughout Akzo Nobel in 2005. For the Board of Management, the rating includes a reasonableness test, in which the Supervisory Board critically assesses the actual ambition level of the performance targets in light of the assumptions made at the beginning of the year. It also includes an assessment of the progress made in achieving long-term strategic objectives.

This method for bonus determination is also the basis of the compensation framework for executives in the company as introduced in January 2005.

The performance measure EVA is used in order to encourage the Board of Management to create long-term value for the company's shareholders and other stakeholders. 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. Please refer to page 17 for the actual 2007 EVA performance used in the short-term incentive.

The EVA-related part of the bonus has a performance threshold level of 80 percent and a maximum performance level of 120 percent of the targeted EVA. The target EVA for the bonus will be determined annually by the Supervisory Board and will be derived from budget. Qualitative individual and collective targets are set in the context of the medium-term objectives of the company and qualify as commercially sensitive information. The company will not disclose the targets.

The Supervisory Board critically assesses the progress made in achieving long-term strategic objectives and the actual ambition level of the performance targets in light of the assumptions made at the beginning of the year. The Supervisory Board ensures that targets are realistic and sufficiently stretching.

Long-term incentives

The objectives of the Akzo Nobel long-term incentive plan are to encourage long-term economic and shareholder value creation, both absolute and relative to our competitors, to align the interests of the Board of Management with those of shareholders and to ensure retention of the members of the Board of Management.

The long-term incentive plan consists of performance stock options and performance shares.

Stock option plan

The Supervisory Board will propose the discontinuation of the stock option plan to the 2008 Annual General Meeting of Shareholders as it is of the opinion that performance shares provide a stronger alignment with shareholder interests. The potential benefit of a grant under the stock option plan will be replaced by a conditional grant under the performance share plan.

Up until 2007, stock options have been conditionally granted for performance upon vesting. The number of stock options granted to the Board of Management was determined by the Supervisory Board. Market levels, as well as company-specific circumstances, were taken into account in determining the appropriate conditional number of options 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 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. Stock options will not vest below 80 percent 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 specific targets will not be disclosed as they qualify as commercially sensitive information.

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.

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.Based on the EOI performance over the period 2005 to 2007, 100 percent of the stock options (conditionally) granted to the members of the Board of Management became unconditional (23,000 to the CEO and 15,000 to the other Board members). The number of conditional stock options, granted in 2007, amounted to 19,800 options for the CEO and 13,000 for the other Board members.

Performance share plan

Under the performance share 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).

Relative TSR performance will be compared with a peer group. Based on the 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. In order to adjust for changes in exchange rates, all local currencies are converted into euros. The retention period for the shares expires five years after the conditional grant.

As a consequence of the sale of Organon BioSciences and the acquisition of ICI, the Remuneration Committee reviewed the TSR peer group as it no longer only consisted of companies with which Akzo Nobel is competing. For the 2006 grant, ICI is replaced by Nippon Paint. The Supervisory Board decided that for the 2007 grant and onwards, a more focused peer group will be used for the performance share plan in order to reflect the new company structure and strategy. In summary, relative TSR performance will be compared with the following peer groups for the 2005 and 2006 grant respectively and the 2007 grant:

2005-2006

- Bayer
- Ciba Specialty Chemicals
- Clariant
- Dow Chemical Company
- DuPont
- ICI (until the 2005 grant)
- Merck KGaA
- Nippon Paint (only for the 2006 grant)
- Novo Nordisk
- PPG Industries
- Rohm & Haas
- Royal DSM
- Sherwin-Williams
- Solvay
- UCB
- Valspar Corporation

AS FROM 2007

- Arkema group
- BASF
- Ciba Specialty Chemicals
- Dow Chemical Company
- DuPont
- Hercules
- Kansai Paint
- Kemira OYJ
- PPG Industries
- RPM Industrial
- Sherwin-Williams
- Valspar Corporation

Given the company's historical performance, market expectations, and strategy, the following performance incentive zones apply for the 2005 and 2006 share grant respectively and the 2007 share grant:

2005-2006		AS FROM 2007	
Rank	Payout (as % of target payout)	**Rank**	**Payout (as % of target payout)**
1	150%	**1**	150%
2	137.5%	**2**	135%
3	125%	**3**	120%
4	112.5%	**4**	100%
5	100%	**5**	85%
6	80%	**6**	70%
7 (median)	60%	**7 (median)**	55%
8	40%	**8**	40%
9	20%	**9**	25%
10-16	0%	**10-16**	0%

The Supervisory Board has made sure that the revision of the peer group does not make targets easier to achieve. Probability analyses were run to ensure an equal likelihood of achieving payout for the 2007 peer group as compared with the previous peer groups used.

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.

Akzo Nobel's performance over the period 2005 to 2007 resulted in a 5th position within the ranking of the peer group companies. Consequently, the final vesting percentage of the 2005 grant equals 100 percent, resulting in a definitive grant of shares (including the compounded dividend yield until December 31, 2007 - 8.78 percent) of 35,898 shares for the CEO and 23,932 shares for the other members of the Board of Management. The number of performance related shares, granted in 2007, amounted to 23,000 for the CEO and 15,100 for the other members of the Board of Management.

For the grants not yet vested, the following intermediate performance can be reported:
- For the two-year period ending 2007: Akzo Nobel's position is third (2006: 7)
- For the one-year period ending 2007: Akzo Nobel's position is second.

Pensions

The pension plan for all the members of the Board of Management 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 build up (internally or externally) in the period preceding the appointment as Board member and the rules applicable in the country 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 pay a personal contribution.

Members of the Board of Management normally retire in the year that they reach the age of 62.

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. After this initial term, reappointments may take place for consecutive periods of four years each or so much shorter as will follow from the application of the date of retirement.
The notice period by the Board member is subject to a term of three months; notice by the company shall be subject to a six months term.

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 employment agreements for the member of the Board of Management appointed before 2004 have not been adjusted in this respect (see *page 91*). However, the Supervisory Board has the intention to take the provisions of the Code as guidance for establishing severance payments.
The employment contracts allow the Supervisory Board to request a Board member to resign between the age of 60 and the regular retirement age for effective succession planning within the Board. In such an exceptional situation, the Board member concerned will be entitled to fixed salary payments until the date of retirement.

Loans

The company does not grant any personal loans to its Board members.

Proposed changes to the remuneration policy for 2008 and onwards

Due to the divestment of Organon BioSciences and the acquisition of ICI, Akzo Nobel has become a more focused company with a broader geographical presence in the remaining activities. The Supervisory Board will evaluate whether this has consequences for the remuneration policy.

Base salary

The 2007 salary adjustment contributes to moving to median market levels. Still, there is a significant gap between actual compensation and the policy level. The Remuneration Committee will consider whether further adjustments will be made in 2008.

Recommendations of the Monitoring Committee Corporate Governance

As a result of the report published by the Monitoring Committee Corporate Governance on December 19, 2007, the Remuneration Committee assessed to what extent Akzo Nobel is compliant with the committee recommendations and which recommendations require further consideration in the course of 2008.

Currently, Akzo Nobel complies with the majority of the recommendations. The position taken by Akzo Nobel with respect to the key recommendations can be summarized as follows:

- The Supervisory Board closely supervises the independence of the Remuneration Committee and any external remuneration consultant in relation to the Board of Management as a key feature in the process for determining remuneration.
- The Supervisory Board applies internal guidelines for the total remuneration package of the members of the Board of Management. In the event of a change of ownership, the Supervisory Board, at its discretion, will take such measures as are reasonably necessary to control the total remuneration potentially to be received by members of the Board of Management. In the course of 2008, the Supervisory Board intends to define more precise remuneration criteria, which would apply in a change of control situation.
- The Supervisory Board monitors the accuracy of the (financial) data on the basis of which variable pay is granted. Before unconditionally granting variable pay to a member of the Board of Management, the Supervisory Board evaluates the consequences of doing so, from the point of view of reasonableness and fairness, taking the values of the societies in which the company operates into consideration.
- It is the ambition of Akzo Nobel and the Supervisory Board to continuously improve communication to all stakeholders about the remuneration policy and its results. In 2007, the Supervisory Board reinforced further communication improvements, and it is the intention to pursue this further in 2008.

Financial statements

Consolidated statement of income

for the year ended December 31

MILLIONS OF EUROS	Note		2007		2006[1]
Continuing operations					
Revenue			10,217		10,023
Cost of sales			(6,252)		(6,224)
Gross profit			**3,965**		**3,799**
Selling expenses		(2,230)		(2,203)	
Research and development expenses		(282)		(280)	
General and administrative expenses		(654)		(636)	
Other operating income/(expenses)	4	(52)		179	
			(3,218)		(2,940)
Operating income			**747**		**859**
Financing income	5		157		123
Financing expenses	5		(277)		(229)
Operating income less financing income and expenses			627		753
Results from associates and joint ventures	6		(20)		87
Profit before tax			**607**		**840**
Income tax	7		(166)		(96)
Profit for the period from continuing operations			**441**		**744**
Discontinued operations					
Profit for the period from discontinued operations (Organon BioSciences)	8		8,920		438
PROFIT FOR THE PERIOD			**9,361**		**1,182**
Attributable to:					
– Equity holders of the company			9,330		1,153
– Minority interests			31		29
PROFIT FOR THE PERIOD			**9,361**		**1,182**
Earnings per share, in euros	10				
Continuing operations:					
– Basic			1.49		2.49
– Diluted			1.47		2.48
Discontinued operations:					
– Basic			32.33		1.53
– Diluted			32.08		1.52
Total operations:					
– Basic			33.82		4.02
– Diluted			33.55		4.00

[1] Reclassified to present Organon BioSciences as a discontinued operation.

Consolidated balance sheet

as of December 31, before allocation of profit

MILLIONS OF EUROS	Note	2007		2006 pro forma[1]		2006	
Assets							
Non-current assets							
Property, plant, and equipment	11	2,203		2,249		3,346	
Intangible assets	12	669		536		682	
Deferred tax assets	13	630		685		953	
Investment in associates and joint ventures	14	142		165		177	
Other financial non-current assets	15	630		501		576	
Total non-current assets			4,274		4,136		5,734
Current assets							
Inventories	16	1,177		1,190		2,042	
Current tax assets	17	25		35		109	
Trade and other receivables	18	2,139		2,076		2,810	
Cash and cash equivalents	19	11,628		1,871		1,871	
Assets held for sale	20	–		3,477		219	
Total current assets			14,969		8,649		7,051
TOTAL ASSETS			19,243		12,785		12,785
Equity and liabilities							
Equity	21						
Subscribed share capital		525		574		574	
Additional paid-in capital		363		1,841		1,841	
Other reserves		10,144		1,729		1,729	
Shareholders' equity		11,032		4,144		4,144	
Minority interests		97		119		119	
Total equity			11,129		4,263		4,263
Non-current liabilities							
Provisions	22	1,598		1,910		2,132	
Deferred income		–		–		7	
Deferred tax liabilities	13	133		149		174	
Long-term borrowings	23	1,954		2,505		2,551	
Total non-current liabilities			3,685		4,564		4,864
Current liabilities							
Short-term borrowings	24	1,635		304		410	
Current tax liabilities	17	278		238		321	
Trade and other payables	25	1,998		1,722		2,331	
Current portion of provisions	22	518		526		571	
Liabilities held for sale	20	–		1,168		25	
Total current liabilities			4,429		3,958		3,658
TOTAL EQUITY AND LIABILITIES			19,243		12,785		12,785

[1] In the 2006 pro forma column, Organon BioSciences has been treated as if it qualified as a discontinued operation as of year-end 2006.

Consolidated statement of cash flows

for the year ended December 31

MILLIONS OF EUROS		2007		2006[1]
Profit for the period	9,361		1,182	
Income from discontinued operations	(8,920)		(438)	
Adjustments to reconcile earnings to cash generated from operating activities				
Depreciation and amortization	355		371	
Impairment losses	11		29	
Financing income and expenses	120		106	
Results from associates and joint ventures	(27)		(77)	
Income tax	166		96	
Operating profit before changes in working capital and provisions		1,066		1,269
Changes in working capital[2]	73		185	
Changes in provisions	(256)		(202)	
Other	13		18	
		(170)		1
Cash generated from operating activities		**896**		**1,270**
Interest paid	(212)		(205)	
Income tax paid	(111)		(285)	
Pre-tax loss/(gain) on divestments	70		(206)	
		(253)		(696)
Net cash from operating activities		**643**		**574**
Capital expenditures	(359)		(371)	
Interest received	119		109	
Repayments and dividends from associates and joint ventures	26		36	
Acquisition of consolidated companies[3]	(159)		(318)	
Currency swap for investing purposes	(349)		–	
Proceeds from sale of interests[3]	171		360	
Other changes in non-current assets	(292)		43	
Net cash from investing activities		**(843)**		**(141)**
Changes in borrowings	422		(17)	
Termination of currency swap	68		21	
Issue of shares for stock option plan	73		40	
Buyback of shares	(1,600)		–	
Dividends	(398)		(369)	
Net cash from financing activities		**(1,435)**		**(325)**
NET CASH USED FOR CONTINUING OPERATIONS		**(1,635)**		108
Net cash from operating activities	437		533	
Net cash from investing activities	10,678		(167)	
Net cash from financing activities	(32)		(10)	
CASH FLOWS FROM DISCONTINUED OPERATIONS		**11,083**		356
NET CHANGE IN CASH AND CASH EQUIVALENTS		**9,448**		464
Cash and cash equivalents at January 1		1,631		1,188
Effect of exchange rate changes on cash and cash equivalents		(12)		(21)
CASH AND CASH EQUIVALENTS		**11,067**		1,631

[1] Reclassified to present Organon BioSciences as a discontinued operation and to include debt to credit institutions in the statement of cash flows.
[2] Comprises an increase of EUR 62 million in trade and other receivables (2006: EUR 17 million), an increase of EUR 16 million in inventories (2006: EUR 31 million), and an increase of EUR 151 million in trade and other payables (2006: EUR 233 million).
[3] Net of cash acquired or disposed of.

Consolidated statement of changes in equity

	Attributable to equity holders of the parent							
MILLIONS OF EUROS	Subscribed share capital	Additional paid-in capital	Change in fair value of derivatives	Cumulative translation reserves	Other (statutory) reserves and undistri-buted profit	Share-holders' equity	Minority interests	**Total equity**
Balance at January 1, 2006	572	1,803	22	142	876	3,415	161	3,576
Changes in fair value of derivatives	–	–	(24)	(2)	–	(26)	–	(26)
Changes in exchange rates in respect of foreign operations	–	–	–	(110)	–	(110)	(10)	(120)
Income/(expenses) directly recognized in equity	–	–	(24)	(112)	–	(136)	(10)	(146)
Profit for the period	–	–	–	–	1,153	1,153	29	1,182
Total income/(expenses)	–	–	(24)	(112)	1,153	1,017	19	1,036
Dividend paid	–	–	–	–	(344)	(344)	(25)	(369)
Equity-settled transactions	–	–	–	–	16	16	–	16
Issue of common shares	2	38	–	–	–	40	–	40
Changes in minority interests in subsidiaries	–	–	–	–	–	–	(36)	(36)
BALANCE AT DECEMBER 31, 2006	574	1,841	(2)	30	1,701	4,144	119	4,263
Changes in fair value of derivatives	–	–	(508)	–	–	(508)	–	(508)
Changes in exchange rates in respect of foreign operations	–	–	–	(81)	–	(81)	(2)	(83)
Income/(expenses) directly recognized in equity	–	–	(508)	(81)	–	(589)	(2)	(591)
Profit for the period	–	–	–	–	9,330	9,330	31	9,361
Total income/(expenses)	–	–	(508)	(81)	9,330	8,741	29	8,770
Dividend paid	–	–	–	–	(364)	(364)	(34)	(398)
Equity-settled transactions	–	–	–	–	38	38	–	38
Issue of common shares	4	69	–	–	–	73	–	73
Buyback of shares	(53)	(1,547)	–	–	–	(1,600)	–	(1,600)
Changes in minority interests in subsidiaries	–	–	–	–	–	–	(17)	(17)
BALANCE AT DECEMBER 31, 2007	**525**	**363**	**(510)**	**(51)**	**10,705**	**11,032**	**97**	**11,129**

Segment information

The segment information is presented according to Akzo Nobel's business structure in 2007. The segment information includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

INFORMATION PER SEGMENT

	Revenue from third parties		Group revenue		Operating income		Results from associates and joint ventures		Depreciation and amortization	
MILLIONS OF EUROS	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Coatings	**6,533**	6,203	**6,537**	6,209	**557**	604	**–**	(1)	**143**	140
Chemicals[1]	**3,627**	3,501	**3,639**	3,522	**382**	321	**(20)**	41	**202**	219
Corporate and other[2]	**57**	319	**90**	347	**(192)**	(66)	**–**	47	**10**	12
	10,217	10,023	**10,266**	10,078	**747**	859	**(20)**	87	**355**	371
Intersegment revenue	**–**	–	**(49)**	(55)	**–**	–	**–**	–	**–**	–
TOTAL	**10,217**	10,023	**10,217**	10,023	**747**	859	**(20)**	87	**355**	371

INFORMATION PER SEGMENT

	Total assets		Total liabilities		Investments in associates and joint ventures		Capital expenditures		Impairment losses	
MILLIONS OF EUROS	**2007**	2006[3]	**2007**	2006[3]	**2007**	2006[3]	**2007**	2006	**2007**	2006
Coatings	**4,246**	3,821	**1,591**	1,524	**6**	6	**158**	135	**7**	5
Chemicals	**2,489**	2,549	**943**	895	**117**	128	**191**	223	**1**	24
Corporate and other[2]	**12,508**	6,415	**5,580**	6,103	**19**	31	**10**	13	**3**	–
TOTAL	**19,243**	12,785	**8,114**	8,522	**142**	165	**359**	371	**11**	29

REGIONAL INFORMATION

	Revenue by region of destination		Total assets		Capital expenditures	
MILLIONS OF EUROS	**2007**	2006	**2007**	2006[3]	**2007**	2006[3]
The Netherlands	**777**	783	**1,566**	1,629	**83**	98
Germany	**907**	962	**516**	546	**17**	15
Sweden	**472**	463	**859**	852	**53**	78
UK	**552**	567	**735**	472	**14**	14
Other European countries	**3,147**	3,020	**1,463**	1,480	**66**	61
U.S. and Canada	**1,855**	1,855	**1,541**	1,458	**56**	48
Latin America	**606**	566	**413**	376	**15**	14
Asia	**1,471**	1,379	**707**	680	**48**	38
Other regions	**430**	428	**182**	200	**7**	5
	10,217	10,023	**7,982**	7,693	**359**	371
Corporate and other[2]	**–**	–	**11,261**	5,092	**–**	–
TOTAL	**10,217**	10,023	**19,243**	12,785	**359**	371

[1] The 2006 figures have been reclassified because the divested Chemicals activities are included under Other at company level.
[2] Corporate and other includes cash and cash equivalents, borrowings, and assets and liabilities held for sale. These corporate items in 2006 mainly relate to the divested Organon BioSciences activities. In 2007, they include the temporarily high net cash position.
[3] Pro forma figures.

Following the acquisition of ICI on January 2, 2008, Akzo Nobel redesigned its business structure for 2008 into three operating segments, as follows: Decorative Paints, Performance Coatings, and Specialty Chemicals.

Note 1 Summary of significant accounting policies

General information

Akzo Nobel N.V. is a company domiciled in the Netherlands. The address of the company's registered office is Strawinskylaan 2555, Amsterdam. A list of subsidiaries and associated 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 Amsterdam.

The consolidated financial statements of Akzo Nobel N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and also comply with the financial reporting requirements included in section 9 of Book 2 of the Netherlands Civil Code, as far as applicable.

On March 5, 2008, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to approval by the General Meeting of Shareholders.

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

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. has directly and/or indirectly the power to control the financial and operating policies so as to obtain benefits. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Minority interests in equity and earnings are shown separately. Transactions between consolidated companies and intercompany balances are eliminated. Accounting policies, as set out below, have been applied consistently for all periods presented in these consolidated financial statements and by all subsidiaries.

Discontinued operations

A discontinued operation is a component of the company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of income and the statement of cash flows are reclassified as if the operation had been discontinued from the start of the comparative period. In 2007, Organon BioSciences was classified as discontinued operation and the statements of income and cash flows have been reclassified accordingly.

Valuation and the use of estimates

The principles of valuation and determination of income used in the consolidated financial statements are based on historical costs, unless stated otherwise in the principles of valuation of assets and liabilities. Exceptions to the historical cost basis include derivative financial instruments, cash and cash equivalents, and share-based compensation, which are based on fair value, and pensions, for which actuarial present value calculations are used. More information on the measurement and use of estimates to determine fair values is presented below or in the notes specific to that asset or liability.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect amounts reported in the financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised, or in the revision period and future periods if the changed estimates affect both current and future periods.

The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation are described below.

Business combinations

In business combinations, identifiable assets and liabilities, and contingent liabilities are recognized at their fair values at the acquisition date. Determining the fair value requires significant judgments on future cash flows to be generated.

The fair value of brands, patents, trademarks, and customer lists acquired in a business combination is estimated on generally accepted valuation methods, using the discounted royalty payments that have been avoided as a result of the patent or trademark being owned or discounted cash flows expected to be derived from the use and eventual sale of the assets.

The fair value of property, plant, and equipment recognized as a result of a business combination is based on estimated market values.

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Impairment of intangible assets and property, plant, and equipment

The company reviews non-current assets for impairment when events or circumstances indicate that carrying values may not be recoverable. Assets subject to this review include property, plant, and equipment and intangible assets. In this review, management must make significant judgments and estimates to determine if the future cash flows expected to be generated by those assets are less than their carrying value. The data necessary for the execution of the impairment tests are based on the company's strategic plans and management's estimates of future cash flows, which require estimating revenue growth rates and profit margins. The estimated cash flows are discounted using a net present value technique with business-specific discount rates.

Changes in assumptions and estimates included in the valuation of acquired intangibles and in impairment reviews could result in significantly different earnings than those recorded in the financial statements.

Accounting for income tax

As part of the process of preparing consolidated financial statements, the company is required to estimate income tax in each of the jurisdictions in which the company operates. This process involves estimating actual current tax expense and temporary differences between tax and financial reporting. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet.
The company must then assess the likelihood that deferred tax assets will be recovered from future taxable income. In the event actual results differ from these estimates in future periods, and depending on the tax strategies that the company may be able to implement, changes to the deferred tax assets could be required, which could impact the financial position and results from operations.

Provisions

By their nature, provisions for contingent liabilities are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates as to the outcome and the amount of the potential cost of resolution. Contingent liabilities are recognized by a charge against income when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated.

Estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination as well as on the technology required for clean-up. The provision for antitrust cases is based on an estimate of the costs, fines, and civil damages, taking into account legal advice and the current facts and circumstances. Provisions for other litigation are also based on an estimate of the costs, taking into account legal advice and information currently available.

Provisions for termination benefits and exit costs also involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs.

If the actual outcome differs from the assumptions and estimates, revisions to the estimated provisions would be required. This could impact the financial position and results from operations.

Accounting for pensions and other post-retirement benefits

Retirement benefits represent obligations that will be settled in the future and require assumptions to project benefit obligations and fair values of plan assets. Retirement benefit accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period, based on the terms of the plans and the investment and funding decisions made by the company. The accounting requires management to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates, and future healthcare costs. Periodically, management consults with external actuaries regarding these assumptions. Changes in these key assumptions can have a significant impact on the projected benefit obligations, funding requirements, and periodic costs incurred. For details on key assumptions and policies, see *note 22*. It should be noted that when discount rates decline or rates of compensation increase – due to e.g. increased inflation – pension and post-retirement benefit obligations will increase. Net periodic pension and post-retirement costs might also increase, depending on the actual relation between the unrecognized loss and the so-called corridor (10% of the greater of benefit obligations and plan assets) as well as on the relative change of the discount rate versus the change of the benefit obligation.

Statement of cash flows

The cash flow statements have been prepared using the indirect method. Cash flows in foreign currencies have been translated at average exchange rates. Exchange rate differences affecting cash items are shown separately in the cash flow statements. Receipts and payments with respect to income tax are included in the cash flow from operating activities. Interest payments are included in cash flows from operating activities while interest receipts are included in cash flows from investing activities. The cost of acquisition of subsidiaries, associates and joint ventures, and other investments, insofar as it was paid for in cash, is included in cash flows from investing activities. Acquisitions or divestments of subsidiaries are presented net of cash balances acquired or disposed of, respectively. Cash flows from derivatives are recognized in the statement of cash flows in the same category as those of the hedged item.

Segment reporting

The primary segment reporting is based on the business segments of the company, whereby the business segments are engaged in providing products or services which are subject to risks and rewards which differ from the risks and rewards of the other segments. In determining whether products and services are related, aspects such as the nature of the products or services, the nature of the production processes, and the type or class of customers for the products or services are taken into consideration. Segments reported are Coatings and Chemicals, which also reflects the management structure of the company. The secondary segment reporting is based on the geographical areas in which the company operates, whereby economic environments with comparable risks and returns are grouped together. Intersegment pricing is determined on an arm's length basis.

Translation of foreign currencies

Transactions in foreign currencies are translated into the functional currency of entities using the foreign exchange rate at transaction date. The functional currency of foreign entities generally is the local currency. Monetary assets and liabilities denominated in foreign currencies are translated into euros using the exchange rates at the balance sheet date. Resulting foreign currency differences are included in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies are translated into euros at the exchange rate at the date that the fair value was determined.

The financial statements of foreign entities are translated into euros. The balance sheet is translated into euros using the exchange rates at the balance sheet date. The statements of income of foreign entities are translated into euros using the foreign exchange rates at transaction date. Foreign exchange differences resulting from translation into euros of investments in subsidiaries and of intercompany loans of a permanent nature outside the euro region are recorded as a separate component (cumulative translation reserves) within shareholders' equity. These cumulative translation adjustments are recognized in the statement of income upon disposal or liquidation of a foreign entity or redemption of an intercompany loan with a permanent nature. Upon partial disposal or liquidation of a foreign entity or partial redemption of an intercompany loan with a permanent nature, the cumulative translation adjustments are recognized proportionally.

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

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	
	2007	2006	**2007**	2006
U.S. dollar	**1.472**	1.317	**1.370**	1.256
Pound sterling	**0.737**	0.671	**0.688**	0.682
Norwegian kronor	**7.973**	8.267	**8.001**	8.052
Swedish krona	**9.421**	9.047	**9.258**	9.247

Principles of valuation of assets and liabilities

Property, plant, and equipment

Property, plant, and equipment are valued at cost less accumulated depreciation and impairment charges. Costs include expenditures that are directly attributable to the acquisition of the asset, including financing expenses of capital investment projects under construction. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Depreciation is calculated using the straight-line method, based on the estimated useful life. In the majority of cases the useful life of plant equipment and machinery is 10 years, and for buildings ranges from 20 to 30 years. Land is not depreciated. In the majority of cases residual value is assumed to be insignificant. Depreciation methods, useful lives and residual values are reassessed annually.

Parts of property, plant, and equipment that have different useful lives are accounted for as separate items of property, plant, and equipment. Cost of major maintenance activities is capitalized as a separate component of property, plant, and equipment, and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant, and equipment are expensed in the period in which they occur.

Gains and losses on the sale of property, plant, and equipment are included in the statement of income. If there is an indication that an asset may be impaired, the recoverable amount of the asset is estimated; see Impairments. If the carrying value exceeds the recoverable amount, an impairment charge is recognized in the statement of income.

Leases

Lease contracts whereby the company has substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimal lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between the financing expenses and the reduction of the outstanding liability. The financing expenses are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total expense over the term of the lease.

Asset retirement obligations

The company has identified conditional asset retirement obligations at a number of its facilities that are mainly related to plant decommissioning. The company recognizes these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

Intangible assets

Intangible assets with a finite life, such as licenses, know-how, brand names, customer relationships, and intellectual property rights, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life, which in the majority of cases ranges from ten to 40 years. Development cost is capitalized if the cost can be measured reliably, the product or process is technically and commercially feasible and sufficient future economic benefits will be generated, and the company has sufficient resources to complete the development. The expenditures capitalized include the cost of materials, direct labor, and overhead cost that are directly attributable to preparing the asset for its intended use. Capitalized development costs are amortized on a straight-line basis over the estimated useful life, which in the majority of cases is five years.

If there is an indication that an intangible asset may be impaired, the recoverable amount of the asset is estimated. If the carrying value exceeds the recoverable amount, an impairment charge is recognized in the statement of income.

Intangible assets with an indefinite life, which presently only include purchased goodwill, are not amortized, but tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. In cases where the carrying value of the intangibles exceeds the recoverable amount, an impairment charge is recognized in the statement of income.

Goodwill in a business combination is determined as the difference between the cost of the acquisition and the fair value of the acquired identifiable assets and liabilities, and recognized contingent liabilities. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill related to an investment in associates and joint ventures is included in the carrying value of that investment.

If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

If written put options on minority shares are acquired as part of a business combination, these are accounted for under IFRS 3 as if the additional interests were already acquired from the initial date of acquisition. This results in the recognition of a liability instead of a minority share, and an increase of goodwill for the fair value of the written put option.

Investments in associates and joint ventures

Associates are those entities in which Akzo Nobel has significant influence, but no control, over the financial and operational policies. Joint ventures are those entities over whose activities Akzo Nobel has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The consolidated financial statements include the company's share of the income and expenses of the associates and joint ventures from the date that significant influence commences until the date that significant influence ceases, whereby calculation is based on the Akzo Nobel principles of valuation. When the share of losses exceeds the interest in the company, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless Akzo Nobel has incurred legal or constructive obligations on behalf of the investee. Loans to associates and joint ventures are carried at amortized cost, less impairment losses.

Unrealized gains arising from transactions with associates and joint ventures are eliminated to the extent of Akzo Nobel's interest in the company and are eliminated against the investment. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Other financial non-current assets

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Non-current financial assets with changes in fair value through profit and loss are interest rate derivatives that are measured at fair value. Changes in the fair value are recognized as financing income and expenses, offsetting fair value changes of hedged long-term borrowings.

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost of inventories comprises all cost of purchase, cost of conversion, and other cost incurred in bringing the inventories to the present location and condition. The cost of conversion of inventories includes direct labor and fixed and variable production overheads, and takes into account the stage of completion.
The cost of inventories is determined using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Receivables

Trade and other receivables are measured at amortized cost, using the effective interest method, less an allowance for impairment. Long-term receivables are discounted to their net present value.

An allowance for impairment of trade and other receivables is established if the collection of a receivable becomes doubtful. Such receivable becomes doubtful when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment loss is recognized in the statement of income, as are subsequent recoveries of previous impairments.

Derivative financial instruments

Derivative financial instruments include forward exchange rate contracts, interest rate derivatives, and commodity contracts, as well as embedded derivatives included in normal business contracts.

Forward exchange and commodity contracts are measured at fair value on the balance sheet, with changes in the fair value recognized in operating income, unless cash flow hedge accounting is applied. In that case, the effective part of the fair value changes is deferred in equity and released to the related specific lines in the statement of income or balance sheet upon realization. Fair values are derived from market prices and quotes from dealers and brokers, or estimated. Forward exchange and commodity contracts are recognized on the balance sheet under trade and other receivables, or under trade and other payables.

The changes in fair value of interest derivatives are recognized in the statement of income, where the effective part is offset by the fair value changes of the underlying fixed rate bond, in case fair value hedge accounting is applied. Such amounts are included in financing income and expenses. The fair value of the interest rate derivatives is recognized in the balance sheet under other financial non-current assets or long-term borrowings.

Both at the hedge inception and at each reporting date, the company assesses whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. When a derivative is not highly effective, hedge accounting is discontinued prospectively.

Assets and liabilities classified as held for sale

Assets and liabilities are classified as held for sale if it is highly probable that the carrying value will be recovered through a sale transaction rather than through continuing use. When reclassifying assets as held for sale, the assets are recognized at the lower of the carrying value or fair value less selling costs. Assets held for sale are not depreciated but tested for impairment. Impairment losses on assets and liabilities held for sale are recognized in the statement of income.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into cash. Cash and cash equivalents are measured at fair value.

Shareholders' equity

The consideration paid for repurchased shares, including directly attributable cost, is deducted from equity.

Dividends are recognized as a liability in the period in which they are declared.

Provisions

Provisions are recognized when a present legal or constructive obligation as a result of a past event exists, and it is probable that an outflow of economic benefits is required to settle the obligation. Provisions are measured at net present value, taking the timing of cash outflows into account. The expected future cash outflows are discounted at appropriate pre-tax interest rates, reflecting current market assessments of the time value of money and, if applicable, the risks specific to the liability. The increase of provisions as a result of the passage of time is recognized in the statement of income under financing expenses.

Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for. Termination benefits for voluntary redundancy are recognized if the company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

In accordance with the company's environmental policy and applicable legal requirements, a provision for environmental clean-up cost is recognized when it is probable that a liability has materialized and the amount of cash outflow is reasonably estimable.

Pensions and other post-retirement benefits

Obligations for contributions to defined contribution plans are recognized in the statement of income as incurred.

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 separately funded, the company recognizes a provision. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. 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.

The discount rate used in determining the present value of the obligations is the yield at reporting date of risk-free credit-rated bonds that have maturity dates approximating the terms of the company's obligations.

In certain countries the company also provides post-retirement 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 based on the projected unit credit method. 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.

Actuarial gains and losses that arise in calculating the company's obligation in respect of a plan, are recognized to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets. That portion is recognized in the statement of income over the expected average remaining working lives of the employees participating in the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the statement of income.

Other long-term employee benefits

Other long-term employee benefits include long-service or sabbatical leave, jubilee or other long-service benefits, and other employee benefits payable more than 12 months after the related service rendered. These provisions are measured at present value, using actuarial assumptions. The discount rate is the yield at reporting date of risk-free credit-rated bonds that have maturity dates approximating the terms of the company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in the statement of income in the period in which they arise.

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amounts expected to be paid under short-term bonus or profit sharing plans if a present legal or constructive obligation as a result of past services provided exists, and the obligation can be estimated reliably.

Deferred tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. Deferred taxes are not discounted. The tax effect on the elimination of intercompany profit in inventories is based on the tax rate of the country of the company receiving the goods.

Deferred tax assets, including assets arising from losses carried forward, are recognized to the extent that future probable taxable profit will be available against which the deferred tax asset can be utilized. Non-refundable dividend taxes are taken into account in the determination of provisions for deferred taxes to the extent of earnings expected to be distributed by subsidiaries. If separate tax rates exist for distributed and undistributed profit, the current and deferred taxes are measured at the tax rate applicable to undistributed profit. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized. Deferred taxes are not provided for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are offset only when there is a legally enforceable right to set off tax assets against tax liabilities and when the deferred tax assets and liabilities relate to the same tax authority.

Current tax

Current tax includes the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date, as well as any adjustments to tax payable in respect of previous years.

Long-term and short-term borrowings

Long-term borrowings are measured at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case the carrying amount is adjusted for the fair value changes caused by the hedged risk. Short-term borrowings are measured at amortized cost, using the effective interest method.

The fair value of long-term borrowings, which is determined for disclosure purposes, is determined using the listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Trade and other payables

Trade and other payables are measured at amortized cost, using the effective interest method.

Principles of determination of income

The determination of income is closely associated with the valuation of assets and liabilities. Regular purchases and sales of financial assets are recognized on trade date. The trade date is the date on which the company commits to purchase or sell the asset. In addition, the following principles are observed in the preparation of the statement of income:

Revenue

Revenue is defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts, and similar allowances, and net of sales tax. Revenue is recognized when the significant risks and rewards have been transferred to a third party, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. For revenue from sales of goods these conditions are generally met at the time the product is shipped and delivered to the customer, depending on the delivery conditions. Service revenue is generally recognized as services are rendered.

Cost of sales

Cost of sales comprises the manufacturing cost of the goods sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing cost includes such items as:

- The cost of raw materials and supplies, energy, and other materials
- Depreciation and the cost of maintenance of the assets used in production
- Salaries, wages, and social charges for the personnel involved in manufacturing.

The cost of services and royalties is generally included in the functional cost lines, as applicable: selling expenses, research and development expenses, or general and administrative expenses.

Impairments

The carrying value of assets other than inventories and deferred tax assets is reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, for goodwill and other intangible assets with an indefinite useful life, the recoverable amount is estimated in the fourth quarter of the year. The recoverable amount of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs to sell, whereby estimated future cash flows are discounted to their present value. The discount rate used reflects current market assessments of the time value of money and, if appropriate, the risks specific to the assets.

If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The review for impairment is performed at the lowest level of assets generating largely independent cash inflows. Impairment losses in respect of cash-generating units are allocated first to reduce the carrying value of goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Except for goodwill, impairment losses are reversed if and to the extent there has been a change in estimates used to determine the recoverable amount, but only to the extent that the carrying value of the asset does not exceed the carrying value that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in the statement of income.

Share-based compensation

The company's stock option plan allows certain employees to acquire Akzo Nobel N.V. common shares. These options generally vest if the employee stays with the company during an uninterrupted three-year period. The company also has a performance share plan, under which shares are conditionally granted to certain employees. The actual number of shares which the employees will receive, depends on the employee having stayed with the company during an uninterrupted three-year period and the company's Total Shareholder Return (TSR) performance over a three-year period, compared with the TSR performance of a specified peer group.

The fair value of the options or performance shares granted is recognized as an employee expense with a corresponding increase in shareholders' equity. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options or performance shares. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options and performance shares were granted. For the performance shares the fair value is measured using the Monte Carlo simulation model. This model also includes the market conditions expected to impact the company's TSR performance in relation to the selected peers as well as expected dividends. The amount recognized as an expense is adjusted to reflect the actual number of options or performance shares that vest, except where forfeiture or extra vesting of performance shares is only due to the actual TSR performance differing from the performance anticipated at the grant of the performance shares.

Research cost and preparation and start-up expenses

Research cost and preparation and start-up expenses are charged to the statement of income as incurred.

Government grants

Government grants related to cost are recognized in the statement of income in the same periods as the related cost to be compensated and are deducted from the relevant cost. Emission rights granted by the government are recognized at cost, which is generally nil. A provision is recorded if the actual emission is higher than the emission rights granted. For government grants related to assets, see the accounting policy for property, plant, and equipment.

Financing income and expenses

Financing income and expenses comprise:

- The interest payable on borrowings, calculated using the effective interest method
- The interest expense component of finance lease payments
- The increase of provisions as a result of the passage of time
- Interest income, recognized using the effective interest method
- The fair value changes of interest derivatives
- Amortization of fair value hedge adjustments after the hedge relationship termination, and
- Fair value adjustments to the hedged loans.

Income tax

Income tax comprises both current and deferred taxes, including effects of changes in tax rates. Income tax is recognized in the statement of income, unless it relates to items recognized directly in equity.

Results from associates and joint ventures

The results from associates and joint ventures consists of Akzo Nobel's share in earnings of these companies, interest on loans granted to them and the transaction results on divestments of associates and joint ventures.

Earnings per share

The company presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding including the effects for all dilutive potential ordinary shares, which comprise stock options and performance shares granted to employees.

New IFRS accounting standards

Several new accounting pronouncements were issued, of which the company assessed that the following may potentially impact the company's consolidated financial statements for 2007 and beyond.

- IFRS 7 "Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures" requires disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the risks arising from financial instruments. Additional capital disclosures are also required. The standard became effective in 2007 and resulted in additional disclosures, mainly in *note 26*.

- IFRS 8 "Operating Segments" requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. This standard supersedes IAS 14 "Segment Reporting" and Akzo Nobel will consider to early adopt this standard in 2008.

- IAS 1 (Amendment), "Presentation of Financial Statements" mainly introduces a statement of comprehensive income. Akzo Nobel will adopt this standard in 2009 and expects that this will result in changes in presentation.

- IAS 23 (Amendment), "Borrowing Costs" removes the option of immediately recognizing as an expense borrowing cost that relate to assets that take a substantial period of time to get ready for use or sale. Since the company has already capitalized borrowing cost, this amendment will have no impact.

- The company has adopted IFRIC 9 "Reassessment of Embedded Derivatives", which requires embedded derivatives to be reassessed for separation from the underlying host contract in the event changes to a contract are made. This interpretation has not impacted the company's consolidated financial statements.

- IFRIC 10 "Interim Financial Reporting and Impairments" prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 is effective as from 2007 and has not impacted the consolidated financial statements.

- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" gives guidance on applying IFRS 2 "Share-based Payment" to arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e.g. equity instruments of its parent). The interpretation will become effective for the company in 2008 and is not expected to materially impact the consolidated financial statements.

- IFRIC 12 "Service Concession Arrangements" regulates the accounting of arrangements whereby a government or other public sector entity grants contracts for the supply of public services to private sector operators. The interpretation will become effective in 2008. The company is not a party to such arrangements and therefore does not expect that its consolidated financial statements will be affected by this interpretation.

- IFRIC 13 "Customer Loyalty Programmes" addresses accounting by entities that grant loyalty award credits (such as "points" or travel miles) to customers who buy goods or services. This interpretation will become effective in 2009. The company does not expect that the interpretation will materially affect the consolidated financial statements.

- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" provides guidance on assessing the limit in IAS 19 "Employee Benefits" on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. This interpretation will become effective in 2008. The company expects no material impact from adoption of this interpretation.

Note 2 Acquisitions and divestitures

On January 2, 2008, Akzo Nobel acquired ICI, which will be consolidated as from that date. More information is presented in *note 29* on subsequent events and in the Report of the Board of Management.

On July 24, 2007, Akzo Nobel acquired all shares of Chemcraft Holdings Cooperation ("Chemcraft") for an amount of EUR 156 million, including EUR 67 million for goodwill. Chemcraft is a North American manufacturer of industrial wood coatings and operates nine manufacturing facilities across the United States, Canada, and Brazil, employing around 500 people. Chemcraft is consolidated within Akzo Nobel's Industrial Finishes business. The purchase price allocation was determined on a provisional basis. During 2007 and 2006, Akzo Nobel acquired several other businesses in strategic markets and geographic areas. None of these were significant to the consolidated financial statements.

The acquisitions in 2007 at acquisition date had the following effect on Akzo Nobel's assets and liabilities:

RECOGNIZED VALUES

MILLIONS OF EUROS	Chemcraft[1]	Other acquisitions	**Total**
Property, plant, and equipment	16	1	17
Intangible assets	74	13	87
Inventories	15	3	18
Trade and other receivables	18	2	20
Cash acquired	5	–	5
Provisions	(24)	–	(24)
Long-term borrowings	(1)	–	(1)
Trade and other payables	(14)	(8)	(22)
Net identifiable assets and liabilities	**89**	**11**	**100**
Goodwill on acquisitions	67	4	71
Consideration paid	**156**	**15**	**171**
To be paid in 2008	(7)	–	(7)
Cash acquired	(5)	–	(5)
NET CASH OUTFLOW	**144**	**15**	**159**

[1] The carrying value of the Chemcraft net assets before acquisition amounted to EUR 36 million.

The acquisitions in 2007 contributed EUR 49 million to revenue. If all acquisitions had occurred on January 1, 2007, additional revenue would have been EUR 75 million. The acquisitions in 2007 only made a marginal contribution to net income, even if all acquisitions had occurred on January 1, 2007.

The Organon BioSciences divestment on November 19, 2007, had a major impact on Akzo Nobel. During 2007, Organon BioSciences was presented as a discontinued operation. For information on the transaction gain and the financial outcomes of Organon BioSciences, see *note 8*.

To align its Chemicals portfolio, Akzo Nobel sold its 50 percent stake in rubber chemicals business Flexsys to the joint venture partner Solutia Inc. for an amount of EUR 84 million. The transaction result was reported in the statement of income under results from associates and joint ventures.

Also a number of other activities were divested in 2007 and 2006. None of these were significant to the consolidated financial statements.

Note 3 Incidentals

Incidentals included in operating income are as follows:

INCIDENTALS

MILLIONS OF EUROS	**2007**	2006
Special benefits/(charges)	(55)	28
Results on divestments	(23)	206
Restructuring and impairment charges	(62)	(104)
Charges related to major legal, antitrust, and environmental cases	(29)	(4)
TOTAL	**(169)**	126

The incidentals are included in the following cost lines:

INCIDENTALS PER COST CATEGORY

MILLIONS OF EUROS	**2007**	2006
Cost of sales	(71)	(44)
Selling expenses	(26)	(10)
Research and development expenses	(7)	(3)
General and administrative expenses	(8)	(3)
Other operating income	(57)	186
TOTAL	**(169)**	126

The special charges of EUR 55 million in 2007 relate mainly to the recognition of a provision for post-retirement healthcare benefits for retired employees. In December 2006, Akzo Nobel Nederland B.V. received a summons from certain Dutch labor unions, acting on behalf of retired Dutch Akzo Nobel employees, in connection with Akzo Nobel Nederland B.V.'s decision to no longer reimburse part of the health insurance premiums to those former employees over time after a certain transition period. In December 2007, the court ruled that Akzo Nobel Nederland B.V. did not have the right to terminate this reimbursement to retired employees. Akzo Nobel Nederland B.V. intends to appeal the decision of the court. It has made an additional provision for the amount of EUR 66 million.

In 2006, the special benefits of EUR 28 million were mainly attributable to the transition to a defined contribution scheme for certain U.S. pension plans and a change of the U.S. post-retirement healthcare plan.

The loss on divestments of EUR 23 million in 2007 (2006: gain of EUR 206 million) mainly reflects the transaction losses on Nobilas and Kashima. Gains on divestments of EUR 206 million in 2006 were derived mainly from the sale of a Coatings plant near Barcelona and the profit from the Chemicals divestment plan.

IMPAIRMENT AND RESTRUCTURING CHARGES

MILLIONS OF EUROS	2007	2006
Asset impairments at:		
– Coatings	(7)	(5)
– Chemicals	(1)	(24)
– Other	(3)	–
Restructurings at:		
– Coatings	(26)	(34)
– Chemicals	(10)	(40)
– Other	(15)	(1)
TOTAL	**(62)**	(104)

In 2007, the asset impairments mainly related to some smaller impairments at Chemicals and Coatings. Of the total impairment charges of EUR 11 million (2006: EUR 29 million), EUR 5 million related to goodwill (2006: EUR 1 million), EUR 3 million to property, plant, and equipment (2006: EUR 19 million), while EUR 3 million of impairments related to other intangible assets (2006: EUR nil).

Both in 2007 and 2006, restructuring charges related to several relatively smaller plans within the company and comprise accruals for employee benefits and for costs directly associated with plans to exit specific activities and to close down facilities.

Note 4 Other operating income/(expenses)

MILLIONS OF EUROS	2007	2006
Incidentals	(57)	186
Results on sale of redundant assets	9	7
Currency exchange differences:		
– Derivatives	13	57
– Loans and receivables	(5)	(49)
– Other financial liabilities	(12)	(19)
Other items	–	(3)
TOTAL	**(52)**	179

Note 5 Financing income and expenses

MILLIONS OF EUROS	2007	2006
Interest income:		
– Interest rate derivatives	28	54
– Loans and receivables	128	68
– Other	1	1
Interest expenses:		
– Interest rate derivatives	(26)	(42)
– Other financial liabilities	(193)	(171)
– ICI financing fees	(40)	–
– Other	(18)	(16)
Fair value changes:		
– Interest rate derivatives	(18)	(44)
– Other financial liabilities	21	43
Other	(3)	1
TOTAL	**(120)**	(106)

Included in the interest expenses was a reduction of EUR 1 million (2006: EUR 4 million) due to the capitalization of financing expenses of capital investment projects under construction.
The average interest rate used for capitalization of borrowing cost was 5 percent.

Note 6 Results from associates and joint ventures

In 2007, the results from associates and joint ventures amounted to a loss of EUR 20 million (2006: EUR 87 million profit). The 2007 results include the loss of EUR 47 million on the divestment of Flexsys (2006: a profit of EUR 39 million; mainly related to Acordis).

Note 7 Income tax

Pre-tax income (including on the results from associates and joint ventures) amounted to EUR 607 million (2006: EUR 840 million). Tax (charges)/benefits are included in the statement of income as follows:

TAX IN THE STATEMENT OF INCOME

MILLIONS OF EUROS	2007	2006
Tax on operating income less financing income and expenses	(159)	(92)
Tax on results from associates and joint ventures	(7)	(4)
TOTAL	**(166)**	(96)

CLASSIFICATION OF CURRENT AND DEFERRED TAX

MILLIONS OF EUROS		2007		2006
Current tax expense for:				
– The year	(208)		(280)	
– Adjustments for prior years	55		142	
		(153)		(138)
Deferred tax expense for:				
– Origination and reversal of temporary differences	5		63	
– Changes in tax rates	(17)		(15)	
– (Un)recognized tax losses	(1)		(6)	
		(13)		42
TOTAL		**(166)**		**(96)**

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

EFFECTIVE CONSOLIDATED TAX RATE

IN PERCENTAGES	2007	2006
Corporate tax rate in the Netherlands	25.5	29.6
Effect of different tax rates in certain countries	(0.7)	(0.8)
Tax-exempt income/non-deductible expenses	9.3	(0.2)
Non-taxable income from investment in associates and joint ventures	(1.2)	(3.1)
Changes in enacted tax rates	2.8	1.8
Recognition of previously unrecognized tax losses	(0.6)	–
Current year losses for which no deferred tax asset was recognized	0.7	0.6
Under/(over)provided in prior years	(9.0)	(16.9)
Other	0.6	0.4
EFFECTIVE CONSOLIDATED TAX RATE	**27.4**	11.4

For comparative reasons, the above table presents the effective consolidated tax rate on the results excluding Organon BioSciences. Including the results of Organon BioSciences, the effective consolidated tax rate is 2.4 percent.

In 2007, the effective consolidated tax rate was affected by the tax-exempt loss from the Flexsys divestment, and to non-deductible expenses for antitrust and environmental provisions. In addition, adjustments have been made to previous year positions, based on outcomes of audits and developments in case law.

The world-wide trend of decreasing tax rates has a lowering impact on the tax burden. Decreases in tax rates however also lead to a higher burden upon (substantial) enactment because of adjustments to deferred tax assets. The relevant changes in this respect include the decrease of the tax rate in Germany and the UK in 2008. In addition, changes in the geographical mix of taxable income affected the tax burden.

INCOME TAX RECOGNIZED DIRECTLY IN EQUITY

MILLIONS OF EUROS		2007		2006
Current tax for:				
– Currency exchange differences on intercompany loans of a permanent nature		12		36
Deferred tax for:				
– Share-based compensation	27		–	
– Cashflow hedge accounting	(7)		10	
		20		10
TOTAL		**32**		**46**

Note 8 Statement of income of discontinued operations

On November 19, 2007, Akzo Nobel sold Organon BioSciences to Schering-Plough for an amount of EUR 11 billion. During 2007, Organon BioSciences was presented as a discontinued operation. The statements of income and cash flows for 2006 were reclassified to present comparative figures for Akzo Nobel's continuing operations. For the purpose of comparison, an additional pro forma column for the balance sheet at December 31, 2006, is provided as if Organon BioSciences qualified as a discontinued operation at that date.

Akzo Nobel and Organon BioSciences will have continuing relationships for a limited period, mainly to complete the divestment and facilitate the transition. Further, Akzo Nobel has provided several guarantees and indemnities, that are disclosed in *note 27*.

RESULTS FROM DISCONTINUED OPERATIONS

MILLIONS OF EUROS	2007	2006
Revenue	3,285	3,714
Expenses	(2,656)	(3,114)
Results from operating activities	**629**	**600**
Income tax	(169)	(162)
Results from operating activities, net of income tax	**460**	**438**
Gain on the sale of Organon BioSciences	8,486	–
Income tax on the sale	(26)	–
PROFIT FOR THE PERIOD	**8,920**	**438**

BALANCE AT DIVESTMENT DATE

MILLIONS OF EUROS	2007
Property, plant, and equipment	1,153
Intangible assets	158
Financial non-current assets	349
Inventories	876
Receivables	869
Non-current liabilities and provisions	(342)
Current liabilities	(983)
Net assets and liabilities	**2,080**
Consideration received, satisfied in cash	10,971
Cash disposed of	(274)
NET CASH INFLOW	**10,697**

DEAL RESULT

MILLIONS OF EUROS	2007
Net cash inflow	10,697
Net assets and liabilities	(2,080)
Liabilities assumed and cost allocated to the deal	(107)
Realization cumulative translation reserves	(24)
DEAL RESULT BEFORE TAX	**8,486**

Note 9 Employee benefits

SALARIES, WAGES, AND SOCIAL CHARGES

MILLIONS OF EUROS	2007	2006
Salaries and wages	1,685	1,622
Pension and other post-retirement cost	180	201
Other social charges	350	335
TOTAL	**2,215**	2,158

Pension and other post-retirement cost exclude the special charges of EUR 66 million, related to the changes in the pension and post-retirement plans in the Netherlands (2006: benefit of EUR 28 million related to changes in the pension and post-retirement plans in the United States). Charges recognized in the 2007 statement of income for share-based compensation amounted to EUR 21 million and are included in salaries and wages (2006: EUR 16 million). For more details on share-based compensation see *note f* to the company financial statements.

EMPLOYEES

AVERAGE NUMBER DURING THE YEAR	2007	2006
Coatings	32,400	30,700
Chemicals	9,100	9,700
Other units	1,500	2,200
TOTAL	**43,000**	42,600

Number of employees at year-end 2007 was 42,600 (2006: 42,700). The average number of employees working outside the Netherlands was 38,100 (2006: 37,100). The 2006 figures were reclassified for comparative reasons.

Note 10 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.

WEIGHTED AVERAGE NUMBER OF SHARES

AMOUNT OF SHARES	2007	2006
Issued common shares at January 1	287,268,350	286,147,260
Effect of:		
– Share buyback	(12,751,020)	–
– Issued common shares during the year	1,439,602	732,721
– Effect of own shares held	(45,635)	(336,267)
Shares for basic earnings per share at December 31	**275,911,297**	286,543,714
Effect of dilutive shares:		
– For stock options	1,031,997	1,023,823
– For performance-related shares	1,127,034	860,761
SHARES FOR DILUTED EARNINGS PER SHARE	**278,070,328**	288,428,298

Note 11 Property, plant, and equipment

MILLIONS OF EUROS	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 January 1, 2006						
Cost of acquisition	9,419	2,665	5,386	890	298	180
Accumulated depreciation/impairment	(5,987)	(1,251)	(3,943)	(658)	–	(135)
CARRYING VALUE	3,432	1,414	1,443	232	298	45
Changes in carrying value						
Acquisitions through business combinations	63	37	23	3	–	–
Divestitures	(25)	(18)	(7)	–	–	–
Capital expenditures	529	97	318	87	18	9
Transfer between categories	–	26	(7)	17	(35)	(1)
Disinvestments	(45)	(23)	(7)	(12)	(2)	(1)
Depreciation	(501)	(107)	(310)	(82)	–	(2)
Impairment	(19)	(6)	(12)	–	–	(1)
Reversal of impairments	2	2	–	–	–	–
Transfer to assets held for sale	(27)	(13)	(11)	(1)	(2)	–
Changes in exchange rates	(63)	(30)	(17)	(9)	(1)	(6)
Total changes	(86)	(35)	(30)	3	(22)	(2)
Balance at December 31, 2006						
Cost of acquisition	9,179	2,671	5,176	896	276	160
Accumulated depreciation/impairment	(5,833)	(1,292)	(3,763)	(661)	–	(117)
CARRYING VALUE	3,346	1,379	1,413	235	276	43
Changes in carrying value						
Acquisitions through business combinations	17	6	10	1	–	–
Divestitures[1]	(1,169)	(582)	(289)	(93)	(174)	(31)
Capital expenditures[2]	511	65	258	61	124	3
Transfer between categories	–	24	3	8	(38)	3
Disinvestments	(25)	(4)	(8)	(3)	(1)	(9)
Depreciation[2]	(407)	(80)	(264)	(60)	–	(3)
Impairment	(3)	(1)	(1)	(1)	–	–
Reversal of impairments	7	1	2	–	–	4
Changes in exchange rates	(74)	(34)	(30)	(3)	(6)	(1)
Total changes	**(1,143)**	**(605)**	**(319)**	**(90)**	**(95)**	**(34)**
Balance at December 31, 2007						
Cost of acquisition	6,636	1,597	4,194	616	181	48
Accumulated depreciation/impairment	(4,433)	(823)	(3,100)	(471)	–	(39)
CARRYING VALUE	**2,203**	**774**	**1,094**	**145**	**181**	**9**

[1] Mainly Organon BioSciences.
[2] Includes two months of depreciation for Organon BioSciences until it was classified as a discontinued operation, and capital expenditures until its divestment.

In 2007, EUR 3 million impairment charges were recognized (2006: EUR 19 million), while EUR 7 million impairment charges were reversed (2006: EUR 2 million). Both the impairment charges and the reversal of impairments were recognized in cost of sales. The 2007 impairment charges relate to several smaller restructurings.

The carrying value of property, plant, and equipment financed by hire purchase and leasing, and not legally owned by the company was EUR 15 million at December 31, 2007 (at December 31, 2006: EUR 54 million). Of this amount EUR 12 million relates to buildings and land, EUR 2 million to plant equipment and machinery, and EUR 1 million to other equipment.

Purchase commitments for property, plant, and equipment totaled EUR 46 million at December 31, 2007 (2006: EUR 96 million). At year-end 2007 and 2006, no items of property, plant, and equipment were registered as security for bank loans.

Note 12 Intangible assets

MILLIONS OF EUROS	Total	Goodwill	Other intangibles
Balance at January 1, 2006			
Cost of acquisitions	722	348	374
Cost of internally developed intangibles	16	–	16
Accumulated amortization/impairment	(250)	(63)	(187)
CARRYING VALUE	**488**	**285**	**203**
Changes in carrying value			
Acquisitions through business combinations	276	174	102
Other investments – including internally developed	12	–	12
Transfer between categories	–	(3)	3
Amortization	(51)	–	(51)
Impairments	(1)	(1)	–
Transfer to assets held for sale	(16)	(16)	–
Changes in exchange rates	(26)	(19)	(7)
Total changes	**194**	**135**	**59**
Balance at December 31, 2006			
Cost of acquisition	930	467	463
Cost of internally developed intangibles	17	–	17
Accumulated amortization/impairment	(265)	(47)	(218)
CARRYING VALUE	**682**	**420**	**262**
Changes in carrying value			
Acquisitions through business combinations	158	71	87
Other investments – including internally developed	43	–	43
Divestitures[1]	(158)	(17)	(141)
Amortization[2]	(40)	–	(40)
Impairments	(8)	(5)	(3)
Transfer to assets held for sale	–	–	–
Changes in exchange rates	(8)	(6)	(2)
Total changes	**(13)**	**43**	**(56)**
Balance at December 31, 2007			
Cost of acquisitions	784	502	282
Cost of internally developed intangibles	12	–	12
Accumulated amortization/impairment	(127)	(39)	(88)
CARRYING VALUE	**669**	**463**	**206**

[1] Mainly Organon BioSciences.
[2] Includes two months of amortization for Organon BioSciences until it was classified as a discontinued operation.

Other intangibles include licenses, knowhow, brand names, customer relationships, intellectual property rights, and development cost.

The amortization and impairment charges have been recognized on the following line items in the statement of income:

AMORTIZATION AND IMPAIRMENT PER COST CATEGORY

MILLIONS OF EUROS	2007	2006
Cost of sales	(11)	(8)
Selling expenses	(8)	(7)
Research and development expenses	(2)	(2)
General and administrative expenses	(7)	(5)
Other operating income/(expenses)	(5)	(1)
Discontinued operations	(15)	(29)
TOTAL	**(48)**	**(52)**

Goodwill is tested for impairment in the fourth quarter or whenever an impairment trigger exists. The impairment test is based on cash flow projections of the actual operating results and the three-year operational plan as approved by the Board of Management. Projections are extrapolated beyond this three-year period using an appropriate perpetual growth rate that is consistent with the long-term average market growth rate that typically does not exceed 3 percent. The estimated post-tax cash flows are discounted to their present value using an adjusted post-tax weighted average cost of capital (WACC). The adjustments reflect the current market assessments of the time value of money and, if appropriate, the risks specific to the asset. The post-tax WACC used is 8 percent.

The key assumptions used in the projections are:

- Revenue growth: based on actual experience, an analysis of market growth and the expected development of market share
- Margin development: based on actual experience and management's long-term projections.

The impairment test carried out in 2007 showed that in the majority of cases the recoverable amount for each cash-generating unit exceeds the carrying amount. In 2007, the impairment charges were EUR 8 million (2006: EUR 1 million).

GOODWILL AND OTHER INTANGIBLES PER SEGMENT

	Goodwill		Other intangibles	
MILLIONS OF EUROS	2007	2006	2007	2006
Coatings	391	323	182	119
Chemicals	72	78	24	17
Discontinued operations	–	19	–	126
TOTAL	**463**	420	**206**	262

Both at year-end 2007 and 2006, there were no purchase commitments for individual intangible assets. Neither were there any intangible assets registered as security for bank loans. For the commitment to acquire ICI, see *note 29*.

Note 13 Deferred tax assets and liabilities

In assessing the valuation of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those 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 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.

BREAKDOWN OF DEFERRED TAX ASSETS AND LIABILITIES

MILLIONS OF EUROS	2007		2006	
	Assets	**Liabilities**	Assets	Liabilities
Property, plant, and equipment	**18**	**86**	58	118
Intangible assets	**49**	**38**	100	33
Inventories	**22**	**5**	45	26
Trade and other receivables	**13**	**19**	55	82
Share-based compensation	**40**	**–**	19	–
Provisions:				
– Pensions and other post-retirement benefits	**153**	**–**	291	1
– Restructuring	**9**	**1**	20	1
– Other provisions	**169**	**44**	331	43
Other items	**83**	**27**	85	80
Net operating loss carryforwards	**189**	**–**	192	–
Deferred tax assets not recognized	**(28)**	**–**	(33)	–
Tax assets/liabilities	**717**	**220**	1,163	384
Set-off of tax	**(87)**	**(87)**	(210)	(210)
NET DEFERRED TAXES	**630**	**133**	953	174

From the total amount of recognized deferred tax assets of EUR 630 million an amount of EUR 143 million is related to entities that have suffered a loss in either 2007 or 2006 in the tax jurisdiction to which a deferred tax asset relates, and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences.

The tables below include a deferred tax loss of EUR 25 million recognized in income in 2007 related to Organon BioSciences (2006: deferred tax gain of EUR 46 million).

MOVEMENT IN DEFERRED TAX IN 2006

MILLIONS OF EUROS	Net balance January 1, 2006	Changes in exchange rates	Acquisitions/ divestitures	Recognized in income	Recognized in equity	Net balance December 31, 2006
Property, plant, and equipment	(87)	2	7	18	–	(60)
Intangible assets	127	(6)	(30)	(24)	–	67
Inventories	11	(1)	(1)	10	–	19
Trade and other receivables	(3)	(1)	(2)	(21)	–	(27)
Share-based compensation	11	–	–	8	–	19
Provisions:						
– Pensions and other post-retirement benefits	320	(12)	4	(22)	–	290
– Restructuring	29	(1)	–	(9)	–	19
– Other provisions	351	(11)	2	(54)	–	288
Other items	(130)	(1)	1	125	10	5
Net operating loss carryforwards	145	(6)	(4)	57	–	192
Deferred tax assets not recognized	(35)	2	–	–	–	(33)
TAX ASSETS/LIABILITIES	**739**	**(35)**	**(23)**	**88**	**10**	**779**

MOVEMENT IN DEFERRED TAX IN 2007

MILLIONS OF EUROS	Net balance December 31, 2006	Changes in exchange rates	Acquisitions/ Divestitures	Recognized in income	Recognized in equity	**Net balance December 31, 2007**
Property, plant, and equipment	(60)	3	6	(17)	–	**(68)**
Intangible assets	67	(7)	(41)	(8)	–	**11**
Inventories	19	(1)	(10)	9	–	**17**
Trade and other receivables	(27)	(1)	(1)	30	(7)	**(6)**
Share-based compensation	19	–	–	(6)	27	**40**
Provisions:						
– Pensions and other post-retirement benefits	290	(2)	(5)	(130)	–	**153**
– Restructuring	19	(1)	–	(10)	–	**8**
– Other provisions	288	(16)	(139)	(8)	–	**125**
Other items	5	(2)	(29)	82	–	**56**
Net operating loss carryforwards	192	(7)	(16)	20	–	**189**
Deferred tax assets not recognized	(33)	2	3	–	–	**(28)**
TAX ASSETS/LIABILITIES	779	(32)	(232)	(38)	20	**497**

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

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

MILLIONS OF EUROS	**2007**	2006
Deferred tax assets	**630**	953
Deferred tax liabilities	**(133)**	(174)
TOTAL	**497**	779

In 2008, EUR 114 million of the net deferred tax (EUR 497 million) is expected to reverse.

At December 31, 2007, the gross amounts of the net operating loss carryforwards, with a total of EUR 659 million, expire as follows:

EXPIRATION LOSS CARRYFORWARDS

MILLIONS OF EUROS	2008	2009	2010	2011	2012	later	un-limited
	5	9	25	23	9	505	83

The EUR 28 million deferred tax assets not recognized in the balance sheet of 2007 relate to the following items:

UNRECOGNIZED DEFERRED TAX ASSETS

MILLIONS OF EUROS	**2007**	2006
Deductable temporary differences	**–**	1
Tax losses	**28**	32
TOTAL	**28**	33

At December 31, 2007, the gross amounts of the net operating loss carryforwards for which no deferred tax assets have been recognized in the balance sheet, with a total of EUR 80 million, expire as follows:

LOSS CARRYFORWARDS WITH UNRECOGNIZED DEFERRED TAX ASSETS

MILLIONS OF EUROS	2008	2009	2010	2011	2012	later	un-limited
	3	6	5	6	7	23	30

In 2007, the company improved the earning capacity in the UK to ensure realization of tax assets related to the pension schemes in that country.

Note 14 Investments in associates and joint ventures

SUMMARY OF FINANCIAL INFORMATION ON A 100 PERCENT BASIS

MILLIONS OF EUROS	2007	2006
Information on the statement of income:		
– Revenue	737	1,668
– Income before tax	46	65
– Net income	33	36
Condensed balance sheet:		
– Current assets	178	420
– Non-current assets	231	625
TOTAL ASSETS	**409**	1,045
– Current liabilities	82	319
– Non-current liabilities	100	388
– Shareholders' equity	227	338
TOTAL LIABILITIES AND EQUITY	**409**	1,045

In 2007, the company lost significant influence in Acordis and reclassified its investment to other financial non-current assets. Due to this reclassification, the 100 percent revenue and assets and liabilities of associates and joint ventures no longer included the Acordis outcomes in 2007.

RESULTS FROM ASSOCIATES AND JOINT VENTURES

MILLIONS OF EUROS	2007	2006
Share in the results from associates and joint ventures	27	48
Transaction gains/(losses) related to associates and joint ventures	(47)	39
RESULTS FROM ASSOCIATES AND JOINT VENTURES	**(20)**	87

The transaction loss in 2007 of EUR 47 million relates to the completion of the Chemicals divestment program. At year-end 2007, the carrying value of investments in associates and joint ventures included in the balance sheet amounted to EUR 142 million (2006: EUR 177 million).

Note 15 Other financial non-current assets

MILLIONS OF EUROS	2007	2006
Loans and receivables	497	184
Interest rate derivatives	–	102
Other than financial instruments	133	290
TOTAL	**630**	576

The loans and receivables include the subordinated loan of EUR 89 million granted to the Akzo Nobel Pension Fund (APF) in the Netherlands and a long-term receivable related to the sale of a site near Barcelona, which amounted to EUR 64 million.

The loans and receivables also include the non-current part of an escrow account of the Akzo Nobel UK pension fund for an amount of EUR 235 million, invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund is GBP 25 million.

Note 16 Inventories

MILLIONS OF EUROS	2007	2006
Raw materials and supplies	342	566
Work in progress	85	502
Finished products and goods for resale	746	970
Inventory prepayments	4	4
TOTAL	**1,177**	2,042

Of the total carrying value of inventories at December 31, 2007, EUR 53 million is measured at net realizable value (2006: EUR 59 million). In 2007, EUR 18 million was recognized in the statement of income for the write-down of inventories (2006: EUR 36 million), while EUR 8 million of write-downs was reversed (2006: EUR 9 million). There are no inventories subject to retention of title clauses.

Note 17 Current tax assets and liabilities

Current tax assets of EUR 25 million (2006: EUR 109 million) represent the amount of income taxes recoverable in respect of current and prior periods. Current tax liabilities of EUR 278 million (2006: EUR 321 million) relate to the amount of taxes payable for current and prior periods.

Current tax assets and liabilities have been offset in cases where there is a legally enforceable right to set off current tax assets against current tax liabilities and when the intention exists to settle on a net basis or to realize the assets and liabilities simultaneously.

Note 18 Trade and other receivables

MILLIONS OF EUROS	2007	2006
Trade receivables	1,644	2,216
Nonincome tax	86	119
Receivables from associates and joint ventures	31	39
Receivables from other related parties	36	2
Prepaid expenses	81	136
Forward exchange and commodity contracts	13	10
Other receivables	257	302
	2,148	2,824
Discounted portion	(9)	(14)
TOTAL	**2,139**	2,810

Trade receivables are presented net of an allowance for impairment of EUR 99 million (2006: EUR 126 million). In 2007, EUR 30 million of impairment losses were recognized in the statement of income (2006: EUR 29 million).

AGEING OF TRADE RECEIVABLES

MILLIONS OF EUROS	2007	2006
Performing accounts receivable	1,251	1,806
Past due accounts receivables and not impaired:		
< 3 months	295	273
3 - 6 months	29	50
6 - 9 months	4	17
9 - 12 months	3	18
> 12 months	5	23
Impaired accounts receivables	156	155
Allowance for impairment	(99)	(126)
TOTAL TRADE RECEIVABLES	**1,644**	2,216

With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of reporting date that the debtors will not meet their payment obligations.

ALLOWANCE FOR IMPAIRMENT OF TRADE RECEIVABLES

MILLIONS OF EUROS	2007	2006
Opening balance	125	142
Additions charged to income	30	29
Release of unused amounts	(15)	(9)
Utilization	(25)	(35)
Acquisitions/divestments	(12)	2
Currency exchange differences	(4)	(3)
CLOSING BALANCE	**99**	126

The additions to and release of the allowance for impairment have been included in the statement of income under selling expenses.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The company does not hold any collateral for impaired trade receivables.

Note 19 Cash and cash equivalents

MILLIONS OF EUROS	2007	2006
Short-term investments	11,272	1,427
Cash on hand and in banks	356	444
Included under cash and cash equivalents in the balance sheet	**11,628**	1,871
Debt to credit institutions	(561)	(240)
TOTAL PER CASH FLOW STATEMENT	**11,067**	1,631

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings, and marketable securities immediately convertible into cash. For more information on credit risk management, see *note 26*.

At December 31, 2007, an amount of EUR 11 billion in cash and cash equivalents was restricted, due to the ICI acquisition early 2008 and due to restrictions in certain countries to transfer cash.

Note 20 Assets and liabilities classified as held for sale

In February 2005, Akzo Nobel announced it would focus its Chemicals portfolio on five strategic areas with clear prospects for profitable leadership. At year-end 2006, the following activities were included in assets and liabilities held for sale: PVC Additives, MACC, Lubricants & Specialties, and the investment in Flexsys. The process to realize these divestments was completed during 2007.

During 2007, Organon BioSciences qualified as a discontinued operation until the completion of the divestiture on November 19, 2007. More information is presented in *note 8*.

In connection with the acquisition of ICI, the European and Canadian authorities have accepted a commitment package from Akzo Nobel involving the divestiture of a number of Akzo Nobel Decorative Coatings businesses in the UK, Ireland, Belgium, and Canada, which together contributed approximately EUR 300 million to 2007 revenue. These entities were not ready for immediate sale in their present condition and therefore did not qualify as assets held for sale at December 31, 2007.

COMPOSITION ASSETS HELD FOR SALE

MILLIONS OF EUROS	2007	2006
Property, plant, and equipment	–	32
Intangible assets	–	16
Investment in associates and joint ventures	–	130
Inventories	–	16
Trade and other receivables	–	25
TOTAL	–	**219**

The liabilities classified as held for sale consisted of trade and other payables and aggregated EUR 25 million at year-end 2006.

Note 21 Equity

In 2007, Akzo Nobel completed a share repurchase program of EUR 1.6 billion. Under the program, 26.7 million shares (9.25% of the issued share capital) were repurchased and subsequently canceled. The company held no common shares at December 31, 2007 (December 31, 2006: 239,910).

OUTSTANDING COMMON SHARES

AMOUNT OF SHARES	2007	2006
Outstanding at January 1	287,268,350	286,147,260
Issued in connection to stock options exercised and performance shares granted	1,791,099	1,121,090
Share buyback program	(26,736,674)	–
BALANCE AT YEAR-END	**262,322,775**	287,268,350

Of the shareholders' equity, of EUR 11 billion, an amount of EUR 10.3 billion (2006: EUR 3.3 billion) was unrestricted and available for distribution – subject to the relevant provisions of the company's Articles of Association and Dutch law.

UNRESTRICTED RESERVES AT YEAR-END

MILLIONS OF EUROS	2007	2006
Shareholders' equity at year-end	11,032	4,144
Subscribed share capital	(525)	(574)
Positive cumulative translation reserves	–	(30)
Subsidiaries' restrictions to transfer funds	(111)	(120)
Statutory reserve due to capital reduction	(77)	(77)
Reserve for development cost	(1)	(5)
UNRESTRICTED RESERVES	**10,318**	3,338

Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cumulative translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of intercompany loans with a permanent nature and liabilities that hedge the net investments in a foreign subsidiary.

Equity-settled transactions include the stock option program and the performance share plan whereby options or shares are granted to the Board of Management and other executives. For details of the stock option plan and the performance share plan for the Board of Management and other executives, see *note f* to the financial statements of Akzo Nobel N.V.

For details on Akzo Nobel N.V. shareholders' equity see *note f* to the company financial statements and the statement of changes in equity.

Note 22 Provisions

MOVEMENTS IN PROVISIONS

MILLIONS OF EUROS	Total	Pensions and other post-retirement benefits	Restructuring of activities	Environmental costs	Other
Balance at January 1, 2007	2,703	1,888	161	228	426
Additions made during the year	446	199	47	25	175
Utilization	(601)	(358)	(100)	(27)	(116)
Amounts reversed during the year	(106)	(42)	(11)	–	(53)
Unwind of discount	29	–	3	14	12
Acquisitions/divestitures	(264)	(218)	(1)	(1)	(44)
Changes in exchange rates	(91)	(78)	(2)	(11)	–
BALANCE AT DECEMBER 31, 2007	**2,116**	**1,391**	**97**	**228**	**400**
Non-current portion of provisions	1,598	1,240	35	175	148
Current portion of provisions	518	151	62	53	252
TOTAL	**2,116**	**1,391**	**97**	**228**	**400**

Provisions for pensions and other post-retirement benefits

Akzo Nobel has a number of defined benefit pension plans. The benefits of 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, mainly in the United States and the Netherlands. The company accrues for the expected costs of providing such post-retirement benefits during the years that the employee renders the necessary services.

Valuations of the obligations under the pension and other post-retirement plans are carried out by independent actuaries.

During 2006, the post-retirement healthcare and pensions plans in the United States were adjusted, whereby the benefit levels and the eligibility to participate in these plans were reduced. This is the major reason for the curtailment benefit of in total EUR 55 million (of which EUR 27 million related to Organon BioSciences), which was recognized. In addition, as a result of a change in medical provider in the United States, medical costs are expected to be lower. As a consequence, the defined benefit obligation reduced substantially in 2006, which resulted in a reduction of the unrecognized net loss.

In December 2007, the court ruled that Akzo Nobel did not have the right to terminate its post-retirement healthcare plan in the Netherlands in 2005. Although the company intends to appeal this decision, it recognized an additional provision of EUR 66 million.

The table below shows a summary of the changes in the pension and the other post-retirement benefit obligations and plan assets for 2007 and 2006.

MOVEMENTS IN PROVISIONS FOR PENSION AND OTHER POST-RETIREMENT BENEFIT OBLIGATIONS

	Pensions		Other post-retirement benefits	
MILLIONS OF EUROS	**2007**	2006	**2007**	2006
Defined benefit obligation				
Balance at beginning of year	**(5,760)**	(5,510)	**(292)**	(508)
Acquisitions/divestments	**579**	(12)	**43**	(1)
Settlements/curtailments	**22**	3	**5**	79
Plan amendment	**(6)**		**(66)**	
Service costs	**(76)**	(82)	**(7)**	(13)
Contribution by employees	**(8)**	(7)	**(2)**	(2)
Interest costs	**(271)**	(249)	**(16)**	(20)
Benefits paid	**306**	322	**20**	25
Actuarial gains/(losses)	**256**	(197)	**3**	93
Changes in exchange rates	**330**	(28)	**26**	55
Defined benefit obligation at year-end	**(4,628)**	(5,760)	**(286)**	(292)
Plan assets				
Balance at beginning of year	**3,942**	3,596	**–**	–
Acquisitions/divestments	**(441)**	–	**–**	–
Settlements	**(1)**	(2)	**–**	–
Contribution by employer	**269**	160	**–**	–
Contribution by employees	**8**	7	**–**	–
Benefits paid	**(232)**	(284)	**–**	–
Expected return on plan assets	**247**	233	–	–
Actuarial gains	**(29)**	214	–	–
Changes in exchange rates	**(261)**	18	–	–
Plan assets at year-end	**3,502**	3,942	–	–
FUNDED STATUS	**(1,126)**	(1,818)	**(286)**	(292)
Unrecognized net loss/(gain)	**82**	302	**(11)**	(9)
Unrecognized past service costs	**–**	1	**(15)**	(26)
Medicare receivable	**–**	–	**(35)**	(46)
NET BALANCE PENSION PROVISIONS	**(1,044)**	(1,515)	**(347)**	(373)

FUNDED AND UNFUNDED PLANS

MILLIONS OF EUROS	2007	2006
Wholly or partly funded plans	3,944	4,892
Unfunded plans	684	868
TOTAL	**4,628**	5,760

FUNDED STATUS IN EARLIER YEARS

	Pensions			Other post-retirement benefits		
MILLIONS OF EUROS	December 31, 2005	December 31, 2004	January 1, 2004	December 31, 2005	December 31, 2004	January 1, 2004
Defined benefit obligation	(5,510)	(8,975)	(8,579)	(508)	(514)	(521)
Plan assets	3,596	6,781	6,347	–	–	1
FUNDED STATUS	**(1,914)**	**(2,194)**	**(2,232)**	**(508)**	**(514)**	**(520)**

The difference between the actual and the expected return on plan assets was a loss of EUR 29 million in 2007, a gain of EUR 214 million in 2006, of EUR 736 million in 2005, and of EUR 228 million in 2004. The 2007 actuarial gains and losses on the defined benefit obligation breakdown as follows:

ACTUARIAL GAINS AND LOSSES

MILLIONS OF EUROS	Pensions	Other post-retirement benefits
Due to experience	90	(3)
Due to change in assumptions	166	6
TOTAL	**256**	3

In the United States, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees as well as a federal subsidy to sponsors of post-retirement healthcare plans, which both began at January 1, 2006. This reimbursement right has been recognized as an asset under other financial non-current assets, measured at fair value. At December 31, 2007, this value was EUR 35 million (December 31, 2006: EUR 46 million).

NET PERIODIC PENSION COST

	Pensions		Other post-retirement benefits	
MILLIONS OF EUROS	2007	2006	2007	2006
Service costs for benefits earned during the period	(76)	(82)	(7)	(13)
Interest costs on defined benefit obligations	(271)	(249)	(16)	(20)
Expected return on plan assets	247	233	–	–
Amortization of unrecognized losses/(gains)	(4)	(9)	–	1
Amortization of past service costs	–	–	(63)	–
Settlement/curtailment gain	26	4	5	51
TOTAL	**(78)**	(103)	**(81)**	19

The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 140 million in 2007 and EUR 177 million in 2006.

WEIGHTED AVERAGE ASSUMPTIONS FOR PENSIONS

	Pensions		Other post-retirement benefits	
IN PERCENTAGES	**2007**	2006	**2007**	2006
Pension benefit obligation at December 31:				
– Discount rate	**5.7**	4.9	**4.4**	5.8
– Rate of compensation increase	**4.4**	4.2		
Net periodic pension costs:				
– Discount rate	**4.9**	4.7	**5.8**	5.5
– Rate of compensation increase	**4.2**	3.9		
– Expected return on plan assets	**6.4**	6.5		

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 quoted equity securities, long-term interest-earning investments, and real estate.
At December 31, 2007 and 2006, plan assets did not include financial instruments issued by the company, nor any property occupied or other assets used by it. The weighted average pension plan asset allocation at December 31, 2007 and 2006, and the target allocation for 2008 for the pension plans by asset category are as follows:

PLAN ASSET ALLOCATION

	Target allocation	Percentage of plan assets at December 31,	
IN PERCENTAGES	2008	**2007**	2006
Equity securities	49	**47**	50
Long-term earning interest investments	42	**39**	37
Real estate	8	**8**	8
Other	1	**6**	5
TOTAL	100	**100**	100

Weighted average assumptions for the other post-retirement benefit plans in the United States were as follows:

WEIGHTED AVERAGE ASSUMPTIONS

IN PERCENTAGES/YEAR	**2007**	2006
Assumed healthcare cost trend rates at December 31:		
– Healthcare cost trend rate assumed for next year	**8**	9
– Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5**	5
– Year that the rate reaches the ultimate trend rate	**2014**	2010

In line with plan agreements in place at December 31, 2007, 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 1 percentage point change in assumed healthcare cost trend rates would have the following effects:

SENSITIVITY HEALTH CARE COST TRENDS

MILLIONS OF EUROS	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost	1	(1)
Effect on post-retirement benefit obligations	13	(12)

Cash flows

The company expects to contribute EUR 129 million to its defined benefit pension plans in 2008. For other post-retirement benefit plans the contribution for 2008 is expected to be EUR 22 million.

EXPECTED BENEFIT PAYMENTS

MILLIONS OF EUROS	Pensions	Other post-retirement benefits
2008	270	19
2009	267	20
2010	275	20
2011	278	21
2012	269	21
2013-2016	1,415	–

Provisions for restructuring of activities

Provisions for restructuring of activities comprise accruals for certain employee benefits and for costs which are directly associated with plans to exit specific activities and closing down of facilities. For all restructurings a detailed formal plan exists and the implementation of the plan has started or the plan has been announced before the balance sheet date. Most restructuring activities relate to relatively smaller restructurings and are expected to be completed within two years from the balance sheet date. However, for certain plans payments of termination benefits to former employees may take several years longer.

Provisions for environmental costs

For details on environmental exposures, see *note 27*.

Other provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases, claims, other long-term employee benefits like long-service leave, jubilee payments, and other. The provision for antitrust cases amounted to EUR 190 million at December 31, 2007 (at December 31, 2006: EUR 177 million). For details on antitrust cases, see *note 27*.

The majority of the cash outflows related to other provisions are expected to be within one to five years. In calculating the other provisions a pre-tax discount rate of on average 5 percent has been used.

Note 23 Long-term borrowings

MILLIONS OF EUROS	**2007**	2006
Debentures:		
– Issued by Akzo Nobel N.V.	**1,795**	2,327
– Issued by consolidated companies	**106**	121
Debt to credit institutions	**11**	18
Other borrowings	**42**	85
TOTAL	**1,954**	2,551

The amounts due within one year are presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see *note 26*.

DEBENTURES ISSUED BY AKZO NOBEL N.V.

	2007	2006
5 3/8 % 1998/08	–	513
5 5/8 % 2002/09	**1,043**	1,051
4 1/4 % 2003/11	**752**	763
TOTAL	**1,795**	2,327

During 2007, the average effective interest rate was 4.9 percent (2006: 4.5 percent).

AGGREGATE MATURITIES OF LONG-TERM BORROWINGS

MILLIONS OF EUROS	2009/2012	after 2012
Debentures:		
– Issued by Akzo Nobel N.V.	1,795	–
– Issued by consolidated companies	106	–
Debt to credit institutions	5	6
Other borrowings	12	30
TOTAL	1,918	36

At December 31, 2007 and 2006, none of the borrowings was secured by collateral.

At December 31, 2007 and 2006, the total amount of long-term credit facilities arranged by Akzo Nobel was EUR 1.5 billion, maturing in 2013. At December 31, 2007, an amount of EUR 350 million (2006: EUR nil) of this facility has been drawn.

Finance lease liabilities are included in other borrowings and aggregated EUR 11 million. An amount of EUR 3 million will mature within one year, EUR 7 million will mature in the period 2009 through 2012, and EUR 1 million will mature after 2013.

Note 24 Short-term borrowings

MILLIONS OF EUROS	**2007**	2006
Commercial paper	**525**	–
Debt to credit institutions	**561**	240
Borrowings from investment in associates	**18**	12
Current portion of long-term borrowings	**531**	158
TOTAL	**1,635**	410

Akzo Nobel has a commercial paper program in the United States, which at December 31, 2007, as at December 31, 2006, had a maximum of USD 1.0 billion (year-end 2007 and 2006: EUR 0.7 billion), and a euro commercial paper program, which at December 31, 2007, as at December 31, 2006, had a maximum of EUR 1.5 billion. At December 31, 2007, EUR 525 million of the commercial paper program was used (2006: EUR nil).

In connection with the acquisition of ICI early 2008, the company had a bridge facility of GBP 9.2 million, which ended early 2008 and was not used. For details on financial instruments and loan facilities, see *note 26*.

Note 25 Trade and other payables

MILLIONS OF EUROS	2007	2006
Suppliers	1,051	1,221
Prepayments by customers	6	20
Taxes and social security contributions	123	171
Amounts payable to employees	153	409
Dividends	6	1
Payable to related parties	34	17
Derivatives	210	13
Other liabilities	415	479
TOTAL	**1,998**	2,331

Note 26 Financial risk management and financial instruments

Akzo Nobel's activities expose it to a variety of financial risks: market risk (including: currency risk, fair value interest rate risk, and price risk), cash flow interest rate risk, credit risk, and liquidity risk. These risks are inherent to the way the company operates as a multinational with a large number of locally operating subsidiaries. Akzo Nobel's overall risk management program seeks to identify, assess, and – if necessary – mitigate these financial risks in order to minimize potential adverse effects on the company's financial performance. Akzo Nobel's risk mitigating activities include the use of derivative financial instruments to hedge certain risk exposures. Within the company, the Board of Management is ultimately responsible for risk management. Day-to-day risk management activities are carried out by a central treasury department (Corporate Treasury) in line with clearly identified and formalized Corporate Directives and in line with the Treasury Statute. Corporate Treasury identifies, evaluates, and hedges financial risks at a corporate level, and monitors compliance with the Corporate Directives approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation, and hedging at business unit level rather than at corporate level. Akzo Nobel has a Treasury Committee in place that advises the CFO in respect of outlines of financial policy, and also evaluates the scope of liquidity, interest, credit, and currency risk management.

The business units play an important role in the process of identifying financial risk factors. Within the boundaries set in the Corporate Directives, the subsidiaries execute the appropriate risk management activities. The company has three treasury hubs, which provide treasury services on behalf of Corporate Treasury to subsidiaries in their region. These treasury hubs are located in Brazil (São Paulo), Singapore, and the United States (Chicago) and are primarily responsible for local cash management and short-term financing.

The Treasury Statute, as a rule, does not allow for extensive treasury operations to be executed at subsidiary level directly with external parties. It is corporate policy that as much as possible, derivatives are not entered into at local level, but through Akzo Nobel Treasury.

Corporate Treasury is responsible for reporting to the Board of Management on company-wide exposures to a number of financial risks. This includes information regarding liquidity, foreign exchange, interest rate, and credit risk.

In addition, Corporate Treasury is responsible for maintaining a robust set of internal controls over treasury operations. Akzo Nobel uses a well-known treasury management system to support its treasury activities.

Foreign exchange risk management

Trade and financing transactions

The subsidiaries of Akzo Nobel N.V. operate in a large number of countries, and as such the company has clients and suppliers in many countries. Many of these subsidiaries have clients and suppliers that are outside of their functional currency environment. This exposes the company and the individual subsidiaries to a large number of different currencies, many exposures of which cancel out on a consolidated basis.

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 or financing transactions are adversely affected by changes in exchange rates. It is the company's policy to fully hedge its transactional foreign exchange rate exposures from recognized assets and liabilities. Corporate Directives outline the boundaries for policies of the business units. In almost all cases, the subsidiaries conclude internal hedges with Corporate Treasury through the treasury management system. Corporate Treasury aggregates and nets these internal derivatives and enters into derivative transactions with external parties to cancel out its own exposures resulting from the internal derivatives. Corporate Treasury is bound by strict overnight limits per currency approved by the Board of Management. Some subsidiaries hedge their foreign exchange risk directly with local counterparties in order to comply with local legislation.

In general, forward exchange contracts that Akzo Nobel enters into have a maturity of less than one year. When necessary, forward exchange contracts are rolled over at maturity. Currency derivatives are not used for speculative purposes. Akzo Nobel has defined in its corporate policies that it will only use plain vanilla type forward contracts for its transactional hedging.

In general, Akzo Nobel does not apply cash flow hedge accounting to foreign exchange contracts, since the short period between the moment of entering into a foreign exchange contract and the moment the hedged item is recognized on the balance sheet (as payable or receivable) will not lead to significant volatilities in the statement of income. Occasionally, the company applies cash flow hedge accounting if that is necessary to prevent a significant accounting mismatch as a result of hedging exposures not yet included in the balance sheet. This can only be done after permission from the Accounting and Control department.

Translation risk related to investments in foreign subsidiaries, associates, and joint ventures
Akzo Nobel has subsidiaries with a functional currency other than the euro. Therefore the consolidated financial statements of Akzo Nobel are exposed to translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries and investment in associates and joint ventures.

The company does not use financial instruments to hedge this risk.

Foreign currency transaction risk
The table below presents a breakdown of the notional amounts of outstanding foreign currency contracts for entities with other functional currencies than the euro:

HEDGED NOTIONAL AMOUNTS

	Year-end 2007		Year-end 2006	
HEDGED AMOUNTS IN MILLIONS OF EUROS PER FUNCTIONAL CURRENCY	**Buy**	**Sell**	Buy	Sell
U.S. dollar	76	932	168	376
Pound sterling	11,500	3,403	257	18
Swedish krona	255	64	192	130
Norwegian kronor	42	39	76	73
Other	140	117	82	216
TOTAL	**12,013**	**4,555**	775	813

From August 2007 onward, Akzo Nobel started hedging its pound sterling exposure that resulted from the GBP 8.1 billion acquisition of ICI. For an amount of GBP 5.3 billion, Akzo Nobel has hedged this exposure by means of forward contracts. These pound sterling forward contracts mature in January 2008 as soon as the acquisition is effected. In connection with the acquisition of ICI, Akzo Nobel has entered into an agreement with Henkel to sell part of the National Starch business of ICI for GBP 2.7 billion. The sale of these parts to Henkel is expected to be finalized in 2008. This means that Akzo Nobel has a natural hedge for an amount of GBP 2.7 billion. As the payment date to ICI is in January and the on sale later in 2008, Akzo Nobel has entered into a pound sterling swap in GBP 2.5 billion for euros. On completion of the acquisition of ICI in January 2008, an additional swap was entered into in the remaining amount of GBP 0.2 billion. Finally, in January 2008, for an amount of GBP 100 million loan notes remain outstanding until 2013 at the latest. This exposure is also hedged by means of forward contracts.

Cash flow hedge accounting has been applied to the pound sterling forward contracts. The fair value changes with respect to the pound sterling forward contracts of GBP 8.1 billion in the light of the ICI acquisition amounted to a deferred loss of EUR 590 million in 2007. This amount will be treated as part of the total consideration paid for ICI in 2008. A loss of EUR 3 million was recorded in other operating income/(expenses) due to ineffectiveness. The fair value changes with respect to the pound sterling forward contracts in the light of the on sale of the National Starch business to Henkel amounted to a deferred gain of EUR 63 million in 2007. During 2007, the hedge relationship was fully effective.

Sensitivity analysis
Akzo Nobel performs its foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. Akzo Nobel then applies the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end. For the purpose of this sensitivity analysis, the effect of discounting to the net present value at balance sheet date is not taken into account.

At December 31, 2007, if the euro had weakened/strengthened by 10% against the U.S. dollar with all other variables held constant, post-tax profit and equity for the year would have been EUR nil (2006: EUR 1 million) higher/lower.

At December 31, 2007, if the euro had weakened/strengthened by 10 percent against the pound sterling with all other variables held constant, post-tax profit for the year would have been EUR nil (2006: EUR nil) higher/lower. At December 31, 2007, if the euro had weakened/strengthened by 10 percent against the pound sterling with all other variables held constant, equity would have been EUR 720 million (2006: EUR nil) higher/lower. This effect is mainly due to the temporarily large pound sterling exposure in anticipation of the acquisition of ICI.

So far, no hedge accounting was applied regarding a forward contract to sell USD 780 million and buy GBP 405 million, maturing in 2011. The hedged item was an internal loan with a permanent nature from an entity with pound sterling functional currency to an entity with a U.S. dollar functional currency. The forward contract was revalued through the statement of income, while the permanent loan was revalued through equity. A change in the relation between pound sterling and U.S. dollar of 10 percent would have an effect of EUR 45 million (2006: EUR nil) in the statement of income and the reverse effect on equity.

Price risk management

Commodity price risk management
Akzo Nobel uses commodities, gas, and electricity in its production processes. The company is particularly sensitive to energy price movements.

Akzo Nobel Chemicals companies hedge the price risk on natural gas through buying natural gas futures on the New York Mercantile Exchange. At year-end, the notional amounts of these futures are 510,000 dekatherms, spread over the first three months of 2008 (2006: 830,000 dekatherms, spread over the period 2007 - 2009). The total fair value of these futures is EUR nil at December 31, 2007 (2006: EUR 1 million negative fair value). No hedge accounting is applied to the changes of the fair value of these contracts.

Akzo Nobel has several strategies in place for hedging price risks related to energy supply in the Netherlands. It operates two power plants together with Essent to generate steam for Akzo Nobel production facilities. The electricity that is generated with these power plants is sold in the market. The company hedges the purchase price of natural gas that is used for the production of electricity and steam. In the Netherlands, purchase contracts for natural gas are generally indexed on oil prices. In order to hedge the price risk of natural gas, the company has entered into swap contracts for the underlying fuels. At year-end 2007, the notional amount of oil swaps (pay fixed and receive floating oil) is 30,000 tons per month for 2008 (2006: average monthly volume of 36,500 tons of oil for the period of January through December 2007). No hedge accounting is applied to the changes of the fair value of these contracts.

To hedge the price risk of electricity that is used for the chemicals plants in Sweden and Finland, the company entered into future contracts on the power exchange Nord Pool Spot, based on expected use of electricity over the period 2008-2010, spread in tranches of three months. Akzo Nobel applies cash flow hedge accounting to these contracts in order to mitigate the accounting mismatch that would otherwise occur. The effective part of the fair value changes of these contracts amounted to a EUR 18 million gain net of tax deferred in equity (2006: EUR 2 million deferred loss). In 2007, a loss of EUR 3 million was recorded in cost of sales due to ineffectiveness (2006: EUR nil). The amounts deferred in equity at year-end are expected to affect operational cost within the next three years.

Sensitivity analysis
Akzo Nobel performs its commodity price risk sensitivity analysis by applying an adjustment to the forward rates prevailing at year-end. This adjustment is based on observed changes in commodity prices in the previous year and management expectation for possible future movements. Akzo Nobel then applies the expected volatility to revalue all commodity-derivative financial instruments in the applicable commodity in its balance sheet at year-end. For the purpose of this sensitivity analysis, the change of the price of the commodity is not discounted to the net present value at balance sheet date.

At December 31, 2007, if a parallel adjustment of the price curve of natural gas by EUR 10,000 per 10,000 dekatherm up/down as compared to the market prices prevailing at that date had occurred, with all other variables held constant, post-tax profit would have been EUR nil (2006: EUR 1 million) higher/lower. This is due to the fair value changes of natural gas derivatives.

At December 31, 2007, if the price of oil had weakened/strengthened by EUR 26 per ton (10 percent) as compared to the market prices prevailing at that date, with all other variables held constant, post-tax profit would have been EUR 3 million (2006: EUR 5 million) higher/lower. This is due to the fair value changes of oil derivatives which are accounted for at fair value through profit or loss.

At 31 December 2007, if the price of gas oil had weakened/strengthened by EUR 51 per ton (10 percent) as compared to the market prices prevailing at that date, with all other variables held constant, post-tax profit would have been EUR 1 million (2006: EUR 2 million) higher/lower. This is due to the fair value changes of oil derivatives which are accounted for at fair value through profit or loss.

At December 31, 2007, if the price of coal had weakened/strengthened by EUR 6 per ton (10 percent) as compared to the market prices prevailing at that date, with all other variables held constant, post-tax profit would have been EUR 1 million (2006: EUR 2 million) higher/lower. This is due to the fair value changes of coal derivatives.

At December 31, 2007, if the forward price of electricity on the Nord Pool exchange had weakened/strengthened by EUR nine per MWh (10 percent) as compared to the market prices prevailing at that date, with all other variables held constant, equity would have been EUR 28 million (2006: EUR 21 million) higher/lower. This is due to the fair value changes of electricity futures which have been accounted for under cash flow hedge accounting.

Cash flow and fair value interest rate risk management

Akzo Nobel is partly financed with debt in order to obtain optimal leverage. Fixed rate debt results in fair value interest rate risk. Floating rate debt results in cash flow interest rate risk.

In order to achieve a mix of fixed and floating rate exposure within the company's policy, a number of swap contracts and forward rate agreements were entered into. The company swapped EUR 250 million fixed rate liabilities with an interest rate of 5.63 percent with 3-month floating rate EURIBOR plus 47 basis points-related liabilities, maturing in 2009. Additionally the company swapped fixed rate liabilities with an interest rate of 4.25 percent with 6-month floating rate EURIBOR plus 44 basis points related liabilities for an amount of EUR 650 million, maturing in 2011. The combined effective interest rate was 3.3 percent in 2006.

In July 2007, these interest rate swaps and forward rate agreements were sold before maturity as Akzo Nobel expected the floating rate to rise further during the second half of 2007 and in light of the Organon BioSciences divestment in combination with the acquisition of ICI. Up to July 2007, the company classified the interest rate swaps as fair value hedges. As of July 2007, the hedge relationships have been discontinued prospectively.

In the past, the company swapped EUR 250 million 3-month floating rate EURIBOR plus 47 basis points related liabilities into USD 223 million 3-month floating rate LIBOR plus 44 basis points related liabilities, maturing in 2009. In 2007, this cross currency swap has been canceled, as a result of the redemption of an intercompany loan to the U.S. activities. At year-end 2007, the company did not have any interest-related derivatives outstanding.

EFFECT ON THE STATEMENT OF INCOME OF FAIR VALUE HEDGES

	Change in fair value 2007		Change in fair value 2006	
MILLIONS OF EUROS	**Bonds**	**Interest rate swap**	Bonds	Interest rate swap
Bond with nominal amount of EUR 450 million	10	(9)	20	(18)
Bond with nominal amount of EUR 200 million	4	(4)	9	(8)
Bond with nominal amount of EUR 250 million	4	(4)	10	(10)
Bond with nominal amount of EUR 250 million	–	–	5	(5)
TOTAL	**18**	**(17)**	44	(41)

The hedge relationships were tested on a quarterly basis and highly effective. After the sale of the interest rate swaps in 2007, the fair value adjustments resulting from the former hedge relation will be released to financing income and expenses over the remaining lifetime using the effective interest method.

Sensitivity analysis
At December 31, 2007, if EURIBOR interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 8 million lower/higher (2006: EUR 3 million higher/lower). The sensitivities to changes in EURIBOR at year-end 2007 and 2006 differ due to the fact that the interest rate instruments outstanding as at year-end 2006 have been unwound in 2007 and the fact that the floating financing position of Akzo Nobel has been changed from a net floating asset position in 2006 to a net floating liability position in 2007.

At December 31, 2007, the company was substantially insensitive to the development of U.S. LIBOR. At December 31, 2006, if U.S. LIBOR interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been EUR 2 million higher/lower. The sensitivity to changes in U.S. LIBOR at year-end 2007 and 2006 differ due to the fact that the interest rate instruments outstanding as at year-end 2006 have been unwound in 2007 and no U.S. dollar floating investments/ loans were entered into.

Credit risk management

Credit risk arises from financial assets such as cash and cash equivalents, derivative financial instruments with a positive fair value and deposits with banks and financial institutions, as well as receivables from customers (trade receivables).

The company has a credit risk management policy in place to limit credit losses due to nonperformance of financial counterparties and customers. The exposure to credit risk is monitored on an ongoing basis at entity, sub-business unit, and business unit level.

Akzo Nobel only deals with counterparties that have a sufficiently high credit rating. Where possible, Akzo Nobel uses credit ratings provided by Dunn & Bradstreet. Furthermore the credit exposure to the counterparty is subject to a predetermined limit. Credit evaluations are performed for all customers requiring credit. Generally, the company does not require collateral in respect of financial assets.

Investments in cash and cash equivalents and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and good reputation. Derivative transactions are concluded mostly with parties with whom the company has contractual netting agreements and ISDA agreements in place. In the Treasury Statute approved by the Board of Management, limits per counterparty have been set for the different types of financial instruments the company is allowed to use. The company has no reason to expect nonperformance by the counterparties on these financial instruments.

Due to the geographical spread of the company and the diversity of its customers, at balance sheet date the company was not subject to any significant concentration of credit risks. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets, including derivative financial instruments, in the balance sheet. For a total carrying amount of EUR 164 million of long-term borrowings given, the maximum credit risk is best represented by an amount of EUR 179 million being the repayment amount on redemption. In addition, an amount of EUR 11 billion was received for the Organon BioSciences divestment, which has been temporarily invested in several securities – mainly bonds and deposits – with different counterparties. Due to the exceptional nature and size of this investment, the Board of Management has approved the investment strategy as well as the temporary overrun of the approved counterparty limits.

At year-end 2007, the credit risk was EUR 134 million (2006: EUR 1.3 billion) and this was well within approved limits. The credit risk from trade receivables is measured and analyzed on a local level, mainly by means of ageing analyses. See *note 18*.

Liquidity risk management

The primary objective of liquidity management is providing for sufficient cash and cash equivalents at all time and any place in the world to enable Akzo Nobel to meet its payment obligations. Akzo Nobel aims for a well-spread maturity schedule of its long-term debt and a strong liquidity position. In 2006, a new seven-year EUR 1.5 billion multi-currency revolving credit facility was signed. At year-end 2007, EUR 350 million (2006: EUR nil) of this facility had been drawn.

Akzo Nobel has a commercial paper program in the United States, which at December 31, 2007, as at December 31, 2006, had a maximum of USD 1.0 billion (year-end 2007 and 2006: EUR 0.7 billion), and a euro commercial paper program, which at December 31, 2007, as at December 31, 2006, had a maximum of EUR 1.5 billion. At December 31, 2007, EUR 525 million of the commercial paper program was used (2006: EUR nil).

In 2007, an additional GBP 9.2 billion bridge facility was signed to meet the requirements of the UK Takeover Panel for the acquisition of ICI. This facility was not used in 2007. Early 2008, EUR 600 million was drawn and the remaining amount was canceled.

The liquidity position of Akzo Nobel at the end of 2007 is not representative for the average liquidity position during 2007. This mainly results from the sale of Organon BioSciences in November 2007 and the acquisition of ICI early 2008.

The table below analyses Akzo Nobel's cash outflows per maturity group based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

MATURITY OF LIABILITIES AND CASH OUTFLOWS

AT DECEMBER 31, 2006 MILLIONS OF EUROS	Less than 1 year	Between 1 and 5 years	Over 5 years
Borrowings	400	2,376	146
Interest on borrowings	143	270	–
Finance lease liabilities	10	28	1
Trade and other payables	1,253	–	–
Forward foreign exchange contracts (hedges):			
– Outflow	1,467	85	–
– Inflow	(1,469)	(83)	–
Interest rate swaps:			
– Outflow	39	115	–
– Inflow	(42)	(139)	–
TOTAL	1,801	2,652	147

MATURITY OF LIABILITIES AND CASH OUTFLOWS

AT DECEMBER 31, 2007 MILLIONS OF EUROS	**Less than 1 year**	**Between 1 and 5 years**	**Over 5 years**
Borrowings	**1,632**	**1,911**	**35**
Interest on borrowings	**144**	**141**	**–**
Finance lease liabilities	**3**	**7**	**1**
Trade and other payables	**1,261**	**–**	**–**
Forward foreign exchange contracts (hedges):			
– Outflow	**15,380**	**706**	**–**
– Inflow	**(15,177)**	**(729)**	**–**
TOTAL	**3,243**	**2,036**	**36**

Capital risk management

Akzo Nobel's objectives when managing capital are to safeguard the company's ability to satisfy its capital providers and to maintain a capital structure that optimizes its cost of capital. For this Akzo Nobel maintains a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Standard & Poor and Moody's. The capital structure can be altered amongst others by adjusting the amount of dividends paid to shareholders, return capital to capital providers, or issue new debt or shares. Consistent with others in the industry, the company monitors capital on the basis of funds from operations in relation to its net borrowings level (FFO/NB-ratio).

Funds from operations is based on net cash from operating activities, which is adjusted among others for the elimination of changes in working capital and for the effects of the underfunding of pension and other post-retirement benefit obligations. Net borrowings is calculated as total of long- and short-term borrowings less cash and cash equivalents, adding an after-tax amount for the underfunding of pension and other post-retirement benefit obligations and lease commitments. During 2007 and 2006, the company's strategy was to maintain a strong investment grade rating (A-/A3 to BBB+/Baa1). The credit rating at year-end 2007 was A-/A3 with a negative outlook. The rating at year-end 2006 was similair with a stable outlook.

The FFO/NB-ratio for 2007 at year-end does not result in a meaningful figure due to the fact that temporarily EUR 11 billion cash was available from the sale of Organon BioSciences for acquiring ICI early in 2008. Without this restricted cash, the FFO/NB-ratio for 2007 at year-end amounted to 0.27 (2006: 0.43).

Fair value of financial instruments and IAS 39 categories

The carrying values and estimated fair values of financial instruments are as follows:

FAIR VALUE PER FINANCIAL INSTRUMENTS CATEGORY

	Carrying amount	Out of scope of IFRS 7	Carrying value per IAS 39 category			Fair value
MILLIONS OF EUROS			Loans and receivables/ other liabilities	At fair value through profit or loss	Total carrying value	
2006 year-end:						
Other financial non-current assets	576	290	184	102	286	286
Trade and other receivables	2,810	255	2,545	10	2,555	2,555
Cash and cash equivalents	1,871	–	444	1,427	1,871	1,871
TOTAL FINANCIAL ASSETS	5,257	545	3,173	1,539	4,712	4,712
Long-term borrowings	2,551	–	2,551	–	2,551	2,529
Short-term borrowings	410	–	410	–	410	410
Trade and other payables	2,331	1,078	1,224	29	1,253	1,253
TOTAL FINANCIAL LIABILITIES	5,292	1,078	4,185	29	4,214	4,192
2007 year-end:						
Other financial non-current assets	630	133	497	–	497	497
Trade and other receivables	2,139	167	1,959	13	1,972	1,972
Cash and cash equivalents	11,628	–	356	11,272	11,628	11,628
TOTAL FINANCIAL ASSETS	**14,397**	**300**	**2,812**	**11,285**	**14,097**	**14,097**
Long-term borrowings	1,954	–	1,954	–	1,954	1,910
Short-term borrowings	1,635	–	1,635	–	1,635	1,634
Trade and other payables	1,998	737	1,051	210	1,261	1,261
TOTAL FINANCIAL LIABILITIES	**5,587**	**737**	**4,640**	**210**	**4,850**	**4,805**

Loans and receivables and other liabilities are recognized at amortized cost, using the effective interest method.
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 less allowance for impairment, short-term borrowings, and other current liabilities approximate fair value due to the short maturity period of those instruments.

Akzo Nobel has not applied the fair value option allowed under IFRS and does not have financial instruments which are held for trading. The only financial instruments accounted for at fair value through profit or loss are derivative financial instruments and the short-term investments included in cash. The fair value of foreign currency contracts, swap contracts, forward rate agreements, oil contracts, and gas futures was determined by valuation techniques and by obtaining quotes from dealers and brokers.

Note 27 Contingent liabilities and commitments

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 the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against the company in various countries. In some cases this concerns sites divested in prior years or derelict sites belonging to companies acquired in the past.

It is the company's policy to accrue and charge against earnings environmental clean-up 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 clean-ups proceed and additional information becomes available. Environmental liabilities can change substantially due to the emergence of additional information on the nature or extent of the contamination, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

As stated in *note 22*, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 228 million at December 31, 2007 (at December 31, 2006: EUR 228 million). The provision has been discounted using an average pre-tax discount rate of 4.9 percent (2006: 5.3 percent).

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.

In 2007, 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 46 million - including interest - to the provision for antitrust cases. At December 31, 2007, the provision for antitrust cases amounted to EUR 190 million (2006: EUR 177 million). Fines, civil damage settlements, and interest incurred in 2007 in connection with these cases amounted to EUR 33 million (2006: EUR 50 million).

Two cases are pending in appeal by the company with the EU Court of First Instance (EU CFI) against decisions by the EU Commission to impose fines on the company for violations of EU competition laws regarding the following products: monochloroacetic acid (EUR 90 million) and hydrogen peroxides (EUR 27 million). The company's appeal against the European Commission's decision to fine the company for violation of the European competition laws regarding sodium gluconates (EUR 12 million) and choline chloride (EUR 23 million) was dismissed by the EU CFI, respectively in 2006 and 2007. The company's appeal against the judgment in the sodium gluconates case at the European Court of Justice (ECJ) was withdrawn by the company in 2007. A decision by the company on an appeal at the ECJ against the EU CFI judgment for choline chloride is now pending.

It should be understood, that in light of possible future developments such as (a) the outcome of investigations by 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.

Other investigations and litigation

In 2006, Akzo Nobel Nederland B.V. and the Akzo Nobel Pension Fund in the Netherlands received a summons from the Association of Retired Akzo Nobel Employees with regard to the changed financing of the company's Dutch pension plan. In January 2007, the court dismissed all claims against Akzo Nobel Nederland B.V. and the Akzo Nobel Pension Fund. The Association of Retired Akzo Nobel Employees has appealed that decision.

In December 2006 Akzo Nobel Nederland B.V. received a summons from certain Dutch labor unions, acting on behalf of retired Dutch Akzo Nobel employees, in connection with Akzo Nobel Nederland B.V.'s decision to no longer reimburse part of the health insurance premiums to those former employees over time after a certain transition period. In December 2007, the court ruled that Akzo Nobel Nederland B.V. did not have the right to terminate reimbursement of part of the health insurance premiums to retired employees. Akzo Nobel Nederland B.V. intends to appeal the decision of the court and has made a provision in the amount of EUR 66 million.

A number of other claims are pending against Akzo Nobel N.V. and its subsidiaries, 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 46 million at December 31, 2007. At December 31, 2006, these commitments totaled EUR 96 million. In addition, the company has purchase commitments for raw materials and supplies incident to the ordinary conduct of business, for a total of EUR two billion (2006: EUR 1.4 billion).

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etcetera aggregated EUR 455 million at December 31, 2007 (at December 31, 2006: EUR 776 million). Payments due within one year amount to EUR 124 million (2006: EUR 225 million); payments between one and five years EUR 251 million (2006: EUR 416 million), and payments due after more than five years amount to EUR 80 million (2006: EUR 135 million).

Guarantees related to investments in associates totaled EUR 12 million (at December 31, 2006: EUR 5 million). As general partners in several partnerships, certain Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2007, the risk ensuing from these liabilities was EUR 9 million (at December 31, 2006: EUR 93 million).

In connection with the Organon BioSciences divestment to Schering-Plough, Akzo Nobel has limited its maximum exposure to claims to EUR 850 million. The provided guarantees and indemnities have varying maturity periods.

Note 28 Related party transactions

Akzo Nobel purchases and sells goods and services to various related parties in which Akzo Nobel holds a 50 percent or less equity interest (investment in associates). Such transactions were conducted at arm's length with terms comparable to transactions with third parties. In 2007, a significant related party transaction affected a EUR 137 million gas supply by the company to Delesto, a joint venture of Akzo Nobel and Essent, in exchange for steam.

The company has contracts with several pension funds, for which the financial impact on the company is disclosed in *note 22*.
At year-end 2007, Akzo Nobel had a loan to Akzo Nobel Pension Fund in the Netherlands of EUR 89 million. In addition, the company paid EUR 286 million in escrow in 2007 in relation to the Akzo Nobel UK pension fund.

In the ordinary course of business the company has transactions with various organizations with which certain of its members of the Supervisory Board or Board of Management are associated, but no transactions responsive to this item were conducted in 2007. Likewise, there have been no transactions with members of the Supervisory Board or Board of Management, any other senior management personnel or any family member of such persons. Also no loans have been extended to members of the Supervisory Board or Board of Management, any other senior management personnel or any family member of such persons. The members of the Board of Management are considered to be the key management personnel as defined in IAS 24 "Related parties". For details on their remuneration and that of the Supervisory Board, see *note b* to the financial statements of Akzo Nobel N.V.

Note 29 Subsequent events

On January 2, 2008, Akzo Nobel acquired 100% of the share capital of Imperial Chemical Industries plc (ICI). The total cost of the acquisition, paid mostly in cash, was GBP 8.1 billion (EUR 11.5 billion). ICI is one of the world's leading coatings, adhesives, starches, and synthetic polymer businesses with products and ingredients developed for a wide range of markets. It has operations in over 50 countries around the world and its customers are spread across a diverse range of product sectors. ICI's revenue and net profit for the period for 2007 amounted to GBP 4.9 billion (EUR 7.1 billion) and GBP 1.3 billion (EUR 1.8 billion) respectively, including a GBP 952 million gain from discontinued operations. For more information on ICI, see the *chapter on the ICI acquisition* in the report of the Board of Management.

In connection with the acquisition of ICI, Akzo Nobel has entered into an agreement with Henkel to sell all assets and liabilities comprising the business divisions known within the ICI Group as the Adhesives business and the Electronic Materials business, both of which form part of the National Starch business of ICI, for GBP 2.7 billion (EUR 4.0 billion) in cash. This transaction was approved by the European Commission on February 15, 2008 and will take effect in 2008. Akzo Nobel also intends to sell ICI's Specialty Starches business. The assets and liabilities related to both the Specialty Starches business and the transaction with Henkel qualify as assets and liabilities held for sale at acquisition date.

In granting clearance, the EU and Canadian authorities have accepted a commitment package from Akzo Nobel involving the divestiture of a number of Akzo Nobel Decorative Coatings businesses in the UK, Ireland, Belgium, and Canada, which together contributed approximately EUR 300 million to 2007 revenue. At year-end 2007, these entities were not ready for immediate sale in their present condition and therefore did not qualify as held for sale at December 31, 2007.

GOODWILL ON THE ICI ACQUISITION

MILLIONS OF EUROS	
Purchase consideration:	
– Cash paid	11,364
– Loan notes	141
– Direct costs relating to the acquisition	23
Total purchase consideration	**11,528**
Fair value of net assets acquired	7,111
GOODWILL	**4,417**

The purchase price was determined in GBP. Cash paid includes an amount of EUR 628 million paid in relation to a purchase price hedge for which per year-end a loss of EUR 590 million was deferred in equity. The goodwill is attributable to the synergies expected to arise after Akzo Nobel's acquisition of ICI, the assembled workforce, and increased global geographical presence.

At January 2, 2008, provisional figures for the purchase price allocation were prepared in accordance with IFRS 3, "Business Combinations" and these are presented below. The results of the purchase price allocation could be subject to subsequent amendment. The carrying values related to the tax position are not allocated to assets and liabilities held for sale as tax allocation was impracticable. The assets and liabilities arising from the acquisition – determined on a provisional basis – are as follows:

PROVISIONAL PURCHASE PRICE ALLOCATION

MILLIONS OF EUROS	Preacquisition carrying amounts	Recognized values on acquisition
Property, plant, and equipment	766	976
Intangible assets:		
– Goodwill	401	–
– Brand names	–	2,288
– Other intangible assets	56	1,106
Deferred tax assets	370	120
Investments in associates and joint ventures	19	63
Other financial non-current assets	144	144
Inventories	451	495
Current tax assets	9	9
Trade and other receivables	856	856
Cash and cash equivalents	1,081	1,081
Assets held for sale	1,797	5,633
Provisions	(965)	(1,110)
Deferred tax liability	(40)	(896)
Long-term borrowings	(363)	(367)
Short-term borrowings	(401)	(406)
Current tax liabilities	(198)	(212)
Trade and other payables	(1,163)	(1,174)
Current portion of provisions	(249)	(253)
Liabilities held for sale	(728)	(743)
Net assets acquired	**1,843**	**7,610**
Minority interests		(499)
Net assets after minority interests		**7,111**
Goodwill		4,417
CONSIDERATION PAID		**11,528**

Company financial statements

STATEMENT OF INCOME

MILLIONS OF EUROS	Note	2007	2006
Net income from subsidiaries, associates and joint ventures	a	885	1,150
Other net income	a	8,445	3
TOTAL NET INCOME		**9,330**	**1,153**

BALANCE SHEET AS OF DECEMBER 31, BEFORE ALLOCATION OF PROFIT

MILLIONS OF EUROS	Note	2007	2007	2006[1]	2006[1]
Assets					
Non-current assets					
Financial non-current assets	c	7,180		10,088	
Loans to associates and joint ventures		20		12	
Total non-current assets			**7,200**		**10,100**
Current assets					
Trade and other receivables	d	85		64	
Cash and cash equivalents	e	11,186		1,182	
Total current assets			**11,271**		**1,246**
TOTAL ASSETS			**18,471**		**11,346**
Equity and liabilities					
Equity					
Subscribed share capital		525		574	
Additional paid-in capital		363		1,841	
Change in fair value of derivatives		(510)		(2)	
Other statutory reserves		189		202	
Cumulative translation reserves		(51)		30	
Other reserves		1,291		432	
Undistributed profit		9,225		1,067	
Shareholders' equity	f		**11,032**		**4,144**
Non-current liabilities					
Long-term borrowings	g	5,715		7,111	
Total non-current liabilities			**5,715**		**7,111**
Current liabilities					
Current tax liabilities					
Other short-term debt	h	1,724		91	
Total current liabilities			**1,724**		**91**
TOTAL EQUITY AND LIABILITIES			**18,471**		**11,346**

The accompanying notes are an integral part of these financial statements.
[1] Reclassified for comparative reasons.

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

The financial statements of Akzo Nobel N.V. have been prepared using the option of section 362 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles used are the same as for the consolidated financial statements. Foreign currency amounts have 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 presented in *note 1* to the consolidated financial statements.

Subsidiaries of Akzo Nobel N.V. are accounted for using the equity method.

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.

Note a Net income from subsidiaries, associates, and joint ventures

For further details on net income from subsidiaries, associates and joint ventures, see *note c*. Other net income mainly relates to the divestment of Organon BioSciences.

Note b Remuneration of the members of the Supervisory Board and the Board of Management

The total remuneration and shares held by members of the Supervisory Board and the Board of Management are specified below.

REMUNERATION PER MEMBER OF THE SUPERVISORY BOARD

				Total remuneration	
EUROS	Remuneration	Committee allowance	Attendance fee	**2007**	2006
Maarten van den Bergh, Chairman[1]	75,000	15,000	22,500	**112,500**	92,000
Karel Vuursteen[2]	60,000	15,000	–	**75,000**	66,000
Virginia Bottomley[3]	50,000	10,000	17,500	**77,500**	67,000
Dolf van den Brink[4]	50,000	20,000	–	**70,000**	63,700
Peggy Bruzelius[5]	33,334	–	10,000	**43,334**	–
Uwe-Ernst Bufe[4]	50,000	15,000	25,000	**90,000**	83,300
Antony Burgmans	50,000	–	–	**50,000**	33,300
Abraham Cohen[6]	16,667	5,000	10,000	**31,667**	72,300
Louis Hughes[4]	50,000	15,000	50,000	**115,000**	68,300
Cees van Lede[6]	16,667	–	–	**16,667**	47,000
Alain Mérieux[6]	16,667	–	2,500	**19,167**	55,500

[1] Chairman of the Supervisory Board, member of the Remuneration Committee, and member of the Nomination Committee.
[2] Deputy Chairman of the Supervisory Board, member of the Remuneration Committee, and member of the Nomination Committee.
[3] Member of the Remuneration Committee and member of the Nomination Committee.
[4] Member of the Audit Committee.
[5] From May 1, 2007, member of the Supervisory Board.
[6] Until May 1, 2007, member of the Supervisory Board.

Members of the the Supervisory Board receive a fixed remuneration: EUR 75,000 for the Chairman, EUR 60,000 for the Deputy Chairman, and EUR 50,000 for the other members. Members of committees receive an extra compensation. Members living outside the Netherlands receive an attendance fee dependent on the country of residence. Members who are resident in the Netherlands do not receive an attendance fee.

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.

The shares in the company owned by Supervisory Board members serve as a long-term investment in the company.

SHARES HELD BY THE SUPERVISORY BOARD

NUMBER OF SHARES AT YEAR-END	**2007**	2006
Virginia Bottomley	**500**	500
Peggy Bruzelius	**500**	–
Karel Vuursteen	**400**	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 adopted 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 96 through 100* of this Annual Report.

Overview of remuneration 2007

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

BOARD REMUNERATION

	Salary		Bonus		Other emoluments	
EUROS	**2007**	2006	**2007**	2006	**2007**	2006
Hans Wijers, Chairman	**705,500**	685,000	**1,036,500**	1,020,500	**4,000**	3,600
Leif Darner	**504,000**	489,300	**450,000**	474,500	**4,000**	3,600
Rob Frohn	**504,000**	489,300	**450,000**	474,500	**6,500**	5,900
Toon Wilderbeek[1]	**84,000**	489,300	**75,000**	474,500	**700**	3,600

[1] Resigned effective February 28, 2007.

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 126,700 for Mr. Darner, related to compensation for living expenses and contributions to an international school. The compensation fee for Mr. Frohn relating to his move to the Netherlands amounted to EUR 34,600.

Pension charges

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

PENSION CHARGES

EUROS	**2007**	2006
Hans Wijers, Chairman	**557,900**	421,300
Leif Darner	**228,400**	218,800
Rob Frohn	**149,800**	144,900
Toon Wilderbeek[1]	**139,100**	263,500

[1] Resigned effective February 28, 2007.

Incentives
In 2007, conditional and performance-related stock options and shares were granted to the members of the Board of Management. 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 January 1, 2007	**Granted in 2007**	**Excercised in 2007**	**Outstanding at December 31, 2007**	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
	2005	31.98	23,000	–	–	**23,000**	April 24, 2012
	2006	46.46	19,800	–	–	**19,800**	April 27, 2013
	2007	58.89	–	19,800	–	**19,800**	April 26, 2014
Value of outstanding options (in euros)						**2,732,000**	
Leif Darner	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
	2005	31.98	15,000	–	–	**15,000**	April 24, 2012
	2006	46.46	13,000	–	–	**13,000**	April 27, 2013
	2007	58.89	–	13,000	–	**13,000**	April 26, 2014
Value of outstanding options (in euros)						**1,222,000**	
Rob Frohn	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
	2005	31.98	15,000	–	–	**15,000**	April 24, 2012
	2006	46.46	13,000	–	–	**13,000**	April 27, 2013
	2007	58.89	–	13,000	–	**13,000**	April 26, 2014
Value of outstanding options (in euros)						**1,222,000**	
Toon Wilderbeek[1]	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
	2005	31.98	15,000	–	–	**15,000**	April 24, 2012
	2006	46.46	13,000	–	–	**13,000**	April 27, 2013
	2007	58.89	–	13,000	–	**13,000**	April 26, 2014
Value of outstanding options (in euros)						**648,000**	

[1] Resigned effective February 28, 2007.

Shares

With regard to the performance-related shares granted to the members of the Board of Management and executives in 2005, a calculation of the TSR performance of the companies of the peer group, based on their home/primary listing was made by an external advisor. The TSR was calculated over the period January 1, 2005 until December 31, 2007. Akzo Nobel's performance over this three-year period resulted in a 5th position within the ranking of the peer group companies. In conformity with the Akzo Nobel performance share plan, the final vesting percentage of the 2005 grant equals 100 percent (January 1, 2007: series 2004 - 2006: 40 percent).

NUMBER OF PERFORMANCE-RELATED SHARES

	Series	Outstanding at January 1, 2007[1]	Granted in 2007	Accumulated dividend until December 31, 2007[2]	Outstanding at December 31, 2007	Vested on January 1, 2008
Hans Wijers	2005-2007	33,000	–	2,898	35,898	35,898
	2006-2008	23,000	–	1,136	24,136	–
	2007-2009	–	23,000	513	23,513	–
Leif Darner	2005-2007	22,000	–	1,932	23,932	23,932
	2006-2008	15,100	–	746	15,846	–
	2007-2009	–	15,100	337	15,437	–
Rob Frohn	2005-2007	22,000	–	1,932	23,932	23,932
	2006-2008	15,100	–	746	15,846	–
	2007-2009	–	15,100	337	15,437	–
Toon Wilderbeek[3]	2005-2007	22,000	–	1,932	23,932	23,932
	2006-2008	15,100	–	746	15,846	–
	2007-2009	–	15,100	337	15,437	–

[1] Excluding accumulated dividend per December 31, 2006.
[2] Equivalent in shares related to accumulated dividend.
[3] Resigned effective February 28, 2007.

The shares granted under the performance share plan will be conditional to a performance period of three years. The shares will be retained for a period of five years by the members of the Board of Management. In 2007, 100 percent of the performance-related shares (2005-2007 series) was granted. The accumulated dividend percentage amounted to 8.78 percent. The share price of a common share Akzo Nobel N.V. as at year-end 2007 was EUR 54.79 (2006: EUR 46.21).

Shareholdings

Akzo Nobel N.V. common shares held by members of the Board of Management at December 31, 2007, were:

SHARES HELD BY THE BOARD

AMOUNT	2007	2006
Hans Wijers	20,530	5,934
Leif Darner	8,661	1,425
Rob Frohn	12,731	3,000

The company does not provide loans to members of the Board of Management.

Former members of the Board of Management

In 2007, charges for former members of the Board of Management amounted to EUR 300,000 (2006: EUR 394,600), mainly due to pension expenses.

Note c Financial non-current assets

MOVEMENTS IN FINANCIAL NON-CURRENT ASSETS

MILLIONS OF EUROS	Total	Subsidiaries Share in capital	Subsidiaries Loans[1]	Other financial non-current assets
Balance at January 1, 2006	9,318	2,186	6,894	238
Investments/disinvestments	3	3	–	–
Net income from subsidiaries, associates, and joint ventures	1,150	1,150	–	–
Other changes, including dividends	8	8	–	–
Equity-settled transactions	16	16	–	–
Change in fair value of derivatives	(26)	(26)	–	–
Loans granted	641	–	641	–
Repayment of loans	(887)	–	(866)	(21)
Fair value adjustments	(44)	–	–	(44)
Changes in exchange rates	(91)	(27)	(83)	19
Balance at December 31, 2006	10,088	3,310	6,586	192
Investments/disinvestments	**(1,061)**	**(1,061)**	–	–
Net income from subsidiaries, associates, and joint ventures	**885**	**885**	–	–
Other changes, including dividends	**(341)**	**(341)**	–	–
Equity-settled transactions	**38**	**38**	–	–
Change in fair value of derivatives	**20**	**20**	–	–
Sale of interest rate derivatives	**(102)**	–	–	**(102)**
Loans granted	**349**	–	**349**	–
Repayment of loans	**(2,599)**	–	**(2,593)**	**(6)**
Changes in exchange rates	**(97)**	**(74)**	**(28)**	**5**
BALANCE AT DECEMBER 31, 2007	**7,180**	**2,777**	**4,314**	**89**

[1] Loans to these companies have no fixed repayment schedule.

Note d Trade and other receivables

MILLIONS OF EUROS	2007	2006[1]
Receivables from subsidiaries	47	43
Other receivables	38	21
TOTAL	**85**	64

[1] Reclassified for comparative reasons.

Note e Cash and cash equivalents

MILLIONS OF EUROS	2007	2006
Short-term investments	11,160	1,151
Cash on hand and in banks	26	31
TOTAL	**11,186**	1,182

At December 31, 2007 an amount of EUR 11 billion in cash and cash equivalents was restricted, due to the acquisition of ICI early 2008 and due to restrictions in certain countries to transfer cash.

Note f Shareholders' equity

MOVEMENTS IN SHAREHOLDERS' EQUITY

MILLIONS OF EUROS	Subscribed share capital	Additional paid-in capital	Statutory reserves: Change in fair value of derivatives	Statutory reserves: Other statutory reserves	Statutory reserves: Cumulative translation reserves	Other reserves	Undistri-buted profit	Share-holders' equity
Balance at January 1, 2006	572	1,803	22	187	142	(186)	875	3,415
Changes in fair value of derivatives	–	–	(24)	–	(2)	–	–	(26)
Changes in exchange rates in respect of subsidiaries,associates, and joint ventures	–	–	–	–	(110)	–	–	(110)
Income directly recognized in equity	–	–	(24)	–	(112)	–	–	(136)
Net income	–	–	–	18	–	(18)	1,153	1,153
Total income/(expenses)	–	–	(24)	18	(112)	(18)	1,153	1,017
Dividend paid	–	–	–	–	–	–	(344)	(344)
Equity settled transactions	–	–	–	–	–	16	–	16
Issue of common shares	2	38	–	–	–	–	–	40
Addition to other reserves	–	–	–	–	–	617	(617)	–
Capitalized development costs	–	–	–	(3)	–	3	–	–
Balance at December 31, 2006	574	1,841	(2)	202	30	432	1,067	4,144
Changes in fair value of derivatives	–	–	(508)	–	–	–	–	(508)
Changes in exchange rates in respect of subsidiaries,associates, and joint ventures	–	–	–	–	(81)	–	–	(81)
Income directly recognized in equity	–	–	(508)	–	(81)	–	–	(589)
Net income	–	–	–	(9)	–	9	9,330	9,330
Total income/(expenses)	–	–	(508)	(9)	(81)	9	9,330	8,741
Dividend paid	–	–	–	–	–	–	(364)	(364)
Equity settled transactions	–	–	–	–	–	38	–	38
Issue of common shares	4	69	–	–	–	–	–	73
Buyback of shares	(53)	(1,547)	–	–	–	–	–	(1,600)
Addition to other reserves	–	–	–	–	–	808	(808)	–
Capitalized development costs	–	–	–	(4)	–	4	–	–
BALANCE AT DECEMBER 31, 2007	**525**	**363**	**(510)**	**189**	**(51)**	**1,291**	**9,225**	**11,032**

Subscribed share capital
Authorized share capital of Akzo Nobel N.V. is EUR 1,600,019,200 and consists of 48 priority shares with a nominal value of EUR 400, sixhundred million common shares with a nominal value of EUR 2, and 200 million cumulative preferred shares with the nominal value of EUR 2. Subscribed share capital consists of 48 priority shares, 262,322,775 common shares, and no preferred shares. During 2007 the company repurchased and canceled 26,736,674 common shares at an average price of EUR 59.84 for a total amount of EUR 1.6 billion. In 2007, 1,791,099 common shares were issued in connection with Akzo Nobel's stock option plan and the performance share plan. The company held no common shares at December 31, 2007 (December 31, 2006: 239,910). The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the General Meeting of Shareholders. The holders of the priority shares are entitled to 6 percent per share or the statutory interest in the Netherlands, whichever is lower, plus any accrued and unpaid dividends. They are entitled to 200 votes per share (in accordance with the 200 times higher nominal value per share) at the General Meeting of Shareholders. In addition, the holders of priority shares have the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management; amendments to the Articles of Association are subject to the approval of the Meeting of Holders of Priority Shares.

Share-based compensation
Performance-related stock options and performance-related shares are granted to all members of the Board of Management and executives. The number of participants at year-end 2007 was 657 (2006: 685). Options granted expire after seven years; options granted to the members of the Board of Management in the period 2000 - 2002 expire after ten years.

Options 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 with the nominal value of EUR 2. The exercise price is the Euronext Amsterdam opening price on the first day that the Akzo Nobel share was quoted ex-dividend or the opening price for an American Depositary Receipt (ADR) on NASDAQ/NMS on the first day that the Akzo Nobel ADR was quoted ex-dividend. In view of the delisting from NASDAQ, the exercise price for ADRs is now the same as for shares.

In 2004, a performance-related share plan for the Board of Management was introduced. In 2005, the plan was also introduced for the executives. Under this plan, a number of conditional shares are granted to the members of the Board of Management and executives each year. The actual number of shares to be granted 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 on the performance-related share plan, see *page 98* of this Annual Report.

OUTSTANDING OPTION RIGHTS AND PERFORMANCE-RELATED SHARES (INCLUDING BOARD OF MANAGEMENT)

YEAR OF ISSUE	Exercise price in EUR	Outstanding at January 1, 2007	Granted in 2007	Exercised in 2007	Lapsed in 2007	Outstanding at December 31, 2007	Expiry date
Unconditional options							
2000	44.82	148,500	–	148,500	–	–	April 27, 2010
2001	46.75	144,342	–	93,020	–	**51,322**	April 30, 2011
2002	46.53	777,730	–	550,910	880	**225,940**	April 25, 2009
2002	46.53	176,550	–	69,300	–	**107,250**	April 25, 2012
2003	19.51	518,600	–	341,609	–	**176,991**	April 22, 2010
2004	31.45	866,700	–	521,100	5,400	**340,200**	April 25, 2011
		2,632,422	–	1,724,439	6,280	**901,703**	
Conditional options							
2005	31.98	796,930	–	207,169[1]	19,216	**570,545**	April 24, 2012
2006	46.46	687,158	–	200,505[1]	16,117	**470,536**	April 27, 2013
2007	58.89	–	517,151	–	2,213	**514,938**	April 26, 2014
		1,484,088	517,151	407,674	37,546	**1,556,019**	
	Exercise price in USD						
American Depositary Receipts							
Unconditional options							
2002	42.05	65,630	–	53,270	–	**12,360**	April 25, 2009
2003	21.21	93,280	–	65,700	–	**27,580**	April 22, 2010
2004	37.25	190,200	–	139,050	–	**51,150**	April 25, 2011
		349,110	–	258,020	–	**91,090**	
TOTAL		**4,465,620**	**517,151**	**2,390,133**	**43,826**	**2,548,812**	

[1] Exercise of these options related to the transitional arrangement for the Organon BioSciences divestment.

PERFORMANCE-RELATED SHARES

Series	Outstanding at January 1, 2007[1]	Granted in 2007	Settled in 2007	Forfeited in 2007	Accumulated dividend until December 31, 2007[2]	Outstanding per December 31, 2007	Vested on January 1, 2008
2005-2007	1,146,749	–	305,805[3]	27,340	71,635	885,239	885,239
2006-2008	789,034	–	231,372[3]	18,413	26,639	565,888	–
2007-2009	–	590,282	–	2,500	13,108	600,890	–
TOTAL	**1,935,783**	**590,282**	**537,177**	**48,253**	**111,382**	**2,052,017**	885,239

[1] Excluding accumulated dividend per December 31, 2006.
[2] Equivalent in shares related to accumulated dividend.
[3] Settlement of these shares related to the transitional arrangement for the Organon BioSciences divestment.

The share price of a common share Akzo Nobel as at December 31, 2007 amounted to EUR 54.79. The number and weighted average exercise price of share options is as follows:

NUMBER AND AVERAGE EXERCISE PRICE SHARE OPTIONS

	Common shares		American Depositary Receipts	
	Number of options	Weighted average exercise price in EUR	Number of options	Weighted average exercise price in USD
Balance at January 1, 2006	4,808,980	35.87	654,990	34.79
Granted during the period	694,434	46.46	–	–
Forfeited during the period	(440,544)	44.38	(23,800)	35.85
Exercised during the period	(946,360)	34.48	(282,080)	35.93
Balance at December 31, 2006	4,116,510	37.07	349,110	33.87
Granted during the period	517,151	58.89	–	–
Forfeited during the period	(43,826)	38.89	–	–
Exercised during the period	(2,132,113)	36.99	(258,020)	34.16
Balance at December 31, 2007	**2,457,722**	**41.70**	**91,090**	**33.04**
EXERCISABLE AT DECEMBER 31, 2007	**901,703**	**35.55**	**91,090**	**33.04**

The stock options are equity-settled. The employee receives the shares from the company upon exercise of the options and is free to sell the shares immediately afterwards.

The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options or performance shares. The total cost in 2007 for share options was EUR 7 million.

The expected value of performance stock options is based on the binominal option pricing model, using certain assumptions. These assumptions are used for these calculations only and do not necessarily represent an indication of management's expectations of future developments. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. The company's employee stock options have characteristics significantly different from those of traded options and changes in the subjective assumptions used for the calculation can materially affect the fair value estimate.

The fair value and the assumptions used for the options granted were as follows:

KEY DATA OF THE OPTIONS GRANTED

COMMON SHARES, IN EUR	**2007**	2006
Fair value at measurement date (in euros)	12.02	9.97
Share price (in euros)	58.89	46.46
Exercise price (in euros)	58.89	46.46
Expected share price volatility (%)	20.80	24.80
Expected option life (years)	5.00	5.00
Expected dividend yield (%)	2.20	2.74
Risk-free interest rate (%)	4.22	3.92

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition and a nonmarket performance condition. Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with the share option grants.

The grant date fair value of the performance shares is amortized as a charge against income over the three-year vesting period. The fair value at grant date is based on the Monte Carlo simulation model taking into account market conditions as well as expected dividends. The value was calculated by external specialists and amounted to EUR 21.77 for the performance shares conditionally granted in 2007 (2006: EUR 16.80). The 2007 charge recognized for performance shares aggregated EUR 14 million (2006: EUR 10 million).

Statutory reserves

At the General Meeting of Shareholders of April 26, 2001, an amendment to 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 1 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates, and joint ventures after 1983. Statutory reserves are nondistributable.

Dividend proposal

It is proposed that dividend on priority shares of EUR 1,152 and on common shares of EUR 472 million will be distributed. Following acceptance of this proposal, holders of common shares will receive a dividend of EUR 1.80 per share of EUR 2, of which EUR 0.40 was paid earlier as an interim dividend. The final dividend of EUR 1.40 will be made payable from May 7, 2008.

Note g Long-term borrowings

MILLIONS OF EUROS	2007	2006
Debentures	1,795	2,327
Debt to subsidiaries	3,920	4,784
TOTAL	**5,715**	7,111

For the fair value of the debenture loans and the related interest-rate derivatives, see *note 26* of the notes to the consolidated financial statements.

DEBENTURES

	2007	2006
$5^3/_8$% 1998/08	–	513
$5^5/_8$% 2002/09	1,043	1,051
$4^1/_4$% 2003/11	752	763
TOTAL	**1,795**	2,327

Debt to subsidiaries

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 4.7% in 2007 (2006: 3.9%).

Note h Other short-term debt

MILLIONS OF EUROS	2007	2006
Debt to subsidiaries	21	22
Borrowings from investment in associates and joint ventures	18	12
Commercial paper	525	–
Short-term bank loans	371	–
Current portion of long-term borrowings	514	–
Other liabilities	275	57
TOTAL	**1,724**	91

Akzo Nobel has a euro commercial paper program, which at year-end 2007 and 2006 had a maximum of EUR 1.5 billion. At December 31, 2007, the amount of commercial paper outstanding was EUR 525 million (2006: EUR nil).

Note i Financial instruments

At December 31, 2007, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of EUR 12 billion (at December 31, 2006: EUR 775 million), while contracts to sell currencies totaled EUR 4.5 billion (at December 31, 2006: EUR 813 million). The outstanding foreign exchange contracts mainly relate to the pound sterling hedge for the acquisition of ICI and the sale of certain ICI businesses to Henkel.

The other contracts mainly relate to U.S. dollars, Swedish krona, Norwegian kronor, and Japanese yen, and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidiaries, and the fair value changes are recognized in the statement of income to offset the fair value changes as recognized by the subsidiaries. For information on risk exposure and risk managent, see *note 26* of the notes to the consolidated financial statements.

Note j 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 (art. 403 of Book 2 of the Netherlands Civil Code). These debts, at December 31, 2007, aggregating EUR 0.5 billion (2006: EUR 0.7 billion), are included in the consolidated balance sheet. Additionally, at December 31, 2007, guarantees were issued on behalf of consolidated companies in the amount of EUR 1.4 billion (2006: 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, etcetera, as disclosed in *note 27* of the notes to the consolidated financial statements.Guarantees relating to investments in associates and joint ventures amounted to EUR 12 million (2006: EUR 5 million).

Amsterdam, March 5, 2008

The Board of Management	The Supervisory Board
Hans Wijers	Maarten van den Bergh
Leif Darner	Karel Vuursteen
Rob Frohn	Virginia Bottomley
	Dolf van den Brink
	Peggy Bruzelius
	Uwe-Ernst Bufe
	Antony Burgmans
	Louis Hughes

[1] These companies are 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, B.J.N. Irish Holdings Limited, Blundell Permoglaze (Ireland) Limited, and The Walpamur company (Ireland) Limited.

Other information

Auditor's report

To the Supervisory Board and the General Meeting of Shareholders of Akzo Nobel N.V.

Report on the financial statements

We have audited the accompanying financial statements 2007 of Akzo Nobel N.V., Amsterdam as set out on pages 101 to 149. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2007, the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2007, the company statement of net income for the year then ended and the notes.

Management's responsibility

The Board of Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2007 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2007 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, March 5, 2008
KPMG ACCOUNTANTS N.V.

E.H.W. Weusten RA

Profit allocation and distributions, and subsequent events

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: 6 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 8,858 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 1,152 and on common shares of EUR 472 million will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of EUR 1.80 per share of EUR 2, of which EUR 0.40 was paid earlier as an interim dividend. The final dividend of EUR 1.40 will be made available from May 7, 2008.

Special rights to holders of priority shares

The priority shares are held by "Stichting Akzo Nobel" (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation.

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 to the Articles of Association are subject to the approval of this meeting.

Subsequent events

On January 2, 2008, Akzo Nobel acquired 100 percent of the share capital of Imperial Chemical Industries plc (ICI). Details on the acquisition and the preliminary purchase price allocation are explained in *note 29* of the consolidated financial statements.

Financial summary

CONSOLIDATED STATEMENT OF INCOME

	IFRS				NL GAAP[1]					
MILLIONS OF EUROS	**2007**	2006	2005[2]	2004	2003	2002	2001	2000	1999	1998
Revenue	**10,217**	10,023	13,000	12,833	13,106	14,059	14,158	14,069	14,471	12,504
Operating income	**747**	859	1,486	1,527	1,064	1,362	1,198	1,487	525	982
Financing income and expenses	**(120)**	(106)	(156)	(144)	(166)	(204)	(257)	(245)	(245)	(179)
Income tax	**(166)**	(96)	(338)	(412)	(254)	(335)	(294)	(395)	(106)	(278)
Results from associates and joint ventures	**(20)**	87	6	10	7	30	55	143	40	23
Profit for the period from continuing operations	**441**	744	998	981	651	853	702	990	214	548
Minority interests attributable to minority shareholders	**(31)**	(29)	(37)	(36)	(49)	(35)	(31)	(43)	(25)	(16)
Discontinued operations	**8,920**	438	–	–	–	–	–	–	–	–
Net income, attributable to the shareholders	**9,330**	1,153	961	945	602	818	671	947	189	532
EBITDA	**1,102**	1,230	2,055	2,092	1,716	2,043	1,872	2,151	1,296	1,660
Common shares, in millions at December 31	**262.3**	287.0	285.8	285.8	285.7	285.7	285.9	285.9	285.9	285.3
Dividend	**472**	344	343	343	343	343	343	343	286	278
Number of employees at December 31	**42,600**	42,700	61,300	61,400	64,600	67,900	66,300	68,400	68,000	85,900
Salaries, wages, and social charges	**2,215**	2,158	3,221	3,216	3,505	3,552	3,416	3,285	3,777	3,368
Salaries, wages, and social charges in percent of revenue	**21.7**	21.5	24.8	25.1	26.7	25.3	24.1	23.3	26.1	26.9
Ratios										
Operating income in percent of revenue	**7.3**	8.6	11.4	11.9	8.1	9.7	8.5	10.6	3.6	7.9
Operating income in percent of invested capital	**14.0**	15.8	19.3	20.0	12.7	15.1	12.8	16.7	5.9	12.1
Net income in percent of shareholders' equity	**122.9**	30.5	32.0	40.6	26.2	32.9	24.1	39.7	9.0	17.0
Interest coverage	**6.2**	8.1	9.5	10.6	6.4	6.7	4.7	6.1	2.1	5.5
EBITDA coverage	**9.2**	11.6	13.2	14.5	10.3	10.0	7.3	8.8	5.3	9.3
Per share information										
Net income	**33.82**	4.02	3.36	3.31	2.11	2.86	2.35	3.31	0.66	1.86
Dividend	**1.80**	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.00	0.98
Shareholders' equity	**42.06**	14.44	11.95	9.12	8.76	7.34	10.07	9.42	7.28	7.36
Highest share price during the year	**65.56**	49.41	40.18	33.79	32.44	54.50	57.85	59.15	52.40	58.58
Lowest share price during the year	**44.41**	38.30	30.82	24.87	16.00	27.25	33.73	37.30	30.00	25.87
Year-end share price	**54.79**	46.18	39.15	31.38	30.60	30.23	50.15	57.20	49.80	38.80

[1] The 1998-2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred taxes on intercompany profit, and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of the assets, liabilities and related results.
[2] The 1998-2005 figures have not been restated for the Organon BioSciences divestiture.

Incidentals were reported on the applicable income and expense lines in the statement of income.

CONSOLIDATED BALANCE SHEET

MILLIONS OF EUROS, DECEMBER 31	IFRS				NL GAAP[1]					
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Property, plant, and equipment	**2,203**	3,346	3,432	3,535	3,967	4,402	4,568	4,501	4,435	5,311
Intangible assets	**669**	682	488	448	590	629	508	388	326	166
Financial non-current assets	**1,402**	1,706	1,800	1,418	1,866	2,217	1,895	2,000	1,878	1,401
Total non-current assets	**4,274**	5,734	5,720	5,401	6,423	7,248	6,971	6,889	6,639	6,878
Inventories	**1,177**	2,042	1,987	1,978	2,133	2,206	2,270	2,267	2,091	2,291
Receivables	**2,164**	2,919	2,910	2,761	2,671	2,815	3,229	3,135	2,981	2,823
Cash and cash equivalents	**11,628**	1,871	1,486	1,811	727	520	455	416	932	536
Assets held for sale	**–**	219	322	–	–	–	–	–	–	–
Total current assets	**14,969**	7,051	6,705	6,550	5,531	5,541	5,954	5,818	6,004	5,650
TOTAL ASSETS	**19,243**	12,785	12,425	11,951	11,954	12,789	12,925	12,707	12,643	12,528
Shareholders’ equity	**11,032**	4,144	3,415	2,605	2,502	2,098	2,878	2,694	2,082	2,101
Minority interests	**97**	119	161	140	140	137	138	159	154	190
Total equity	**11,129**	4,263	3,576	2,745	2,642	2,235	3,016	2,853	2,236	2,291
Provisions	**1,598**	2,132	2,210	2,877	3,333	3,855	2,400	2,279	2,110	2,178
Long-term borrowings	**1,954**	2,551	2,702	2,392	2,717	2,797	2,235	2,729	2,678	2,672
Other non-current liabilities	**133**	181	183	200	590	513	560	518	322	404
Total non-current liabilities	**3,685**	4,864	5,095	5,469	6,640	7,165	5,195	5,526	5,110	5,254
Short-term borrowings	**1,635**	410	357	560	441	979	2,267	1,967	2,803	2,663
Current liabilities	**2,276**	2,652	2,571	2,677	2,231	2,410	2,447	2,361	2,494	2,320
Current portion of provisions	**518**	571	766	500	–	–	–	–	–	–
Liabilities held for sale	**–**	25	60	–	–	–	–	–	–	–
Total current liabilities	**4,429**	3,658	3,754	3,737	2,672	3,389	4,714	4,328	5,297	4,983
TOTAL EQUITY AND LIABILITIES	**19,243**	12,785	12,425	11,951	11,954	12,789	12,925	12,707	12,643	12,528
Invested capital:										
– Of consolidated companies	**5,197**	8,060	8,007	7,145	8,117	8,692	9,395	9,257	8,573	9,206
– Of investments in associates and joint ventures	**142**	177	301	318	353	491	575	673	644	466
TOTAL	**5,339**	8,237	8,308	7,463	8,470	9,183	9,970	9,930	9,217	9,672
Property, plant, and equipment:										
– Capital expenditures	**359**	371	514	551	581	689	822	725	797	819
– Depreciation	**330**	349	528	540	599	622	635	631	740	661
Ratios:										
– Revenue/invested capital	**1.91**	1.85	1.68	1.68	1.56	1.55	1.52	1.58	1.51	1.54
– Gearing	**–**[2]	0.26	0.44	0.42	0.92	1.46	1.34	1.50	2.03	2.09
– Equity/non-current assets	**2.60**	0.74	0.62	0.51	0.41	0.31	0.43	0.41	0.34	0.33
– Inventories and receivables/current liabilities	**1.47**	1.87	1.90	1.77	2.15	2.08	2.25	2.29	2.03	2.20

[1] The 1998 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred taxes on intercompany profit, and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of the assets, liabilities, and related results.
[2] Not meaningful due to the temporary net cash position.

For definitions of certain financial ratios and concepts see *page 158*.

BUSINESS SEGMENT STATISTICS

	IFRS				NL GAAP[1]					
MILLIONS OF EUROS	**2007**	2006	2005	2004	2003	2002	2001	2000	1999	1998
Coatings										
Revenue	**6,537**	6,209	5,555	5,237	5,162	5,444	5,522	5,501	5,203	4,517
Operating income[2]	**557**	604	384	406	369	424	204	413	416	347
Invested capital[3]	**2,756**	2,653	2,259	2,067	2,043	2,221	2,351	2,279	2,158	2,136
Operating income										
– As percentage of revenue	**8.5**	9.7	6.9	7.8	7.1	7.8	3.7	7.5	8.0	7.7
– As percentage of invested capital	**20.6**	24.6	17.8	19.8	19.4	19.4	17.6	19.2	18.9	20.0
EBITDA	**700**	744	519	529	516	577	362	560	560	467
Capital expenditures	**158**	135	112	122	124	128	176	161	151	174
Average number of employees	**32,400**	30,700	29,000	28,700	29,000	28,800	29,700	29,700	30,100	27,200
Chemicals[4]										
Revenue	**3,639**	3,522	3,890	4,317	4,473	4,679	4,680	4,814	4,217	3,723
Operating income[2]	**382**	321	312	869	257	270	141	389	392	270
Invested capital[3]	**1,870**	1,960	2,291	2,048	2,604	2,893	3,176	3,108	2,841	2,700
Operating income										
– As percentage of revenue	**10.5**	9.1	8.0	20.1	5.7	5.8	3.0	8.1	9.3	7.3
– As percentage of invested capital	**19.9**	17.1	14.4	40.8	12.4	12.1	11.4	15.7	14.0	12.2
EBITDA	**584**	540	553	1,141	575	603	481	725	693	544
Capital expenditures	**191**	223	252	269	241	251	315	338	315	298
Average number of employees	**9,100**	9,700	11,600	13,600	14,900	15,300	15,800	16,000	15,300	14,700

[1] The 1998 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred taxes on intercompany profit, and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of the assets, liabilities, and related results.
[2] Including incidentals.
[3] At December 31.
[4] The 2006 Chemicals figures of the divested businesses have been reclassified to operating segment Other.

REGIONAL STATISTICS

	Excluding OBS		Including OBS			Excluding OBS		Including OBS		
MILLIONS OF EUROS	**2007**	2006	2006	2005	2004	**2007**	2006	2006	2005	2004
	The Netherlands					**U.S. and Canada**				
Revenue by destination	**777**	783	915	862	844	**1,855**	1,855	2,711	2,400	2,445
Revenue by origin	**1,368**	1,325	2,072	2,459	2,748	**1,871**	1,898	2,732	2,116	2,221
Operating income[1]	**(9)**	(23)	25	474	446	**108**	175	248	(67)	60
Capital expenditures	**83**	98	179	179	189	**56**	48	70	51	52
Invested capital[2]	**893**	1,216	2,405	2,229	2,060	**1,214**	1,195	1,571	1,534	1,405
Number of employees[2]	**4,900**	5,100	11,100	11,600	11,300	**6,100**	5,900	8,800	8,200	8,400
	Germany					**Latin America**				
Revenue by destination	**907**	962	1,209	1,238	1,165	**606**	566	924	830	729
Revenue by origin	**930**	959	1,208	1,152	1,050	**475**	431	747	626	493
Operating income[1]	**40**	28	87	144	159	**62**	64	120	85	133
Capital expenditures	**17**	15	24	25	23	**15**	14	23	42	61
Invested capital[2]	**365**	384	471	539	486	**272**	253	407	448	304
Number of employees[2]	**3,100**	3,200	4,000	4,100	4,100	**2,700**	2,500	4,400	4,400	4,400
	Sweden					**Asia**				
Revenue by destination	**472**	463	523	516	509	**1,471**	1,379	1,755	1,590	1,536
Revenue by origin	**1,406**	1,243	1,284	1,237	1,155	**1,225**	1,156	1,440	1,231	1,087
Operating income[1]	**152**	91	98	137	33	**186**	199	241	192	175
Capital expenditures	**53**	78	78	65	60	**48**	38	43	32	47
Invested capital[2]	**564**	573	574	604	530	**337**	407	583	661	550
Number of employees[2]	**3,700**	3,800	3,900	3,900	4,000	**8,400**	7,900	10,300	9,800	9,200
	UK					**Other regions**				
Revenue by destination	**552**	567	781	809	833	**430**	428	674	680	650
Revenue by origin	**617**	633	798	754	848	**257**	277	383	356	310
Operating income[1]	**23**	15	24	(59)	(57)	**28**	23	40	53	46
Capital expenditures	**14**	14	20	31	29	**7**	5	7	8	9
Invested capital[2]	**486**	309	438	492	363	**116**	133	155	236	221
Number of employees[2]	**3,000**	3,100	3,900	4,100	4,200	**1,700**	1,700	2,100	2,300	2,300
	Other European countries									
Revenue by destination	**3,147**	3,020	4,245	4,075	4,122					
Revenue by origin	**2,068**	2,101	3,073	3,069	2,921					
Operating income[1]	**157**	287	579	527	532					
Capital expenditures	**66**	61	85	81	81					
Invested capital[2]	**950**	1,034	1,456	1,264	1,226					
Number of employees[2]	**9,000**	9,500	13,400	12,900	13,500					

[1] Including incidentials.
[2] At December 31.

For definitions of certain financial ratios and concepts see *page 158*.

Financial calendar

April

Annual General Meeting of Shareholders
April 22, 2008

Quotation ex-2007 final dividend
April 24, 2008

May

Report for the 1st quarter 2008
May 7, 2008

Payment of 2007 final dividend
May 7, 2008

July

Report for the 2nd quarter 2008
July 29, 2008

October

Report for the 3rd quarter 2008
October 29, 2008

Quotation ex-2008 interim dividend
October 30, 2008

November

Payment of 2008 interim dividend
November 10, 2008

Index

Glossary

ADR
American depositary receipt.

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

Earnings per share
Net income attributable to shareholders divided by the weighted average number of common shares outstanding during the year.

EBIT (earnings before interest and tax)
Operating income.

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

EBITDA
EBIT before depreciation and amortization.

EBITDA coverage
EBITDA divided by the sum of financing income and expenses.

EBITDA margin
EBITDA as percentage of revenue.

EOI (EVA on invested capital)
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.

EVA® (economic value added)
EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital.

Gearing
Net interest-bearing borrowings divided by equity.

Incidentals are special charges and benefits, results on divestments, restructuring and impairment charges, charges related to major legal, antitrust, and environmental cases. Operating income excluding incidentals 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 coverage
EBIT divided by the sum of financing income and expenses.

Invested capital
Total assets less cash and cash equivalents, less current liabilities. Invested capital for segments includes all assets that can be allocated to a segment on a reasonable basis.

Moving average ROI
EBIT before incidentals of the last four quarters divided by the average invested capital of those four quarters.

Net income
Net income attributable to shareholders of Akzo Nobel N.V.

Net income before incidentals
The sum of net income and incidental charges after tax; or net income less incidental gains after tax.

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

Payout ratio
Dividend divided by net income before incidentals.

Profit for the period
The sum of net income attributable to shareholders of Akzo Nobel N.V. and the income attributable to minority interests.

Revenue
Revenue consists of income from the sale of goods, services, and royalties.

ROI (return on investment)
EBIT divided by 1 percent of the average of invested capital at the beginning and at the end of the year.

SG&A
Selling expenses, and general and administrative expenses.

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

TSR (total shareholder return)
Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

Overview business cases

Satisfying the growing needs of our customers

Akzo Nobel Coatings

Akzo Nobel Chemicals

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