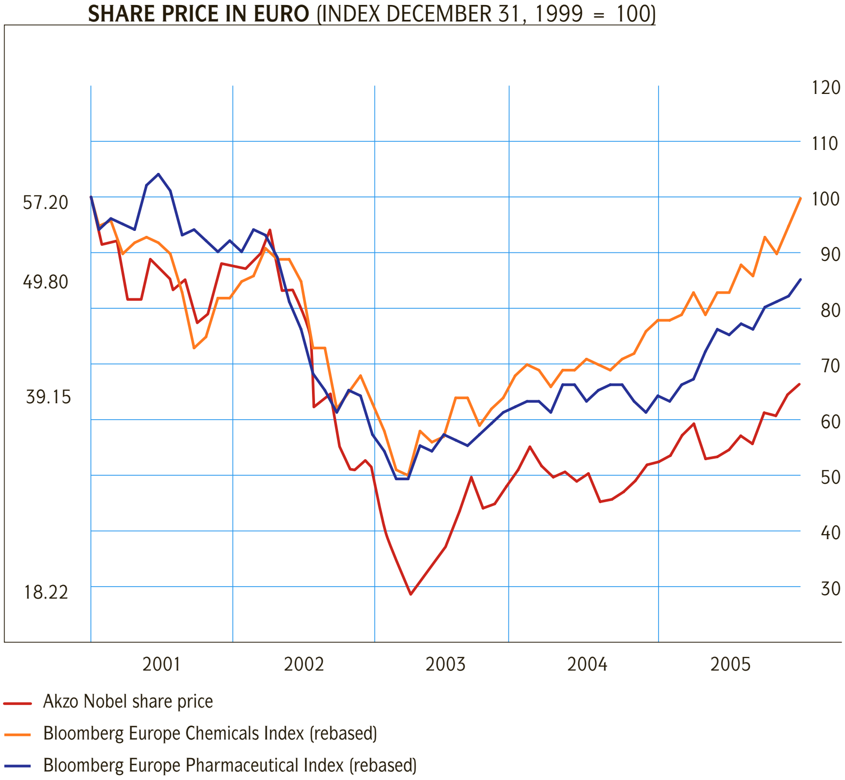
DELIVERING ON GROWTH

ANNUAL REPORT 2005

AKZO NOBEL

PHARMA | COATINGS | CHEMICALS

SHARE PRICE IN EURO (INDEX DECEMBER 31, 1999 = 100)



Akzo Nobel's common shares are listed on Euronext Amsterdam and NASDAQ (as American Depositary Shares). At year-end 2005, 59% of Akzo Nobel's shares were held in the United States, 18% in the Netherlands, 4% in the United Kingdom, and 19% in other countries. About 90% of the total number of shares were owned by institutional investors, the remainder by private investors. Under the Dutch Major Holdings Disclosure Act, ING has declared a 5% position in Akzo Nobel common shares.

Key figures

Millions of euros (EUR)

	2005	2004
Revenues		
Present operations	**13,000**	12,251
Total revenues	**13,000**	12,833
Operating income (EBIT)		
Present operations, including incidentals	**1,486**	923
– EBIT margin, *in %*	**11.4**	7.5
Present operations, excluding incidentals	**1,152**	1,223
– EBIT margin, *in %*	**8.9**	10.0
Total operating income	**1,486**	1,527
– EBIT margin, *in %*	**11.4**	11.9
Net income	**961**	945
Data per share; in EUR		
– net income	**3.36**	3.31
– dividend	**1.20**	1.20
– shareholders' equity at year-end	**11.95**	9.12
– share price at year-end	**39.15**	31.38
EBIT: financing charges (interest coverage)	**9.5**	10.6
EBITDA: financing charges	**13.2**	14.5
Gearing	**0.44**	0.42
Number of employees	**61,340**	61,450

SAFE HARBOR STATEMENT*

This Annual Report contains statements which address such key issues as Akzo Nobel's growth strategy, future financial results, market positions, product development, pharmaceutical products in the pipeline, and product approvals. Such statements 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, progress of drug development, clinical testing and regulatory approval, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more comprehensive discussion of the risk factors affecting our business please see our Annual Report on Form 20-F filed with the United States Securities and Exchange Commission, a copy of which can be found on the company's corporate website www.akzonobel.com. The 2005 Annual Report on Form 20-F will be available in the second quarter of 2006.

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

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 "Business Activities," 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.

Our corporate mark is one of the most distinguishing features of Akzo Nobel's corporate identity. It was inspired by a sculpture dating from 450 BC – which was found on the Greek island of Samos – and represents the "human factor". The original sculpture shows a life-size representation of a human figure with outstretched arms. Known as a metrological relief, it shows three different systems of measurement – a fathom from Ionia, a cubit from Egypt and an Athenian foot. This harmony of human form and measurement means that Akzo Nobel's corporate mark is based on a design which had both a scientific and an artistic function, reflected in our global activity of today. The original sculpture can be found at the Ashmolean Museum in Oxford, England.

THIS IS AKZO NOBEL

Akzo Nobel is a Global Fortune 500 company and is listed on both the Euronext Amsterdam and NASDAQ stock exchanges. It is also included on the Dow Jones Sustainability Indexes. Based in the Netherlands, we are a multicultural organization serving customers throughout the world with **human** and **animal healthcare products,** **coatings,** and **chemicals.**

We employ around **61,500 people** and conduct our activities in four segments – human and animal health, coatings, and chemicals – subdivided into **13 business units,** with operating subsidiaries in more than **80 countries.**

Consolidated revenues for 2005 totaled **EUR 13.0 billion,** of which 19% was in human healthcare products, 8% in animal healthcare products, 43% in coatings, and 30% in chemical products.

COMPANY STATEMENT

OUR COMPANY

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

OUR COMMITMENTS

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

OUR AMBITION

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

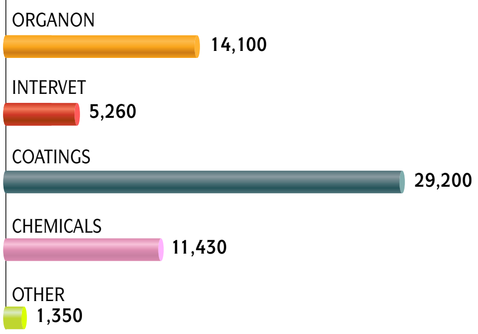
OUR PEOPLE

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

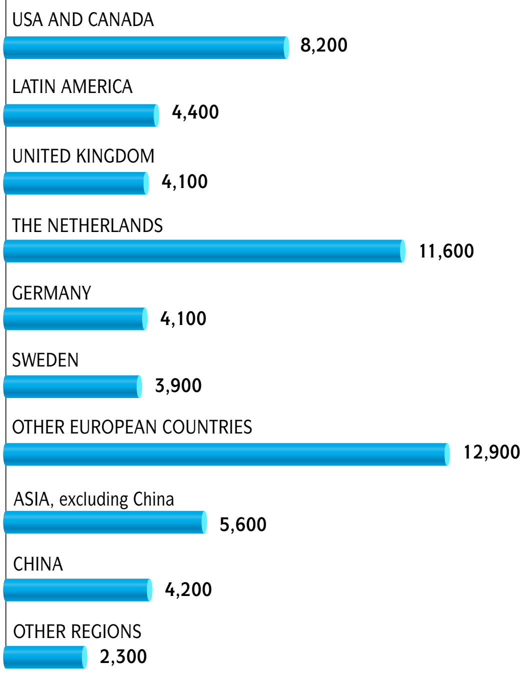
CONTENTS

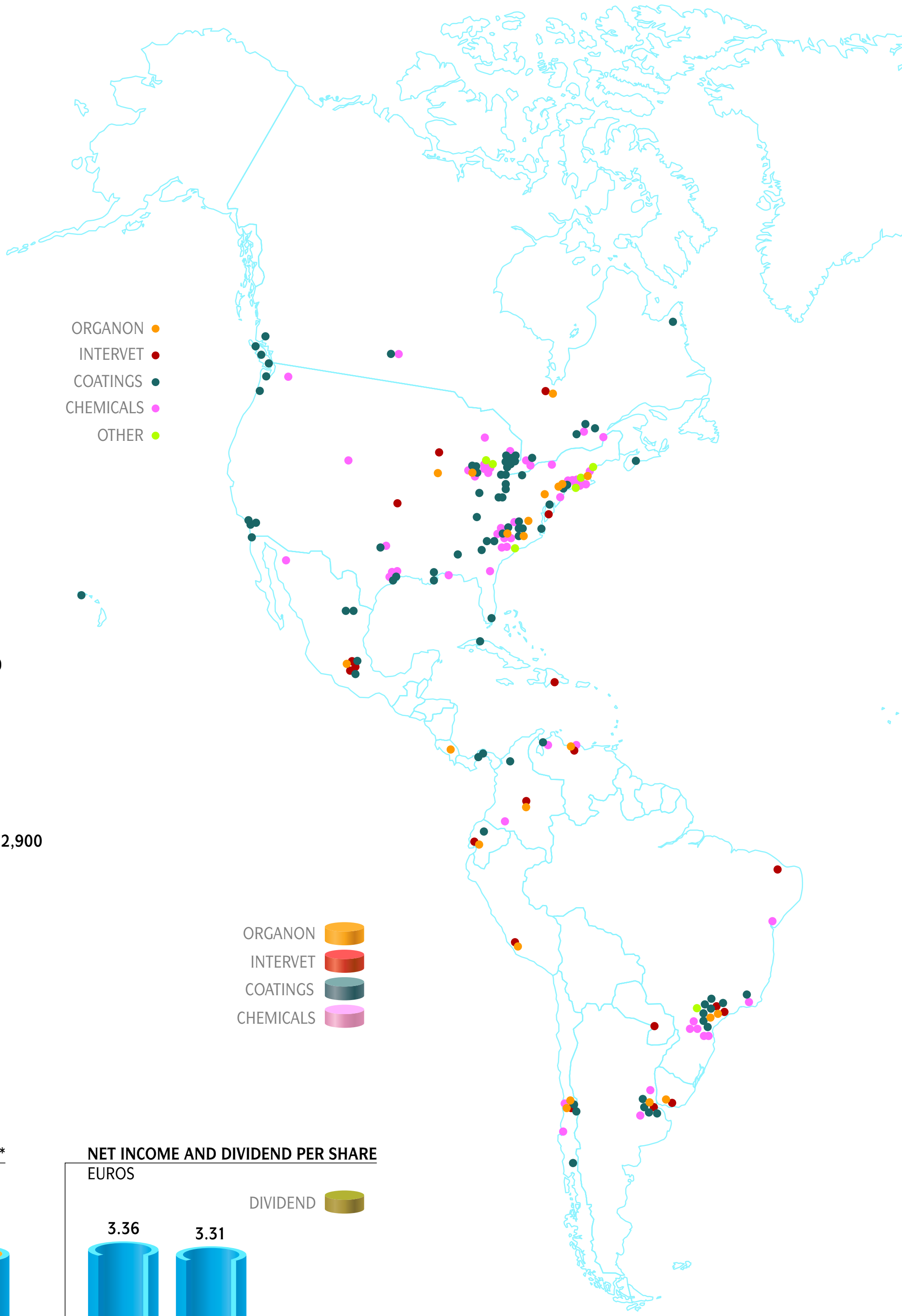
COMPANY OVERVIEW

NUMBER OF EMPLOYEES PER GROUP
AT DECEMBER 31, 2005



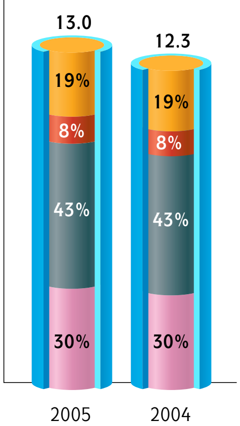
NUMBER OF EMPLOYEES PER REGION
AT DECEMBER 31, 2005



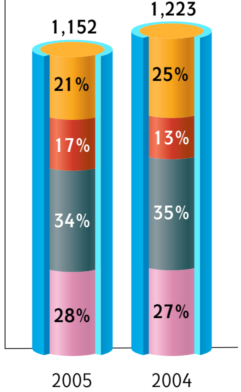


ORGANON
INTERVET
COATINGS
CHEMICALS

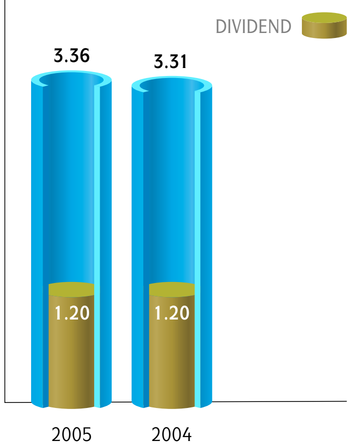
REVENUES*
BILLIONS OF EUROS



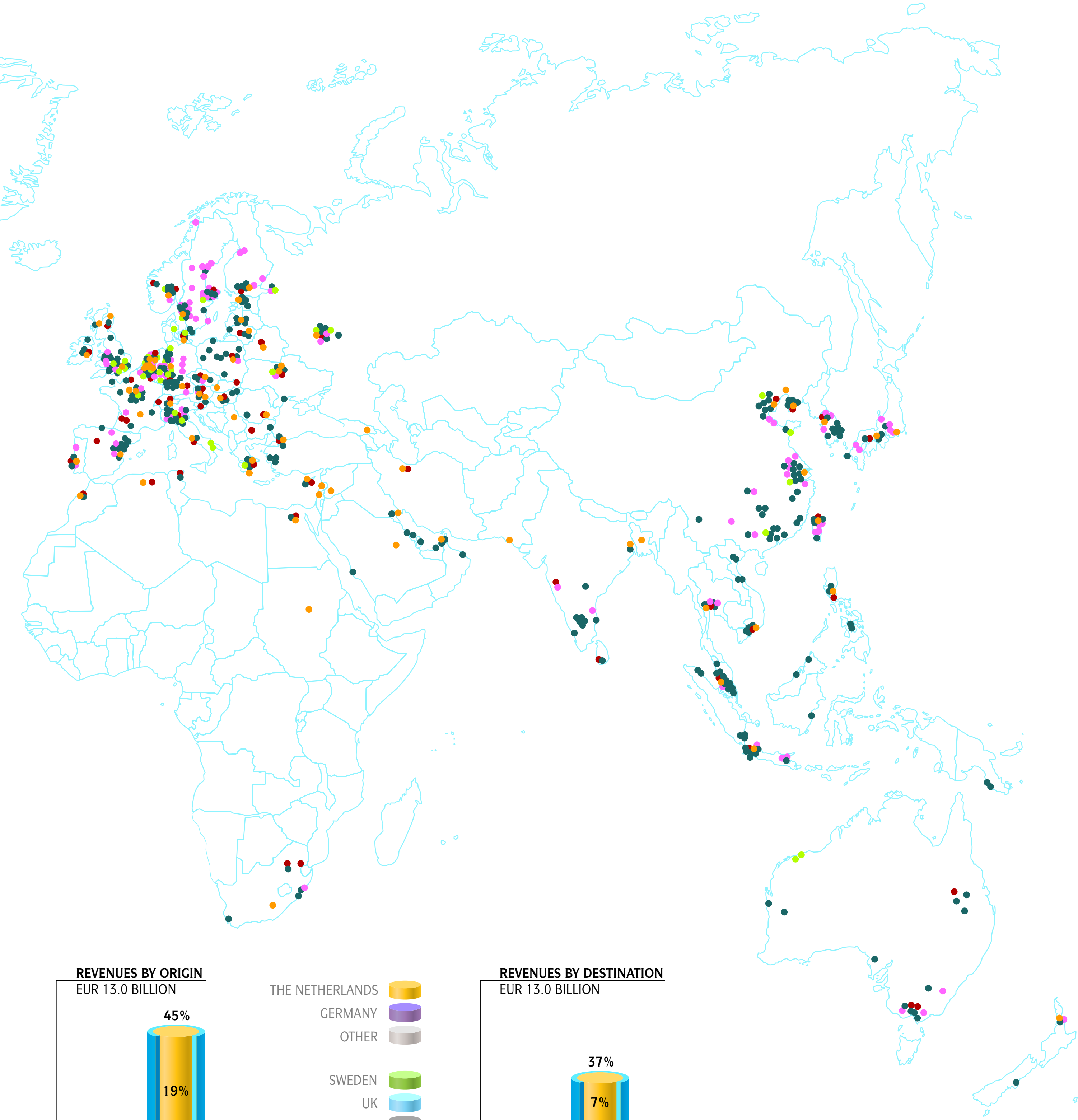
OPERATING INCOME*
MILLIONS OF EUROS



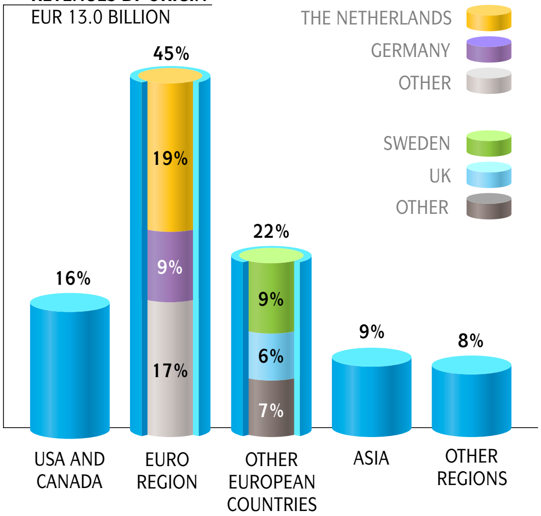
NET INCOME AND DIVIDEND PER SHARE
EUROS



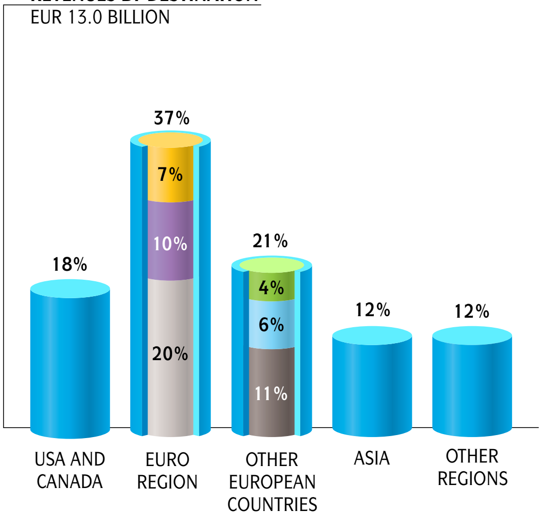
** Present operations excluding incidentals*



REVENUES BY ORIGIN
EUR 13.0 BILLION



REVENUES BY DESTINATION
EUR 13.0 BILLION



ORGANON
AT A GLANCE
INNOVATIVE PRESCRIPTION DRUGS THAT IMPROVE THE HEALTH AND QUALITY OF HUMAN LIFE

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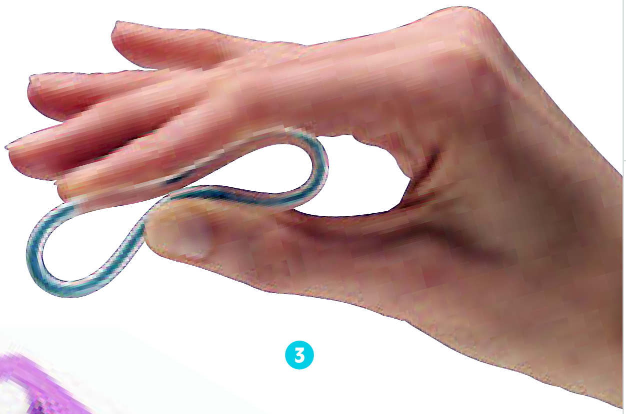

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❶ > HELPING PATIENTS RELAX

More than 100 million patients around the world have been given Organon's **Esmeron®** muscle relaxant during general anesthesia. Designed to block the passage of impulses between nerves and muscles to allow intricate surgery to be performed without patient movement, Esmeron® (**Zemuron®** in the United States) is still being introduced around the globe and is currently sold in almost 70 countries.

❷ > A FERTILE MARKET

Organon is committed to reproductive health and has been bringing quality products to the field of infertility for around 75 years. A broad range of treatments and techniques is available to help improve fertility and the chances of conception, with Organon's **Puregon®** recombinant follicle-stimulating hormone being among the most widely used. Available in around 80 countries and marketed as **Follistim®** in the United States and Japan, Puregon® has now been approved in China and has become Organon's biggest selling product.

❸ > FREEDOM AND FLEXIBILITY

Innovations in female contraception have been limited since the introduction of the pill, but Organon's **NuvaRing®** has radically opened up the options now available to women. Offering freedom and flexibility, NuvaRing® is a once-a-month contraceptive vaginal ring which has more than one million users around the globe and is proving extremely popular with women who lead active lifestyles. It works by continuously releasing a very low dose of hormones. After one ring-free week, a new ring is inserted. NuvaRing® is extremely convenient, as well as being easy to use.

❹ > CONTRACEPTIVE PIONEERS

First introduced by Organon in 1986, **Mercilon®** is a very low-dose oral contraceptive. It is an optimally balanced pill, and is therefore the first choice starter pill prescribed by doctors, and for women considering oral contraception. It contains a combination of two hormones, estrogen and progestogen, in a 21-day schedule at a constant daily dose. Despite containing a very low daily dose of estrogen, studies have shown that monthly cycle control is comparable with other higher dosed contraceptive pills.

❺ > COMBATING DEPRESSION

Remeron® SolTab® is the world's first fast-dissolving antidepressant tablet. Launched in 2001, the product is the soluble tablet form of Organon's dual-action therapy Remeron®. Offering patients an effective and convenient oral dosage form which can be taken anywhere and at anytime, it dissolves on the tongue in less than 30 seconds and has a pleasant orange taste.

❻ > MEDICAL INNOVATORS

Implanon® is a single-rod contraceptive implant for women which is inserted under the skin of the inner upper arm and provides highly reliable protection against pregnancy for up to three years. Launched in 1998, it consists of a rod measuring 40 mm in length and 2 mm in diameter. After insertion – a simple procedure performed by medical professionals with a specially developed applicator – the rod continuously releases the progestogen, etonogestrel. The Organon implant can be removed at any time, after which fertility is rapidly restored to pre-implant status.

INTERVET
AT A GLANCE

FROM PREVENTION TO CURE – A COMPLETE PORTFOLIO OF ANIMAL HEALTH PHARMACEUTICALS

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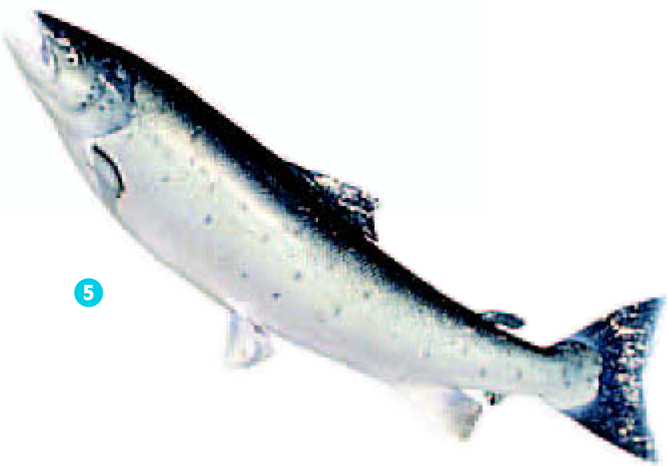

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1 > PREVENTING, TREATING AND CURING

Along with its range of anti-infective products to safeguard cattle and pigs from infectious diseases, Intervet also supplies antibiotics to affect a fast cure for sick animals. One example is **Cobactan®** – based on cefquinome – the most advanced and innovative cephalosporin antibiotic in veterinary medicine. Cobactan® is used when speed of action is required against infections in ruminants and swine. The product cures mastitis and improves udder health, resulting in a positive impact on milk yields and quality.

2 > LOOKING AFTER POULTRY FLOCKS

Many agricultural sectors rely on Intervet for its vaccines, like the poultry industry, for example. **Nobilis®** vaccines keep flocks free from infectious diseases and so safeguard profitability. They protect against a wide variety of viral and bacterial diseases, including avian flu, Gumboro, infectious bronchitis and salmonella. The company also supplies dairy and beef producers, who are always looking for innovative solutions rather than using conventional vaccines. **Bovilis®** vaccines from Intervet not only control disease, but are also effective tools for disease eradication. A combination of the right antigens and the latest technology gives cattle complete protection, making Bovilis® the fastest growing vaccines range at Intervet.

3 > REPELLING UNWANTED GUESTS

Scalibor® is a successful antiparasitic product for dogs which is effective against sand flies and ticks. Sand flies transmit a disease which is lethal in dogs and people. But thanks to available scientific proof, the World Health Organization officially recommends the use of Scalibor® as the best available protection against this devastating disease. **Panacur®** and **Safe-Guard®** – supplied by Intervet to veterinarians, farmers and pet owners – have also been proved to be highly effective against gastrointestinal nematodes, tapeworms and lung parasites prevalent all over the world.

4 > LEADING THE FIELD

Intervet has been recognized for its expertise in reproduction management in domestic animals for many years.
A comprehensive range of solutions addresses the planning and organization of reproduction, as well as the improvement of fertility. Products such as **Receptal®** and **PG 600®** are the gold standards and market leaders in the management of reproduction in cattle and pigs. **Regumate® Equine, Receptal®**, **Prosolvin®** and **Chorulon®** uniquely position Intervet to provide the most comprehensive reproduction line worldwide for horse breeding.

5 > PROTECTING FISH STOCKS

Aquaculture – or fish farming – is one of the fastest expanding sectors of the agrifood industry, so it's vital that precious fish stocks are well protected. The **Norvax®** range of vaccines developed by Intervet is just one of the product families designed to prevent the spread of disease in fish stocks. Pioneering developments in aquatic animal vaccines have been ongoing at Intervet for more than 20 years. Launched in 1999, the products in the Norvax® Compact range are user-friendly, safe and highly effective, and are leading the way in the industry.

AKZO NOBEL COATINGS
AT A GLANCE

OFFERING STYLE, QUALITY, COLOR, AND INNOVATION IN KEEPING WITH OUR STATUS AS THE GLOBAL LEADER IN COATINGS

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1 > REACH FOR THE SKIES

As one of the world's leading manufacturers of **aerospace coatings,** Akzo Nobel supplies an extensive range of technologically advanced products designed to meet the strict standards and specifications set by all aircraft operators. Customers include Airbus, Boeing and other leading aircraft manufacturers, as well as commercial airlines, private aircraft owners, refurbishers and military and defense agencies.

2 > A TRULY GLOBAL BRAND

Established in the Netherlands in 1792, **Sikkens®** is one of Akzo Nobel's oldest paint brands. A name which has always been synonymous with quality and innovation, Sikkens® has developed into a truly global brand and is now manufactured for a diverse range of markets, including car refinishes, the decorative coatings sector, yacht and boats and specialist wood applications.

3 > PLAIN SAILING

Yachts and pleasure craft all over the world are protected from the harsh marine environment – both above and below the water line – thanks to Akzo Nobel's International Yacht Coatings business. A complete range of market-leading products is supplied under the **International®** and **Interlux®** brand names, including antifoulings, finishes, undercoats, varnishes, primers and fillers. A wide selection of technologically-advanced yacht coatings is also available under the **Awlgrip®** brand for the professional sector.

4 > HIGH QUALITY PROTECTION

Akzo Nobel is a world market leader in the development and supply of **coil coatings.** Coil coatings are highly effective in ensuring the consistent, high quality protection and decoration of metal substrates. As a result, they are widely used in the building and construction market. They are also used on casings for domestic appliances such as microwave ovens, refrigerators and washing machines.

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5 > WORKING OVERTIME

The hustle and bustle of the modern-day office puts big demands on furniture and its durability. But by using tough and durable coatings, the decorative and functional life of office equipment can be prolonged. Akzo Nobel supplies **Interpon®** powder coatings for the furniture sector which are formulated to give exceptional hardness and scratch resistance in a wide range of fashionable colors, special effects and bright metallic finishes. Also available are specialist powder coatings which can be sprayed onto engineered wood products, such as MDF.

6 > ANSWERING THE CALL

Mobile phones have undergone an amazing transformation. Now incredibly compact and sold in their millions, they're available in a mind-boggling array of colors and styles. They're a perfect example of how plastic coatings can be used to enhance a product's appearance, as well as offering protection, with Akzo Nobel supplying **specialty plastic coatings** to a number of cell phone manufacturers. They are also used on snowboards and various other products.

AKZO NOBEL CHEMICALS
AT A GLANCE
WE POP UP UNEXPECTEDLY IN EVERYDAY LIFE

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❶ > LIGHT AND DURABLE

Thousands, if not millions, of products around the world are protected from damage by polystyrene packaging. Akzo Nobel's **Polymer Chemicals** business is the major supplier of a key raw material which is essential for the successful conversion of styrene monomer to polystyrene, the world's packaging material of choice. Polystyrene combines strength, lightness and durability, and at the same time is also safe, hygienic and convenient to use.

❷ > APPLYING THE RIGHT FOUNDATION

Every day the vast majority of women start their day by applying make-up. It's an industry worth billions around the globe. But behind that elegant façade or subtly enticing scent, cosmetics and soaps rely on invisible raw materials, substances such as our **Elfacos®** emulsion stabilizers, to provide a safe and high quality basis for the latest eye shadow, lipstick, or facial mask.

❸ > HIGH PERFORMANCE

Every aspiring golfer's ambition is to improve their game. That means top-of-the-range equipment and the very best high performance balls. As a major supplier of crosslinking peroxides such as **Trigonox®**, which are used in today's most successful solid-core golf balls, our Polymer Chemicals business is contributing in its own way to raising the quality of the game.

❹ > IN THE PIPELINE

Millions of kilometers of underground plastic pipelines carry water and sewage to and from homes and businesses. Produced by our Chlor-Alkali business, **chlorine** is used in a number of applications including vinyl end-products such as PVC piping, electrical conduit and wiring which have to meet the toughest requirements when it comes to resistance to ignition and flame spread.

❺ > A TASTE OF SUMMER

The next time you polish off an ice cream, it might be worth remembering that Akzo Nobel probably played a role in helping to create those precious moments of pleasure. We produce **Akucell®** cellulose gum which significantly enhances the ice cream's quality by acting as a thickener and stabilizer. It also controls crystallization and moisture retention.

❻ > IT'S SOLVENT-FREE

When you produce paper – whether it's basic toilet paper or first class writing paper, soft tissue or hardboard, water absorbent kitchen towel or drink cartons – chemicals influence the outcome. Using a patented process, Akzo Nobel's **Eka Chemicals** business has developed an intermediate, solvent-free, AKD wax which is a raw material for sizing agents used in paper manufacture. Sizing improves the printability of paper and makes it water-resistant. The result is an improved, more environmentally benign product.

❼ > THE ROAD TO SUCCESS

Traffic congestion is the bane of the modern day motorist, especially when it's caused by road repairs. Akzo Nobel, however, is doing its bit to reduce the world's congestion problems, at least when it comes to delays caused by resurfacing work. **Wetfix®** adhesion promoters, made by our Surfactants business, improve the bond between bitumen and aggregates – the main components of asphalt – thus extending lifetime and lengthening the interval between road repairs. Our **Redicote®** emulsifier systems also offer environmentally friendly solutions for rapid repair of worn out road surfaces.

KEY DEVELOPMENTS

A BRIEF OVERVIEW OF THE KEY DEVELOPMENTS AND MILESTONES DURING 2005 WHICH INVOLVED AKZO NOBEL AND ITS ACTIVITIES AROUND THE WORLD.

ORGANON

- Organon and Johnson & Johnson's Janssen-Cilag mutually agreed to end their copromotion involving antipsychotic drug **Risperdal**® [1]. Organon received EUR 149 million.
- A patent litigation settlement was reached between Organon and Barr Pharmaceuticals concerning a generic version of Organon's **Mircette**® oral contraceptive. Organon received EUR 109 million.
- Organon USA settled the remaining antitrust litigation claims involving the **Remeron**® antidepressant in the United States. The settlement led to a charge of EUR 64 million.
- A development milestone was achieved by Organon in its **asenapine collaboration** with Pfizer, resulting in Pfizer taking a higher share of the phase III development costs.
- Worldwide development and marketing rights were granted to Organon by Merck affiliate Laboratoire Théramex for its **novel oral contraceptive** EMM 310066.
- Organon and U.S.-based Lexicon Genetics announced a collaboration in the development and commercialization of **new biotherapeutic drugs.**
- Organon successfully **integrated Diosynth** to reinforce the company's human healthcare activities, notably in the field of biotechnology.

1 A new **Research Center** was inaugurated by Organon in Cambridge, Massachusetts, United States, and the company also opened a state-of-the-art EUR 37 million **pharmaceutical pilot plant** in Oss, the Netherlands.

- Organon and Cypress Bioscience Inc. joined forces to develop and commercialize the first novel pharmacological treatment for the breathing disorder **Obstructive Sleep Apnea.**
- The Organon Puregon® solution fertility treatment (marketed as Follistim® in the United States) **received approval** from the Chinese State Food and Drug Administration. The product was also launched (as Follistim®) in Japan.

[1] Risperdal® is a trademark of Janssen Pharmaceutica NV

NOBILON

2 The company announced that it is developing a **human vaccine** against the H5N1 strain of the avian flu virus. Development of the vaccine – which is still in its early stages – is taking place at Nobilon in conjunction with Akzo Nobel's healthcare businesses Organon and Intervet.

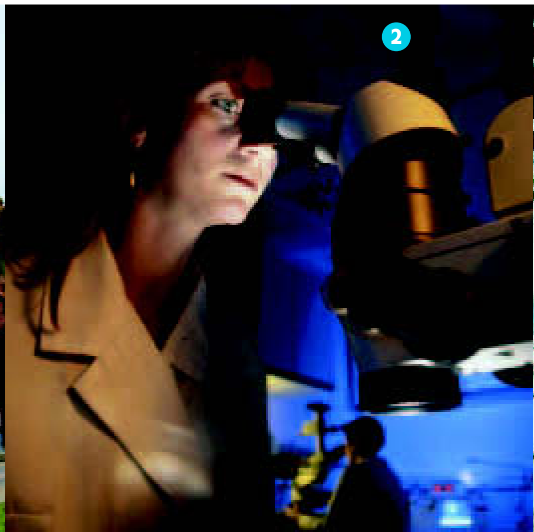
INTERVET

3 Intervet announced the launch of its first two **Asian fish vaccines** – just five years after setting up the first and only private aquatic animal health R&D center in the Asia-Pacific region.

- The company agreed to divest some of its **feed additives** activities to Bulgarian company Biovet. The deal concerned the sale of Intervet's Sacox®, Salocin®, Flavomycin®, Gainpro®, Hostazym®, and Stenorol® products.
- Intervet announced that it had agreed to acquire New Zealand's **AgVax Developments Ltd.** Based in Upper Hutt, the animal health company is focused on the identification, development, and commercialization of vaccines that increase the productivity of the agricultural sector.

AKZO NOBEL COATINGS

- Decorative Coatings Europe signed an agreement to acquire **Swiss Lack,** Switzerland's leading paint company.
- Decorative Coatings Europe boosted its activities in Germany with the acquisition of the ICI Group's wood finishes business **Zweihorn GmbH,** which is based in Hilden.



- 4 Powder Coatings acquired a controlling 60% share in Coatech, Egypt's leading powder coatings manufacturer. The new joint venture company will be renamed **Akzo Nobel Powder Coatings SAE.**
- Decorative Coatings International signed an agreement with the intention to acquire the coatings activities of **Guangzhou Toide Manufacturing Co.,** the biggest private Chinese manufacturer of emulsion paint.
- Powder Coatings announced a **EUR 9 million investment** to build a new manufacturing facility located 100 kilometers east of Moscow, Russia.
- Decorative Coatings International signed an agreement to acquire a 51% **controlling share** in the coatings activities of Ukrainian company Khimrezerv.
- New decorative coatings plants were **officially opened** in Vietnam and China – one near Ho Chi Minh City, the other in Suzhou near Shanghai – while Powder Coatings inaugurated a new production site in Langfang, China.
- The Marine & Protective Coatings business clinched a **major contract** to coat the first ever Liquid Natural Gas (LNG) carriers to be built in China. More than two million liters of paint will be used to coat the four vessels.
- The company announced that its Decorative Coatings business had developed **Alpha® Tacto®,** the world's first decorative paint product capable of providing two distinct effects, depending on how it is applied to the wall.
- Marine & Protective Coatings announced the introduction of **Interchar®**, a next generation fireproofing material, which is designed to give unique protection to high-rise structures and public buildings.

AKZO NOBEL CHEMICALS

- Akzo Nobel announced a **realignment** of its Chemicals group resulting in the planned divestment of a number of businesses with combined 2004 revenues of EUR 700 million.
- The company announced a **EUR 26 million investment** in two chemicals businesses in Sweden – a further capacity increase at the ethylene amines facility in Stenungsund, and the construction of a new plant in Skoghall to manufacture water treatment chemicals.
- A **EUR 24 million investment** was announced to increase capacity at the company's **Bermocoll®** production facility in Sweden, which will transform the site into one of the biggest cellulose derivative manufacturing plants in the world.
- The company announced **Chemicals investments in China** totaling around EUR 15 million to build a new polysulfides plant in Taixing and a paper chemicals site in Guangzhou.
- Akzo Nobel agreed to divest its **Ink and Adhesive Resins** business to Hexion Specialty Chemicals for EUR 88 million.
- Base Chemicals officially opened its extended, state-of-the-art **membrane electrolysis plant** in Rotterdam, the Netherlands, increasing annual chlorine production capacity by 20% to around 620,000 tons.
- 5 Production started on schedule at **Eka Bahia** in Brazil, the plant operated by Akzo Nobel's Pulp & Paper Chemicals business, Eka Chemicals, which produces chemicals for the Veracel pulp mill.

CORPORATE

- 6 Akzo Nobel was included on the prestigious **Dow Jones Sustainability Indexes.**
- The company officially launched its first ever **Corporate Social Responsibility Report,** prepared in accordance with guidelines laid down by the Global Reporting Initiative.
- Moody's changed the company's **A3 rating outlook** to stable from negative.

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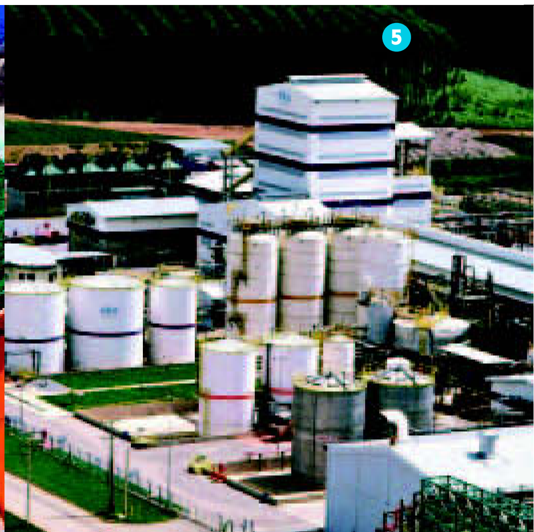

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CHAIRMAN'S STATEMENT

HANS WIJERS
Chairman of the Board of Management

'I THINK THAT WE ARE IN EXCELLENT SHAPE TO SUSTAIN THE GROWTH MOMENTUM WHICH WE HAVE BUILT UP'

It's been a good year for Akzo Nobel. If 2004 was all about creating a platform for growth, then 2005 showed significant progress in the implementation of our strategic agenda, both in terms of expanding our focused businesses and reinforcing our financial position. The company's operational results exceeded expectations, despite challenging market conditions in most European economies and surging raw material prices. I think that we are in excellent shape to sustain the growth momentum which we have built up, particularly over the last 12 months.

Steering the company into this position has required hard work and some tough decision-making, not least within Chemicals, where a major divestment program is still ongoing. But by increasing our cost efficiency, streamlining the portfolio, consolidating our operations and fine-tuning our global business strategies, we have created a very strong balance sheet which will allow us to target further profitability and build on our leading positions in various global markets.

We will continue to actively pursue opportunities for expansion in all businesses, particularly within our Coatings group, which I'm proud to say is the world's biggest. Coatings faced difficult market conditions during 2005, especially in Europe – and also experienced an unprecedented hike in raw material prices – but recovered in the second half of the year to significantly improve its performance. The business also enjoyed accelerated growth in emerging markets and made a series of important acquisitions, as well as investing in several new production facilities around the world. We have an exciting growth strategy in place for our Coatings group and hope to step-up acquisition activity during 2006 in order to enhance the portfolio and further strengthen our global presence. We are very committed to remaining the world's leading coatings company.

In Chemicals, the realignment of our businesses into five growth platforms has been successfully completed and is starting to reap rewards as we continue to strengthen leadership positions in selected markets. The streamlined activities have made good progress over the last 12 months and are already delivering increased top and bottom-line growth, despite the threat to margins posed by rising raw material and energy prices. With the Chemicals ROI operational figure of 16.2% for the ongoing business, we remain fully committed to delivering on the strategic growth targets which have been set by the refocused businesses. Encouraged by these results, we accelerated our investment program to increase manufacturing capacity and exploit other growth opportunities. The ongoing divestment and restructuring programs resulting from the realignment are progressing on schedule.

I'm also encouraged by the progress being made with regard to the company's Healthcare activities. Organon, our human healthcare business, made solid advances with its product pipeline – particularly asenapine, the very promising drug we are co-developing with Pfizer – as well as entering into some key partnerships during the year. Our innovative contraceptive, NuvaRing®, also showed encouraging development, as did our key fertility product, Puregon®. In addition, Organon returned better than expected bottom and top-line results.

In animal healthcare, Intervet also had a very good year, achieving significantly higher growth and strengthening its position in a number of key markets, especially in Europe and North and Latin America. Intervet also successfully divested its feed additives business, the least promising part of its portfolio.

Looking briefly at Akzo Nobel's global activity during 2005, our main acquisitions involved the Coatings group, with deals in Germany, Switzerland, Egypt, the Ukraine, and China being agreed, while Intervet secured the purchase of a company in New Zealand. Important investments were made to strengthen our manufacturing capabilities across our portfolio. Organon also significantly boosted its R&D expertise in biotechnology by opening a new research center in the United States. Our response to global events was also swift, with Intervet offering free vaccines to zoos in Europe following the outbreak of avian influenza in various countries. We also announced that the company's Nobilon business is developing a human vaccine against the deadly H5N1 strain of the avian flu virus.

I'd also like to highlight some additional developments during the year which have played an important role in helping to improve the quality and efficiency of the organization, as well as enhancing our reputation for overall operational excellence. A major landmark was the publication of the company's first CSR Report, which reaffirmed Akzo Nobel's deep-seated dedication and commitment to carrying out its activities in a decent, transparent and sustainable manner. Coupled with the launch of our Community Program and our inclusion on the Dow Jones Sustainability Indexes, 2005 represented something of a milestone in our efforts to embed Corporate Social Responsibility deeply in all our businesses

‘WE CAN NOW MAKE THE NEXT LOGICAL MOVE IN OUR STRATEGY’

and processes. As a firm believer in building a performance-driven culture, I’m also pleased that the company’s new employee development program, the P&D Dialog, is proving to be a success, with a similar human resources initiative specifically designed to assist career planning currently being finalized. Another key activity has been the rationalization of our IT sourcing and our purchasing strategy, which should result in substantial quality improvements and cost efficiencies. In the Netherlands, we reached an important agreement with the unions to change the existing defined benefit pension scheme into a defined contribution scheme.

While 2005 was a good year for Akzo Nobel, we will continue to work hard to reward shareholder investment by consolidating our financial and organizational strength and positioning the company for long-term growth. I’m confident that we are competitively positioned to push ahead and ensure that our growth momentum continues to gather pace. Economic influences will always have an impact, but we remain ambitious and, looking to the future, we hope to accelerate our global expansion strategy across the portfolio, sooner rather than later.

The focus of our management over the last three years has been restoring Akzo Nobel’s businesses to a position of growth, particularly in our Pharma division, but also in re-focusing our Chemicals business and continuing to invest in Coatings. As you have seen, not only have we made the necessary and sometimes difficult and painful changes, but we are already beginning to see the benefits of that in top and bottom-line results. From this position of strength we can now make the next logical move in our strategy.

After a comprehensive review of all the options for Akzo Nobel going forward, we have concluded that the most appropriate solution for all parts of the business is to separate Organon and Intervet from Akzo Nobel. With this move, we will create two transparent and focused companies: Akzo Nobel, a leading Coatings and Chemicals company, and Organon Biosciences, an exciting and strong biopharma company. Both companies are well positioned to accelerate profitable growth.

In 2006 we will need to go through the relevant procedures for all of our stakeholders and we will come back with more information on specifics and timing in the second half of 2006.

I believe that our company is very well positioned for significant further revenue growth across the portfolio in line with the last quarters of 2005. We aspire to achieve earnings increases in our ongoing activities in Chemicals, robust improvements in our Coatings business and a continuation of the positive trends in Intervet. As in the last quarters in 2005 at Organon we will try and find the right balance between the required expenditures in R&D and marketing and sales for new products with the ambition to protect our margin.

In 2006, we plan to accelerate our focus on investments in growth. We will use our increasing room to maneuver to pursue growth opportunities in attractive strategic areas, preferring to use our funds to further strengthen through acquisitions across our Coatings, Chemicals and Pharma portfolios.

We will also use our means to further reduce pension liabilities from the past and to strengthen our future balance sheets. We will regularly evaluate the funds required for growth against other options for shareholder value, such as a share buy-back program.

We acknowledge the loyalty of our customers around the world and are convinced that our products will continue to be instrumental to their ongoing success. My colleagues in the Board of Management and I are very proud to be leading our people across the globe in building a stronger, value-driven company and I know that I can rely on our hard-working and dedicated employees to lead us into what will be an exciting phase of further growth and continued achievement.

HANS WIJERS
Chairman of the Board of Management

CEO Hans Wijers is pictured at the official opening of the company's new Decorative Coatings site at Suzhou near Shanghai in China, which took place in June 2005. The plant, which produces water-based wall paints, also includes R&D facilities and a warehouse for raw materials and finished goods. It stands on the company's existing Suzhou site, where Coatings also operates plants for its Car Refinishes, Powder Coatings and Coil Coatings businesses.

STRATEGY

GENERAL

Akzo Nobel is a diversified, multicultural and truly global company with activities in Pharma, Coatings, and Chemicals. We aim to create above-average economic value over the business cycle. We strive to attract talented, ambitious people who are proud to work for our company. We seek to be respected in the societies in which we operate.

Capital allocation is focused on building sustainable leading business positions, reflected in attractive growth, returns significantly above the costs of capital, and substantial operational cash flows. We actively restructure to meet our goals and divest activities where we cannot meet the criteria.

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

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

After a comprehensive review of all the options for Akzo Nobel's businesses going forward, we have concluded that the most appropriate solution for all parts of the business is to separate Organon and Intervet from our Coatings and Chemicals activities in Akzo Nobel.

After evaluating available options management is jointly convinced that a minority Initial Public Offering (IPO) of Organon/Intervet best enhances shareholder value. This will create a new company, to be called Organon Biosciences.

In 2006, we will need to go through the relevant procedures for all of our stakeholders and we will come back with more information and timing in the second half of 2006.

PHARMA

In recent years, our Organon human healthcare business has experienced a phase of declining revenues. As a consequence, we have adjusted the strategy, the organization and have lowered the cost base.

In 2005, we saw the expected turning point. The decline in revenues has bottomed-out and looking ahead we expect further top-line growth. To further strengthen the growth potential we have continued to invest heavily in R&D and pre-marketing to boost our pipeline. This temporary acceptance of a relatively low operational profit margin is in line with our medium-term value creation philosophy.

We are confident that from the quality of our pipeline we will be able to restore growth momentum and competitive Pharma margins in the medium-term.

We will focus on in-licensing in areas where we have strong market positions but lack sufficient products. On the other hand, we are actively out-licensing and partnering in areas where we have limited development and marketing capabilities.

We integrated Organon and Diosynth, effective January 2005. Diosynth is our focused niche player in the active pharmaceutical ingredients market and our main biotech activity. The integration enables us to combine and focus existing biotechnology competencies and reduce the complexity of logistics processes.

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

In 2002, we launched our Nobilon business to develop, license and manufacture human vaccines on a global scale. In our vaccine activities we combine the expertise and know-how of Organon and Intervet, using all their technical, regulatory and product development capabilities.

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

COATINGS

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

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

Our ambition is to remain the biggest coatings company in the world and also a leader in all our product markets and the key geographic regions. We intend to participate in the consolidation of the coatings industry, which we believe is inevitable as our supplier and customer bases strengthen globally.

Our global scale allows us to further develop our leading positions in technology. We are progressively increasing our investments in R&D towards 3.5% of revenues. Our increasing innovation efforts will allow better differentiation of our activities in the highly competitive markets in which we operate. We are also using our scale in purchasing of raw materials to secure our margins.

Our medium-term financial target is 25% ROI.

CHEMICALS

We have streamlined our Chemicals portfolio and are concentrating on growing profitable businesses which we have identified within selected strategic markets. This has seen us exiting non-core businesses and rationalizing support structures around the selected core platforms.

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

We have now organized our activities in five growth platforms: Pulp & Paper Chemicals, Base Chemicals, Functional Chemicals, Surfactants, and Polymer Chemicals. We have made significant progress in 2005 with the divestment of the remaining non-core activities and the balance will be completed in the first half of 2006.

Our ambition is to strengthen our leading position in selected markets by investing in organic growth and through participating in industry consolidation.

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

FINANCING OBJECTIVES

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

We will defend our single A credit ratings.

BOARD OF MANAGEMENT

ROB FROHN

HANS WIJERS

ROB FROHN
(1960, Dutch)
CFO
Has served in this or a similar capacity since 2004

HANS WIJERS
(1951, Dutch)
Chairman and CEO
Coatings [1]
Has served in this or a similar capacity since 2002

LEIF DARNER
(1952, Swedish)
Chemicals
Has served in this or a similar capacity since 2004

TOON WILDERBEEK
(1950, Dutch)
Pharma
Has served in this or a similar capacity since 2002

Secretary
HAN JALINK

RUDY VAN DER MEER [2]
(1945, Dutch)
Coatings
Has served in this or a similar capacity since 1993

[1] From May 1, 2005
[2] Until May 1, 2005

LEIF DARNER

TOON WILDERBEEK

REPORT OF THE BOARD OF MANAGEMENT

GENERAL FINANCIAL OVERVIEW

EFFECTIVE STRATEGY DRIVES REVENUES GROWTH; NET INCOME UP

- **Growth in all segments – revenues of present operations up 6%**
- **Organon – returning to growth; investing in future product sales and pipeline**
- **Intervet – excellent growth**
- **Coatings – picked up in second half year after challenging start; growth in emerging markets**
- **Chemicals – strong performance following portfolio realignment**
- **Incidentals – net EUR 334 million gain**
- **Strong financial position**
- **Dividend maintained – EUR 1.20**

ORGANON – RETURNING TO GROWTH; INVESTING IN FUTURE PRODUCT SALES AND PIPELINE

- Revenues – up 3%; strong finish
- Infertility products – strong growth
- NuvaRing® – sales and market share steadily increasing
- Lower EBIT due to increasing marketing and R&D expenses – investing in future product sales and pipeline growth
- Termination Risperdal® copromotion – EUR 149 million special benefit
- Settlement with Barr on its infringement of Organon's rights to the Mircette® patent – EUR 109 million special benefit
- Settlement of last Remeron® court case – EUR 64 million charge
- Pharmaceutical ingredients – impairment charge of EUR 67 million

INTERVET – EXCELLENT GROWTH

- Revenues – 7% growth in all regions and in virtually all franchises
- EBIT margin of 21.8%
- Benefiting from supply chain improvements
- Feed additives divested
- Acquisition AgVax – enhancing market position in New Zealand

COATINGS – PICKED UP IN SECOND HALF YEAR AFTER CHALLENGING START; GROWTH IN EMERGING MARKETS

- Revenue growth 6% – driven by 5% price increases
- Lower EBIT due to pressure from raw material prices and weaker European economies
- Strong recovery in second half year led by industrial activities and Marine & Protective Coatings
- Car Refinishes – under pressure; restructuring programs being carried out
- Decorative Coatings – management reorganization to meet global challenge
- Ongoing acquisitions and investments in emerging markets

CHEMICALS – STRONG PERFORMANCE FOLLOWING PORTFOLIO REALIGNMENT

- Growth of 4%
- Efficiency measures offset high energy and raw material prices
- Successful portfolio realignment
- Base and Functional Chemicals – continued strong performance
- Surfactants – clear improvement
- Pulp & Paper Chemicals and Polymer Chemicals – top-line growth; margins under pressure
- Divestment program – progressing well

EFFECTIVE STRATEGY DRIVES REVENUES GROWTH; NET INCOME UP
Net income was up 2% compared with 2004 and amounted to EUR 961 million, which is EUR 3.36 per share (2004: EUR 3.31).

Organon earnings were up due to increased revenues and to income derived from deals with other pharma companies. Premarketing costs and R&D expenses were higher as a consequence of our investments in future growth. Intervet's EBIT was up substantially. Coatings revenues showed satisfactory growth of 6% but margins were under pressure from increased raw material prices and weaker European economies, especially in the first half of the year. In the second half, the performance of our industrial coatings activities improved. Chemicals present operations achieved robust growth in revenues and EBIT, despite higher energy and raw material prices.

REVENUES GROWTH OF 6% FROM PRESENT OPERATIONS – DRIVEN BY POSITIVE BUSINESS DEVELOPMENTS
Revenues from our present operations amounted to EUR 13.0 billion, up 6% on last year. This was mainly attributable to autonomous growth across all segments. Organon's revenues decline in recent years was reversed with growth of 3%. Intervet performed well, delivering 7% growth. Coatings and Chemicals realized healthy autonomous growth of 4%. On balance, currency translation had a slight positive effect during the year.

Akzo Nobel's total revenues

In %

	Total	Volume	Price	Currency translation	Acquisitions/ divestments
Organon	3	2	–	1	–
Intervet	7	5	1	2	(1)
Coatings	6	(1)	5	1	1
Chemicals, present operations	4	1	3	–	–
Akzo Nobel	**1**	**1**	**3**	**1**	**(4)**[1]

[1] Includes the effect of the Chemicals businesses divested in 2004.

OPERATIONAL EARNINGS 6% LOWER – IMPACTED BY RAW MATERIAL PRICES AND ORGANON'S INVESTMENTS IN FUTURE PRODUCT SALES AND PIPELINE
Operating income excluding incidentals from present operations was EUR 1,152 million, on balance down 6% compared with 2004. EBIT margin was 8.9% (2004: 10.0%).

Total EBIT for the year decreased by 3% from EUR 1,527 million to EUR 1,486 million with an EBIT margin of 11.4% (2004: 11.9%).

Consolidated statement of income

Millions of euros (EUR)

	2005	2004
Revenues	**13,000**	12,833
Costs of sales	**(7,066)**	(6,825)
Gross profit	**5,934**	6,008
Selling expenses	**(3,297)**	(3,254)
Research and development expenses	**(834)**	(816)
General and administrative expenses	**(693)**	(674)
Other operating income/(expenses)	**16**	(1)
IAS 39 fair value adjustments	**26**	
Incidentals:		
– special benefits	**571**	84
– results on divestments	**44**	579
– restructuring and impairment charges	**(169)**	(197)
– charges related to major legal, antitrust, and environmental cases	**(112)**	(202)
Operating income (EBIT)	**1,486**	1,527
Financing charges	**(156)**	(144)
Operating income less financing charges	**1,330**	1,383
Taxes	**(336)**	(412)
Earnings of consolidated companies after taxes	**994**	971
Earnings from nonconsolidated companies	**4**	10
Profit for the period	**998**	981
Minority interest, attributable to minority shareholders	**(37)**	(36)
Net income, attributable to equity holders	**961**	945

Organon's earnings were up on the previous year due to revenues growth of 3% and the special benefits derived from deals with other pharma companies. NuvaRing® and Puregon® were the main drivers of revenues growth. The decline of Remeron® sales was less than expected. Sales of Livial® were slightly down. Intervet earnings were boosted by strong autonomous growth of 6% and improved supply chain management. In the first half year, Coatings earnings were impacted by significantly increased raw material prices and weaker European economies, while in the second half, the industrial coatings activities delivered a strong performance. Earnings from the present Chemicals operations were up 18%, despite higher energy and raw material prices.

INCIDENTALS – A NET GAIN OF EUR 334 MILLION

The special benefits are attributable to the termination of the Risperdal® copromotion contract (EUR 149 million) and the settlement with Duramed/Barr on its infringement of Organon's rights to the Mircette® patent (EUR 109 million). In addition, the new Dutch defined contribution pension plan and the termination of the postretirement healthcare scheme resulted in a release of provisions of EUR 283 million. The divestment of Intervet's feed additives business and the company's stake in Svensk Ethanolkemie resulted in a profit of EUR 44 million. The restructuring and impairment charges of EUR 169 million were due to programs at Organon's active pharmaceutical ingredients business and several Coatings and Chemicals projects. The settlement of the final Remeron® court case cost EUR 64 million, while a charge of EUR 39 million was recorded for additions to the provision for antitrust cases.

Akzo Nobel's *R&D expenses* were EUR 834 million, which is equivalent to 6.4% of revenues. For 2004, this was EUR 816 million and 6.4%, respectively. In 2005, Organon spent 18% of its revenues on R&D. The Intervet ratio amounted to 10%, while for Coatings and Chemicals this ratio remained unchanged at around 3%.

Financing charges increased from EUR 144 million in 2004 to EUR 156 million in 2005 due to higher interest charges on discounted provisions (2005: EUR 41 million; 2004: EUR 21 million). However, interest on net interest-bearing borrowings was lower due to decreased net liabilities (2005: EUR 115 million; 2004: EUR 123 million). Interest coverage decreased from 10.6 to 9.5. EBITDA coverage was 13.2 (2004: 14.5).

The *tax charge* decreased from 30% in 2004 to 25% in 2005. This is attributable to the geographical mix of the company's results and favorable settlements of certain tax disputes.

Earnings from nonconsolidated companies were EUR 4 million, down EUR 6 million compared to 2004. The overall operational performance of the nonconsolidated companies on balance improved slightly, as higher results for Flexsys and most of the other Chemicals joint ventures more than offset the earnings decline at Methanor and the loss of earnings from the divested Catalysts joint ventures. 2005 earnings include net incidental losses of EUR 37 million (2004: EUR 29 million). These concerned an impairment charge for Methanor and charges related to guarantees for environmental costs at Acordis.

Segment data

Millions of euros (EUR)

	2005	2004	Δ%
Revenues			
Organon	**2,425**	2,344	*3*
Intervet	**1,094**	1,027	*7*
Coatings	**5,555**	5,237	*6*
Chemicals, present operations	**3,890**	3,735	*4*
Intercompany revenues/other	**36**	(92)	
Akzo Nobel, present operations	**13,000**	12,251	*6*
Chemicals, divested activities		617	
Intercompany revenues		(35)	
Total	**13,000**	12,833	*1*
Operating income (EBIT) present operations excluding incidentals			
Organon	**270**	326	*(17)*
Intervet	**209**	173	*21*
Coatings	**423**	467	*(9)*
Chemicals, present operations	**351**	349	*1*
Other	**(101)**	(92)	
Total	**1,152**	1,223	*(6)*
EBIT margin, in %	**8.9**	10.0	
Operating income (EBIT)			
Organon	**415**	275	*51*
Intervet	**238**	184	*29*
Coatings	**384**	406	*(5)*
Chemicals, present operations	**312**	265	*18*
IAS 39 fair value adjustments	**26**		
Other	**111**	(207)	
Akzo Nobel, present operations	**1,486**	923	*61*
Chemicals, divested activities		604	
Total	**1,486**	1,527	*(3)*
EBIT margin, in %	**11.4**	11.9	

FUNDS BALANCE DOWN – LOWER PROCEEDS FROM DIVESTMENTS, CASH CONTRIBUTIONS FOR THE NEW DUTCH PENSION SCHEME, AND HIGHER WORKING CAPITAL NEEDS DUE TO REVENUES GROWTH

Cash decreased EUR 0.4 billion in 2005, compared with an inflow of EUR 1.1 billion in 2004. This decline is mainly attributable to lower proceeds from divestments and the payments made to the Dutch pension fund in connection with the transition to the defined contribution scheme. In addition, working capital needs were higher due to strong revenues growth in the last quarter of 2005. Taxes paid were also substantially up.

Capital expenditures amounted to EUR 514 million, EUR 37 million below the 2004 level. Capital expenditures were 97% of depreciation. Investments are targeted at priority businesses and regions, particularly China and Central and Eastern Europe, where growth continued at high rates and where we opened several new factories. Chemicals' investments also include projects in the Netherlands, Sweden, and Brazil.

Investments in intangible assets were mainly due to the new R&D collaboration contracts with Lexicon Genetics and Merck KGaA affiliate Laboratoire Théramex.

Acquisition expenditures cover several bolt-on acquisitions in Coatings and the AgVax acquisition at Intervet.

Proceeds from divestments principally related to the sales of Intervet's feed additives business and Chemicals' Svensk Ethanolkemie operations. Last year's proceeds principally stemmed from the divestment of Catalysts, Phosphorus Chemicals, and Resins.

The main changes in borrowings in 2005 were the redemption of the NLG 500 million 1995-2005 bond (EUR 227 million), partially offset by the termination of a currency swap, which generated EUR 78 million[1].

Condensed consolidated statements of cash flows

Millions of euros (EUR)

	2005		2004	
Profit for the period	**998**		981	
Adjustments to reconcile earnings to cash generated from operating activities:				
Depreciation and amortization	**569**		565	
Impairment losses	**132**		74	
Financing charges	**156**		144	
Earnings from nonconsolidated companies	**(17)**		(52)	
Taxes recognized in income	**338**		415	
Operating profit before changes in working capital and provisions		**2,176**		2,127
Changes in working capital	**(248)**		(32)	
Changes in provisions	**(598)**		(63)	
Other	**28**		(4)	
		(818)		(99)
Cash generated from operating activities		**1,358**		2,028
Interest paid	**(145)**		(139)	
Income taxes paid	**(391)**		(217)	
Pre-tax gain on divestments	**(44)**		(579)	
		(580)		(935)
Net cash from operating activities		**778**		1,093
Capital expenditures	**(514)**		(551)	
Investments in intangible assets	**(67)**		(28)	
Interest received	**34**		21	
Repayments from nonconsolidated companies	**27**		11	
Dividends from nonconsolidated companies	**19**		123	
Acquisition of consolidated companies[2]	**(55)**		(80)	
Proceeds from sale of interests[2]	**64**		1,036	
Loans and prepaid premiums to APF[3]	**(150)**			
Other changes in noncurrent assets	**53**		2	
Net cash from investing activities		**(589)**		534
Changes in borrowings	**(188)**		(169)	
Dividends	**(366)**		(366)	
Net cash from financing activities		**(554)**		(535)
Net change in cash and cash equivalents		**(365)**		1,092
Cash and cash equivalents at January 1		**1,811**		727
Effect of exchange rate changes on cash and cash equivalents and impact IAS 32 and 39		**40**		(8)
Cash and cash equivalents at December 31		**1,486**		1,811

[1] In January 2005, the company terminated a currency swap contract whereby EUR 250 million floating-rate EURIBOR-related liabilities were swapped into USD 223 million LIBOR-related liabilities, generating EUR 78 million in cash proceeds. This swap was part of an interest rate currency swap whereby euro-denominated fixed rate liabilities were swapped into floating rate U.S. dollar-denominated liabilities.

[2] Net of cash acquired or disposed of.

[3] Akzo Nobel Pension Fund in the Netherlands.

Condensed consolidated balance sheet

Millions of euros (EUR)

	December 31, 2005	January 1, 2005
Total noncurrent assets	**5,720**	5,665
Total current assets	**6,705**	6,581
Total assets	**12,425**	12,246
Total equity	**3,576**	2,736
Total noncurrent liabilities	**5,095**	5,763
Total current liabilities	**3,754**	3,747
	12,425	12,246

STRONG FINANCIAL POSITION

Invested capital at December 31, 2005, amounted to EUR 8.0 billion, up EUR 0.6 billion on January 1, 2005. Currency translation caused an increase of EUR 0.4 billion. Working capital rose as a consequence of the company's revenues growth.

In 2005, interest-bearing borrowings were up EUR 0.1 billion to EUR 1.6 billion. Equity increased EUR 0.8 billion as a result of retained income. As a consequence, year-end gearing improved to 0.44 (January 1, 2005: 0.52).

HEADCOUNT EXPANSION IN EMERGING MARKETS – RESTRUCTURING IN MATURE MARKETS

At the end of 2005, the company had 61,340 employees, virtually unchanged from year-end 2004. Growth of our business in emerging markets and acquisitions resulted in a workforce expansion of 810, while restructuring programs in Coatings and Chemicals in the mature markets resulted in a decrease of 920. Developments were as follows:

Headcount developments

	December 31, 2005	Restructurings	Other changes	December 31, 2004
Organon	14,100		10	14,090
Intervet	5,260		(10)	5,270
Coatings	29,200	(500)	840	28,860
Chemicals	11,430	(390)	(70)	11,890
Other	1,350	(30)	40	1,340
Akzo Nobel	**61,340**	**(920)**	**810**	**61,450**

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. As of 2005, the definition of EVA capital has been changed so that it is more closely linked to the company's invested capital definition. In addition, the company has abandoned the principle that one-off items are added to EVA capital permanently. As from 2005, they are amortized in general over a three-year period.

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 one-off items to capital, inclusion of service costs for pensions only.

In 2005, EVA increased by EUR 185 million to EUR 467 million.

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

This financial information has been prepared on the basis of the recognition and measurement requirements of IFRS at the end of 2005. The 2004 comparative figures have been restated accordingly. Please note that certain figures have been slightly adjusted from earlier published data.

In summary, the impact of IFRS on the company's accounts is a decline in shareholders' equity at December 31, 2004, of EUR 431 million. On balance, full-year 2004 net income increased 10%. All this is mainly attributable to the differences in the method of accounting under IFRS for pensions and other postretirement benefits, the recognition of deferred taxes on intercompany profit, the recognition of the payment received from Pfizer for the asenapine cooperation, the recognition of goodwill, and the recognition of provisions. For the most part, the changed accounting relates to timing of the recognition of assets, liabilities, and related results.

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

The reconciliation of shareholders' equity at December 31, 2004, and of net income for 2004 is as follows:

Reconciliation of shareholders' equity and net income

Millions of euros (EUR)

	Shareholders' equity at December 31, 2004	Net income for the year 2004
Figure based on NL GAAP	3,036	856
Pensions and other postretirement benefits	(438)	95
Deferred taxes on intercompany profit	33	(43)
Termination of goodwill amortization	19	19
Pfizer payment	(45)	25
Discounting of provisions	20	9
Restructuring provisions		(6)
Other long-term employee benefits	(16)	–
Share-based payments	(10)	(3)
Other	6	(7)
Figure based on IFRS	**2,605**	945

In addition, until 2004, the company separately reported so-called nonrecurring items. These related to income and expenses resulting from normal business operations, which, because of their size or nature, are disclosed separately for a better understanding of the underlying result for the period. IFRS does not allow this concept. Therefore, the company will not report IFRS earnings figures excluding nonrecurring items on the face of the statement of income. For a better insight into the company's earnings development, the most important elements of the former nonrecurring items will now be reported on separate lines within operating income in the statement of income under Incidentals (see page 27 and note 3 on page 115).

The company used to report royalty income under Other results in the statement of income. Under IFRS, royalty income is reclassified to Revenues. Also proceeds for certain services rendered by the company, which used to be deducted from cost lines in the statement of income, have now been reclassified to Revenues.

IFRS as applied for the restated figures of 2004 do not include standards IAS 32 and 39 for financial instruments. The company has opted for the transition provision of IFRS 1 to apply these standards as from January 1, 2005. The after-tax effect of the implementation of IAS 32 and 39 on January 1, 2005, on balance, has been finally determined to be a charge to shareholders' equity of EUR 9 million.

For a detailed explanation of the impact of IFRS on the company's financial statements see note 20 of the notes to the Consolidated Financial Statements.

CHANGES IN DUTCH POSTRETIREMENT SCHEMES

Akzo Nobel reached an agreement with the Akzo Nobel Pension Fund and the unions to implement a defined contribution pension scheme in the Netherlands. Under this new scheme, the company will pay a fixed annual premium, which is 20% of the pension base salary. As a consequence, fluctuations in pension liabilities or assets will no longer have an influence on the company's balance sheet and results. In order to give a good start to the new setup, Akzo Nobel made a contribution of EUR 151 million and provided a subordinated loan of EUR 100 million. In addition, the company has pre-financed employee premiums for an amount of EUR 50 million.

Due to the implementation of a new Dutch national healthcare system in 2006, the allowances for the postretirement healthcare were terminated, except for certain temporary transitional arrangements.

As a consequence of the above, the company recognized a special benefit due to the release of provisions of EUR 283 million.

In late January 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. Based on legal advice, Akzo Nobel Nederland and the Akzo Nobel Pension Fund have confidence in a positive outcome of the proceedings.

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 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. With respect to support to and monitoring of compliance with laws, and external and company regulations a Compliance Committee has been established. The individual components of the above set of internal controls are in line with the COSO Enterprise Risk Management framework.

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 inaccuracies
- Have operated properly in the year 2005, and
- Will also operate properly in 2006.

Since the systems for internal control over financial reporting throughout the entire organization are under review in view of the company's future obligations pursuant to Section 404 of the U.S. Sarbanes Oxley Act (SOX 404), the above opinion by the Board of Management does not imply an assessment on those internal control systems as required by SOX 404. Notwithstanding the foregoing, the company is continuously working toward improvement of its processes and procedures regarding its financial reporting and their assessment.

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 pages 88 through 90).

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

DIVIDEND MAINTAINED – EUR 1.20

A dividend of EUR 1.20 per common share will be proposed at the Annual General Meeting of Shareholders on April 25, 2006. In October 2005, an interim dividend of EUR 0.30 was declared and paid. Adoption of this proposal will result in a dividend payment of EUR 343 million, representing a payout ratio of 36% relative to net income. Subject to shareholder approval, the Akzo Nobel share will trade ex-dividend from April 27, 2006, and the final dividend will be made payable on May 5, 2006.

Pages 40 through 90 form an integral part of the Report of the Board of Management.

OUTLOOK

We base our expectations for 2006 on the assumption that the world economy will continue to show the positive growth patterns of last year. In the regional mix, we assume that the emerging markets will continue to grow at the same rate as last year, the economy in the United States will slow down somewhat and the mature European economies will improve moderately. Furthermore, we assume no new price hikes for energy and other raw materials. Finally, we base our expectations on a relatively stable development of currencies.

In such an environment, we expect the company to be well positioned for significant further growth of revenues across its portfolio in line with the last quarters of 2005. With respect to earnings we aspire to achieve increases in our ongoing activities in Chemicals, robust improvements in our Coatings business and a continuation of the positive trends at Intervet. As in the last quarters in 2005, at Organon we plan to find the right balance between the required expenditures in R&D and marketing and sales for new products with the ambition to protect our margin.

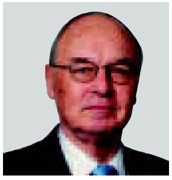
In 2006, we plan to accelerate our focus on investments in growth. We will use the increasing room to maneuver for growth opportunities in the attractive strategic areas across our Coatings, Chemicals, and Pharma portfolios. We will also use our means to further reduce pension liabilities from the past and to strengthen our balance sheet. We expect the number of employees to increase in emerging markets, while headcount will decrease in mature markets as a result of restructuring programs. Capital expenditures are planned in the order of magnitude of EUR 600 million.

We continue to manage our balance sheet in a highly disciplined manner, whereby other options for shareholder value creation, such as a share buy-back program, are evaluated against investments and acquisitions for growth.

Arnhem, February 6, 2006

The Board of Management

SUPERVISORY BOARD



AARNOUT LOUDON [1,2]
(1936, Dutch)
Chairman
Initial appointment 1994
Current term of office 2004-2006

- Former Chairman of the Board of Management of Akzo Nobel NV
- Former member of The First Chamber of the Dutch Parliament
- Chairman of the Supervisory Board of ABN AMRO Holding NV
- Nonexecutive Director of Royal Dutch Shell plc
- Member of the International Advisory Board of Allianz AG (Germany)

MAARTEN VAN DEN BERGH [3,4]
(1942, Dutch)
Deputy Chairman [5]
Initial appointment 2005
Current term of office 2005-2009

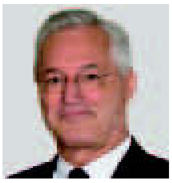
- Former President of Royal Dutch Petroleum Company
- Former Vice Chairman Committee of Managing Directors of Royal Dutch/Shell Group plc
- Chairman of the Board of Lloyds TSB Group plc (United Kingdom)
- Nonexecutive Director of Royal Dutch Shell plc, British Airways plc, and BT Group plc

VIRGINIA BOTTOMLEY [1,2]
(1948, British)
Initial appointment 2000
Current term of office 2004-2008

- Former Secretary of State for Health and Member of the British Cabinet
- Governor of the London School of Economics
- Governor of the Ditchley Foundation
- Executive Director of Odgers Ray & Berndtson (United Kingdom)
- Trustee of the Economist newspaper

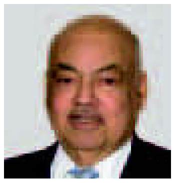
DOLF VAN DEN BRINK [6,8]
(1948, Dutch)
Initial appointment 2004
Current term of office 2004-2008

- Professor Financial Institutions, University of Amsterdam
- Economic Advisor to the Managing Board of ABN AMRO Bank NV
- Former Member of the Managing Board of ABN AMRO Bank NV
- Chairman of the Supervisory Board of Van der Moolen Holding NV and Nyenrode University
- Member of the Supervisory Board of Samas-Groep NV



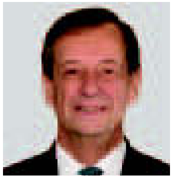
UWE-ERNST BUFE [6]
(1944, German)
Initial appointment 2003
Current term of office 2003-2007

- Former CEO of Degussa AG (Germany)
- Member of the Supervisory Boards of UBS Investment Deutschland AG and Altana AG (Germany)
- Member of the Supervisory Boards of Solvay SA and Umicore SA (Belgium)



ABRAHAM COHEN [6]
(1936, American)
Initial appointment 1992
Current term of office 2005-2009

- Former Senior Vice-President of Merck & Co. (USA)
- Former President of Merck Sharp & Dohme International Inc. (USA)
- Chairman of the Board of Directors of Vasomedical (New York) and of Neurobiological Technologies (California)
- Nonexecutive Director of Teva Pharmaceutical Industries (Israel), and of Chugai Pharmaceuticals (Japan)

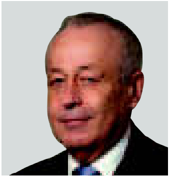


CEES VAN LEDE
(1942, Dutch)

Initial appointment 2003

Current term of office 2003-2007

- Former Chairman of the Board of Management of Akzo Nobel NV
- Chairman of the Supervisory Board of Heineken NV
- Member of the Supervisory Boards of Philips Electronics NV and Air Liquide (France)
- Nonexecutive Director of Reed Elsevier, Sara Lee Corp. (USA) and Air France/KLM (France)
- Chairman of the Board of Directors of INSEAD (France)



ALAIN MÉRIEUX
(1938, French)

Initial appointment 2002

Current term of office 2002-2006

- Chairman of bioMérieux (France)
- Director of Eurazeo and Compagnie Plastic Omnium (France)

LARS THUNELL [7]
(1948, Swedish)

Initial appointment 1999

Stepped down from the Supervisory Board as of January 1, 2006

- President and CEO of SEB Skandinaviska Enskilda Banken AB (Sweden)
- Chairman of the Board of IBX, Integrated Business Exchange (Sweden)

KAREL VUURSTEEN [1 2]
(1941, Dutch)

Initial appointment 2002

Current term of office 2002-2006

- Former CEO of Heineken NV
- Member of the Board of Directors of Heineken Holding
- Member of the Supervisory Board of ING Group NV
- Member of the Supervisory Board of Electrolux AB (Sweden)
- Member of the Supervisory Board of Henkel AG (Germany)

[1] Member of the Remuneration Committee.
[2] Member of the Nomination Committee.
[3] Member of the Remuneration Committee as of May 1, 2005.
[4] Member of the Nomination Committee as of May 1, 2005.
[5] As of May 1, 2005.
[6] Member of the Audit Committee.
[7] Chairman of the Audit Committee until January 1, 2006.
[8] Chairman of the Audit Committee as of January 1, 2006.

REPORT OF THE SUPERVISORY BOARD

FINANCIAL STATEMENTS AND DIVIDEND PROPOSAL

The Supervisory Board submits to the shareholders the financial statements and the report of the Board of Management of Akzo Nobel N.V. for the financial year 2005, as prepared by the Board of Management and approved by the Supervisory Board in its meeting of February 6, 2006.

The 2005 financial statements were audited by KPMG Accountants N.V. The Auditors' Report appears on page 162. 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 2005 financial statements were a topic of discussion for the full Supervisory Board with the full Board of Management, in the presence of the auditors. Based on these discussions, the Supervisory Board believes that the 2005 financial statements of Akzo Nobel N.V. meet all requirements for correctness and transparency and that they form a good basis to account for the supervision provided.

We recommend that shareholders adopt the 2005 financial statements as presented in this Annual Report. We also propose that the General Meeting of Shareholders resolves that the total dividend for 2005 on each of the common shares outstanding will be EUR 1.20, and that this amount, less the interim dividend of EUR 0.30 – which was made payable in October 2005 – will be made payable in May 2006. 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 2005, and the members of the Supervisory Board for their supervision of management.

SUPERVISORY BOARD ACTIVITIES

The full Supervisory Board met six times during the course of 2005, which included one meeting fully dedicated to the company's strategy. All meetings were plenary sessions with the full Board of Management and were well attended by all Supervisory Board members. The October meeting, held at the Akzo Nobel Coatings site in Sassenheim, the Netherlands, focused in particular on both the Decorative Coatings and Car Refinishes businesses, as well as the location's Esthetic Center.

On two occasions, the Supervisory Board held separate meetings, which were attended in part by the CEO. During these meetings, 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 prepares the meetings with the assistance of the CEO. The Supervisory Board discussed such issues 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 2005, the Supervisory Board again devoted considerable time to discussions on the company's strategy. 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, in a separate strategy session in February 2005. During regular meetings, the company's strategic direction was a major point of discussion. After thorough evaluation of all available options the Board of Management and the Supervisory Board are jointly convinced that a minority Initial Public Offering (IPO) of Organon/Intervet best enhances shareholder value. This will create a new company, to be called Organon Biosciences. The final decision and timing will have to wait on various developments in the second half of 2006. The Supervisory Board also discussed and consented to the company's strategic realignment of the Chemicals group into five growth platforms.

Other discussion topics included:

- A revised division of tasks for the Board of Management
- The restructuring of the Risperdal® copromotion between Janssen Pharmaceutica NV and Organon
- The final settlement of the Remeron® litigation
- The settlement of the Organon claim against Barr for damages in the Mircette® patent infringement lawsuit
- Pensions and pension systems.

In February 2005, the full Supervisory Board received training on the company's future obligations pursuant to SOX 404 and their consequences for the company.

In light of SOX and the Dutch Corporate Governance Code, corporate governance was reviewed and subsequently a proposal to amend the Articles of Association was submitted to and approved by the General Meeting of Shareholders in 2005. In addition, the Rules of Procedure of the Supervisory Board and its Committees have also been reviewed and amended. The Rules of Procedure are available on the company's corporate website (www.akzonobel.com).

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

COMPOSITION OF THE SUPERVISORY BOARD

Effective May 1, 2005, Deputy Chairman of the Supervisory Board Maarten van Veen stepped down, having reached the age limit. The Board acknowledged a debt of gratitude to Mr. van Veen, who with his expertise and broad business experience has rendered outstanding services to the company.

Also effective May 1, 2005, Maarten van den Bergh, Chairman of Lloyds TSB Group plc and nonexecutive director of Royal Dutch Shell plc., was appointed to the Supervisory Board for a four-year term. Mr. van den Bergh was appointed Deputy Chairman of the Supervisory Board and in October 2005, it was announced that Mr. van den Bergh will succeed Aarnout Loudon as Chairman after the latter's resignation in 2006.

Abraham Cohen was reappointed. This is his fourth term and therefore an exception to the Supervisory Board's Rules of Procedure, as explained at the Annual General Meeting of Shareholders in 2005.

Following his nomination as Executive Vice President of the International Finance Corporation, and member of the Group Management of the World Bank, Lars Thunell had to step down from Akzo Nobel's Supervisory Board as of December 31, 2005. During his combined term of nine years, Mr. Thunell made an outstanding contribution to the Supervisory Board and its Audit Committee with his extensive knowledge and experience in the international finance world, and his warm personality. The Supervisory Board wishes Mr. Thunell success with this new challenge.

At the 2006 General Meeting of Shareholders, Mr. Loudon will resign from the Supervisory Board after a long and distinguished career with the company. First employed by Akzo N.V. in 1969, Mr. Loudon became Chairman of the Board of Management in 1982, a position he held for 12 years until his retirement in 1994. CEO during some of the most significant years in the company's recent history, he guided Akzo through its merger with Nobel and laid the foundations for the significant growth which followed. Mr. Loudon has been Chairman of the Supervisory Board of Akzo Nobel N.V. since 1995. The Supervisory Board and Board of Management owe a debt of great gratitude and appreciation to Mr. Loudon for his many invaluable contributions to the company.

It will be proposed at the 2006 General Meeting of Shareholders that Antony Burgmans, Chairman of Unilever NV/plc and former vice chairman of Unilever plc, and Louis R. Hughes, at present Chief Executive Officer of GBS Laboratories, and former Executive Vice President of General Motors Corp. (USA), be appointed to the Supervisory Board for a four-year term to succeed Messrs. Loudon and Thunell.

Also at this meeting, Karel Vuursteen and Alain Mérieux will step down. They are available and recommended for reappointment.

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

BOARD OF MANAGEMENT CHANGES

Effective May 1, 2005, Rudy van der Meer retired from the Board of Management. We are greatly indebted to Mr. van der Meer for his great business acumen and excellent service and dedication to Akzo Nobel. It was decided not to fill the vacancy. The total number of members of the Board of Management was reduced by one and fixed at four by the General Meeting of Shareholders in 2005. In addition to his duties as CEO, Hans Wijers also took over Mr. van der Meer's responsibility for Akzo Nobel's Coatings businesses.

AUDIT COMMITTEE

The Audit Committee consists of four members and was chaired by Mr. Thunell until his resignation effective December 31, 2005. He has been succeeded as committee chairman by Dolf van den Brink.

The Audit Committee had seven regular meetings in 2005. In principle, 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. In addition, the Audit Committee met twice without management being present to conduct self-evaluation and appraise performance. A meeting with only the internal auditor, and one with only the external auditor present, was also held.

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.

In addition, considerable time was spent during 2005 on corporate governance. The Committee reviewed its own functioning and proposed a revised Charter, which was later approved by the Supervisory Board and included in the Rules of Procedure.

The Audit Committee further discussed such items as:

- KPMG's management letter and the Board of Management's follow up
- Preparing for the implementation of the requirements of SOX 404 as from 2006
- Treasury and finance
- Pensions
- Provisions
- EVA calculation and development and
- Insurance policy.

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

REMUNERATION COMMITTEE[1]
The Remuneration Committee consists of four members and is chaired by Mr. Loudon. The Committee met four times in 2005, with three of the meetings being combined sessions with the Nomination Committee.

The Remuneration Committee made a recommendation on the remuneration and remuneration policy for the members of the Board of Management, including personal targets.

The Supervisory Board approved the Committees' recommendations and the remuneration policy was adopted by the General Meeting of Shareholders in 2005. Also, a performance-related share plan and a revised performance-related option plan, both for executives, have been approved by the General Meeting of Shareholders in 2005.

The Remuneration Committee also reviewed the remuneration of the members of the Supervisory Board and its Committee. The Supervisory Board approved the Committee's recommendations and will submit the remuneration proposal to the General Meeting of Shareholders in 2006 for approval.

More information on the remuneration of the Board of Management and the proposed revised remuneration of the Supervisory Board can be found on page 152 in the Supervisory Board's remuneration report.

NOMINATION COMMITTEE[1]
The Nomination Committee consists of four members and is chaired by Mr. Loudon. The Committee met four times in 2005, with three of the meetings being combined sessions with the Remuneration Committee.

The Nomination Committee made proposals as described above for the succession of Mr. Loudon in 2006 in the Supervisory Board and in the Remuneration and Nomination Committees, as well as for the vacancy which arose in November 2005 due to the unexpected resignation of Mr. Thunell, following his appointment to the World Bank.

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 2005.

Arnhem, February 6, 2006

The Supervisory Board

[1] For remuneration purposes, memberships of the Remuneration Committee and of the Nomination Committee count as one committee membership

BUSINESS ACTIVITIES

BUSINESS UNIT MANAGERS

ROB MOLENAAR
Powder Coatings

LEIF ABILDGAARD
Decorative Coatings Europe

JAN ANDERSSON
Decorative Coatings International

JAN SVÄRD
Pulp & Paper Chemicals

BOB TORBA
Industrial Finishes

WERNER FUHRMANN
Base Chemicals

RUURD STOLP
Intervet

JO LENNARTZ
Functional Chemicals

TOON WILDERBEEK
Organon

FRANK SHERMAN
Surfactants

BILL McPHERSON
Marine & Protective Coatings

RINUS ROOSEBOOM
Car Refinishes

BOB MARGEVICH
Polymer Chemicals

RING OF CONFIDENCE

Many women now enjoy high-performance, 21st century lives. They lead modern, active lifestyles which can often mean having to balance a career with social and family responsibilities. With so many things to think about every day, a lot of women are looking for more freedom and flexibility from their choice of contraceptive. They want reliable contraception, contraception which is convenient and extremely easy to use. Women are increasingly looking for contraception they don't have to think about every day and which they control themselves. Studies have shown that after three months of use, 80 percent of women preferred NuvaRing® over other methods, including the Pill[1]. Convenience, ease of use and effectiveness are the most popular reasons for preferring the company's award-winning contraceptive ring, which has now been introduced in more than 20 countries.

PRODUCT INFORMATION The once-a-month NuvaRing® contraceptive was developed by the company's human healthcare business, Organon. Named as one of Time Magazine's Best Inventions of the Year in 2001, the contraceptive ring – which has also scooped various other awards – soared past the 10 million sales landmark in 2005 and now has more than one million users around the globe. A small, flexible ring which is inserted into the vagina and removed by a woman herself, it works by continuously releasing a very low dose of hormones. It is removed after three weeks and, following a one-week ring-free period, a new ring is inserted.

[1] Novak A et al. The combined contraceptive vaginal ring, NuvaRing® and international study of user acceptability, Contraception 2003; 67: 187-94.

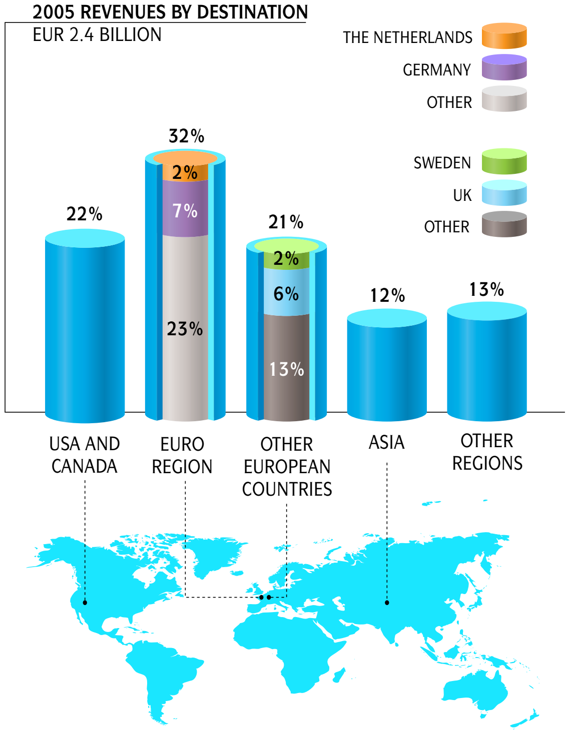
ORGANON

RETURNING TO GROWTH

Getting pregnant is not always as easy or natural as you may expect. About one in every six couples will not succeed in conceiving within one year of regular unprotected intercourse, a phenomenon known as infertility. Today, a wide range of treatments and techniques are available to improve fertility and the chances of conception. The choice of treatment will depend on the cause of infertility and on personal circumstances and preferences. The first birth conceived through one of these treatments – in-vitro fertilization, or IVF – famously occurred in 1978 and since then, more effective treatment methods have made the practice almost commonplace, and life easier for patients. Akzo Nobel's human healthcare business, Organon, is a major player in this field with its **Puregon®** recombinant follicle-stimulating hormone, which is available around the world and has become a leading treatment to help infertile couples on their journey to becoming parents.

HAPPY FAMILIES

PRODUCT INFORMATION Developed by Organon, and launched in 1996, Puregon® is marketed in the United States and Japan as Follistim® and in India as Recagon®. Highly regarded as a medicine, it is available in around 80 countries and was developed using modern biotechnology methods. Commonly administered by doctors, it is also available as a special device known as the Puregon Pen®, which offers patients the convenience of being able to inject themselves with the solution. Launched in Japan and also approved in China in 2005, Puregon® has become the biggest selling product of Organon.



ORGANON – PRESCRIPTION DRUGS

GENERAL MANAGER: TOON WILDERBEEK

(in addition to his responsibilities as a member of the Board of Management)

RETURNING TO GROWTH; INVESTING IN FUTURE PRODUCT SALES AND PIPELINE

Organon's revenues in 2005 (EUR 2,425 million, up 3%) started growing again following several years of declining revenues since Remeron® lost its exclusive rights in the United States. The lack of new product introductions in the main markets has also had an impact in recent years. But the strong performances of Puregon® and NuvaRing® were instrumental in contributing to this return to growth in 2005. Operating income showed a strong growth compared with the previous year (EUR 415 million, up 51%) despite rising R&D expenses, the settlement of the final lawsuit for Remeron® in the United States, and an impairment charge of EUR 67 million in the pharmaceutical ingredients unit. Organon received significant cash amounts from Johnson & Johnson for terminating the copromotion contract for Risperdal® and from Duramed/Barr for the patent litigation settlement involving our oral contraceptive Mircette®.

For Organon, the process of integrating Diosynth into its business operations was one of its main focuses for 2005. This strategic amalgamation mainly involved activities based in the Netherlands, and all necessary procedures were recently completed. The key ongoing aim is to improve control of our logistic processes and create a platform for further development of biotechnology within the company.

The first positive results from the alignment of processes are beginning to filter through. Improvements in our supply chain management enabled us to reduce working capital and improve the reliability of deliveries. We also identified overcapacity in certain manufacturing resources. The biotechnology platform

Key figures

Millions of euros (EUR)

	2005	2004
Revenues	**2,425**	2,344
Operating income (EBIT)	**415**	275
EBIT margin, *in %*	**17.1**	11.7
Return on invested capital, *in %*	**24.3**	16.1
EBIT excluding incidentals	**270**	326
EBIT margin, *in %*	**11.1**	13.9
Return on invested capital, *in %*	**15.8**	19.1
S&D expenses as % of revenues	**32.9**	32.8
R&D expenses as % of revenues	**17.9**	16.9
EBITDA	**541**	393
Capital expenditures	**95**	103
Invested captal	**1,781**	1,628
Capital turnover	**1.42**	1.37
Number of employees	**14,100**	14,090

LIVING WITH THE MENOPAUSE

A natural part of the aging process for women, the menopause can often be accompanied by a number of uncomfortable symptoms, such as night sweats, hot flushes, mood swings and brittle bones. Some will continue to experience symptoms up to ten years after the actual onset of the menopause. With around a third of a woman's life now being post-menopause, many turn to hormone therapy to ease the discomfort. Akzo Nobel's human healthcare business, Organon, has long been a pioneer in the field of menopausal treatment, with the company's **Livial®** (tibolone) product being a comprehensive, first choice treatment for the relief of climacteric symptoms and the prevention of osteoporosis in postmenopausal women. First introduced in 1988, it is now available in more than 90 countries, with further clinical research ongoing into the full extent of its unique tissue selective benefits.

PRODUCT INFORMATION A once-daily oral therapy which was first launched in the Netherlands by Organon, Livial® provides a well tolerated and comprehensive treatment option for postmenopausal women. Livial® (tibolone 2.5 mg) is a unique menopausal therapy, licensed for the relief of climacteric symptoms and prevention of osteoporosis in postmenopausal women. Livial® does not contain estrogen or progestogen and expresses estrogenic activity in a tissue selective manner: estrogenic activity where needed in brain, bone and vagina, while avoiding undesired estrogenic activity in tissues such as the breast and endometrium. Livial® has a distinctly different effect on the breast than estrogen and progestogen therapy, causing no increase in mammographic density and a low incidence of breast tenderness. In addition, Livial's® androgenic effects may contribute to greater effects on sexual well being than seen with estrogen and progestogen menopausal therapies.

which has been created helps us to focus more on research, especially in the fields of immunology and specific areas of oncology. Here, Organon is actively looking to team up with third parties where appropriate. In fact, Organon focused strongly on collaborations during 2005, with new alliances being established and some promising partnerships being prolonged. One long-lasting copromotion agreement was ended (the Risperdal® copromotion with Johnson & Johnson), although the royalties arrangement remained intact.

One of the main reasons for integrating Organon and Diosynth was to improve our foundation for integral product and process development regarding biotechnology. Strengthening our biotechnology research and discovery efforts is therefore essential, underlined in June by the opening of a dedicated biotechnology research facility in Cambridge, Massachusetts, in the United States. Together with our operations in Newhouse, Scotland, and Oss, the Netherlands, this facility will be crucial in developing products based on New Biological Entities (NBEs). In the same month, a brand new pharmaceutical pilot plant was opened in Oss, which will also house activities brought forward by BioConnection. This biotechnology initiative is a unique collaboration between public and private sectors, providing hi-tech resources to biotech companies and projects lacking their own dedicated facilities for (further) development and manufacturing.

This dedicated focus on biotechnology also led to R&D agreements with various third parties during 2005. A collaborative agreement was signed with Lexicon, with the intention to jointly discover, develop, and commercialize novel biotherapeutics. Agreements were signed in the United States with Cypress – to codevelop and commercialize the first novel pharmacological treatment for Obstructive Sleep Apnea – and Entelos (to codevelop therapies for rheumatoid arthritis).

Organon also entered into an evaluation agreement with Kiadis centered on the use of Kiadis' core on-line screening technology, BioSelact™ [1], for the discovery program at Organon. In addition, Organon entered into a research collaboration with Keel Pharmaceuticals in the United States to discover and develop novel biotherapeutics based on approaches and targets identified by Keel. A development and marketing agreement was also signed with Théramex SA in France (a subsidiary of Merck KGaA) in order to start phase III trials with their novel contraceptive. Furthermore, Organon entered into several other partnerships, most recently with French-based Sanofi-Aventis for the sale and distribution of the postoperative nausea and vomiting treatment for Anzemet® [2] in the United States.

In terms of Research & Development, Organon spent more than 18% of its 2005 revenues on R&D, focusing mainly on promising compounds within phases II and III. This trend is expected to continue.

[1] BioSelact™ is a trademark of Kiadis B.V.

[2] Anzemet® is a trademark of Merrell Pharmaceuticals Inc.

Late stage development product pipeline of Organon

		Phase II	Phase III	File submitted
Gynecology	Male fertility control	Org 3236 + TU		
	Oral contraceptive	Nomac/E2[1,2]		
	Serotonin-2-Blocker (hot flashes)		Org 50081	
	Selective tissue estrogenic activity regulator			Livial®[3]
	Oral androgen	Org 39970		
	Progestogen implant			Implanon®[3,4]
Fertility	Sustained Follicle Stimulant		Org 36286	
Neuroscience	AMPA receptor modulator	farampator (Org 24448)		
	HPA axis modulator	Org 34517		
	Serotonin-2-Blocker (insomnia)	Org 50081[2]		
	Serotonin-2-Blocker (Obstructive Sleep Apnea)	Org 4419[5]		
	Dopamine/Serotonin antagonist		asenapine[6]	
Anesthesia	Selective Relaxant Binding Agent		sugammadex	
Cardiovascular	Dual inhibitor (anti-IIa/anti-Xa)	Org 42675		

[1] Théramex (Merck KGaA) in-licensing

[2] Compound has completed phase II, discusssions with authorities ongoing. Expected to start Phase III in 2006

[3] United States only

[4] June 2005 action letter from the FDA was received maintaining the approvable status

[5] Collaboration with Cypress Bioscience

[6] Collaboration with Pfizer

Anesthetic procedures have come a long way since alcohol, mandrake, nitrous oxide (laughing gas) and even biting on a piece of wood were the only options available. In modern operating theaters, sophisticated drugs are now administered during general anesthesia which tackle three crucial areas – sleep, absence of pain and absence of movement (muscle relaxation). This latter area involves the use of what are known as neuromuscular blocking agents (NMBAs). These drugs act by preventing the passage of impulses between nerves and muscles and are crucial in enabling intricate surgery to be performed without patient movement. Akzo Nobel's human healthcare business, Organon, has been involved in anesthesia since the early 1960s, and provides different NMBAs (such as Pavulon®, Norcuron® and Esmeron®) and relaxation monitoring devices (TOF-Watches). **Esmeron®** (**Zemuron®** in the United States) is one of the most widely used muscle relaxants in the USA, Canada and many European countries.

THEATER OF DREAMS

PRODUCT INFORMATION One of the most widely used muscle relaxants in the global anesthesia market, Esmeron® has been used on more than 100 million patients around the world. Launched in 1994, one of its most significant advantages is its rapid onset. This allows patients to be intubated within about one minute of its administration, minimizing the risk of aspiration, which represents a safety risk to the patient. The only non-depolarizing muscle relaxant to be approved for rapid sequence induction to induce anesthesia in emergency situations, Esmeron® is still being introduced in countries around the globe, most recently in Brazil. It is currently sold in 67 countries.

The main pipeline product at Organon is asenapine, developed with Pfizer, currently in phase III. Asenapine is a novel psychopharmacological agent for the treatment of psychotic and mood disorders which will be administered as a fast dissolving tablet. Because of its unique pharmacological signature, we expect asenapine to deliver strong control of psychotic and manic symptoms, superior relief of negative and affective symptoms, and a good tolerability and safety profile. The phase III clinical development program for asenapine is on schedule and is expected to be finalized by the end of 2006.

Sugammadex is another promising compound currently in phase III.

As regards Livial® in the United States, additional data were submitted to the U.S. Food and Drug Administration (FDA) in December. The U.S. launch of this unique Hormone Therapy product is planned for 2006. As well as our thorough clinical trial program in the United States, various worldwide studies with Livial® are also being conducted focusing on the prevention of fractures due to osteoporosis, breast cancer patients suffering from menopausal symptoms and sexual wellbeing.

We also received an action letter from the FDA in 2005 for our contraceptive implant Implanon® (etonogestrel) which maintained the "approvable" status of this New Drug Application (NDA). We have met with the agency to address outstanding issues, and we are confident that we will be able to provide the FDA with the appropriate information to speed up the progress of its review. The launch of Implanon® in the United States is planned for 2006.

Puregon®/Follistim®, the biotech fertility product of Organon, has become our biggest selling product. Performance was particularly boosted by strong U.S. sales resulting from a successful launch of the Follistim Pen® and relevant product line extensions. In August, Follistim® was also successfully launched in Japan, while in October, Puregon® was authorized in China.

NuvaRing®, the contraceptive vaginal ring of Organon – which has now been introduced in more than 20 countries – is also continuing to enjoy steadily increasing sales in many markets. In fact, we achieved a milestone in November when, for the first time, more than one million rings were sold within the space of a month to women around the world. Another important development took place in November. After a successful pilot in three states, we launched a direct-to-consumer advertising campaign to promote NuvaRing® throughout the United States, mainly consisting of television commercials.

Revenues development

Millions of euros (EUR)	Full year 2005	Autonomous growth on 2004, %
Contraceptives	**564**	7
– of which NuvaRing®	**127**	58
Puregon®/Follistim®	**355**	24
Remeron®	**283**	(22)
Livial®	**154**	(6)
Pharmaceutical ingredients	**228**	8

Evidence of the synergy that could be exploited between Organon and Intervet also became clear in 2005 with the collaboration together with human vaccine business Nobilon. By tapping into existing expertise available in both the Organon and Intervet businesses, Nobilon has been able to make great progress in developing a flu vaccine for humans, based on cell tissue culture technology.

In 2005, we also signed a contract with the U.S. Agency for International Development (USAID) for Organon to supply three million vials of Megestron® (our long-acting injectable contraceptive) during 2006. The product will then be used for vital USAID-sponsored family health programs in developing countries. We also announced the launch of a clinical trial website – www.organon-trials.com – which will provide the results of the company's completed trials and a registry of ongoing trials. The website, which is freely accessible, will further increase the transparency of the clinical trials Organon sponsors. In addition, we played a leading and coordinating role in establishing the "Top Instituut Pharma," in which the Dutch Government, universities, and industry are working together to set up a leading pharmaceutical research and training institute.

Streamlining efforts at Organon, including the newly-integrated Diosynth operations, focused mainly on overcapacities in manufacturing resources caused by the continued slow market for pharmaceutical ingredients. Meanwhile, low volume growth, destocking by big pharma companies and delays in product introductions are maintaining the overcapacity in the fine chemicals segment. We are currently in the process of implementing measures to address this overcapacity, as well as restructuring our IT organization to establish a more centralized approach, improving our logistic performance.

Looking ahead, we are positive about the future. We will be finalizing several phase III projects, while we expect a number of partnerships that have been established over the last few years to start bearing fruit.

Organon

Choosing an effective and reliable method of contraception is an ongoing process rather than a one-off decision. Women and couples may switch contraceptives as a result of child birth, life changes or negative experiences, or simply because their needs have changed. There are a number of important factors to consider, such as age, lifestyle and general health, while other considerations – such as the need for the contraceptive to be highly effective – are also crucial. Organon, Akzo Nobel's human healthcare business, is recognized as a world leader in contraception and remains one of only three pharmaceutical companies substantially involved in research and development into new contraceptive methods. Which is why we deliberately set out to develop **Cerazette®**. A unique estrogen-free oral contraceptive pill which contains only one female hormone, the progestogen desogestrel, Cerazette® provides an option for women who cannot, do not want to, or should not, use pills containing estrogens (for example because they are breast feeding).

FREEDOM OF CHOICE

PRODUCT INFORMATION Cerazette® was the result of an eight-year research and development program at Organon designed to develop an oral contraceptive which was free of estrogen, but nevertheless exerted its contraceptive efficacy primarily through inhibiting ovulation. Taken every day without interruption – there is no pill-free week as with most other pill brands – its mechanism of action is distinctly different from that of traditional progestogen-only pills, and resembles that of combined pills.

NOBILON

ACCELERATING HUMAN FLU VACCINE DEVELOPMENT

It is becoming increasingly clear that infectious diseases do not limit themselves to geographical borders. An additional challenge is that the impact caused by these diseases is often not restricted to a single species. Concern is therefore rising about the spread of avian influenza from birds to humans and the possible outbreak of a pandemic which could have serious consequences for human health.

In 2002, Akzo Nobel launched its Nobilon business to develop, license and manufacture human vaccines on a global scale, with particular emphasis on influenza. Nobilon also combines the expertise and know-how of the company's Organon and Intervet businesses, utilizing all their technical, regulatory and product development capabilities.

A dedicated team of 50 people is working on the development of vaccines used for annual revaccination of humans against influenza, and on vaccines that will be used to control the impact of a human influenza pandemic.

Working from a dedicated, fully licensed facility in the Netherlands, we focus on the use of tissue culture technology in 2000-liter vessels for production of influenza viruses to avoid the traditional processes using eggs. The advantages of tissue culture technology include not having to use eggs, which may become scarce during an influenza outbreak. Tissue culture processes also allow for better technical control during production compared with traditional methods using eggs.

The first product from our interpandemic program is expected to be submitted for licensing in 2009.

We are also working on a vaccine for use in the event of a H5N1 pandemic. Licensing of this product depends on developments in the field, and on the emergency procedures that would be issued by the regulatory bodies should the threat of a pandemic necessitate such procedures.

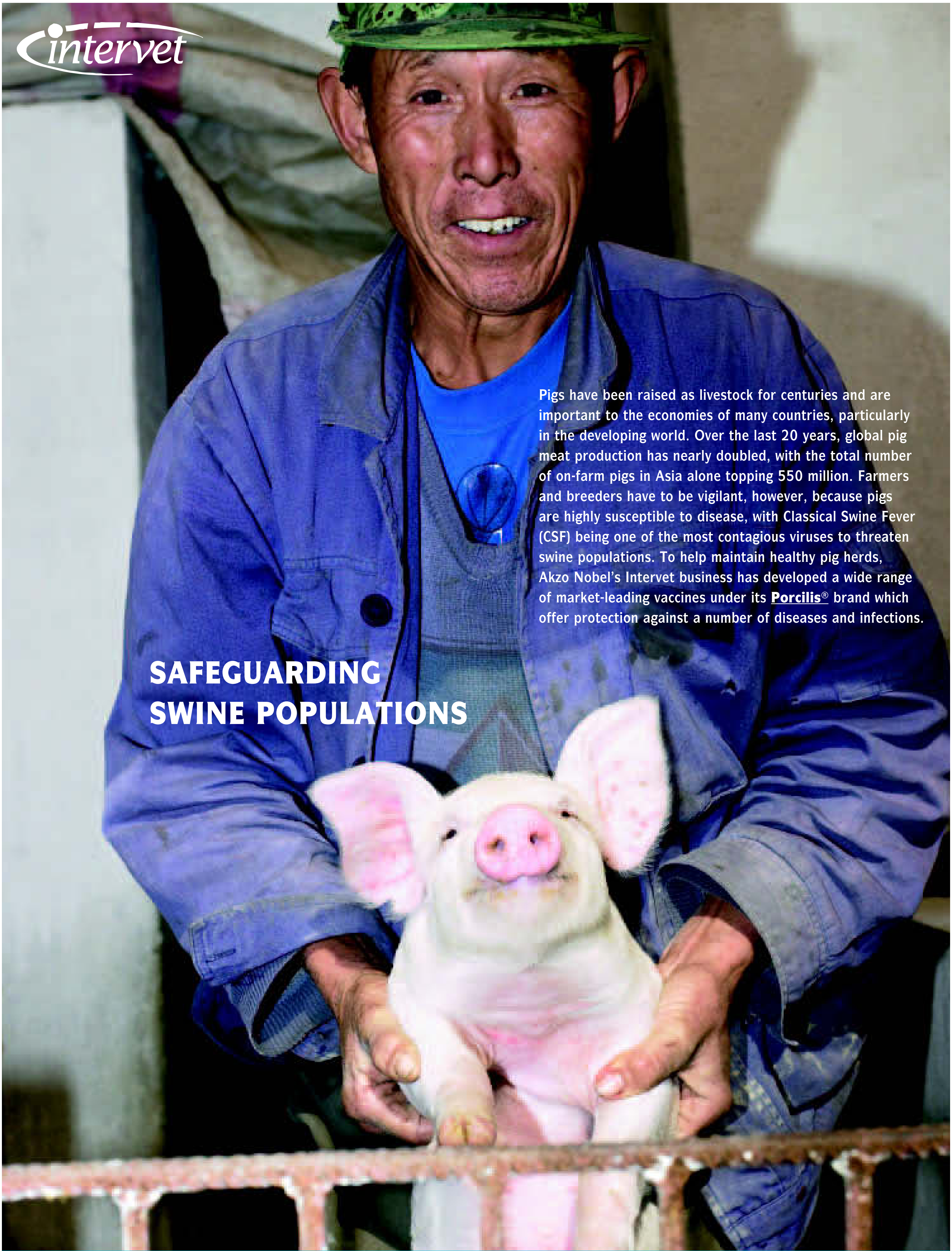
CARING FOR YOUR PET

There's more to looking after a pet than just providing food, water and a loving home. They also need attention in terms of their general health and wellbeing. One of the best ways to keep pets such as cats and dogs in tip-top condition is to ensure they are involved in a preventative healthcare program, which will help to ward off infectious diseases and aid early detection of other conditions. Akzo Nobel's Intervet business supplies an extensive range of vaccines for the companion animal market designed to improve the quality of life for pets everywhere. The <u>Nobivac</u>® and <u>Continuum</u>® ranges include, for example, vaccines for cat flu, feline leukemia and canine distemper, parvovirus, hepatitis and rabies.

<u>PRODUCT INFORMATION</u> Continued product development by Intervet has produced vaccines for pets which are safer, more effective and easier to use. Nobivac® and Continuum® (launched in 2005 in the United States) allow pets to benefit from a new concept in vaccination – one single vaccination giving three years' immunity against three important diseases (distemper, adenovirus/hepatitis and parvovirus), and one year's protection against kennel cough. By redefining vaccination in this way, Intervet aims to set the trend and have more pets vaccinated worldwide, with exactly the frequency needed to give them the best protection.

INTERVET

EXCELLENT GROWTH

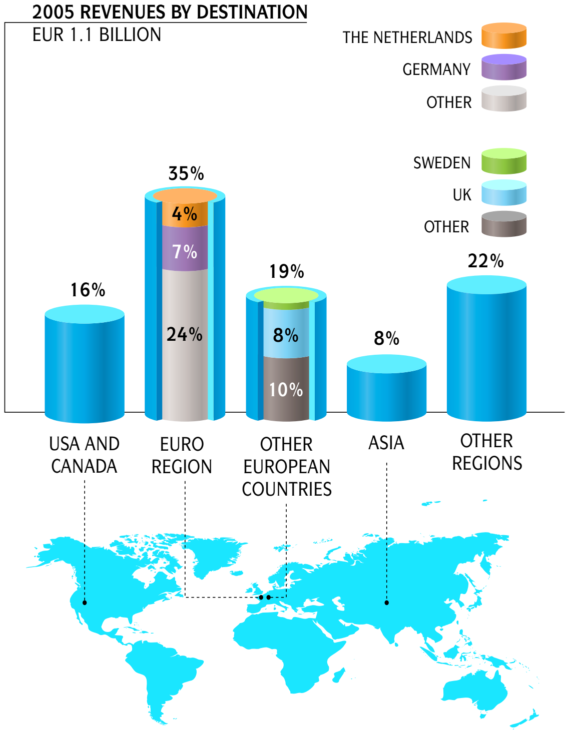


intervet

SAFEGUARDING SWINE POPULATIONS

Pigs have been raised as livestock for centuries and are important to the economies of many countries, particularly in the developing world. Over the last 20 years, global pig meat production has nearly doubled, with the total number of on-farm pigs in Asia alone topping 550 million. Farmers and breeders have to be vigilant, however, because pigs are highly susceptible to disease, with Classical Swine Fever (CSF) being one of the most contagious viruses to threaten swine populations. To help maintain healthy pig herds, Akzo Nobel's Intervet business has developed a wide range of market-leading vaccines under its **Porcilis®** brand which offer protection against a number of diseases and infections.

PRODUCT INFORMATION The Intervet range of Porcilis® vaccines for disease prevention in swine is well known for its innovation and high quality. The reputation of the Porcilis® brand is built not only on market-leading products – such as Porcilis® APP, Porcilis® AR-T, Porcilis® AD Begonia and Porcilis® PRRS – but also on the high level of technical support provided by Intervet's dedicated field force, which sets the industry standard.



INTERVET – VETERINARY PRODUCTS

GENERAL MANAGER: RUURD STOLP

EXCELLENT GROWTH

Intervet produced consistently strong results in 2005 as the strategic initiatives introduced in recent years began to pay off. Revenues increased by 7% to EUR 1,094 million, with volume growth being the main contributor. These increased volumes and the resulting boost in earnings were favorably impacted by efficiency improvements in manufacturing, supply chain and marketing, and the result of the divestment of the feed additives business. Intervet was therefore able to deliver an operating income of EUR 238 million – up 29% from 2004 and equivalent to an operating margin of 21.8%.

We further expanded our strong market position in Europe – where the business generates more than 50% of its revenues – and our development in North America was characterized by growth in key segments, while revenues in Latin America were boosted by substantial growth in Brazil and Chile. The acquisition of AgVax Developments Ltd in New Zealand will also bolster our expansion in Oceania. This strong growth was achieved even though a number of disposals took place, with Intervet divesting interests in noncore areas such as the diagnostic and feed additive segments.

Intervet will continue to focus on major food and companion animal markets, and we expect to see similarly positive trends beyond 2005, when new products resulting from our extensive research and development programs should enhance our existing portfolio.

Key figures

Millions of euros (EUR)

	2005	2004
Revenues	**1,094**	1,027
Operating income (EBIT)	**238**	184
EBIT margin, *in %*	**21.8**	17.9
Return on invested capital, *in %*	**28.3**	23.5
EBIT excluding incidentals	**209**	173
EBIT margin, *in %*	**19.1**	16.8
Return on invested capital, *in %*	**24.9**	22.1
S&D expenses as % of revenues	**24.2**	24.6
R&D expenses as % of revenues	**10.3**	11.5
EBITDA	**292**	230
Capital expenditures	**54**	54
Invested captal	**883**	798
Capital turnover	**1.30**	1.31
Number of employees	**5,260**	5,270

BEST OF BREED

Horses are popular all over the world. Estimates suggest that the global equine population totals around 75 million, with hundreds of different breeds found in countries across the globe. Often seen engaged in activities ranging from professional sport to farm and ranch work, they can be extremely valuable, as well as being much-loved. Breeding horses is a very specialist practice, particularly in the equestrian sport and racing worlds. Reproductive management can therefore be crucial. Akzo Nobel's animal healthcare business, Intervet, supplies the most comprehensive reproduction product line in the world for horse breeders with products such as **Regumate® Equine**, **Receptal™**, **Prosolvin®** and **Chrolulon®**.

PRODUCT INFORMATION Intervet's extensive portfolio also includes products that protect horses against infectious diseases. In 2005, the Prestige® vaccine range for protection against equine respiratory diseases was reintroduced into the United States. The Equilis® StrepE vaccine was rolled out across Europe and was also successful in Chile and South Africa after an initial introduction in the United Kingdom. StrepE is a novel vaccine against strangles, a painful and debilitating equine disease which is often underestimated in terms of its complications and financial impact.

Looking at 2005 in more detail, market gains in Europe were largely attributed to improved supplies and the strong sales growth of Cobactan®, our innovative range of anti-infective formulations based on the proprietary molecule cefquinome. In North America, revenues were buoyed by new product introductions in the companion animal sector, including Vetsulin® (the first insulin to treat diabetes in dogs) and Continuum® (a combination vaccine with long-lasting immunity). The recently launched cattle bioline Vista® also received a very positive response. Latin American performance was boosted by major growth in Brazil (in various markets) and in Chile, where the main driver was increased sales of fish vaccines. In Asia, where large areas have been severely affected by outbreaks of avian influenza, business is growing.

The acquisition of AgVax Developments Ltd enables Intervet to benefit from AgVax's close collaboration with its former parent company, AgResearch, New Zealand's largest Crown Research Institute. AgVax is a highly successful animal health company focused on the commercialization of productivity-enhancing vaccines for the sheep farming sector.

During 2005, we divested large parts of our feed additive business. These activities no longer fitted into our core business operations and had become distanced from Intervet's strategic focus.

The year's other main highlights included Intervet signing a contract with the Ministry of Agriculture in the Netherlands to set up the country's first vaccine bank of Porcilis® Pesti®, Intervet's marker vaccine against Classical Swine Fever. The agreement covers a reserve of 500,000 doses of the vaccine for emergency vaccination in the event of a Dutch outbreak of the disease. The contract is significant because it indicates that vaccine banks can play a crucial role in a country's contingency plans against possible outbreaks of highly infectious diseases. We also officially re-opened our refurbished foot and mouth disease (FMD) vaccine production unit in Pune, India, which was initially opened in 2003. FMD is a major problem in India and is responsible for substantial shortfalls in dairy production.

In 2005, India was also a major focus of Intervet's continued commitment to creating social, environmental and economic benefits for the communities in which we operate. In June, for example, Intervet India was honored for the depth and scale of its involvement in the local community and for the strong relationships it has established with all its stakeholders.

From an operational perspective, Intervet benefited from various efficiency improvements in manufacturing during 2005. We continued our major investment program in Boxmeer, the Netherlands, aimed at modernizing our multifunctional headquarters site and expanding our production capacity and packaging facilities. In addition, we decided to further expand production capacity for bacterial vaccines at our U.K. site in Milton Keynes.
As a result, part of the production of key bacterial fish and swine vaccines can now take place in the United Kingdom, while capacity in Boxmeer can be used to accommodate new product introductions. The successful finalization of our logistics and manufacturing initiative launched in 2003 to implement SAP was an important step to developing further into a global organization.

In 2005, Intervet introduced the Dieter Lütticken Award, which was presented to a scientist from the University of Bern in Switzerland. Set up last year, the reward honors scientists working in research areas that comply with the 3Rs concept (Reduce, Refine, Replace) in veterinary product development and production, where finding alternatives to using animals in testing is a top priority.

ANSWERING THE CALL FOR STYLE AND INNOVATION

Life in the 21st century would be hard to imagine without plastic, only sometimes we just don't seem to realize exactly how widespread, varied and versatile it really is. Look around and you'll find plastics of some variety almost everywhere. For many manufacturers, it's an invaluable material, but the trick is to make it look appealing and ensure that it's offered some sort of protection. Sporting equipment is a perfect example of how plastic coatings can be used to enhance a product's appearance, as well as offering that all-important element of protection. Akzo Nobel supplies <u>specialty plastic coatings</u> and develops coatings systems that are used on a wide range of products including skis, snowboards and housings for electronic equipment such as televisions, CD/DVD players, computers and printers. The company's specialty plastic coatings can also be found on surfboards and tennis rackets.

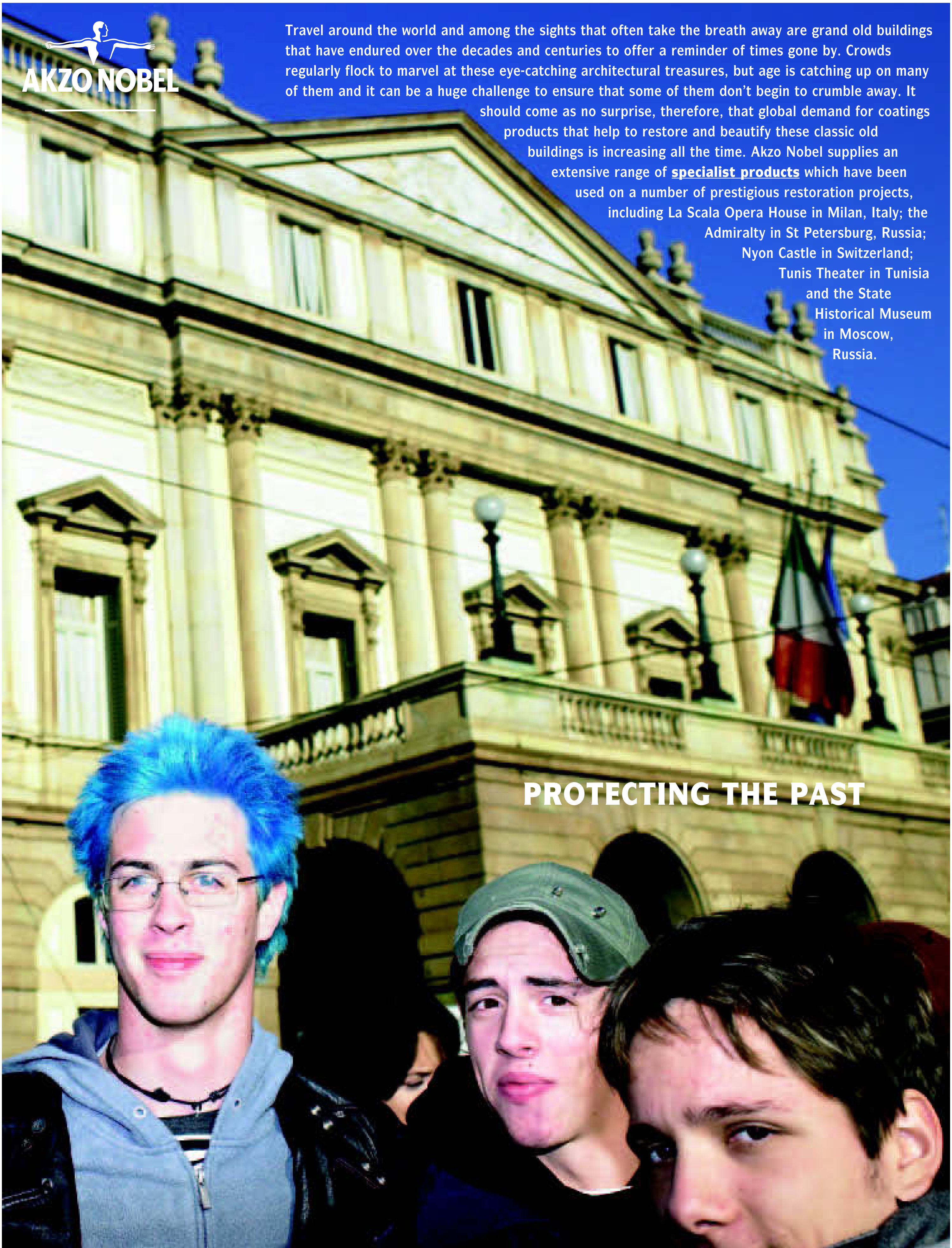
<u>PRODUCT INFORMATION</u> As plastic continues to replace more traditional materials, the coatings industry is having to keep pace with its constant evolution. At Akzo Nobel, products are continually being developed which meet plastic's need for functional performance properties such as hardness, and slip and scratch resistance. Enhanced aesthetics are another important consideration, helping to create packaging and casings which are tough and hard-wearing but attractive and appealing to the eye. These qualities are vital to many manufacturers, especially in the cosmetics industry, while sports and leisure equipment also has similar demands. Meeting the precise specifications for these products is one of the company's key areas of expertise.

AKZO NOBEL COATINGS

GROWTH IN EMERGING MARKETS

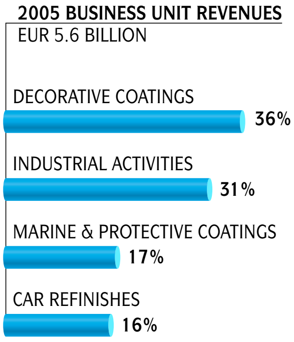
AKZO NOBEL

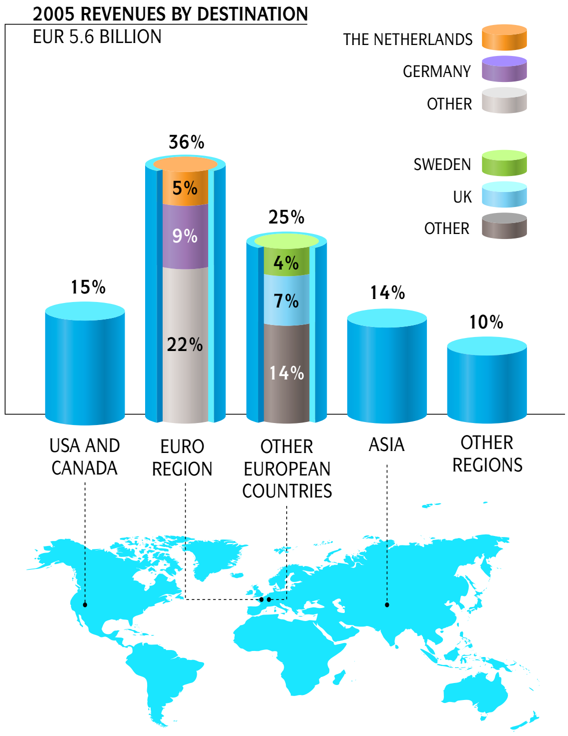
Travel around the world and among the sights that often take the breath away are grand old buildings that have endured over the decades and centuries to offer a reminder of times gone by. Crowds regularly flock to marvel at these eye-catching architectural treasures, but age is catching up on many of them and it can be a huge challenge to ensure that some of them don't begin to crumble away. It should come as no surprise, therefore, that global demand for coatings products that help to restore and beautify these classic old buildings is increasing all the time. Akzo Nobel supplies an extensive range of **specialist products** which have been used on a number of prestigious restoration projects, including La Scala Opera House in Milan, Italy; the Admiralty in St Petersburg, Russia; Nyon Castle in Switzerland; Tunis Theater in Tunisia and the State Historical Museum in Moscow, Russia.



PROTECTING THE PAST

PRODUCT INFORMATION Akzo Nobel has been producing specialist architectural coatings for more than a century and is a leading force in façade restoration systems. Marketed mainly under the company's Sikkens® brand, these products – which are used by specialist restorers – are painstakingly developed to faithfully reproduce the textures and colors of the traditional products. A flagship project which highlights the quality of the company's restorative products and expertise is La Scala Opera House in Milan, where the stonework was carefully cleaned and the plasterwork restored and painted with Sikkens® mineral paints. All the existing mortars were also removed and renovated before being coated with Sikkens® silicate-based paints.





AKZO NOBEL COATINGS – GROWTH IN EMERGING MARKETS

Coatings experienced a tough year due to steeply rising raw material costs and difficult economic conditions in mature markets, especially in Western Europe. Our businesses addressed these issues by focusing on tight cost control and by pushing through price increases. Coatings managed to keep profits at an acceptable level, although the ROI excluding incidentals slipped to just below 20%. Including incidentals, ROI was 17.8%.

Revenues grew autonomously by 4%, mainly fueled by growth in the emerging markets of Asia Pacific, Eastern Europe, and the Middle East. During the year, we opened two new Powder Coatings facilities and two Decorative Coatings plants in China and Vietnam. We also announced the intention to acquire the Chinese decorative coatings company Guangzhou Toide Paint Manufacturing Co., established a Powder Coatings joint venture in Egypt, and invested in the construction of a new Powder Coatings plant in Russia. At the end of 2005, the emerging markets represented 34% of our worldwide revenues.

The industrial activities put in a strong performance, especially in the second half of 2005. Successful marketing initiatives expanded the business base and the average pricing in all markets improved. Marine & Protective Coatings had another good year. Higher sales of added-value products are offering clear operational and financial benefits to our customers, while the growth in target developing markets continues. Car Refinishes results remained under pressure and restructuring programs are being carried out to address this situation. The performance of Decorative Coatings showed a mixed picture. In some of the large western European countries results were under pressure, while in the emerging markets earnings improved.

In mature markets, we continued to improve our portfolio through selective acquisitions. During 2005, we agreed to acquire Swiss Lack, the leading supplier of decorative coatings in Switzerland, and ICI's German industrial wood finishes business Zweihorn GmbH. In addition, we continued to further expand the commercial distribution network of our European Decorative Coatings business by acquiring a number of wholesalers in Germany, the largest market for architectural paints in Europe.

Key figures

Millions of euros (EUR)

	2005	2004
Revenues	**5,555**	5,237
Operating income (EBIT)	**384**	406
EBIT margin, *in %*	**6.9**	7.8
Return on invested capital, *in %*	**17.8**	19.8
EBIT excluding incidentals	**423**	467
EBIT margin, *in %*	**7.6**	8.9
Return on invested capital, *in %*	**19.6**	22.7
EBITDA	**519**	529
Capital expenditures	**112**	122
Invested captal	**2,259**	2,067
Capital turnover	**2.57**	2.55
Number of employees	**29,200**	28,860

AKZO NOBEL

A TOUCH OF MAGIC

Interior design has come on in leaps and bounds in recent decades, thanks largely to continued innovation in coatings technology. More colors, textures and decorative finishes are now available than ever before, allowing creative imaginations to run riot. In fact, decorating interiors is one of mankind's oldest creative outlets – just look at the ancient cave paintings which survive to this day – so it's no surprise that designing and sprucing up interiors, be it a single room or an entire building, is something most of us indulge in. As the world's biggest coatings company, Akzo Nobel is at the forefront of developing groundbreaking decorative products, like **Alpha® Tacto®** for example. Available in more than 30 colors, it's the world's first decorative paint product with the ability to reproduce the look and feel of suede, leather or woven fabric, depending on how it is applied to the wall.

PRODUCT INFORMATION Marketed under the Sikkens® brand name, Alpha® Tacto® introduces a multi-sensory element to the concept of interior design. It isn't just visually attractive – producing a cloudy or suede effect – but touching it or stroking it also gives the sort of tactile, soft touch sensation which is typical of fabric. Devised in conjunction with leading Italian architects, the distinctive color collection features a palette of shades inspired by nature. It's just one of the company's recent coatings innovations, which have also included Crown® Easyclean – a washable matt paint – and the 'Color Wall' an innovative concept for a store color display allowing customers to take large sample sheets home with them to help make decisions about color schemes.

Securing our margins against a backdrop of increasing raw material prices will be a challenge for the future, particularly in mature markets. We will address this challenge not only by means of aggressive cost management, but also by increasing our innovation efforts. This will allow better differentiation of our products and services to counteract continuous price erosion in the highly competitive markets in which we operate.

DECORATIVE COATINGS

AKZO NOBEL'S DECORATIVE COATINGS UNIT IS MADE UP OF THE DECORATIVE COATINGS EUROPE AND DECORATIVE COATINGS INTERNATIONAL BUSINESSES. IN THE COURSE OF 2006 WE HAVE THE INTENTION TO MERGE THESE TWO UNITS INTO ONE GLOBAL BUSINESS UNIT.

Revenues

Millions of euros (EUR)

2005	**2,038**
2004	1,929

DECORATIVE COATINGS EUROPE

GENERAL MANAGER: LEIF ABILDGAARD

SLOW START LEADS TO DIFFICULT YEAR

Decorative Coatings Europe had a difficult 2005. With the economic recovery occurring later than predicted, consumer confidence deteriorated and spending was low in most countries, especially in the major European countries. The exception was the Nordic area. Margins were also under pressure because of aggressive price hikes imposed on our industry by raw material and packaging suppliers. Both distributors and competitors have fought aggressively for volume in this weak market, although by the end of the year, the situation improved slightly, especially in Southern Europe.

We acquired a number of commercial distributors in 2005 – mainly in Germany, France and the Netherlands – reflecting our strategy to secure sustainable availability of our brands at local level for our professional customers. We also acquired the ICI Group's German industrial interior wood business, Zweihorn, while the purchase of Switzerland's leading paint company, Swiss Lack, was completed on January 1, 2006.

Our consolidation efforts also continued with the closure of sites in France and Denmark and we achieved considerable cost improvements in production and logistics, which will have an ongoing positive impact during the next few years. As the year progressed, a number of cost efficiencies and restructuring projects were initiated aimed at creating a stronger platform for growth in 2006 and beyond.

A closer look at our 2005 performance reveals that within our Trade activities – where overall results were weaker than in the previous year – business in the United Kingdom, Germany, and France was affected by difficult market conditions. But considerable improvements were posted in other countries on the back of organic growth, price increases and, most importantly, the acquisition of a number of distributors. Increased raw material costs and changes in the business depressed margins.

Our Retail activities were hampered by a lack of consumer confidence in most Western European countries. After many years of uninterrupted growth, the U.K. market contracted. Key markets were characterized by major changes in customer and product mix, in addition to fierce competition for volumes, resulting in more competitive pricing. All this led to heightened pressure on margins, as well as higher costs for raw materials. As a consequence, Retail's results were considerably lower than in 2004, mainly due to weak performance in France and the United Kingdom. Growth was posted in the difficult German market. We also acquired new customers in the large-scale outlet sector.

Our Joinery business had another good year in spite of a decline in the important German market. Sales improved in Central and Southern Europe, while progress was made regarding the integration of BASF's joinery business, which was acquired in 2004.

A number of successful product launches took place during 2005, notably that of the Sikkens® brand's Alpha® Tacto®, the world's first decorative paint product with the ability to reproduce the look and feel of suede, leather, or woven fabric, depending on how it is applied to the wall.

DECORATIVE COATINGS INTERNATIONAL

GENERAL MANAGER: JAN ANDERSSON

ACCELERATING GROWTH IN EMERGING MARKETS

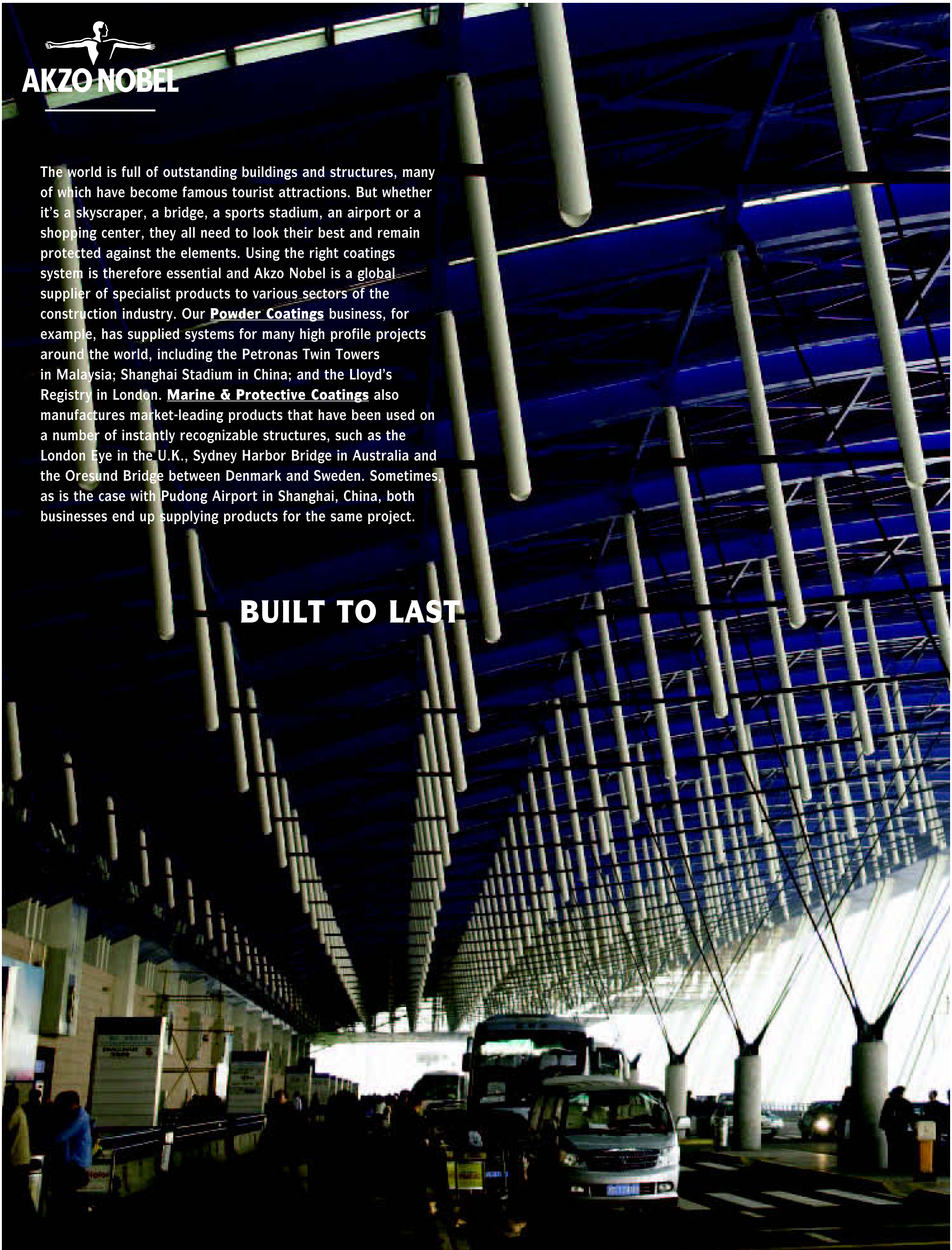
Decorative Coatings International's performance in 2005 came under severe pressure from dramatic price rises for raw materials and packaging. This negative effect was offset, however, by increasing prices and changing the product mix, which made it possible to achieve a slightly improved contribution margin.

In terms of our performance at country level, Russia and China – the two major growth areas for 2005 – both posted double-digit growth. New capacity at our Moscow facility enabled us to make additional investments at the site earlier than expected. Our Building Adhesives businesses also produced pleasing results, despite difficult conditions in some markets. Elsewhere, further inroads were made in some of the Central European and Eastern European markets, with good volume growth, while the French business emerged in better shape following a cost reduction program.

AKZO NOBEL

The world is full of outstanding buildings and structures, many of which have become famous tourist attractions. But whether it's a skyscraper, a bridge, a sports stadium, an airport or a shopping center, they all need to look their best and remain protected against the elements. Using the right coatings system is therefore essential and Akzo Nobel is a global supplier of specialist products to various sectors of the construction industry. Our **Powder Coatings** business, for example, has supplied systems for many high profile projects around the world, including the Petronas Twin Towers in Malaysia; Shanghai Stadium in China; and the Lloyd's Registry in London. **Marine & Protective Coatings** also manufactures market-leading products that have been used on a number of instantly recognizable structures, such as the London Eye in the U.K., Sydney Harbor Bridge in Australia and the Oresund Bridge between Denmark and Sweden. Sometimes, as is the case with Pudong Airport in Shanghai, China, both businesses end up supplying products for the same project.

BUILT TO LAST



PRODUCT INFORMATION Construction of new buildings is going on around the world all the time and Akzo Nobel is ideally placed to supply the industry with a full range of quality exterior coatings products. The Powder Coatings business' Interpon® D brand of exterior-durable powder is specified by architects for use on factory-finished metal architectural components such as windows, doors, curtain-wall, and roofing. Marine & Protective Coatings – through its extensive portfolio of International® brand products – is also a leading supplier, offering various systems that add to aesthetic appeal, as well as offering long-lasting protection.

In the Americas, our woodcare activities again proved highly successful, with growth in both volumes and profits. Next Wave Technology™ – our more environmentally friendly low VOC range – was well received in North America, while the Brazilian operation managed to improve profitability in a subdued market. In Turkey, our performance improved with restored margins and stronger profitability, while in North Africa – and Morocco in particular – difficult market conditions negatively affected our performance.

In 2005, we signed a letter of intent to acquire the coatings activities of Guangzhou Toide Manufacturing Co., the biggest private Chinese manufacturer of emulsion paint. This deal is expected to be closed during the first quarter of 2006. We also officially opened two new plants, one near Ho Chi Minh City in Vietnam, the other in Suzhou near Shanghai, China.

INDUSTRIAL ACTIVITIES

AKZO NOBEL'S INDUSTRIAL ACTIVITIES ARE MADE UP OF THE INDUSTRIAL FINISHES AND POWDER COATINGS BUSINESSES.

Revenues

Millions of euros (EUR)	
2005	**1,740**
2004	1,592

INDUSTRIAL FINISHES

GENERAL MANAGER: BOB TORBA

SOLID GROWTH IN A CHALLENGING INDUSTRIAL MARKET

Industrial Finishes delivered notable growth in 2005 as a result of geographic expansion and successful marketing initiatives. Operations in the frontier markets of China, India, Brazil, and Eastern Europe sustained top-line growth in a difficult global industrial market. Overall returns, however, were negatively affected by the significant increase in the cost of petrochemical derivatives. In addition, 2005 proved particularly problematic for our European-based businesses, with demand being consistently weak in the major industrial economies in the West. In spite of all these challenges we were able to deliver solid results.

Conditions in the global Coil Coatings business were particularly unfavorable due to volatile steel prices and a hesitant commercial construction industry. Wood Coatings benefited from a healthy residential construction industry, which kept demand for coatings for flooring, kitchen cabinetry, and building products at a strong level throughout 2005. Wood Coatings also capitalized on the shift of the household furniture industry to Asia, successfully replacing volume lost in North America. Consumer electronics and related markets – key sectors for our Specialty Plastics business – significantly improved during the year after a slow start, resulting in a solid overall performance. The Adhesives business, which is predominantly European-based, offset weak demand in Western Europe by successfully growing in Austria, Russia, and Eastern Europe.

Strategic investments continued to bolster our production and logistics capabilities throughout the year, further improving not only quality, but also responsiveness to our customers in this increasingly demanding global economy. To complement current growth, we also invested in our ongoing, value-driven R&D activities and devoted extensive resources to the governance efforts and human resources development system within Akzo Nobel.

Looking ahead, as the demands of the marketplace change rapidly, so too will the structure, products, and global delivery sources of our business. Compressing margins, along with low growth in mature markets, are clear challenges. Value engineering, prudent margin recovery, additional investment in Eastern Europe and Asia, and the streamlining of resources in mature markets will be the key success factors for 2006 and beyond. Whatever the prevailing market conditions, the focus will always remain on our customers and a successful value exchange, which will yield sustained organic growth and improved financial performance.

By combining our dedicated customer focus, decentralized organizational structure, global reach, and Akzo Nobel's extensive technology base, we believe that Industrial Finishes will remain very competitive in the markets in which we operate.

POWDER COATINGS

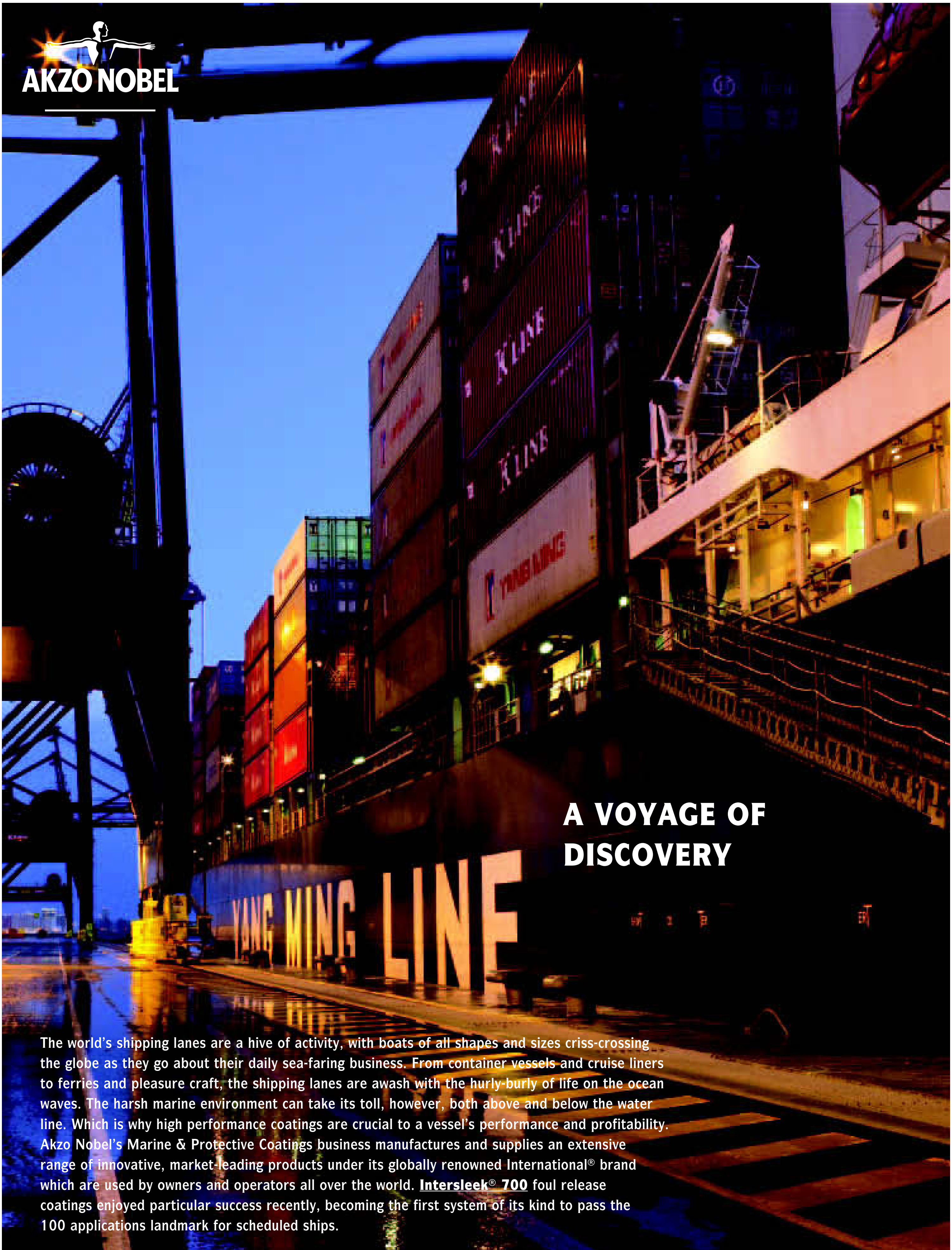
GENERAL MANAGER: ROB MOLENAAR

GLOBAL LEADERSHIP STATUS CONSOLIDATED

Powder Coatings posted growth in revenues in line with the record year of 2004, which was a good result given the turbulent conditions encountered during the first few months of the year. Despite rising raw material prices, we sought to protect and preserve our margins while maintaining our focus on servicing our customers' needs. At the same time, we achieved a further strengthening and broadening of our global spread.

Consolidation of our world leadership position received significant attention during the year as we completed our expansion projects in China on schedule. We opened a second facility at Baoan in the south of the country, while in the north, we relocated from Beijing to a new site in Langfang, which is well positioned to exploit new opportunities in that region. Also in Asia Pacific, we completed a further purchase of shares of Akzo Nobel Chang Cheng.

We achieved good revenue growth in the newly developing powder markets of Central and Eastern Europe, and there is now a clear need for manufacturing in the region.



A VOYAGE OF DISCOVERY

The world's shipping lanes are a hive of activity, with boats of all shapes and sizes criss-crossing the globe as they go about their daily sea-faring business. From container vessels and cruise liners to ferries and pleasure craft, the shipping lanes are awash with the hurly-burly of life on the ocean waves. The harsh marine environment can take its toll, however, both above and below the water line. Which is why high performance coatings are crucial to a vessel's performance and profitability. Akzo Nobel's Marine & Protective Coatings business manufactures and supplies an extensive range of innovative, market-leading products under its globally renowned International® brand which are used by owners and operators all over the world. **Intersleek® 700** foul release coatings enjoyed particular success recently, becoming the first system of its kind to pass the 100 applications landmark for scheduled ships.

PRODUCT INFORMATION Foul release technology is applied to ships for a number of reasons, although its main function is to make it difficult for marine organisms such as slime, weeds and barnacles to attach themselves to hulls. Intersleek® 700 was specifically designed for deep sea, high activity scheduled ships such as container vessels, cruise liners and LNG/LPG carriers. It provides a smooth, slippery, low friction, hydrophobic surface, which benefits both speed and fuel efficiency. The company's marine and yacht coatings portfolio also includes a comprehensive range of technologically advanced products such as Intersmooth®, Intersleek®, Interlux®, and Interthane®.

We therefore started construction work on a new powder coatings plant in Russia. Located at Orekhovo-Zuevo, 100 kilometers east of Moscow, the facility will supply markets throughout Russia, Ukraine, Belarus, and other CIS countries.

We also invested in the Middle East with the acquisition of a controlling 60% share in Egyptian market leader Coatech. The joint venture company, now known as Akzo Nobel Powder Coatings SAE, operates from the company's existing modern manufacturing facility near Cairo. In the United States, the construction of a new warehouse in Nashville represents Phase 1 of a major site improvement/development plan, which will continue during 2006.

Looking more closely at our business activities, we launched a new sub-business unit at the beginning of 2005 – SBU Functional Coatings. The unit was set up to accelerate the globalization of this high margin segment, and we are greatly encouraged by the outstanding results the unit has achieved in its first year. We also made major progress in transferring our acrylics powder know-how from the United States to Europe and Asia Pacific, which is particularly important for the fast-growing automotive alloy wheels market. Further globalization is supported by the commissioning of acrylic powder manufacturing units at our sites in Bensheim, Germany, and Ningbo, China.

The Architectural business was also highly active during 2005. As this is a key global market for us – and one in which we have a leadership position in Europe and Asia Pacific – we decided to launch a new marketing initiative in the United States based on a full product range, including the unique fluorocarbon-based hyper-durable product Interpon® D3000.

Our Cromadex coatings organization in Europe delivered excellent results and increased its geographic coverage with a start-up in Spain. We will continue to expand the supply concept further in 2006. The Non-Stick Coatings business had a difficult 2005, and we recruited to rebuild and strengthen the management team. The business enjoyed one major success story during the year, which was the approval by Walmart of a new advanced toughness non-stick coating for cookware known as Duraflex™. A significant new product innovation from the Des Plaines R&D laboratory, we expect further sales to flow from this product next year.

Looking ahead, there should be opportunities for growth in Asia Pacific, Eastern and Central Europe, and Mexico. Efforts to improve our structural production cost levels will also remain a priority.

MARINE & PROTECTIVE COATINGS

GENERAL MANAGER: BILL McPHERSON

Revenues

Millions of euros (EUR)	
2005	**975**
2004	879

STRONG PERFORMANCE CONTINUES

Our 2005 business performance was strong and met expectations. In the first half of the year rising raw materials costs squeezed margins, particularly in the Marine and Heavy Industrial sectors. The U.S. dollar was also weak compared with previous years and this had a further negative impact on the business, especially in Marine new building, where contracts were agreed two to three years ago.

To respond to the adverse conditions prevailing throughout the year, it was necessary to raise prices for a number of products. However, this proved insufficient to restore margins, and additional measures were required to generate a satisfactory performance. Revenues from added-value products, offering clear operational and financial benefits to our customers, were up. In our more mature markets, productivity improvements were required to protect our competitiveness, while we achieved good levels of growth in our target developing markets.

As regards individual business performance, International® Marine Coatings continued to benefit from record levels of ship newbuilding, although margins were depressed by raw material hikes. We sold record levels of Intershield® for newbuilding, but dry-docking activity was lower as ship owners and ship managers maximized time at sea, while freight rates remained attractive. During 2005, we coated our 100th vessel with Intersleek®, an environmentally friendly "foul-release" antifouling which has been endorsed by the World Wildlife Fund. The product delivers significant operational savings to our customers. Performance at the unit's new business venture in Japan – which commenced in November 2004 – also met expectations.

International® Protective Coatings felt the squeeze on margins more than other market areas, particularly in the United States. Solid growth was posted in China, Central and Eastern Europe, and Australasia. Our financial performance also continued its upward momentum in these growth areas. On the product front, Interchar®, a new member of the Chartek® family of fire protection products, was launched in 2005. Based on technology created for NASA, Interchar® offers the construction industry significant benefits in terms of keeping buildings – and their occupants – safer.

AKZO NOBEL

ENJOYING LIFE ON THE OPEN ROAD

For many people, driving is one of life's great pleasures. Cruising along country lanes or embarking on a relaxing road trip can be a thrilling experience, especially if the sun's shining and the carriageways are clear. Cars can also be a hobby in themselves of course, with vintage vehicles and modern classics being lovingly looked after by enthusiasts who all share one thing in common – a passion for motoring. Akzo Nobel supplies the automotive industry with a huge range of coatings products and services, not only at the manufacturing stage, but also in the unfortunate event that body repairs should be required. Indeed, the company's **Car Refinishes** business is one of the world's leading suppliers of paints and services for the car repair, commercial vehicles and automotive plastics markets. Akzo Nobel is also the world leader in **Powder Coatings** finishes for automotive components.

PRODUCT INFORMATION Akzo Nobel's Car Refinishes business is a leading international supplier for the car repair industry. Its top-of-the-range brand is Sikkens®, which is synonymous with quality, innovation, and the highest level of services to the bodyshop. The business also supplies a number of brands for other segments of the car repair market, such as Lesonal®, Dynacoat®, and Wanda®. For commercial vehicles, Car Refinishes offers a complete approach with the dedicated Sikkens® Autocoat BT brand, while automotive plastic coatings are supplied under the Akzo Nobel brand.

Yacht Coatings fell back from its 2004 peak due to weaker demand in the U.S. market. Performance in Europe was solid and growth continued in the Asia Pacific region. The Awlgrip® business improved further and benefited from a dedicated management team.

Our Aerospace Coatings operation continued to benefit from higher build rates of new aircraft and livery changes on existing ones. The airline operators, particularly in the United States, have suffered from substantially higher fuel costs, and this has led to some downturn in business on specific accounts. Overall, however, Aerospace Coatings delivered its best ever results.

In 2005, we continued to invest in growth markets with satisfactory results. We plan to continue building on our solid platform in 2006 and beyond, although our commitment to our Business Principles has limited our growth capability in some parts of the world. Our level of spending on R&D has never been higher. We are committed to a plan for increasing the rate of organic growth, and these investments will be of significant importance to our continued success.

CAR REFINISHES

GENERAL MANAGER: RINUS ROOSEBOOM

Revenues

Millions of euros (EUR)	
2005	**886**
2004	893*

* Excluding Nobilas

DOWNWARD TREND BOTTOMS OUT

The year was dominated by harsh market conditions and higher raw material prices, but Car Refinishes successfully reversed the downward trend. Results remained under pressure and restructuring programs are being carried out. Stagnating growth in the refinishes market in the United States and Western Europe during 2005 was partly offset by market growth outside these territories, notably in Eastern Europe and Asia.

We were active in growing markets in Eastern Europe, Asia, and South America, and posted volume growth in North America, aided by focused sales programs. The pressure on volumes and results in Western Europe continued in 2005 however, with our coatings activities for plastic components in the automotive industry suffering from a depressed market in both Europe and the United States. Developments in our Commercial Vehicles segment were above expectations, and a more focused approach in this market is generating good results.

We strengthened our distribution activities with the purchase of a distributor in the Netherlands and an importer in Switzerland.

In response to lower market growth in Europe and the United States, a restructuring of Car Refinishes was announced in mid-2004, which is still ongoing. In addition to a better cost structure, the program will also result in growth in the mainstream segment and the trade segment of the refinishes market. Furthermore, we also placed a strong focus on fine-tuning of our marketing, distribution, and branding policies.

To achieve continued success, we consider operational excellence to be a prerequisite for all our activities. Significant progress has already been made in this area, but we see scope for further improvement. Major programs to enhance our reputation in color matching and color accuracy have also been started. In R&D, we continue to focus on the overhaul and maintenance of our major product lines in line with European legislation being introduced in 2007, which will enforce the use of waterborne systems and ban solvent-borne systems. Preparations for this switch started a number of years ago, and we are on track with the delivery of compliant products.

PUTTING THE SPARKLE IN CHAMPAGNE

Champagne – an international favorite and nectar of the gods. Everybody's heard of it, few can resist it. Produced exclusively in the Champagne region of France, this sumptuous liquid masterpiece is the culmination of one of most refined and elaborate systems of creation. Its pedigree is also closely guarded by its illustrious growers, and rightly so. But as connoisseurs will tell you, it can only live up to its name if the right climate and soil conditions combine to create the ideal conditions for growing the grapes. And that's precisely where Akzo Nobel comes in. Our micronutrients enhance the natural expression and character of the soil to help produce the very best champagne. So the next time you raise a glass of bubbly, for whatever the reason, we'd like to think we've contributed to your enjoyment.

PRODUCT INFORMATION Akzo Nobel is a leading manufacturer in the chelated micronutrients market, making a vital contribution to the improvement of crop quality and higher yields around the world. The main function of these chelating agents is to deliver important micronutrients – such as iron, manganese, zinc, copper, and magnesium – to the plant. Akzo Nobel's Micronutrients business has developed a range of leading products including Bolikel®, Ferica®, Rexene®, and Rexolin®. As well as delivering micronutrients to the plant, these chelating agents also have other benefits, such as improving resistance to microorganisms.

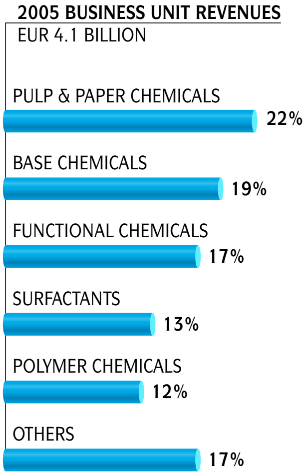
AKZO NOBEL CHEMICALS

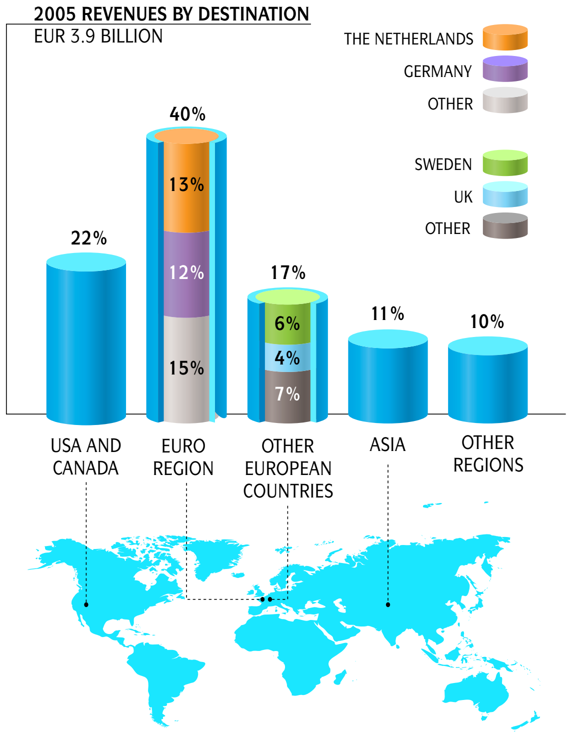
STRONG PERFORMANCE FOLLOWING PORTFOLIO REALIGNMENT

PLASTIC FANTASTIC

Some things in life we just take for granted. Take a product like polystyrene, for instance. No one gives it a second thought, yet it is all around us. How else would we safely transport electronic equipment, expensive glassware, or valuable belongings? Produced in a range of shapes and sizes, polystyrene can be found everywhere. As well as being the packaging material of choice, polystyrene is also used for a host of other products from cups, bowls, plates, and trays to CD jewel boxes. Next time you go to a sports event, a school fete or down to the local take-out, the odds are you will be sipping coffee from a polystyrene cup or having your food wrapped up in a polystyrene container. As a major supplier of the polymer used to make this lightweight material, our **Polymer Chemicals** business knows all about the world's appetite for this highly useful plastic.

PRODUCT INFORMATION Akzo Nobel's Polymer Chemicals business offers a wide range of organic peroxide initiators for the production of general purpose polystyrene (GPPS), high impact polystyrene (HIPS), expandable polystyrene (EPS), and other styrenic copolymers. Appropriate initiators are available for both mass and suspension polymerization processes. Organic peroxide initiators are also used for the production of other styrenic copolymers such as SAN, polymer polyols, and toner resins.





AKZO NOBEL CHEMICALS – STRONG PERFORMANCE FOLLOWING PORTFOLIO REALIGNMENT

Akzo Nobel Chemicals made good progress in 2005, as it successfully implemented a strategy to streamline its portfolio in order to competitively realign the business for sustainable growth, profitability, and leadership positions in selected markets.

Revenues and operating income improved compared with 2004. The ROI excluding incidentals of more than 16% underlines the progress which has been made toward our medium term target of 17.5%. The overall performance improved across the board against a backdrop of raw material price increases and rising energy costs. Including incidentals, ROI was 14.4%.

Now organized in five growth platforms – Pulp & Paper Chemicals, Base Chemicals, Functional Chemicals, Surfactants, and Polymer Chemicals – the Chemicals group is starting to reap the benefits of an improved structure and a more focused approach as a result of the strategic revision which began in 2004.

Despite significantly higher energy costs, Base Chemicals turned in an excellent performance in 2005, driven by higher volumes and continuing cost reduction and restructuring programs. Functional Chemicals performed robustly as market demand remained high, while Polymer Chemicals' results were slightly down compared with 2004. Pulp & Paper Chemicals had a mixed year due to margin pressure, experiencing particularly adverse conditions in Europe, but profitable growth in South America and Asia. Profits improved at the newly formed Surfactants business on the back of its revised focus and efficiency measures.

The realignment of the Chemicals group also involved the planned divestment of a number of businesses with combined 2004 revenues of EUR 700 million. As the year moved toward its close, we received a binding offer from Hexion Specialty Chemicals for our Ink & Adhesive Resins business. The remaining activities – Oleochemicals, PVC Additives, Salt Specialties, Solar Salt Australia,

Key figures

Millions of euros (EUR)	**2005**	2004
Revenues	**3,890**	3,735
Operating income (EBIT)	**312**	265
EBIT margin, *in %*	**8.0**	7.1
Return on invested capital, *in %*	**14.4**	12.4
EBIT excluding incidentals	**351**	349
EBIT margin, *in %*	**9.0**	9.3
Return on invested capital, *in %*	**16.2**	16.4
EBITDA	**553**	510
Capital expenditures	**252**	252
Invested captal	**2,291**	2,048
Capital turnover	**1.79**	1.75
Number of employees	**11,430**	11,890

PRODUCT INFORMATION A global leader in bleaching technology and paper chemistry, Akzo Nobel's Eka Chemicals business is the world's largest manufacturer of sodium chlorate – which is crucial to environmentally compatible pulp bleaching – and one of the five largest producers of hydrogen peroxide. In paper chemicals, Eka Chemicals is a world leading supplier of specialty performance chemicals for the wet-end of the paper machine. Leading products include Compozil® nanoparticle retention systems, Eka DR (AKD sizing agents), Eka SA (ASA sizing agents), Eka SP (surface sizing agents), Eka WS (wet strength resins), and Eka Onsite concepts and solutions for monitoring, control, and management of chemicals at the customers' site.

and Methyl Amines/Choline Chloride – are expected to be sold during 2006. In addition, Akzo Nobel and Solutia have decided to divest their Flexsys joint venture (both companies own 50%), which is expected to be finalized in the course of 2006.

Key milestones in 2005 included a EUR 26 million investment in two chemicals businesses in Sweden – a further capacity increase at the ethylene amines facility in Stenungsund, and the construction of a new plant in Skoghall to manufacture water treatment chemicals. We also invested EUR 24 million to increase capacity at our primary cellulose derivatives manufacturing plant in Sweden and expanded our chlorine operations in Rotterdam, the Netherlands.

Investments totaling EUR 15 million were announced in China – the construction of a new polysulfides plant in Taixing and a new paper chemicals site in Guangzhou. China also featured strongly as we continued with our ambition to pursue growth based on innovation and geographic focus, particularly in emerging markets, where the potential for expansion remains significant. Several businesses are already running into production capacity constraints in other parts of the world and we will be looking to establish new footholds in China in the near future.

With the five growth platforms now firmly established, our streamlined businesses are ready to fully implement the strategic plans for the future and expand both operations and profitability.

PULP & PAPER CHEMICALS

GENERAL MANAGER: JAN SVÄRD

Revenues

Millions of euros (EUR)

2005	**893**
2004	854

PROFITABLE GROWTH IN SOUTH AMERICA AND ASIA

The Pulp & Paper Chemicals business (which trades under the name Eka Chemicals) had a mixed worldwide performance in 2005. Conditions in our main market, Europe, were difficult due to several one-time effects, while a labor conflict in the Finnish pulp and paper industry during the first half of the year also had a major impact. Although revenues picked up after the resolution of the dispute, this still had a negative impact on our 2005 result. Our Bleaching Chemicals performance was also impacted by high and rising energy costs.

Rationalization and currency effects from 2004 kept North American pulp and paper production stable during the year. But here – and in Europe – higher productivity and increased efficiency will only be possible through rationalization and the continued phasing out of unprofitable mills. High energy costs are also affecting the North American industry, although Eka Chemicals has been able to effectively manage its energy supply. Growing demand in Eastern Europe, with its low labor cost and large forest assets, has the potential to prompt the development of an expanding pulp and paper industry in the region.

The continuing expansion of the Asian economies – led by China and India – is fueling rapid growth, notably in the Chinese paper industry, with the country's economic boom leading to increased demand for paper and packaging board in particular. We have already responded to this development, and by the end of 2005, the construction of our second paper chemicals plant began in Guangzhou in Southern China – a highly important paper production region.

Both Asia Pacific and South America showed a clear growth profile during 2005, with substantial new capacity coming on stream. Not only did Eka Chemicals strengthen its position in South America with the successful start-up of a bleaching chemicals plant at Veracel – the new pulp mill complex in Bahia – Brazil, but we also inaugurated a plant for colloidal silica production for paper chemicals in Rio de Janeiro. The fall in imports due to increased domestic production in Brazil will further improve our competitiveness.

Looking at Brazil in more detail, the start-up of the huge Veracel project represents a milestone in Eka Chemicals' plans to manage the entire value chain in pulp and paper production. At the world class Veracel pulp mill, Eka is managing the total chemicals supply as part of a 15-year agreement. Our ongoing R&D efforts continue to focus on developing capacity in terms of chemistry, measurement, and control of chemical processes at our customers' mills. Indeed, more efficient research and development is one of the main targets of the restructuring process, which started in 2005 and runs through 2006.

During 2005, we also expanded our wet strength additives business, while we maintained a strong and leading position for sodium chlorate in North America, where we have established ourselves as a key supplier of chemicals to the wood-containing paper segment.

Looking at some of our specialty products businesses, the Purate® novel system for water purification and bleaching at small-scale nonwood fiber mills is progressing well, including commercialization and several key installations during 2005. Permascand, which mainly produces equipment for electrolytic processes, continued to operate efficiently and gives us a clear competitive advantage over other chlorate producers. For Expancel, a world leader in thermoplastic microspheres, we believe there is still significant growth potential geographically, including its use in other applications, for example as an additive in

TAKING TO THE WATER

People love to swim and play in water. It's healthy and it's a lot of fun. Every day, millions of people around the world take a dip. But pools can also be a health hazard and a source of infection. Swallowing, breathing, or even the slightest contact with contaminated water can cause illness. The only effective and proper way to ensure adequate hygiene is to use effective disinfectants to kill any bacteria, viruses, or other dangerous microbes which might be present. Akzo Nobel's **sodium hypochlorite** provides you with that guarantee. It's as easy as taking a duck to water. So the next time you go down to the pool for a quick dip or to swim some lengths, you can be safe in the knowledge that the water you swim in will be clean and free of any impurities.

PRODUCT INFORMATION Sold commercially as bleach or "eau de javel", sodium hypochlorite is widely regarded as the most effective disinfectant for industrial applications, swimming pools, and household cleaning. Produced from a mixture of pure chlorine gas and high quality caustic soda lye, the advantage of sodium hypochlorite is that microorganisms have no defense against it. It is effective against the Legionella bacteria and biofilm, in which Legionella can multiply. In water treatment plants, it is used to disinfect and deodorize and to ensure water is safe from microbial contamination.

special paper production. Kromasil® – which is used for separation in liquid chromatography, both for analytical purposes and in pharmaceutical production – performed well, with strong potential for further growth. The colloidal silica products are expanding into construction and coating industry segments, in addition to the paper and electronic industries, creating a world leading silica sol production business.

We made one divestment during the year. In August, Nordmann, Rassmann GmbH (NRC), Hamburg, took over Kemi-Intressen AB, a wholly-owned subsidiary of Eka Chemicals.

BASE CHEMICALS

GENERAL MANAGER: WERNER FUHRMANN

Revenues

Millions of euros (EUR)

2005	**787**
2004	732

STRIVING FOR OPERATIONAL EXCELLENCE

Despite significantly higher energy costs, Base Chemicals posted an excellent performance in 2005, driven by higher volumes and continuing cost reduction and restructuring programs. We have changed significantly as a business over the last 12 months following Akzo Nobel's strategic review of its Chemical portfolio, and have integrated the Energy and Industrial Salt businesses into our operations.

The new-look unit is therefore made up of a strong and integrated product chain of energy, salt, chlor-alkali, and chlorine derivatives. We are now preparing for growth based on cost and market leadership. Further cost reductions, output increases, and alignment of the asset base are also planned to drive our ambition of achieving operational excellence throughout our value chain.

Current energy prices have led to a substantial increase in costs. The impact is already being felt by both the Salt business – which uses energy-efficient but gas-fired cogeneration technology – and the Chlor-Alkali business, which requires high electricity consumption. The strong dependency on gas in the Netherlands is now considered to be a serious threat to investing in further expansion. In an effort to address this issue, Akzo Nobel has joined several other energy-intensive Dutch companies in a consortium. The consortium's aim is to achieve competitive electricity prices based on a balanced fuel mix, along with long-term commitments from industry to purchase power. If successful, this would help create a more level playing field with surrounding countries. We also plan to focus on energy-saving technologies, with investments in narrow and zero gap membrane technology set to continue, while in 2006, a fuel cell pilot plant is planned which uses hydrogen from the electrolysis process to produce electricity for chlorine production.

In terms of individual business performance in 2005, Energy had a challenging year due to the volatility of oil and gas prices and the ongoing liberalization of the energy market. Although gas-fired cogeneration plants are major contributors to the Dutch energy efficiency program, the economic viability of such plants is under threat from prevailing high gas costs.

The Salt operations (chemical transformation salt for electrolysis, road salt for deicing, and dried salt for consumption) performed well in 2005, with higher volumes and efficiency improvements mainly compensating for higher energy costs. Production capacity at the Hengelo plant in the Netherlands increased by 400,000 tons, making it the largest vacuum salt production facility in the world, with an annual capacity of 2.4 million tons. Also in the Netherlands, Akzo Nobel became involved with a project to store gas in salt caverns, which received official approval. The company will not provide equity for the joint venture, but will be compensated for the work it carries out, including preparing the caverns and processing the brine. Akzo Nobel's retail salt activities are being divested as part of the recent portfolio realignment.

The Chlor-Alkali business also performed well in 2005. Capacity at the Rotterdam chlorine plant in the Netherlands has been increased to 620,000 tons per annum, which makes it one of the largest in the world. Elsewhere in the Netherlands, a modern membrane electrolysis plant is currently being built in Delfzijl. Meanwhile, chlorine plants based on outdated diaphragm and mercury technology were closed in Delfzijl, and in Bohus, Sweden.

Ecosystems faced a challenging year, but our position in the European water treatment market was significantly strengthened by the investment in a new plant in Skoghall, Sweden. The new facility, which came on stream in December, manufactures ferric chloride and has an annual production capacity of 35 kilotons.

Other key events during 2005 included a detailed investigation of the service functions at our Dutch sites, with a decision being taken to outsource a number of these activities. This process will have consequences for the size and organization of the service departments in the years ahead. High gas prices also had a dramatic effect on the results of our Methanor joint venture, in which we have a 30% stake. At the end of 2005, a decision was made to cease operations during 2006. We also divested our 50% equity interest in Kemax, a calcium chloride producer.

AKZO NOBEL

Food – everywhere you turn in the developed world there's an over-abundance. Walk down to the local supermarket and you can pick and choose from an extensive range of high quality products. The choice is bewildering and a testament to man's ingenuity. Yet it would be impossible to keep the shelves stocked with the cheap, high quality goods we take for granted without giving a helping hand to the farmers who produce the crops in the first place. Without the right crop protection products – such as those using ingredients supplied by our **Functional Chemicals** business – farmers would not be able to produce the yields today's hungry world demands. The trick is to strike a healthy balance between using as few chemicals as possible, while also meeting consumer expectations over food quality and affordability. The result – higher yields at the lowest environmental cost.

LOOKING FOR A BUMPER HARVEST

PRODUCT INFORMATION Akzo Nobel's Ethylene Amines are a group of chemicals used in a range of chemical processes for the manufacture of intermediates for end products such as fungicides and pesticides. The demand for our products is growing in line with general GDP trends, since the end products fulfill the need for the increasing yields of food production.

FUNCTIONAL CHEMICALS

GENERAL MANAGER: JO LENNARTZ

Revenues

Millions of euros (EUR)

2005	**703**
2004	667

ROBUST PERFORMANCE CREATES PLATFORM FOR FURTHER GROWTH

Functional Chemicals slightly improved on its strong 2004 performance despite significantly higher raw material and energy costs and unfavorable currency effects. Return on investment remained strong for all our businesses as demand and capacity utilization remained high in most markets. The composition of the unit was slightly revised during the year due to Akzo Nobel's strategic review of its Chemicals portfolio. But we believe that the robust performance of the Functional Chemicals businesses, together with strong technology and market positions and significant global growth potential, make it an attractive platform for profitable growth.

Expansion played a key role during 2005, with five of the six Functional Chemicals businesses either increasing capacity or committing to further expansion of their manufacturing capabilities. Current plans also call for substantial further investments in additional plant capacities over the next few years.

Ethylene Amines continued to consolidate its already strong global position. Capacity was increased again, which we believe should enable growth momentum to stay one step ahead of the market (above market growth) during the next few years. Margins and bottom-line results were sustained at a healthy level amid steep increases in raw material prices. Attention will continue to be paid to effectively supplying the fast growing Asian market in order to secure the leading position we have built up in the region during the last decade.

MCA (Monochloroacetic Acid) further strengthened its worldwide number one position, improving top and bottom-line results in an increasingly balanced market. Global demand chain management, and technology exchange, combined with several debottlenecking projects at our plants around the world, helped us to meet growing customer demand. Construction of the world's largest MCA plant at Delfzijl in the Netherlands is also on schedule. The additional capacity will enable us to meet further demand and facilitate further growth.

At Cellulosic Specialties – where new product development remains a key success factor – volume growth in 2005 was constrained by limited available capacity for Bermocoll® products at the Örnsköldsvik plant in Sweden, and by fierce competition in technical applications for CMC (Carboxyl Methyl Cellulose). Operating income remained strong. Sales of building additives for the construction industry – and to the mining and oil exploration industries – increased, while sales to the pharmaceutical sector decreased. During the course of the year, the restructuring program initiated in 2004 to improve efficiency at the Örnsköldsvik site neared completion. This program is expected to favorably impact the 2006 result. In November, a capacity expansion at the Bermocoll® production line at Örnsköldsvik was also announced to support the continued growth of this attractive business segment. This investment, combined with the restructuring project at the plant, will turn the site into one of the largest and most cost-effective of its kind in the world.

Despite flat sales, Chelates further improved its bottom line compared with 2004. This was mainly due to improvements at its U.S. operations following the establishment of a production joint venture with BASF in Lima, Ohio. Chelates also entered into a supply and distribution contract for our Micronutrients business with the Plant Nutrition Alliance, which includes the companies Yara and SQM. This agreement significantly widens the reach and improves the quality of distribution for our products to the global agro market. Chelates also started up a production facility in Suzhou, China, for the production of AMFE products for the photographic industry. Significant progress was made in rolling out iron compound Ferrazone®. This product, an iron chelate, addresses iron deficiency in human nutrition at a minimal cost to individuals. Iron deficiency is the planet's most common nutritional disorder, affecting 3.5 billion people in the developing world, undermining the health of 500 million women of reproductive age, and leading to more than 60,000 childbirth deaths a year.

Polysulfides continued on its profitable growth path of recent years and further strengthened its global leadership position. Both top and bottom-line improved significantly. Debottlenecking efforts added more than 2,000 tons of capacity at the Greiz plant in Germany. In the third quarter, approval was obtained to build a grass roots plant in Taixing, China, adjacent to the Functional Chemicals MCA production plant. This investment will create a manufacturing base in the fastest growing market for Polysulfides in the world and should facilitate continued profitable growth of the business on a global basis.

Sulfur Products delivered a better overall performance despite flat sales. Lower costs more than offset the negative effects of a continuing decline in demand for carbon disulfide and thiocyanates. After a strong first half, second half results were affected by raw material and energy price hikes, and by Hurricane Katrina, which impacted the LeMoyne operation in the United States.

AKZO NOBEL

WASH AND GO

Whizzing through the car wash to give your vehicle a new sparkle is something many motorists take for granted. But few people realize that behind all the splashing soap suds, water, and whirring washing mechanisms lies a highly sophisticated research and development process dedicated to creating effective cleaning agents. The modern car wash depends on finding just the right blend of chemical formulations, in order to get the job done with the available car wash equipment. As a major manufacturer of cutting-edge and environmentally friendly cleaning agents, Akzo Nobel's **Surfactants** business has a long and proven track record as a supplier to the commercial car wash industry. Our products have revolutionized hard surface cleaning around the world, replacing solvent-based agents with water-based agents. Our Surfactants ensure maximum shine for a car with minimum damage to the environment.

PRODUCT INFORMATION Akzo Nobel Surfactants supplies a full range of surfactants and co-surfactants that provide traffic film removal, degreasing foam boosting, and rinse aids for the commercial car wash industry. We also have surfactants that form microemulsions for very difficult cleaning jobs in all industries, including the commercial car wash industry. Products such as Berol® 226 have revolutionized hard surface cleaning around the world, replacing solvent-based agents with water-based agents. These water-based "green" cleaners not only outperform solvent-based cleaners, they do so cost effectively. Surfactants is a leading supplier of fatty amine based cationic, nonionic, and anionic surfactants. The business services a wide range of industries, including the detergent, personal care, cleaning, agriculture, petroleum, mining, and asphalt industries.

SURFACTANTS

GENERAL MANAGER: FRANK SHERMAN

Revenues Millions of euros (EUR)	
2005	**511**
2004	538

IMPROVEMENT CONTINUES IN NEWLY FOCUSED BUSINESS

Akzo Nobel's Surfactants business – formerly part of Surface Chemistry – was formed in early 2005 as part of the company's realignment of its Chemicals portfolio into five platforms for growth. As a result of this new strategy, the business revised its product mix in order to de-emphasize commodity applications and focus more on markets where we add value. Although this new focus led to lower revenues in 2005, a combination of restructuring, cost-saving programs, and strict margin management compensated this and resulted in improved profitability.

Like the rest of the chemical industry, Surfactants was impacted by historically high crude oil prices in 2005, as well as several natural disasters such as droughts and hurricanes. We had to contend with pressure from major customers to reduce costs, and from petrochemical raw material suppliers to pass on higher oil and gas prices. In spite of these pressures, we managed to recover margin lost in 2004 by sourcing alternative raw materials, improving product mix and raising prices. We will benefit from new product introductions to the agro-chemical and petroleum markets, combined with geo expansion in China, Eastern Europe, CIS, and South America. We also expect to commercialize products into new market segments such as fuel emulsion and wood preservatives.

From a geographic perspective, after several years of re-engineering the business processes and reducing the cost structure, our financial performance in Europe turned the corner during 2005 and our focus is on revenue growth. However, the testing and registration costs required to comply with the pending European REACH Directive will present a major challenge for our broad specialty product portfolio.

In the Americas, we have experienced reduced market demand and margin erosion in the fabric care market segment. Asia continues on a growth path but has suffered margin erosion due to local competition. We have evaluated options for local Chinese manufacturing and have identified a clear path forward.

During 2005, Svensk Etanolkemi AB (Sekab) – a joint venture company in northern Sweden supplying ethanol derivatives and biofuels to the European market – was divested to a local consortium company, Nordsvensk Etanolsamverkan AB.

We have made major progress on our cost structure over the past couple of years, including the closure of the Littleborough site in the United Kingdom, consolidation of the office and laboratory in Nacka, Sweden, and – more recently – the optimization of our Houston plant in the United States. The decision to de-emphasize commodity market segments led to an announcement that the McCook site in the United States will be closed by the end of 2007.

POLYMER CHEMICALS

GENERAL MANAGER: BOB MARGEVICH

Revenues Millions of euros (EUR)	
2005	**471**
2004	442

PERFORMANCE PEGGED BACK BY RAW MATERIAL PRICE HIKES

The 2005 financial performance for Polymer Chemicals was in line with our 2004 results, and was below expectations. Margins were under pressure, mainly as a result of sharp hikes in raw material costs, which outpaced the price increases we introduced for our products, especially in the Americas. To address this situation, double-digit price increases for all products were announced in the fourth quarter of 2005.

Firmly established by Akzo Nobel as one of the platforms for growth within its newly aligned Chemicals group, we successfully implemented our restructuring and cost-savings programs. This, together with our operational excellence programs in the areas of purchasing, supply chain, and Information Technology, are driving the business towards its objective of achieving a global cost leadership position. As a result of the divestment program, which was announced as part of the company's new Chemicals strategy, our U.S. polymerization catalysts plant in Edison, New Jersey, is being divested.

In general, the polymer industry is continuing to show healthy growth rates, which are slightly above GDP in the Americas and Europe. In China, the rate of growth is almost 10%, with the country well on its way to becoming a net polymer exporting nation. We are in an excellent position to capitalize on this, as we have state-of-the art Chinese production facilities in both Tianjin and Ningbo. The relocation of our organic peroxide production capacity from Europe to China and Mexico is progressing well and will be finalized by mid-2006.

AKZO NOBEL

ON TOP OF OUR GAME

Wherever you go in the world these days, you're bound to find freshly manicured golf courses full of enthusiastic amateurs and aspiring professionals trailing overloaded golf bags behind them. But as every ambitious golfer discovers, there's more to achieving the perfect shot than just a steady eye and a silkily smooth swing. They're just the minimum requirements. To maximize performance and create competitive advantage, a player needs the very best equipment and balls. And don't be fooled, today's best solid-core balls may look the same, but in reality they are light years away from the traditional wound designs of the past. The secret lies in the high quality solid core. Made from materials such as **Trigonox®**, a crosslinking peroxide produced by Akzo Nobel Polymer Chemicals, they deliver the distance, feel and spin every aspiring player can only dream about.

PRODUCT INFORMATION Akzo Nobel is a global supplier of organic peroxides used to crosslink organic elastomers, silicone rubbers and thermoplastics. Organic peroxides are a necessary and vital component in the manufacture of elastomeric products. Everyday products that use organic peroxides include automotive parts such as seals, gaskets, hoses, belts, spark plug boots, and o-rings; golf ball cores, footwear soles, adhesive tapes, wire and cable, and rubber or thermoplastic foamed products.

Our businesses enjoyed varying levels of success during 2005, as illustrated by the mixed results of the High Polymer Specialties (HPS) operation. Global volumes and sales of organic peroxides to the high polymer thermoplastic industry grew in line with overall market growth. The fastest growth was in Asia Pacific, due to a concerted effort to supply the new polymer producing locations in China. The business is also continuing to optimize its manufacturing activities by closely aligning operations at its Mexico and Texas sites. Sales of HPS' specialty antifouling agents and suspending agents continue to improve as part of our effort to grow this new business in Asia Pacific and the Americas. New and improved products are also being brought to commercial production and should start to produce positive results in 2006.

Cross-linking Peroxides, Thermoset Peroxides, and Polymer Additives (XTP) had a fairly good year. Revenues grew by 7%, while the financial performance saw a similar improvement. The polymer additives activities are growing quickly, and because this business has been the hardest hit in terms of raw material cost increases, price improvement programs were vital in defending our margins. We also maintained our global market leadership in several categories of cross-linking peroxides and polymer additives.

Organometallic Specialties (OMS) registered significant price improvements in the latter part of 2005, although this did not fully compensate the raw material price hikes we experienced throughout the year. We were particularly impacted by persistent price rises in olefins and solvents, but were able to recover from low margins in some segments by sacrificing capacity in order to control operating costs. Hurricanes Katrina and Rita also had a significant negative sales impact on our business operations on the U.S. Gulf Coast.

On the product development front, good progress has been made during the last 12 months, while three new business ventures have taken significant strides forward. High Purity Metalorganics (HPMO), which serves the compound semiconductor industry, continued its year-on-year improvement driven by the introduction of an industry-leading product delivery system known as Hiperloop™. Given the continued demand for lasers and light emitting diodes (LEDs), we believe HPMO should continue to register growth, particularly from its product line in Deer Park, Texas.

Meanwhile, the FuzeBox® metal deposition venture – which coats fasteners with aluminum to improve corrosion performance – moved closer to commercialization. The first semicommercial FuzeBox® unit will be installed in the second quarter of 2006. The Continuous Initiator Dosing (CID) venture, which is a process improvement technology for the manufacture of PVC, also moved closer to full commercialization with the signing of the first commercial license.

FLEXSYS (NONCONSOLIDATED)

Operating income of this 50%-owned rubber chemicals joint venture was considerably better than in the previous year, which was caused by improved market conditions for the key product groups and the effects of the cost-saving programs started in 2004.

AKZO NOBEL

GLOBAL EXPERTISE AS STANDARD

There's hardly a construction project in the world that doesn't rely on the expertise of a team of professional engineers. From massive capital projects worth billions right down to the smallest of developments, the right engineering advice can be absolutely crucial. Akzo Nobel's **Engineering** business is renowned for the assistance it has given to customers all over the world, not only within the company itself, but also to clients from other organizations and institutions. The business' core expertise includes project management and project engineering; process engineering (including Health, Safety & Environment); electro, instrumentation and process automation; and cost estimating and planning.

INFORMATION Based in Arnhem, the Netherlands, Akzo Nobel Engineering employs around 150 consultants and engineers. The business operates around the world, helping clients to achieve their business goals by optimizing engineering projects of all descriptions. Akzo Nobel Engineering's mission is: "To strengthen the competitive advantage of our clients through integral engineering and consultancy."

SERVICE BUSINESS

ENGINEERING

GENERAL MANAGER: ERIK GERRETSEN

Compared with 2004, Akzo Nobel Engineering's revenues were slightly lower, but volumes remained healthy. More than half of our activities involved Akzo Nobel Chemicals business units or external chemical companies worldwide, while third party fiber activities accounted for another quarter. Consultancy services provided to the company's Organon and Intervet businesses declined, but are expected to increase again. Akzo Nobel Engineering and the Akzo Nobel Chemicals Group intend to combine forces by integrating their service activities in areas such as engineering, inspection, technology, safety, health, environment, regulatory affairs, toxicology, and sustainable development. This will result in a more effective organization with a broader knowledge base.

NOBILAS

GENERAL MANAGER: COR DE GRAUW

Nobilas established itself during 2005 as a professional service provider in the field of international vehicle accident management. Significant progress was made on developing the dedicated ICT proprietary system, Condor, which supports the complete accident management process, including web-enabled customer views. Nobilas is now active in 12 countries in Western Europe and North America and all country organizations are connected to the central Condor system. Nobilas' volume of repairs and related services grew by 40% in 2005 and opportunities for growth are expected in the near future, especially in the corporate fleets, leasing, and insurance segments.

HUMAN RESOURCES

OUR PEOPLE

In 2005, Akzo Nobel began to establish consistent company-wide human resources programs with the objective of bringing best-in-class solutions to all businesses and to foster high quality management of our human resources. We believe that this is a significant step towards a stronger talent focus throughout the company and that it will create synergies between all businesses by providing a common agenda, processes, and tools for all employees and managers.

PERFORMANCE & DEVELOPMENT DIALOG

A common performance appraisal program, the Performance & Development Dialog (P&D Dialog), was launched in January 2005. In the first year alone, more than 80% of all employees took part in this process, with the remainder due to participate from 2006 onwards. We believe that the success of each of Akzo Nobel's businesses depends on the quality of our people – their continued growth and development. We therefore need strong people management and strong human resources programs in all our businesses.

We need to continue to drive for a high performance culture, which is in alignment with our Business Principles. The P&D Dialog embraces all these elements and gives all of our global businesses a common process and vocabulary for setting and appraising performance objectives. It also enables and supports an ongoing dialog and feedback discussion between employee and manager in all phases of the annual process, from objective setting through to mid-year review, year-end assessment, rating and feedback discussions.

COMPETENCIES AND PEOPLE MANAGEMENT RESPONSIBILITIES

In order to compete in the marketplace both now and in the future, we believe that there are key qualities and critical capabilities that will help us to remain a successful company. The P&D Dialog, therefore, also enables performance differentiation based on globally consistent competencies:

- Ongoing customer focus
- Clear commitment to quality
- Relentless focus on results
- Drive for innovation
- Teamwork at all levels
- Unwavering commitment to our values.

We also stress the importance of high quality people management by clearly expressing the need for managers to emphasize important factors such as the continuous management of performance, an ongoing focus on developing others, and the stimulation of an open climate in all teams. As part of the P&D Dialog, the year-end assessment also includes an assessment and dialog on these competencies and capabilities. They will also form part of short and long-term development discussions, which will be introduced as part of a planned extension of the P&D Dialog in 2006.

LEADERSHIP TALENT

The development of the future leadership of Akzo Nobel is a key responsibility of the company's current leadership. In order to complement the existing leadership talent focus, and to facilitate a more structured and global approach, we established a company-wide program in 2005 for the identification and review of leadership talent.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is a fundamental component of our business strategy and key to the long-term success of Akzo Nobel. We are convinced that sustained growth requires simultaneous success in developing our employees, caring for the environment, and contributing to the societies in which we operate. We want to be known as a responsible company and to be open and accountable to our stakeholders.

Legitimate concerns in society have led to greater transparency, as well as to a fostering of better relations with all stakeholders. For Akzo Nobel, the key challenge has been to continue the process of anchoring CSR systematically in organizational structures and processes. All the company's businesses are expected to monitor progress and set ambitious CSR targets during the strategic planning processes.

This year, for the first time, Akzo Nobel was included on the Dow Jones Sustainability Indexes, a series of global sustainability benchmarks first launched in September 1999. This followed our decision to use the SAM (Sustainable Asset Management) Group's review process to measure our CSR performance. This will enable us to target key areas for improvement with respect to the economic, environmental, and social aspects of our operations, and to benchmark our performance against our peers.

Other milestones during 2005 included the launch of our first CSR Report – the second will be published in April 2006, prior to the Annual General Meeting of Shareholders. We embraced Responsible Care® [1] and Coatings Care® further by formally implementing the Responsible Care® Global Charter. We also introduced a Privacy Code of Conduct aimed at protecting all privacy data relating to employees, suppliers, customers and others, and provided financial and physical support to communities affected by natural disasters in Southeast Asia, Romania, India, and the United States. We also focused on improving our product stewardship lifecycle efforts in all our operations, and on maintaining a good safety record.

COMMUNITY PROGRAM

In June 2005, the Akzo Nobel Community Program was launched. This is a unique, worldwide initiative designed to encourage employees to become actively involved in the local communities in which they live and work. The program makes funding available to people at all our sites, giving them the opportunity to become engaged in worthwhile projects in their own communities. It was launched in tandem with a partnership between Akzo Nobel and the Red Cross which will focus on projects in China and Indonesia and will also give employees the chance to get involved.

We regard the Akzo Nobel Community Program as a clear expression of the company's commitment to being socially responsible, a core value which is embedded in our Company Statement. The Board of Management will therefore annually review the funding based on the success of the Community Program and our company's financial performance.

[1] Responsible Care® is a trademark of the European Chemical Industry Council.

AKZO NOBEL ART FOUNDATION

Established in 1996, the Akzo Nobel Art Foundation collects works of art by artists from all over the world. Focusing in particular on promoting young talent – which is fully in line with the company's communications and sponsorship policies – the collection creates an attractive and inspiring working environment and also expresses our social responsibility.

The renowned Art Foundation collection now includes more than a thousand artworks from a wide range of disciplines, such as painting, drawing, sculpture, and photography. Based mainly at the company's corporate headquarters in Arnhem, the Netherlands, parts of the collection have also been exhibited at Akzo Nobel sites around the world, including Newhouse in Scotland and Cambridge in Massachusetts.

A significant event in 2005 which involved the Art Foundation was October's Amsterdam China Festival in the Netherlands. As part of the company's sponsorship of the event, the Art Foundation invited 35 young Chinese artists from the Central Academy of Fine Arts in Beijing to design banners for an eye-catching outdoor exhibition which was staged on Amsterdam's Museumplein. Akzo Nobel's sponsorship of the festival was highlighted by several media organizations, including leading Chinese television stations.

As the Art Foundation now prepares to celebrate its tenth anniversary, it will continue to help advance the careers of young artists and meet the ongoing demand for parts of the popular collection to be loaned out to museums across the globe.

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 also 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.

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

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

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

MAJOR RISK FACTORS
Under the explicit understanding that this is not an exhaustive enumeration, our major risk factors are listed below. There may be current risks that the company has not fully assessed and are currently identified as not having a significant impact on the business but which could in a later stage develop a material impact on the company's business. The company's risk management systems endeavors the timely discovery of such incidents.

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

Regulations which limit the prices we may charge for our pharmaceutical products can reduce the company's revenues and adversely affect its business and results of operations.
About 27% of the company's earnings are derived from the healthcare markets, where prices are regulated in many countries.

Product regulation may adversely affect the company's ability to bring new products to market.
The introduction of new pharmaceutical products may be prevented or delayed by relevant regulatory authorities.

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 its product development programs and manufacturing processes. We have been exposed and can be exposed to risks of accidental contamination. We could be exposed to events of noncompliance with environmental laws, regulatory enforcement, property damage, and possible personal injury and property damage claims resulting there from. Contingency plans and crisis management are in place to mitigate these risks (see also note 26 on page 134).

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

The company will be responsible for any liabilities arising out of non-compliance with laws and regulations e.g. antitrust litigation
The company is involved in investigations by the antitrust authorities in the European Union, the United States, and other countries into alleged violations of the respective antitrust laws in these jurisdictions. The company is dedicated to minimizing such risks with special emphasis on the practical application of the company's Business Principles (see front cover fold-out). In 2000, the company introduced a reinforced comprehensive competition law compliance program including training, monitoring and assessment tools.

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.

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

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

Exchange rate fluctuations can have a harmful impact on the company's financial results.
The company has operations in more than 80 countries and reports in euros. It is particularly sensitive to the relation between the euro and U.S. dollar, pound sterling, Swedish krona, and Latin American and Asian currencies.
The company has a hedging policy for certain currency exchange rate risks (see note 25 on page 131).

The company's financial condition and results of operations could be adversely affected if the company does not successfully mitigate risks e.g. those associated with insurance of pharmaceutical products or interest rate changes.
The company has a central policy to optimize insurance coverage and to minimize financing charges and manage interest rate-related risks (see note 25 on page 131).

Adverse stock market developments may affect assets of pension funds, causing higher pension charges and pension premiums payable.
This led to a substantial provision on the balance sheet in 2002 and to additional pension charges in 2002 and subsequent years (see note 20 on page 125).

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.

Because the company conducts international operations, it is exposed to a variety of risks, many of them beyond its control, that could adversely affect the business.
The company aims to spread its activities geographically to benefit from opportunities and reduce the risk of political and economic instability.

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

Seasonality may adversely affect the operating results of the company's Coatings and Chemicals business
A portion of the company's Coatings and Chemicals business is seasonal due to weather conditions. A lag in earnings may not be offset during the corresponding financial year.

Strategic Decision Making Risks
A failure to manage expansion effectively could adversely affect the company's business.

The company may not be able to identify significant technology improvements or future acquisitions or may not be successful in integrating acquired businesses.
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 through alliances, ventures, or acquisitions. We place a strong focus on integration of acquisitions as this is critical to achieve the expected results.
Akzo Nobel's policies and directives are implemented without delay in newly acquired businesses.

Internal Risks

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

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 (e.g. insurances).

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

CORPORATE GOVERNANCE

GENERAL

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

Akzo Nobel's management and supervision structure is organized in a so-called two-tier system, comprising a Board of Management, solely composed of executive directors, and a Supervisory Board, solely composed of nonexecutive directors. The two Boards are independent of each other 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 and NASDAQ, complemented by several internal procedures. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations.

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

The Code contains principles and best practices for Dutch companies with listed shares. 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 Meeting 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 that has been 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 and its affiliated enterprise. 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 segments: Organon, Intervet, Coatings, and Chemicals.

Akzo Nobel's organizational model is based on business units. The General Managers are responsible for the performance of their business units and report to the individual member of the Board of Management who is responsible for the segments 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 steer effectively the strategy and operations of the business units, the Board of Management has delegated certain authorities to Board Committees for Organon and Intervet, Coatings, and Chemicals. Furthermore, a Pensions Board Committee oversees the general pension policies to be implemented in the various pension plans of the company. Board Committees consist of at least two Board members. Delegation of authorities to Board Committees and individual Board members is laid down in an internal authority schedule.

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.

APPOINTMENT, CONFLICTS OF INTEREST

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

Starting with the appointments made in 2004, members of the Board of Management are appointed for four-year terms, with the possibility of reappointment. This is in line with the Code's provision II.1.1. However, the contracts of the members of the Board of Management appointed before 2004 were 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. The Articles of Association provide that the holders of priority shares have the power to draw up binding nominations for appointments as aforesaid, which cannot be canceled by the General Meeting of Shareholders.

The company subscribes to the Code's principle in general and therefore – as described at 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 nonbinding 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 antitakeover provisions and control, page 95). In both of the aforesaid situations, resolutions to appoint a person as a member of the Supervisory Board or the Board of Management require a simple majority. Of course, shareholders, meeting the requirements 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% of the outstanding share capital.

Although a deviation from provision IV.I.I. of the Code, the Supervisory Board and the Board of Management believe 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 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 in order to allow them to prepare for postretirement, 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 is subject to approval by the Supervisory Board, which power has been delegated to the Chairman of the Supervisory Board.

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

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 97) and the Financial Statements (see pages 153 through 155).

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 has the intention 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 88).

Pursuant to SOX, 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 nonfinancial information.

The internal procedure aimed at an effective operating system of internal controls for financial reporting is in the process of being amended on the basis of the requirements of SOX 404, which will apply to the company as from the year 2006. The Annual Report on 20-F filings to the SEC are accompanied by CEO and CFO certificates. To support these certificates, senior managers and controllers have signed backup certificates and confirmed their Letters of Representation.

Reference is made to the Board of Management's report (see page 32) for the statement on the adequacy and effectiveness of the internal risk management and control systems.

RULES OF PROCEDURE, CODES OF CONDUCT, COMPLAINTS PROCEDURES

The Supervisory Board has adopted Rules of Procedure that address internal procedural issues for the Board of Management. The members of the Board of Management are subject to the Akzo Nobel Rules on Inside Information, which limits their opportunities to trade in Akzo Nobel – and in certain circumstances – other company's shares. Transactions in Akzo Nobel shares executed by 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 Akzo Nobel Rules on Inside Information provide that making use of inside information by 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. The rules also provide that the Compliance Officer may determine that transactions in securities other than Akzo Nobel securities are prohibited, irrespective of whether he or she has inside information and has notified the relevant designated persons thereof. Akzo Nobel has chosen not to follow the provisions of the Code (provision II.2.6) requiring notification by members of the Board of Management 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 Company Statement and Business Principles set out the company's position. They guide all our employees in their daily work. The company has established several procedures to arrange for company-wide dissemination of the Business Principles and training. It has also established procedures to monitor compliance with the Business Principles in general, and certain of its provisions in particular, and to provide for enforcement of the Business Principles. The Business Principles are set forth on the inside front cover foldout and are available on the company's 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 the Business Principles, Policy statements on Human Resources, HSE and Security, and Corporate Directives. This procedure ensures that employees have the opportunity to report alleged irregularities without jeopardizing their legal position. Furthermore, there is a procedure for complaints regarding accounting, internal control, and auditing matters. Pursuant to SOX, the Audit Committee is directly responsible for receiving and handling complaints based on this financial complaints procedure and for providing confidentiality for whistleblowers on such matters. These procedures are posted on the company's corporate website.

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 and its subsidiaries. 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 and its affiliated enterprises.

APPOINTMENT, INDEPENDENCE, AND COMPOSITION

The nomination procedures outlined above for the members of the Supervisory Board and the Board of Management (see pages 91 and 92) apply. As a general rule, based on the rotation schedule, a Supervisory Board member's tenure is four years. In principle, members are eligible for reelection twice. However, in deviation of the Code (provision III.3.5), a member can be nominated for reelection more often if in a specific case this is considered to be in the company's interest. Accordingly, in 2005, Abraham Cohen was appointed for a fourth term.

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 Cees van Lede and Dolf van den Brink. In this respect, it should be noted that Mr. van Lede is a former member of the Board of Management of Akzo Nobel, who retired from this position in 2003.
As a long-standing policy, 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, one of the company's principal banks.
He retired from this position in 2002. Mr. van den Brink

is still a consultant on macroeconomic policies to this bank, but in this capacity he is not involved in its management. Although this is formally not in compliance with Code provision III.2.3, the company's conclusion is that Mr. van den Brink should be considered as an independent Supervisory Board member.

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. 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. The Supervisory Board is chaired by Aarnout Loudon, a former chairman of the Board of Management who retired from this position in 1994. This is a temporary deviation from the Code (provision III.4.2). The company believes that in view of the experience and expertise of Mr. Loudon as Chairman of the Supervisory Board, it is in the best interest of the company that Mr. Loudon remains Chairman until his present term expires in 2006. The Annual General Meeting of Shareholders in 2004 confirmed this by reappointing Mr. Loudon accordingly. After his resignation from the Supervisory Board, this temporary deviation will no longer exist.

The Supervisory Board is assisted by the Secretary. All members of the Supervisory Board have access to the advice and service 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 which is determined by the General Meeting of Shareholders. In accordance with the Articles of Association, the Supervisory Board has determined additional remuneration for its Chairman and the members of its Committees. A proposal will be made to the 2006 General Meeting of Shareholders to adjust the fee structure of the Supervisory Board. More information on the Remuneration of the Supervisory Board members can be found on page 152.

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

COMMITTEES

The Supervisory Board has established three Committees: the Audit Committee, the Nomination Committee, and the Remuneration Committee. Each Committee has a charter describing its role and responsibility and the manner in which it 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. Until January 1, 2006, the Chairman of the Audit Committee was Lars Thunell, who in the opinion of the Supervisory Board met the requirements of a financial expert pursuant to SOX and the Code. After Mr. Thunell's resignation, Mr. Van den Brink took over the position of Chairman of the Audit Committee. The Supervisory Board has determined that Mr. van den Brink meets the financial expert requirements.

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 nonaudit 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 Preapproval Policy on Audit, Audit-Related, and Nonaudit Services." All the aforementioned documents and policies are available on Akzo Nobel's corporate website.

The Nomination Committee focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members, assessing the size and composition of both Boards, assessing the functioning of the individual members, making proposals for appointments and reappointments, and supervising the Board of Management 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. Loudon. As Mr. Loudon is Chairman of the Supervisory Board and a former member of the Board of Management, this constitutes, for continuity reasons, a temporary deviation from Code provision III.5.11. This situation will no longer exist after Mr. Loudon's resignation in 2006.

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 and in the form of American Depositary Shares on NASDAQ in the United States. No preferred shares have been issued to date. It has been communicated that the preferred shares merely have a financing function, which means that, if necessary, they will be issued at or near to the prevailing quoted price for common shares. The priority shares are held by the Foundation Akzo Nobel. The Foundation's Board consists of members of Akzo Nobel's Supervisory Board who are not members of the Audit Committee.

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% 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. Holders of American Depositary Shares are also given the opportunity to vote by proxy.

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

Akzo Nobel actively communicates its strategy and the developments of its businesses to the financial 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.

ANTITAKEOVER PROVISIONS AND CONTROL

According to provision IV.3.9 of the Code, the company is required to provide an overview of its actual or potential antitakeover measures and of the circumstances in which they may be used.

The priority shares may be considered to constitute a form of antitakeover measure. In the context of the nomination rights of the Meeting of Holders of Priority Shares the following can be noted. As stated above in connection with the nomination procedure for members of the Supervisory Board and of the Board of Management (see page 92), the Foundation Akzo Nobel has confirmed that it intends to make use of its binding nomination rights in the event of exceptional circumstances only. These circumstances include situations where in the opinion of the Board of the Foundation the continuity of the company's management and policies is at stake. This may be the case if a public bid for the common shares of the company has been announced or has been made, or the justified expectation exists that such bid will be made without any agreement having been reached in relation to such a bid with the company. The same shall apply if one shareholder, or more shareholders acting in a concerted way, are holding a substantial percentage of the issued common shares of the company without making an offer, or if, in the opinion of the Board of the 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 and its enterprise. In such cases the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its enterprise, and its shareholders and other stakeholders. In order to allow for sufficient time to conduct such an evaluation, the Board of the 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 and its enterprise.

AUDITORS

The external auditor is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board. The appointment is for an indefinite period of time 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 five years. KPMG's current lead partner, Lex van Drunen Littel, has held this position since July 2002. 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 the adoption of the quarterly figures and is given the opportunity to respond to this information.

REMUNERATION REPORT

GENERAL

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

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

For an overview of the remuneration of the members of the Supervisory Board and the Board of Management, including pension costs, reference is made to note b on page 151.

REMUNERATION POLICY

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.

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
- Other benefits.

To ensure overall competitiveness of the remuneration provided, the remuneration levels of the Board of Management are assessed against a peer group. The Remuneration Committee consults professional independent remuneration experts to ensure an appropriate comparison.

Statistical models are used to modify the data of the peer group companies to assume a similar size as Akzo Nobel and a similar scope of responsibilities of the Board of Management. This remuneration package is based on a remuneration policy as adopted by the General Meeting of Shareholders in April 2005.

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

Royal Ahold and Royal KPN are not included in the peer group for the CEO. There have been no adjustments in the peer group as published in the 2004 Annual Report.

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

Base Salary

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

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

Short-Term Incentive (Annual Bonus)

The target short-term incentive (annual bonus) is 80% of the base salary for the CEO and 65% for the other members of the Board of Management.

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.

The bonus opportunity is linked to EVA for 70%; the remaining 30% is based on qualitative individual and collective 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 that has been 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. The elements of the EVA calculation cannot be derived directly from the data given in the financial statements, as it takes into account certain adjustments such as addition of nonrecurring items and special treatment of strategic investments, acquisitions and divestments.

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 ensures that targets are realistic and sufficiently stretching. The target EVA for the bonus will be determined annually by the Supervisory Board and will be derived from budget. The EVA-related part of the bonus has a performance threshold level of 80% and a maximum performance level of 120% of the targeted EVA. The company's auditors have ascertained that the actual EVA calculation is in line with the guidelines and rules as established.

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.

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

The performance measure used to determine the number of options that vest is set by the average of the results of the comparison between planned and realized EVA on Invested Capital (EOI) or economic value created in relation to invested capital during the period of three consecutive years. This measure is used to encourage EVA performance over a longer period of time. The EOI targets are set annually by the Supervisory Board.

Stock options will not vest below 80% of the targeted EOI. The number of granted options is also the maximum number of options that vest upon achieving the targeted performance. If targeted performance is exceeded, there will be no increase in the number of options that vest. The specific targets will not be disclosed as they qualify as commercially sensitive information.

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.

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

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

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

There have been no adjustments in the peer group as published in the 2004 Annual Report. Based on this peer group, Akzo Nobel will be ranked for its total return to shareholders. Independent external specialists will conduct this analysis to determine the number of shares that will vest over a three-year period. The determination of the final ranking (and thus the vesting of shares) will be reviewed by the company's auditors at the end of the performance period.

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

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

PENSIONS

The pension plan for all the members of the Board of Management appointed after January 1, 2002, is based on an income- and age-related defined contribution plan. The available premium is invested with a pension fund. The pension payment at pension age depends on the premiums received and the investment results during the period. The premium percentages to be paid for the Board member concerned are fixed by the Supervisory Board taking into account pension 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. If reappointment does not take place and the employment agreement between the Board member concerned and Akzo Nobel N.V. is not continued, the Board member will be entitled to a severance payment, established in accordance with the Dutch Corporate Governance Code. The amount of this severance payment shall in principle not exceed the equivalent of one year of base salary, or in case of termination upon the first term of four years two years of base salary. The employment agreements for the members of the Board of Management appointed before 2004 have not been adjusted in this respect (see page 92). 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.

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.

REMUNERATION IN 2005

General

The remuneration decisions made in 2005 are in line with the remuneration policy as adopted by the General Meeting of Shareholders. The Supervisory Board considered the median market development of the peer group. Special attention was given to alignment of labour conditions between the Board of Management and executives, especially of the level below the Board of Management.

The remuneration policy stresses the importance of the variable remuneration components. In 2005, the value of fixed and variable components at target levels breaks down as follows:

	CEO	Other Board members	Average
Fixed	36.5%	42.0%	40.6%
Variable	63.5%	58.0%	59.4%

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

Base Salary 2005

The salaries of the members of the Board of Management were increased by 3% on January 1, 2005. The base salary was fixed at EUR 665,000 on a yearly basis for the CEO and EUR 475,000 for the other members.

In spite of the salary adjustment in 2005, the base salary level of the CEO remains approximately 30% below the median level of the peer group of companies used in the external comparison. For the other members the percentage amounts to approximately 10% below the median level.

Short-Term Incentive (annual bonus) 2005

Bonuses, to be paid out over 2005 to the members of the Board of Management, are based on achieved target performance and a score of the P&D dialog which exceeded 100%.

Long-Term Incentives 2005
In 2005, the Remuneration Committee fixed the number of options relating to the option arrangement 2002-2012. The options were granted on the condition that the number of options could (after three years) be reduced by a maximum of 50% if an EVA on Invested Capital target was not or not sufficiently met. As the EVA on Invested Capital criterium has been achieved during the years 2002–2004, all options vested.

Under the option plan applicable as from the year 2004, 23,000 conditional options were granted to the CEO and 15,000 to the other members of the Board of Management. The member of the Board of Management who retired in 2005 (Mr. Van der Meer) only received options (15,000). The number of performance-related shares granted to the members of the Board of Management in 2005 amounted to 33,000 for the CEO and 22,000 for the other Board members.

Akzo Nobel's Total Shareholders Return, compared with the peer group over a three-year period, determines the number of performance-related shares that will become unconditional:
- For the two-year period ending 2005: Akzo Nobel's position is 9 (2004: 13)
- For the one-year period ending 2005: Akzo Nobel's position is 7.

AMENDMENT IN THE REMUNERATION POLICY
No major changes in the remuneration policy are proposed. However, the level of total cash compensation of the CEO was reviewed and considered too far below the market median level.

Therefore, the Supervisory Board intends to increase the target short-term incentive (annual bonus) for the CEO from 80% to 100% of base salary as per 2006. This increase will bring the Total Target Cash Compensation of the CEO more in line with our remuneration policy of targeting overall remuneration at the market median level and supports the focus on variable performance-related compensation. For the other members of the Board of Management the target short-term incentive (65% of the base salary) will not change in 2006. The maximum bonus for the CEO will not exceed 150% of his base salary (1.5 times target bonus) and 100% for the other members of the Board of Management.

This change in the Remuneration Policy will be submitted to the General Meeting of Shareholders for approval.

Where required, the pension arrangements have been brought in line with the new pension legislation as from January 1, 2006.

FINANCIAL STATEMENTS

The consolidated financial statements of Akzo Nobel N.V., as from January 1, 2005, 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.

The financial statements as prepared by the Board of Management and as presented in this report are subject to approval by the General Meeting of Shareholders.

The accounting policies as set out below have been applied in preparing the financial statements for the year ended December 31, 2005, the comparative information presented in these financial statements for the year ended December 31, 2004 and in the preparation of the IFRS opening balance sheet at January 1, 2004 (the date of transition to IFRS), with the exception of IAS 32 and 39 for financial instruments, which have been applied prospectively as from January 1, 2005. An explanation on how the transition to IFRS has affected the reporting is provided in note 29 to these consolidated financial statements.

Consolidation

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

Valuation

The principles of valuation and determination of income used in the consolidated financial statements are based on historical costs, unless stated otherwise in the principles of valuation of assets and liabilities.

Translation of Foreign Currencies

In the balance sheet, amounts in foreign currencies are translated into euros at year-end exchange rates. Foreign exchange differences are included in income.

Statements of income in foreign currencies are translated into euros at average exchange rates. Foreign exchange differences resulting from translation into euros of shareholders' equities and of intercompany loans of a permanent nature with respect to subsidiaries outside the euro region are recorded as a separate component within shareholders' equity. Upon disposal or liquidation of a foreign entity these cumulative translation adjustments are recognized as income or expense.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

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

Exchange Rates of Key Currencies

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

	Balance sheet		Statement of income	
	2005	2004	**2005**	2004
USD	**1.186**	1.364	**1.245**	1.243
GBP	**0.687**	0.708	**0.684**	0.680
SEK	**9.428**	9.017	**9.302**	9.123

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 the financing charges 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 computed by 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. Residual value is in the majority of cases assumed to be insignificant. In cases where the book value so computed exceeds the recoverable amount an impairment charge is recognized in income.

Depreciation methods, useful lives and residual values are reassessed annually.

Gains and losses on the sale of property, plant and equipment are included in income.

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 are 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.

Financial leases at inception are recognized in the balance sheet at the lower of the assets' fair value and the present value of the minimum lease payments, and are amortized on a straight-line basis over the shorter of the lease-term or the useful life of the asset. If the book value so computed exceeds the recoverable amount of the assets an impairment charge is recognized. Operational leases are not capitalized. Costs related to these contracts are expensed as incurred.

Intangible Assets

Intangible assets with a finite life, such as licenses, know-how and intellectual property rights, are capitalized at historic cost and amortized on a straight-line basis over the estimated useful life, which in the majority of cases ranges from 10 to 15 years. Development costs are capitalized if it is probable that sufficient future economic benefits will be generated by the intangible asset arising from development, and amortized on a straight-line basis over the estimated useful life, which in the majority of cases is 5 years. In cases where the book value so computed exceeds the recoverable amount an impairment charge is recognized in income.

Intangible assets with an indefinite life, which presently only include purchased goodwill, are not amortized, but tested for impairment annually. In cases where the book value of the intangibles exceeds the recoverable amount an impairment charge is recognized in income. Goodwill is determined as the difference between the fair value of the consideration paid for new interests and the fair value of the purchased net assets at the date of acquisition. Goodwill related to a nonconsolidated company is included in the carrying amount of that nonconsolidated company.

Financial Noncurrent Assets

Interests in companies where Akzo Nobel can exercise significant influence but not control, are treated as nonconsolidated companies and are stated at the amount of Akzo Nobel's share in shareholders' equity from the date that significant influence commences until the date that significant influence ceases.
The calculation of shareholders' equity is based as much as possible 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 company.

Jointly controlled companies are equity accounted for as nonconsolidated companies.

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

Loans to nonconsolidated companies are carried at amortized cost less impairment losses.

For the valuation of deferred tax assets, see Deferred Taxes.

Other financial noncurrent assets classified as held to maturity are recognized at amortized cost less impairment losses, while other financial noncurrent assets classified as available for sale are stated at fair value, with gains and losses resulting from changes in the fair value recognized directly in equity and impairment losses recognized in the statement of income. Upon derecognition of financial noncurrent assets classified as available for sale, the cumulative gain or loss previously recognized directly in equity is recognized in the statement of income.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, and takes into account the stage of completion. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Receivables

Trade and other receivables are stated at their cost less impairment losses. Long-term receivables are discounted to their net present value.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into known amounts of cash. These are stated at fair value.

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 amount 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 amount 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.

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 recorded 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 stated 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 Charges.

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.

Pensions and Other Postretirement Benefits

Defined Contribution Plans

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

Defined Benefit Plans

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.

In certain countries the company also provides postretirement benefits other than pensions to its employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries 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 after January 1, 2004, 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 ten 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. Otherwise, actuarial gains or losses are not recognized.

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 stated at present value.

Deferred Taxes

Deferred tax assets and liabilities are based on temporary differences between the valuation of assets and liabilities for accounting purposes and the valuation for tax purposes. Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those timing 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 if it is probable that the asset will be realized. Nonrefundable dividend taxes are taken into account in the determination of provisions for deferred taxes to the extent of earnings expected to be distributed by affiliated companies. If separate tax rates exist for distributed and undistributed profits, the current and deferred taxes are measured at the tax rate applicable to undistributed profits. 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.

Stock-Based Compensation

The stock option plan allows certain employees of the company 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 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 spread over the period during which the employees become unconditionally entitled to the options or performance shares. The fair value of the options and performance shares granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options and performance shares were granted. For the performance shares this also includes the market conditions expected to impact the company's TSR performance in relation to the selected peers. 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.

Long-Term Borrowings and Short-Term Debt

Long-term borrowings are stated at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case a synthetic bond is presented, which is measured at fair value, as an adjustment of the underlying bond which is stated at amortized cost. Short-term debt is stated at fair value.

Trade and Other Payables

Trade and other payables are stated at fair value.

Derivative Financial Instruments

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

2005

Forward exchange and commodity contracts are measured at fair value in the balance sheet, with changes in the fair value recognized in income, unless cash flow hedge accounting is applied. In the latter case, the effective part of the fair value change is deferred in shareholders' equity until the hedged transactions have been reflected in the accounts. The fair values are recognized in the balance sheet under Trade and Other Receivables, or under Trade and Other Payables.

For the interest rate derivates the company in principle applies fair value hedge accounting. The changes in fair value are recognized in the statement of income, where the effective part is offset by the fair value change of the underlying bond. Such amounts are included in Financing Charges. The fair value of the derivatives is recognized in the balance sheet under Other Financial Noncurrent Assets.

2004

Results on forward exchange contracts are recognized in income to offset the foreign exchange differences on the related hedged items. Exchange differences on anticipatory hedges of firm commitments regarding sales and purchases are deferred on the balance sheet until the hedged transactions have been reflected in the accounts. The capitalized or accrued amounts are included in receivables or current liabilities.

Principles of Determination of Income

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

Revenues

Revenues are 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 from sales of goods is recognized when the significant risks and rewards have been transferred to a third party. Service revenues are recognized as services are rendered. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, associated cost, or the possible return of goods, or if management keeps continuing involvement with the goods.

Costs of Sales

Costs of sales comprise the manufacturing costs of the goods sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing costs include such items as:
– the costs of raw materials and supplies, energy, and other materials;
– depreciation and the costs of maintenance of the assets used in production;
– salaries, wages, and social charges for the personnel involved in manufacturing.

The costs of services and royalties, generally, are included in the functional cost lines, as applicable: Selling Expenses, Research and Development Expenses, or General and Administrative Expenses.

Research Costs and Preparation and Start-up Expenses

Research costs and preparation and start-up expenses are charged to 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. For government grants related to assets, see the accounting policy for Property, Plant and Equipment.

Financing Charges

Financing charges comprise the interest payable on borrowings, calculated using the effective interest method. Also the interest expense component of finance lease payments and the increase of provisions as a result of the passage of time are recognized under Financing Charges. Entries in the statement of income related to interest rate derivatives are also recognized under Financing Charges.

Interest income is recognized under Financing Charges, using the effective interest method.

Taxes on Income

Taxes on income comprise 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 or deferred tax recognized in a purchase price allocation.

Earnings from Nonconsolidated Companies

Income from nonconsolidated companies consists of Akzo Nobel's share in earnings of these companies and interest on loans granted to them, with an allowance being made for taxes relating to these items.

Impairments

The carrying amounts of the assets, inventories and deferred tax assets are reviewed at balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated. For goodwill and other intangible assets with an indefinite useful life the recoverable amount is estimated at each balance sheet date.

The recoverable amount of an asset or its cash generating unit is the greater of the net selling price and the value in use, 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.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income.

Emission Rights

Emission rights granted by the government are recognized at cost, which is generally nil. A provision is recorded if the actual emission of pollutants is higher than the emission rights received.

Standards Issued, But Not Yet Effective

The company has not yet determined the impact of new accounting standards issued, but not yet effective.

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect amounts reported in the consolidated 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 and future periods if the changed estimates affect both current and future periods.

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 Organon, Intervet, 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.

Millions of euros	NOTE	2005		2004	
Revenues			**13,000**		12,833
Cost of sales			**(7,066)**		(6,825)
Gross profit			**5,934**		6,008
Selling expenses		**(3,297)**		(3,254)	
Research and development expenses		**(834)**		(816)	
General and administrative expenses		**(693)**		(674)	
Other operating income / (expenses)	1	**16**		(1)	
IAS 39 fair value adjustments	2	**26**			
Incidentals:	3				
– special benefits		**571**		84	
– results on divestments		**44**		579	
– restructuring and impairment charges		**(169)**		(197)	
– charges related to major legal, antitrust, and environmental cases		**(112)**		(202)	
			(4,448)		(4,481)
Operating income			**1,486**		1,527
Financing charges	4		**(156)**		(144)
Operating income less financing charges			**1,330**		1,383
Taxes	5		**(336)**		(412)
Earnings of consolidated companies after taxes			**994**		971
Earnings from nonconsolidated companies	6		**4**		10
Profit for the period			**998**		981
Minority interest, attributable to minority shareholders			**(37)**		(36)
Net income, attributable to the equity holders			**961**		945
In EUR:					
Basic net income per share	19		**3.36**		3.31
Diluted net income per share	19		**3.35**		3.30

BEFORE ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2005		2004	
Assets					
Property, plant and equipment	8		**3,432**		3,535
Intangible assets	9		**488**		448
Financial noncurrent assets:	10				
– deferred tax assets	11	**895**		794	
– nonconsolidated companies	12	**301**		318	
– other financial noncurrent assets		**604**		306	
			1,800		1,418
Total noncurrent assets			**5,720**		5,401
Inventories	13	**1,987**		1,978	
Income tax receivable	14	**137**		210	
Trade and other receivables	15	**2,773**		2,551	
Cash and cash equivalents	16	**1,486**		1,811	
Assets held for sale	17	**322**			
Total current assets			**6,705**		6,550
Total assets			**12,425**		11,951
Equity					
Issued capital		**572**		572	
Share premium		**1,803**		1,803	
Statutory reserves		**229**		65	
Other reserves and undistributed profits		**811**		165	
Akzo Nobel N.V. shareholders' equity		**3,415**		2,605	
Minority interest		**161**		140	
Total equity	18		**3,576**		2,745
Liabilities					
Provisions	20	**2,210**		2,877	
Deferred income	21	**27**		56	
Deferred tax liabilities	11	**156**		144	
Long-term borrowings	22	**2,702**		2,392	
Total noncurrent liabilities			**5,095**		5,469
Short-term borrowings	23	**357**		560	
Income tax payable	14	**380**		468	
Trade and other payables	24	**2,191**		2,209	
Current portion of provisions	20	**766**		500	
Liabilities held for sale	17	**60**			
Total current liabilities			**3,754**		3,737
Total equity and liabilities			**12,425**		11,951

Millions of euros	2005		2004	
Profit for the period	998		981	
Adjustments to reconcile earnings to cash generated from operating activities:				
Depreciation and amortization	569		565	
Impairment losses	132		74	
Financing charges	156		144	
Earnings from nonconsolidated companies	(17)		(52)	
Taxes recognized in income	338		415	
Operating profit before changes in working capital and provisions		2,176		2,127
Changes in trade and other receivables	(169)		(163)	
Changes in inventories	38		(23)	
Changes in trade and other payables	(117)		154	
Changes in provisions	(598)		(63)	
Other	28		(4)	
		(818)		(99)
Cash generated from operating activities		1,358		2,028
Interest paid	(145)		(139)	
Income taxes (paid)/received	(391)		(217)	
Pretax gain on divestments	(44)		(579)	
		(580)		(935)
Net cash from operating activities		778		1,093
Capital expenditures	(514)		(551)	
Investments in intangible assets	(67)		(28)	
Interest received	34		21	
Repayments from nonconsolidated companies	27		11	
Dividends received	19		123	
Acquisition of consolidated companies [1]	(55)		(80)	
Proceeds from sale of interests [1]	64		1,036	
Loan and prepaid premiums to APF [2]	(150)			
Other changes in noncurrent assets	53		2	
Net cash from investing activities		(589)		534
New long-term borrowings	3		22	
Repayment of borrowings	(269)		(191)	
Termination of currency swap	78			
Dividends	(366)		(366)	
Net cash from financing activities		(554)		(535)
Net change in cash and cash equivalents		(365)		1,092
Cash and cash equivalents at January 1		1,811		727
Effect of exchange rate changes on cash and cash equivalents and impact of IAS 32/39		40		(8)
Cash and cash equivalents at December 31		1,486		1,811

[1] Net of cash acquired or disposed of.

[2] Akzo Nobel Pension Fund in the Netherlands.

Millions of euros	Attributable to equity holders of the parent								
			Statutory reserves			Other reserves and undistributed profits			
	Subscribed share capital	Additional paid-in capital	Change in fair value of derivatives	Other statutory reserves	Cumulative translation reserves		Shareholders equity	Minority interest	Total equity
Balance at January 1, 2004	572	1,803		85		(435)	2,025	140	2,165
Equity settled transactions						(2)	(2)		(2)
Changes in exchange rates in respect of affiliated companies					(20)		(20)	(4)	(24)
Income directly recognized in equity					(20)	(2)	(22)	(4)	(26)
Net income						945	945	35	980
Total income/(expenses)					(20)	943	923	31	954
Dividend paid						(343)	(343)	(23)	(366)
Change minority interests in subsidiaries								(8)	(8)
Capitalized development cost				–			–		–
Balance at December 31, 2004	572	1,803		85	(20)	165	2,605	140	2,745
Implementation IAS 32 and 39			(9)				(9)		(9)
Equity settled transactions						28	28		28
Changes in fair value of derivatives			11				11		11
Changes in exchange rates in respect of affiliated companies					162		162	16	178
Income directly recognized in equity			2		162	28	192	16	208
Net income						961	961	37	998
Total income/(expenses)			2		162	989	1,153	53	1,206
Dividend paid						(343)	(343)	(23)	(366)
Change minority interests in subsidiaries								(9)	(9)
Capitalized development cost				–			–		–
Balance at December 31, 2005	**572**	**1,803**	**2**	**85**	**142**	**811**	**3,415**	**161**	**3,576**

GENERAL

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

Affiliated Companies

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

Changes in Consolidated Interests

In February 2005, Akzo Nobel announced it would focus its Chemicals portfolio on five strategic areas with clear prospects for profitable leadership. As a consequence of the strategic review, businesses with 2004 revenues of around EUR 700 million will be divested. The processes to realize these divestments are on track. The divestment process for a number of these activities is at such a stage that the assets and liabilities thereof qualify as held for sale. See note 17.

In September 2003, Akzo Nobel announced its plan to sell Catalysts, Coating Resins, and Phosphorus Chemicals from its Chemicals portfolio. In 2004 these divestments were completed. Effective July 31, 2004, Catalysts and Phosphorus Chemicals were divested for EUR 616 million and EUR 231 million, respectively, resulting in an after-tax gain of EUR 338 million and EUR 68 million, respectively.
In December 2004, Coating Resins was divested for EUR 110 million, resulting in an after-tax gain of EUR 35 million.

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

During 2005 and 2004, Akzo Nobel acquired several other businesses in strategic markets and geographic areas. Also a number of other activities were divested in 2005 and 2004. None of these were significant to the consolidated financial statements.

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

The acquisitions in 2005 contributed EUR 49 million to revenues. If all acquisitions had occured on January 1, 2005, additional revenues would have been EUR 84 million. Given their limited size, the acquisitions in 2005 only had a marginal contribution to net income, even if all acquisitions had occured on January 1, 2005.

The acquisitions in 2005 had (at acquisition date) the following effect on Akzo Nobel's assets and liabilities:

	Recognized values
Property, plant and equipment	18
Intangible assets	23
Inventories	11
Trade and other receivables	14
Provisions	(4)
Long-term borrowings	(15)
Trade and other payables	(7)
Net identifiable assets and liabilities	40
Goodwill on acquisitions	15
Consideration paid	55
Cash acquired	–
Net cash outflow	55

Segment Information

Segment information is presented in respect of the company's business and geographical segments. The primary segment reporting is based on the business segments, which also forms the basis for the company's management and internal reporting structure. The secondary segment reporting is based on the geographical areas in which the company operates, whereby segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	Revenues to third parties		Group revenues		Operating income		Earnings from nonconsolidated companies		Depreciation and amortization	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Organon	**2,404**	2,323	**2,425**	2,344	**415**	275	**2**	1	**126**	118
Intervet	**1,094**	1,027	**1,094**	1,027	**238**	184			**54**	46
Coatings	**5,541**	5,225	**5,555**	5,237	**384**	406	**(1)**	2	**135**	123
Chemicals	**3,867**	4,202	**3,890**	4,317	**312**	869	**21**	14	**241**	272
Other	**94**	56	**117**	59	**137**	(207)	**(18)**	(7)	**13**	6
	13,000	12,833	**13,081**	12,984	**1,486**	1,527	**4**	10	**569**	565
Intersegment revenues			**(81)**	(151)						
			13,000	12,833						

	Total assets		Total liabilities excluding borrowings		Equity in non-consolidated companies		Capital expenditures		Impairment losses	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Organon	**1,656**	2,075	**677**	587	**5**	3	**95**	103	**73**	31
Intervet	**532**	968	**245**	210			**54**	54		
Coatings	**2,298**	3,094	**1,360**	1,318	**11**	10	**112**	122	**10**	16
Chemicals	**2,620**	2,773	**1,003**	1,093	**263**	255	**252**	269	**49**	30
Miscellaneous and eliminations, including cash and cash equivalents	**5,018**	2,723	**2,505**	3,046	**22**	50	**1**	3		
Nonconsolidated companies	**301**	318								
	12,425	11,951	**5,790**	6,254	**301**	318	**514**	551	**132**	77

	Revenues by country of destination		Total assets		Capital expenditures	
	2005	2004	**2005**	2004	**2005**	2004
The Netherlands	**862**	844	**3,061**	2,959	**179**	189
Germany	**1,238**	1,165	**750**	828	**25**	23
Sweden	**516**	509	**863**	847	**65**	60
United Kingdom	**809**	833	**690**	582	**31**	29
Other European countries	**4,075**	4,122	**2,112**	2,163	**81**	81
United States and Canada	**2,400**	2,445	**1,959**	1,794	**51**	52
Latin America	**830**	729	**619**	454	**42**	61
Asia	**1,590**	1,536	**1,017**	834	**32**	47
Other regions	**680**	650	**329**	295	**8**	9
	13,000	12,833	**11,400**	10,756	**514**	551
Eliminations and cash and cash equivalents			**724**	877		
Nonconsolidated companies			**301**	318		
			12,425	11,951		

Note [1]

Other Operating Income/Expenses

	2005	2004
Results on sale of redundant assets	**5**	5
Currency exchange differences	**5**	(4)
Other items	**6**	(2)
	16	(1)

Note [2]

IAS 39 Fair Value Adjustments

IAS 39 fair value adjustments concern changes in the fair value of forward exchange contracts, petroleum swaps, and gas futures, for which no cash flow hedge accounting is applied. As a consequence, the changes in fair value of these contracts are recognized in income directly.

Note [3]

Incidentals

Incidentals are special benefits, results on divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases.

In 2005, the special benefits mainly relate to the termination of the Risperdal® copromotion (EUR 149 million), the settlement with Duramed/Barr on Mircette (EUR 109 million), the release of provisions due to termination of the postretirement healthcare plan in the Netherlands, and the change to a defined contribution plan in the Netherlands (EUR 283 million). In 2004, the special benefits mainly related to the full transfer of Arixtra® to Sanofi-Synthélabo (EUR 54 million), the early entrance fee for a marketing license for Remeron® in Germany, and the settlement of insurance claims for the West Orange site.

Results on divestments in 2005 mainly concerns the divestment of Intervet's feed additives business BioVet and the divestment of the company's interest in Svensk Ethanolkemie AB. In 2004, the gain on the divestments is mainly related to the divestment of Catalysts, Phosphorus Chemicals, and Coating Resins.

The following restructuring and impairment charges were recognized:

	2005	2004
Asset impairments at:		
– Organon	**(67)**	(31)
– Intervet		–
– Coatings	**(5)**	(16)
– Chemicals	**(49)**	(30)
Restructurings at:		
– Organon	**(3)**	(19)
– Intervet		–
– Coatings	**(31)**	(38)
– Chemicals	**(14)**	(61)
– Other		(2)
	(169)	(197)

In 2005, the asset impairments mainly relate to Organon's active pharmaceutical ingredients activities and the Chemicals McCook plant in the United States. Organon's active pharmaceutical ingredients activities are under pressure from difficult market circumstances, leading to a pre-tax impairment charge of EUR 67 million. The impairment of the McCook plant was the result of restructuring of the production capacity in order to address the more competitive environment in which the Surfactants business operates. In addition, several smaller impairments at Chemicals and Coatings were recognized.

Restructuring charges relate 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. For all restructurings a detailed formal plan exists, and the implementation of the plan has started or the plan has been announced.

Charges related to major legal, antitrust and environmental cases for 2005 include EUR 64 million for the settlement of the last Remeron® case, EUR 39 million for antitrust cases and EUR 9 million for environmental risks at derelict sites of companies acquired in the past. In 2004, these charges related to antitrust (EUR 102 million), Remeron® cases (EUR 89 million) and environmental cases (EUR 11 million).

Note [4]

Financing Charges

	2005	2004
Interest income	**34**	19
Interest expenses	**(149)**	(142)
Interest on discounting of provisions and other long-term receivables	**(41)**	(21)
	(156)	(144)

Interest expenses were reduced by EUR 3 million (2004: EUR 4 million) due to the capitalization of financing expenses of capital investment projects under construction.

Note [5]

Taxes

Pretax income (including earnings from nonconsolidated companies) amounted to EUR 1,336 million (2004: EUR 1,397 million). Tax (charges)/benefits are included in the statement of income as follows:

	2005	2004
Tax on operating income less financing charges	**(336)**	(412)
Tax nonconsolidated companies	**(2)**	(4)
	(338)	(416)

The classification of current and deferred taxes is as follows:

	2005		2004	
Current tax:				
– for the year	**(418)**		(412)	
– adjustments for prior years	**31**		(15)	
		(387)		(427)
Deferred tax for:				
– origination and reversal of temporary differences	**60**		27	
– changes in tax rates	**(9)**		(12)	
– tax losses recognized	**(2)**		(4)	
		49		11
		(338)		(416)

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

	2005	2004
Corporate tax rate in the Netherlands	**32**	35
Effect of lower tax rates in certain countries	**(6)**	–
Tax-exempt income/non deductible expenses	**2**	(5)
Nontaxable income from nonconsolidated companies (excluding partnerships)	**(1)**	(2)
Effect of tax losses utilized		1
Under/(over)provided in prior years	**(2)**	1
	25	30

In 2005, the aggregate amount of current and deferred taxes relating to items directly recognized in equity is a charge of EUR 51 million and relates to shareholder payments, cashflow hedge accounting, and intercompany loans of a permanent nature. In 2004, this was a credit of EUR 18 million.

Note [6]

Earnings from Nonconsolidated Companies

The 2005 earnings from nonconsolidated companies amounted to EUR 4 million net of a tax charge of EUR 2 million (2004: EUR 10 million net of tax charge of EUR 4 million). The operational performance of the nonconsolidated companies on balance improved slightly, as the higher results posted by Flexsys offset the loss of earnings from the divested Catalysts joint ventures. 2005 earnings include net incidental losses of EUR 37 million, mainly related to the closure of Methanor and guarantees for environmental costs at Acordis. In 2004, the net incidental loss of EUR 29 million related to antitrust charges recognized at Flexsys and guarantees for pension charges granted to Acordis at the time of its divestment.

Note [7]

Salaries, Wages, and Social Charges

	2005	2004
Salaries and wages	**2,402**	2,382
Pension and other postretirement cost	**304**	345
Other social charges	**515**	489
	3,221	3,216

Pension and other postretirement cost exclude the special benefits of EUR 283 million from the changes in the pension and postretirement plans in the Netherlands. Charges recognized in income for stock-based compensation are included in salaries and wages (2005: EUR 12 million; 2004: EUR 5 million).

Employees

Average number of employees	**2005**	2004
Organon	**14,200**	14,700
Intervet	**5,300**	5,300
Coatings	**29,000**	28,700
Chemicals	**11,600**	13,600
Other units	**1,300**	1,300
	61,400	63,600
Number of employees at December 31	**61,300**	61,400

The average number of employees working outside the Netherlands was 50,000 (2004: 51,600).

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

	Total	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process
Balance at January 1, 2004						
Cost of acquisition	9,837	2,736	5,692	902	446	61
Depreciation/impairment	(5,870)	(1,130)	(4,027)	(671)		(42)
Book value	3,967	1,606	1,665	231	446	19
Changes in book value						
Acquisition through business combinations	8		4	4		
Divestitures	(301)	(90)	(181)	(6)	(24)	
Capital expenditures	551	146	362	75	(34)	2
Transfer between categories		(51)	(3)	(2)	(2)	58
Disinvestments	(32)	(7)	(17)	(3)	(1)	(4)
Depreciation	(540)	(107)	(354)	(78)		(1)
Impairment	(63)	(4)	(20)	(14)		(25)
Changes in exchange rates	(55)	(26)	(23)	(3)	(3)	
Total changes	(432)	(139)	(232)	(27)	(64)	30
Balance at December 31, 2004						
Cost of acquisition	9,141	2,576	5,186	830	382	167
Depreciation/impairment	(5,606)	(1,109)	(3,753)	(626)		(118)
Book value	3,535	1,467	1,433	204	382	49
Changes in book value						
Acquisition through business combinations	18	6	10	2		
Divestitures	(1)		(1)			
Capital expenditures	514	96	365	84	(33)	2
Transfer between categories		(38)	31	62	(54)	(1)
Disinvestments	(13)	(8)	(2)	(1)		(2)
Depreciation	(528)	(105)	(339)	(81)		(3)
Impairment	(97)	(35)	(57)	(3)		(2)
Transfer to noncurrent assets held for sales	(164)	(41)	(74)	(43)	(6)	
Changes in exchange rates	168	72	77	8	9	2
Total changes	(103)	(53)	10	28	(84)	(4)
Balance at December 31, 2005						
Cost of acquisition	9,419	2,665	5,386	890	298	180
Depreciation/impairment	(5,987)	(1,251)	(3,943)	(658)		(135)
Book value	**3,432**	**1,414**	**1,443**	**232**	**298**	**45**

If an impairment indicator exists, an impairment calculation is performed. In cases where the book value of an asset exceeds the recoverable amount, an impairment charge is recognized in income. In 2005, EUR 97 million impairment charges were recognized (2004: EUR 63 million).

In 2005 the asset impairments mainly relate to Organon's active pharmaceutical ingredients activities and the Chemicals McCook plant in the United States. The impairment of Organon's active pharmaceutical ingredients activities was the result of difficult market circumstances. The recoverable amount of the business was calculated by determining the value in use, using a discount rate of 16%. The impairment of the McCook plant was the result of restructuring of the production capacity in order to address the more competitive environment in which the Surfactants business operates. The recoverable amount of the plant was based on the value in use of the plant, assuming the plant will shut down in 2007 and using a discount rate of 8% after tax. In addition, several smaller impairments at Chemicals and Coatings were recognized.

In 2004, the impairments related to the closure of Organon's production site in West Orange, New Jersey, Chemicals' chlorine production in Bohus, Sweden, and several other minor impairments. The discount rates used reflected the risk specific to the assets.

The book value of property, plant and equipment financed by hire purchase and leasing, and not legally owned by the company was EUR 61 million at December 31, 2005 (at December 31, 2004: EUR 44 million).

Purchase commitments for property, plant and equipment totalled EUR 76 million at December 31, 2005. At December 31, 2004, these commitments totalled EUR 96 million.

Both at December 31, 2005 and December 31, 2004, no property, plant and equipment was registered as security for bank loans.

Note [9] **Intangible Assets**

	Total	Goodwill	Licenses, knowhow, and intellectual property rights	Development cost
Balance at January 1, 2004				
Cost of acquisition through business combinations	598	310	288	
Cost of internally developed intangibles	11			11
Amortization/impairment	(185)	(58)	(124)	(3)
Book value	424	252	164	8
Changes in book value				
Acquisitions through business combinations	48	47	1	
Other investments – including internally developed	28	–	25	3
Divestitures	(5)	(1)	(4)	
Amortization	(25)		(22)	(3)
Impairments	(14)	(14)		
Changes in exchange rates	(8)	(7)	(1)	
Total changes	24	25	(1)	–
Balance at December 31, 2004				
Cost of acquisition through business combinations	628	342	286	
Cost of internally developed intangibles	13			13
Amortization/impairment	(193)	(65)	(123)	(5)
Book value	448	277	163	8
Changes in book value				
Acquisitions through business combinations	36	13	23	
Other investments – including internally developed	67	5	59	3
Divestitures	(2)	(2)		
Amortization	(41)		(38)	(3)
Impairments	(35)	(21)	(14)	
Changes in exchange rates	15	13	2	
Total changes	40	8	32	–
Balance at December 31, 2005				
Cost of acquisition through business combinations	722	348	374	
Cost of internally developed intangibles	16			16
Amortization/impairment	(250)	(63)	(179)	(8)
Book value	**488**	**285**	**195**	**8**

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

	2005	2004
Cost of sales	**29**	11
Selling expenses	**8**	5
Research and development expenses	**6**	2
General and administrative expenses	**9**	7
Restructuring and impairment charges	**24**	14
	76	39

Impairment tests are performed for all cash generating units containing goodwill at balance sheet date or whenever there is an indication for impairment. For all other intangible assets an impairment test is performed whenever an indicator for impairment exists.

In 2005, impairment charges of EUR 35 million were recognized mainly related to Organon's active pharmaceutical ingredients activities and Ink and Adhesive Resins. The estimates of the recoverable amounts were based on value in use, using after-tax discount rates of 8% to 10%. In 2004, the impairment charges were EUR 14 million, mainly relating to goodwill impairment at Polymer Chemicals for CIRS and Mochem.

Note [10]

Financial Noncurrent Assets

			Nonconsolidated companies		
	Total	Deferred tax assets	Share in capital	Loans	Other
Balance at December 31, 2004	1,418	794	301	17	306
Change in accounting principles (IAS 32/39)	264	5			259
Acquisitions/loans granted/investments	210			4	206
Divestitures/repayments	(208)		(37)	(5)	(166)
Amounts recognized as income/(expense)	79	36	17		26
Dividends received	(19)		(19)		
Fair value adjustments	(26)				(26)
Change Medicare receivable	15				15
Changes in exchange rates	67	60	23		(16)
Balance at December 31, 2005	**1,800**	**895**	**285**	**16**	**604**

Other Financial Noncurrent Assets

Other financial noncurrent assets at December 31, 2005, include the subordinated loan of EUR 100 million granted to the Akzo Nobel Pension Fund in the Netherlands, which was recognized at its fair value at inception of EUR 87 million. Also included is the remaining balance of EUR 36 million for the prepaid employee pension premiums.

Deferred Tax Assets

For details on deferred tax assets, see note 11.

Nonconsolidated Companies

For details on nonconsolidated companies, see note 12.

Note [11]

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 the deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carryforward period are revised.

Deferred tax assets and liabilities relate to the following balance sheet items:

	2005 Assets	2005 Liabilities	2004 Assets	2004 Liabilities
Intangible assets	139	12	55	14
Property, plant and equipment	71	158	43	152
Inventories	25	14	36	41
Trade and other receivables	29	32	26	18
Provisions:				
– pensions and other postretirement benefits	347	30	583	49
– restructuring	30	1	37	3
– other provisions	399	52	328	37
Other items	75	187	91	301
Net operating loss carryforwards	145		119	
Valuation allowances	(35)		(53)	
Tax assets/liabilities	1,225	486	1,265	615
Set-off of tax	(330)	(330)	(471)	(471)
Net deferred taxes	895	156	794	144

Deferred tax assets and liabilities 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.

The movement in temporary differences during the year is as follows:

	Net balance January 1, 2004	Changes in exchange rates	Recognized in income	Recognized in equity	Net balance December 31, 2004
Intangible assets	57	(3)	(13)		41
Property, plant and equipment	(96)	2	(15)		(109)
Inventories	(20)	(1)	16		(5)
Trade and other receivables	11	–	(3)		8
Provisions:					
– pensions and other postretirement benefits	578	(5)	(39)		534
– restructuring	43	–	(9)		34
– other provisions	260	(10)	41		291
Other items	(310)	7	93		(210)
Net operating loss carryforwards	169	(5)	(45)		119
Valuation allowances	(40)	2	(15)		(53)
Tax assets/liabilities	652	(13)	11		650

	Net balance December 31, 2004	Changes in exchange rates	Recognized in income	Recognized in equity	Net balance December 31, 2005
Intangible assets	41	7	79		127
Property, plant and equipment	(109)	(5)	27		(87)
Inventories	(5)	1	15		11
Trade and other receivables	8	1	(12)		(3)
Provisions:					
– pensions and other postretirement benefits	534	14	(228)		320
– restructuring	34	2	(7)		29
– other provisions	291	22	38		351
Other items	(210)	(2)	100	(7)	(119)
Net operating loss carryforwards	119	11	15		145
Valuation allowances	(53)	(4)	22		(35)
Tax assets/liabilities	650	47	49	(7)	739

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

	2005	2004
Deferred tax assets	**895**	794
Deferred tax liabilities	**(156)**	(144)
	739	650

At December 31, 2005, losses carried forward amounted to EUR 520 million, of which the tax effect of EUR 102 million is not recognized in the balance sheet. Of the total losses carried forward EUR 12 million will expire within one year. For EUR 190 million of losses, there is no expiration date. Of the net deferred taxes EUR 230 million is expected to reverse in 2006.

The EUR 35 million deferred tax assets not recognized in the balance sheet relates to the following items:

	2005	2004
Deductible temporary differences	**1**	15
Tax losses	**34**	38
	35	53

For the movement schedule of deferred tax assets see note 10.

Note [12] **Nonconsolidated Companies**

A summary of financial information for the nonconsolidated companies on a 100% basis is given below:

	2005	2004
Net revenues	**2,500**	2,653
Income before taxes	**74**	248
Net income	**21**	214
Total share in net income of nonconsolidated companies recognized in the consolidated statement of income	**4**	10
Current assets	**629**	797
Noncurrent assets	**1,000**	982
Total assets	**1,629**	1,779
Current liabilities	**537**	435
Noncurrent liabilities	**480**	600
Shareholders' equity	**612**	744
Total liabilities and equity	**1,629**	1,779
Investments in and loans to nonconsolidated companies included in the consolidated balance sheet	**301**	318

Several Akzo Nobel companies are general partners in a number of partnerships that are included in the balance sheet under nonconsolidated companies. Akzo Nobel's equity in the capital of these partnerships was EUR 55 million at year-end 2005 (at December 31, 2004: EUR 60 million). Equity in 2005 earnings was a loss of EUR 14 million (2004: profit of EUR 5 million). At year-end 2005, these partnerships accounted for EUR 1 million of short-term receivables from nonconsolidated companies (at December 31, 2004: EUR 1 million).

Note [13] Inventories

	2005	2004
Raw materials and supplies	**616**	596
Semifinished goods	**401**	400
Finished products and goods for resale	**963**	977
Inventory prepayments	**7**	5
	1,987	1,978

Of the total carrying amount of inventories per December 31, 2005, EUR 64 million is stated at net realizable value (fair value less cost to sell) (December 31, 2004: EUR 50 million). In 2005, EUR 43 million was recognized in the statement of income for the write-down of inventories (2004: EUR 35 million), while EUR 18 million of write-downs was reversed (2004: EUR 10 million). There are no inventories subject to retention of title clauses.

Note [14] Income Tax Receivable and Payable

Income tax receivable of EUR 137 million (2004: EUR 210 million) represents the amount of income taxes recoverable in respect of current and prior periods. Income tax payable of EUR 380 million (2004: EUR 468 million) relates to the amount of taxes payable for current and prior periods.

Income taxes receivable and payable 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 receivable and payable simultaneously.

Note [15] Trade and Other Receivables

	2005	2004
Trade receivables	**2,161**	1,971
Non-income taxes	**108**	125
Receivables from nonconsolidated companies	**63**	33
Prepaid expenses	**114**	118
Fair value derivatives	**28**	
Other receivables	**319**	317
	2,793	2,564
Discounted portion	**(20)**	(13)
	2,773	2,551

Trade receivables are shown net of impairment losses of EUR 142 million (2004: EUR 157 million). In 2005, EUR 14 million of impairment losses were recognized in the statement of income.

Note [16] Cash and Cash Equivalents

	2005	2004
Short-term investments	**1,144**	1,529
Cash on hand and in banks	**342**	282
	1,486	1,811

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

At December 31, 2005, the amount of cash and cash equivalents was freely available.

Note [17] 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. As a consequence of the strategic review, businesses with 2004 revenues of around EUR 700 million will be divested. The process to realize these divestments is on track. The divestment process for a number of these activities is in such a stage that the assets and liabilities thereof qualify as held for sale. The following activities are included in the disposal group: Oleochemicals, Solar Salt Australia, Ink & Adhesive Resins, PVC Additives, Polymerization Catalysts, EMC and Carbide.

Assets held for sale include the following:

	2005
Property, plant and equipment	164
Inventories	75
Trade and other receivables	83
	322

Liabilities classified as held for sale include the following:

	2005
Trade and other payables	60
	60

Note [18] **Equity**

For the consolidated statement of changes in equity see page 112.
For details on Akzo Nobel N.V. shareholders' equity see note f to the balance sheet of Akzo Nobel N.V.

Translation reserves comprises 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.

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.

Equity settled transactions include the stock option program and the performance share plan whereby options or shares are granted to all members of the Board of Management, Senior Vice Presidents, and 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 balance sheet of Akzo Nobel N.V.

Note [19] **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. The weighted average numbers were as follows:

	2005	2004
Issued ordinary shares at January 1	**286,147,260**	286,147,260
Effect of own shares held	**(374,021)**	(401,673)
Shares for basic earnings per share	**285,773,239**	285,745,587
Effect of dilutive shares:		
– for stock options	**658,646**	423,348
– for performance-related share plan	**519,841**	236,962
Shares for diluted earnings per share	**286,951,726**	286,405,897

Note [20] Provisions

	Total	Pensions and other postretirement benefits	Restructuring of activities	Environmental costs	Other
Balance at December 31, 2004	3,377	2,489	241	242	405
Change in accounting principles (IAS 32/39)	5				5
Additions made during the year	497	247	65	46	139
Utilization	(737)	(467)	(109)	(39)	(122)
Amounts reversed during the year	(332)	(301)	(11)	(6)	(14)
Unwind of discount	43		11	17	15
Acquisitions/divestitures	4	3			1
Change Medicare receivable	15	15			
Changes in exchange rates	104	84	2	8	10
Balance at December 31, 2005	2,976	2,070	199	268	439

The above movement schedule includes the current portion of the provisions, which at December 31, 2005 amounted to EUR 766 million (at December 31, 2004: EUR 500 million).

Provisions for Pensions and Other Postretirement 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 in the United States and, until the end of 2005, in the Netherlands. The company accrues for the expected costs of providing such postretirement benefits during the years that the employee renders the necessary services.

Valuations of the obligations under the pension and other postretirement plans are carried out by independent actuaries.

During 2005, Akzo Nobel reached agreement with the unions on a change of its pension plan in the Netherlands, so that, effective December 31, 2005, it changed from a defined benefit plan to a defined contribution plan. In connection with this change, the company paid a one-time nonrefundable contribution of EUR 151 million, prepaid EUR 50 million of employee premiums, and granted a EUR 100 million subordinated loan, which has a fair value of EUR 87 million. In addition, certain changes were made to the early retirement plan. These changes resulted in a curtailment and settlement of defined benefit obligations of EUR 4,575 million and of plan assets of EUR 4,502 million. All in all, the net pre-tax gain was EUR 114 million, which was recognized as Special Benefit.

Effective December 31, 2005, due to changes in the Dutch national healthcare system, the company also terminated its postretirement healthcare plan in that country, except for a gradually declining transition arrangement until June 30, 2009. Due to this curtailment, the defined benefit obligation decreased by EUR 150 million. The net pre-tax gain on the termination was EUR 169 million, which was recognized as Special Benefit.

Below a table is provided with a summary of the changes in the pension and the other postretirement benefit obligations and plan assets for 2005 and 2004.

Asset/(liability)	Pensions 2005	Pensions 2004	Other postretirement benefits 2005	Other postretirement benefits 2004
Defined benefit obligation				
Balance at beginning of year	**(8,975)**	(8,579)	**(514)**	(521)
Acquisitions/divestments	**(4)**	5		5
Settlements/curtailments	**4,575**	166	**150**	1
Service costs	**(209)**	(208)	**(21)**	(22)
Contribution by employees	**(32)**	(40)		
Interest costs	**(437)**	(456)	**(30)**	(32)
Plan amendments		(1)		
Benefits paid	**484**	472	**23**	26
Actuarial gains and losses	**(747)**	(453)	**(59)**	(1)
Changes in exchange rates	**(165)**	119	**(57)**	30
Balance at end of year	**(5,510)**	(8,975)	**(508)**	(514)
Plan assets				
Balance at beginning of year	**6,781**	6,347	**–**	1
Acquisitions/divestments	**1**	–		
Settlements	**(4,502)**	(75)		
Contribution by employer	**397**	317		
Contribution by employees	**32**	40		
Benefits paid	**(436)**	(416)	**–**	(1)
Actual return on plan assets	**1,197**	655	**–**	–
Changes in exchange rates	**126**	(87)		
Balance at end of year	**3,596**	6,781	**–**	–
Funded status	**(1,914)**	(2,194)	**(508)**	(514)
Unrecognized net loss/gain	**328**	220	**89**	(3)
Unrecognized prior service costs	**1**	46	**2**	9
Medicare receivable			**(68)**	(53)
Net balance pension provisions	**(1,585)**	(1,928)	**(485)**	(561)

The defined benefit obligation breaks down as follows:

	2005	2004
Wholly or partly funded plans	**5,207**	8,868
Unfunded plans	**303**	107
	5,510	8,975

At January 1, 2004, the funded status was as follows:

Asset/(liability)	Pensions	Other postretirement benefits
Defined benefit obligation	(8,579)	(521)
Plan assets	6,347	1
Funded status	(2,232)	(520)

As January 1, 2004 is the transition date for the implementation of IFRS, this information is not available for earlier dates.

The difference between the actual and the expected return on plan assets was a gain of EUR 736 million in 2005, and of EUR 228 million in 2004.

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 postretirement healthcare plans, which both began at January 1, 2006. This reimbursement right has been recognized as an asset under Other Financial Noncurrent Assets, measured at fair value. At December 31, 2005, this value was EUR 68 million (December 31, 2004: EUR 53 million).

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

	Pensions		Other postretirement benefits	
Charge/(income)	**2005**	2004	**2005**	2004
Service costs for benefits earned during the period	**209**	208	**21**	22
Interest costs on defined benefit obligations	**437**	456	**30**	32
Expected return on plan assets	**(461)**	(427)	**–**	–
Amortization of unrecognized losses	**11**	13		
Settlements/curtailments (gain)	**(132)**	(86)	**(169)**	(5)
	64	164	**(118)**	49

During 2005, the principal defined benefit pension plans covered some 55% of Akzo Nobel's employees. Due to the changes in the Dutch pension plan, for 2006 this will be some 35%. The remaining plans primarily represent defined contribution plans. Expenses for these plans totalled EUR 57 million in 2005 and EUR 41 million in 2004.

The weighted average assumptions underlying the computations were:

	Pensions		Other postretirement benefits	
Percent	**2005**	2004	**2005**	2004
Pension benefit obligation at December 31,				
– discount rate	4.7	4.9	5.5	5.4
– rate of compensation increase	3.9	3.2		
Net periodic pension costs				
– discount rate	4.9	5.4	5.4	6.0
– rate of compensation increase	3.2	3.2		
– expected return on plan assets	6.7	6.7		

The 2005 weighted average discount rate for the calculation of the obligation no longer includes the Dutch pension plan. The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans.

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

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. At December 31, 2005 and 2004, 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, 2005 and 2004, and the target allocation for 2006 for the pension plans by asset category are as follows:

Percent	Target allocation 2006	Percentage of plan assets at December 31, 2005	2004
Equity securities	50–55	51	46
Long-term interest earning investments	35–45	36	42
Real estate	5–10	8	9
Other	0–5	5	3
Total		100	100

Weighted average assumptions for other postretirement benefits were as follows:

Percent	**2005**	2004
Assumed healthcare cost trend rates at December 31:		
– healthcare cost trend rate assumed for next year	**8.5**	6.3
– rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0**	3.5
– year that the rate reaches the ultimate trend rate	**2009**	2009

In line with plan agreements in place until December 31, 2005, allowances under the healthcare plan in the Netherlands are assumed not to increase anymore.

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

	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost	8	(6)
Effect on postretirement benefit obligations	72	(59)

Cash Flows

The company expects to contribute EUR 160 million to its defined benefit pension plans in 2006.

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

	Pensions	Other postretirement benefits
2006	279	33
2007	285	31
2008	302	30
2009	303	28
2010	315	28
2011-2015	1,598	167

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 exits, and the implementation of the plan has started or the plan has been announced. 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 26.

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 204 million at December 31, 2005 (At December 31, 2004: EUR 167 million).

For details on antitrust cases, see note 26.

The majority of the cash outflows related to other provisions are expected to be within 1 to 5 years. In calculating the other provisions a discount rate of on average 4% has been used.

Note [21] **Deferred Income**

In December 2003, the company received an initial payment of EUR 88 million from Pfizer for the co-development and co-marketing agreement for asenapine. Such payments are to be reported as deferred income and to be recognized as revenue in subsequent years. For this payment, recognition is based on the development costs expected for the (remaining) first part of the development period, currently anticipated to be from 2004 to 2007. At December 31, 2005, the remaining balance of the deferred amount was EUR 27 million.

Note [22] **Long-Term Borrowings**

	2005	2004
Debentures:		
– issued by Akzo Nobel N.V.	**2,368**	2,087
– issued by consolidated companies	**220**	192
Debt to credit institutions	**52**	46
Other borrowings	**62**	67
	2,702	2,392

At December 31, 2005, the total amount of long-term credit facilities arranged by Akzo Nobel was EUR 1.5 billion (at December 31, 2004: EUR 1.5 billion) maturing at 2008. Both at December 31, 2005 and at December 31, 2004 the facilities were not used.

During 2005, the average effective interest rate was 4.2% (weighted average interest during 2004: 4.9%).

Aggregate maturities of long-term borrowings are as follows:

	2007/2010	after 2010
Debentures:		
– issued by Akzo Nobel N.V.	1,577	791
– issued by consolidated companies	106	114
Debt to credit institutions	27	25
Other borrowings	25	37
	1,735	967

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

At December 31, 2005, as at December 31, 2004, none of the borrowings was secured by means of mortgages, etc.

Finance lease liabilities are included under other borrowings. The amounts payable in respect of these finance lease liabilities are due as follows:

	Minimum lease payments	Interest	Principal
Between 1 and 5 years	20	2	18
More than 5 years	3	–	3
	23	2	21

For details on the company's exposure to interest rate and foreign currency risk, see note 25.

Note [23] **Short-Term Borrowings**

	2005	2004
Debt to credit institutions	**298**	241
Borrowings from nonconsolidated companies	**16**	17
Current portion of long-term borrowings	**43**	302
	357	560

Akzo Nobel has a commercial paper program in the United States, which at December 31, 2005, as at December 31, 2004, had a maximum of USD 1.0 billion (year-end 2005: EUR 0.8 billion; year-end 2004: EUR 0.7 billion), and a Euro commercial paper program, which at December 31, 2005, as at December 31, 2004, had a maximum of EUR 1.5 billion. Both at December 31, 2005 and at December 31, 2004, there was no commercial paper outstanding.

For details on financial instruments, see note 25.

Note [24] **Trade and Other Payables**

	2005	2004
Prepayments by customers	**24**	17
Suppliers	**1,180**	1,146
Debt to nonconsolidated companies	**4**	2
Taxes and social security contributions	**153**	181
Amounts payable to employees	**369**	289
Dividends	**4**	1
Pensions	**7**	5
Fair value derivatives	**13**	
Other liabilities	**437**	568
	2,191	2,209

Note [25] **Financial Instruments**

Foreign Exchange Risk Management

The company enters into forward exchange contracts to hedge the entire transaction risk on sales, purchases, and financing transactions denominated in currencies other than the functional currency of the subsidiary concerned. 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 committed trade or financing transactions are adversely affected by changes in exchange rates. Most forward exchange contracts outstanding at year-end have a maturity of less than one year. Where necessary, the forward exchange contracts are rolled over at maturity. Incidentally, the company may apply hedge accounting. The company does not use financial instruments to hedge the translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries and nonconsolidated companies. Currency derivatives are not used for speculative purposes.

At December 31, 2005, outstanding contracts to buy currencies totaled EUR 1.0 billion (at December 31, 2004: EUR 1.1 billion), while contracts to sell currencies totaled EUR 1.0 billion (at December 31, 2004: EUR 0.9 billion). These contracts mainly relate to U.S. dollars, Canadian dollars, Swedish kronor, Norwegian kronor, pounds sterling, and Japanese yen, all having maturities within one year.

Interest Risk Management

In principle, the company manages interest risk by matching the duration of assets and liabilities. As a consequence, noncurrent assets and a certain portion of current assets are financed with equity, provisions, and long-term borrowings with fixed interest rates. The remainder of current assets is financed with short-term debt, including floating rate short-term borrowings. In order to achieve an appropriate mix of fixed and floating rate exposure within the company's policy, a number of swap contracts and forward rate agreements have been entered into.

The company swapped EUR 500 million fixed rate liabilities with an interest rate of 5.625% with partially 3-months and partially 6-months floating rate EURIBOR-related liabilities, maturing in 2009. In addition, the company swapped EUR 250 million 3-months floating rate EURIBOR liabilities into USD 223 million 3-months floating rate LIBOR liabilities, maturing in 2009. The combined effective interest rate was 4.18%.

The company swapped fixed rate liabilities with an interest rate of 4.25% with 6-months floating rate EURIBOR-related liabilities for an amount of EUR 650 million, maturing in 2011. The combined effective interest rate was 2.69%.

The company classifies the interest rate swaps as fair value hedges and states them at fair value.

The company concluded forward rate agreements whereby interest on deposits was fixed for a volume of EUR 100 million to EUR 300 million in the range from 2.06% to 2.64% during the period January to April 2006 and for a volume of EUR 100 million in the range from 2.34% to 2.47% during the period October 2006 to March 2007. For the forward rate agreements no hedge accounting is applied.

The table below gives information on the company's financial instruments that are sensitive to changes in interest rates. The principal cash flows and effective interest rates are given.

Millions of euros	Expected maturity date 2007	2008	2009	2010	There-after	Total	Effective interest rate	Carrying amount	Estimated fair value
Assets									
Subordinated loan to Akzo Nobel Pension Fund					(100)	(100)	5.1	87	87
Average interest rate					3.5	3.5			
Liabilities									
Long term borrowings									
Fixed Rate (EUR)									
Bond loan 98/08		511				511	5.49	513	539
Average interest rate %		5.38				5.38			
Bond loan 02/09			1,000			1,000	5.76	1,064	1,069
Average interest rate %			5.63			5.63			
Bond loan 03/11					750	750	4.41	791	776
Average interest rate %					4.25	4.25			
Fixed Rate (USD)									
Bond loan 07	86					86	6.24	86	88
Average interest rate %	6.44					6.44			
Bond loan 09			15			15	6.35	15	16
Average interest rate %			6.28			6.28			
Bond loan 12					120	120	6.57	120	126
Average interest rate %					6.54	6.54			
Interest rate derivatives									
Interest rate swaps									
Fixed to variable (EUR)			500			500		48	48
Average pay rate%			Euribor + 0.47						
Average receive rate %			5.625						
Fixed to variable (EUR)					450	450		23	23
Average pay rate%					Euribor 6 months + 0.43				
Average receive rate %					4.25				
Fixed to variable (EUR)					200	200		10	10
Average pay rate%					Euribor 6 months + 0.445				
Average receive rate %					4.25				
Cross currency swap									
Variable (EUR) to Variable (USD)			250	EUR/ 223 USD				64	64
Average receive rate %			250	EUR Euribor + 0.47					
Average pay rate%			223	USD Libor + 0.439					
Forward rate agreements	Fixed interest rate on deposits								
	– in a range from 2.06% to 2.64% on EUR 100 million to EUR 300 million maturity 2006							–	–
	– in a range from 2.34% to 2.47% on EUR 100 million maturity 2007							–	–

Credit Risk

The company has a credit risk management policy in place. The exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. Generally the company does not require collateral in respect of financial assets.

Investments in cash and cash equivalents are entered into with counterparties which have a high credit rating and limits per counterparty have been set. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the Group has contractual netting agreements. The company has no reason to expect nonperformance by the counterparties to these agreements.

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. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Commodities

In order to hedge the price risk of natural gas, the company has entered into swap contracts for the underlying fuels, with an average volume per month of 43,600 tons for the period of January through December 2006, whereby the price is fixed. The company also concluded futures contracts to hedge the price risk attached to the purchase of 2,600 million m^3 of gas, reasonably spread over the period 2006-2008. For none of these contracts hedge accounting is applied.

Furthermore, the company entered into futures contracts for electricity in order to hedge the price risk for the expected use of electricity by certain subsidiaries over the period 2006-2008, spread in tranches of three months. For these contracts cash flow hedge accounting is applied.

Sensitivity Analysis

By managing interest rate and currency risks, the company aims to reduce the impact of short-term fluctuations on the company's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At December 31, 2005, the decrease in the company's profit before tax as a result of a general increase of one percentage point in interest rates would be negligible. Cash and cash equivalents, short-term borrowings and interest swaps have been included in this assessment.

Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments are as follows:

	December 31, 2005		December 31, 2004	
Asset/(liability)	**Carrying amount**	**Estimated fair values**	Carrying amount	Estimated fair values
Subordinated loan to Akzo Nobel Pension Fund	87	87		
Trade and other receivables	2,773	2,773	2,551	2,551
Cash and cash equivalents	1,486	1,486	1,811	1,811
Interest rate currency swaps			175	237
Interest swap contracts	81	81	–	32
Cross currency swap contracts	64	64	–	–
Forward rate agreements	–	–	–	–
Forward exchange contracts:				
– asset	23	23	58	59
– liability	(11)	(11)	(47)	(47)
Long-term borrowings	(2,702)	(2,833)	(2,392)	(2,566)
Short-term borrowings	(357)	(357)	(258)	(258)
Trade and other payables	(2,191)	(2,191)	(2,511)	(2,511)
Electricity futures	18	18		
Petroleum swaps	4	4		–
Gas futures	1	1		–
	(724)	(855)	(613)	(692)
Unrecognized (losses)/gains		(131)		(79)

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

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

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

Note [26] **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 cleanup costs when it is probable that a liability has materialized and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and cleanups proceed and additional information becomes available. Environmental liabilities can change substantially 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 of a similar nature. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

As stated in note 20, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 268 million at December 31, 2005 (at December 31, 2004: EUR 242 million). The provision has been discounted using an average discount rate of 5%.

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

Antitrust Cases

Akzo Nobel is involved in investigations by the antitrust authorities in the European Union, the United States, and Canada into alleged violations of the respective antitrust laws for some products in these jurisdictions. The company is fully cooperating with the authorities in these investigations. In addition, the company is defending civil damage claims in relation to some of these alleged antitrust violations. At December 31, 2004, the company had a provision for antitrust cases of EUR 167 million. Fines, civil damage settlements, and legal costs incurred in 2005 in connection with these cases amounted to EUR 12 million (2004: EUR 5 million).

In 2005, 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 39 million to the provision for antitrust cases. At December 31, 2005, the provision for antitrust cases amounted to EUR 204 million. Included in this amount are provisions for three cases pending in appeal by the company with the EU Court of First Instance against decisions by the EU Commission to impose fines on the company for violations of EU competition laws regarding the following products: Sodium Gluconates (EUR 10 million), Choline Chloride (EUR 21 million) and Monochloroacetic Acid (EUR 84 million).

It should be understood, however, 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.

With regard to Flexsys, a 50/50 joint venture for rubber chemicals with Solutia Inc., authorities in the United States, Canada, and Europe are investigating alleged antitrust violations in the rubber chemicals industry. We have been informed by Flexsys management that it is cooperating with the authorities and will continue to do so and pursuant to this cooperation has been granted conditional amnesty by the US DOJ, the Canadian BOC and the EU Commission. We are also aware of a number of purported class actions and an individual action having been filed against Flexsys in federal court (by direct purchasers) and in various state courts (by alleged indirect purchasers) in the United States, and in the province of Quebec, Canada. The company has been named as codefendant in the federal actions and in state actions in Florida and Massachusetts. Flexsys has recognized certain provisions for these cases and the company does believe neither that the plaintiffs will be able to establish liability on the part of the company nor that it will be liable for funding any judgements against settlements made by, or related costs incurred by Flexsys. The carrying value of the company’s investment in Flexsys, however, may be affected by these cases.

Other Litigation

Since December 2002, the company has been involved in several cases regarding its product Remeron®. During 2004 and 2005, settlements were reached in all these cases, the last of which was approved in November 2005 by the Federal District Court in Newark, New Jersey.

Late January 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. Based on legal advice, Akzo Nobel Nederland and the Akzo Nobel Pension Fund have confidence in a positive outcome of the proceedings.

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 76 million at December 31, 2005. At December 31, 2004, 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 1.5 billion (2004: EUR 1.2 billion).

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated EUR 822 million at December 31, 2005 (at December 31, 2004: EUR 557 million). Payments due within one year amount to EUR 261 million (2004: EUR 165 million); payments between one and five years EUR 441 million (2004: EUR 269 million) and payments due after more than five years amount to EUR 120 million (2004: EUR 123 million).

Guarantees related to nonconsolidated companies totaled EUR 3 million (at December 31, 2004: EUR 5 million). As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2005, the risk ensuing from these liabilities was EUR 113 million (at December 31, 2004: EUR 92 million).

Note [27] **Related Party Transactions**

Akzo Nobel purchases and sells goods and services to various related parties in which Akzo Nobel holds a 50% or less equity interest (nonconsolidated companies). Such transactions were not significant on an individual or aggregate basis. These transactions were conducted at arm's length with terms comparable to transactions with third parties.

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 2005. 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. For details on the remuneration of the Supervisory Board and Board of Management, see note b to the balance sheet of Akzo Nobel N.V.

Note [28] **Accounting Estimates and Judgements**

In preparing the financial statements management makes estimates and judgements that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities at the date of our financial statements. The most critical accounting policies involving a higher degree of judgement and complexity in applying principles of valuation as described on pages 103 through 108 of this annual report are described below.

Impairment of Intangible Assets and Property, Plant and Equipment

The company reviews long-lived assets for impairment when events or circumstances indicate carrying amounts may not be recoverable. Assets subject to this review include intangible and tangible fixed assets. In determining impairments of intangible and tangible fixed assets, management must make significant judgements and estimates to determine if the future cash flows expected to be generated by those assets are less than their carrying value. Determining cash flows requires the use of judgements and estimates that have been included in the company's strategic plans and long-range planning forecasts. The data necessary for the execution of the impairment tests are based on management estimates of future cash flows, which require estimating revenue growth rates and profit margins. Assets are written down to their recoverable amount. This recoverable amount of impaired assets is determined by taking into account these estimated cash flows and using a net present value technique based on discounting these cash flows with business-specific discount rates.

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

Accounting for Income Taxes

As part of the process of preparing consolidated financial statements, the company is required to estimate income taxes in each of the jurisdictions in which the company operates. This process involves estimating actual current tax expenses 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. A valuation allowance is recognized to reduce deferred tax assets if, and to the extent, it is probable that all or some portion of the deferred tax assets will not be realized.

The company has recorded a valuation allowance of EUR 35 million as of December 31, 2005, based on estimates of taxable income by jurisdiction in which the company operates and the period over which deferred tax assets are recoverable. 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 valuation allowance 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.

Contingent liabilities and provisioning for environmental matters, antitrust cases, other litigation, and tax disputes are discussed in Note 26 – Contingent Liabilities and Commitments. For provisions for environmental matters such as estimates are based on the nature and seriousness of the contamination as well as on the technology required for cleanup. 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 and tax disputes are also based on an estimate of the costs, taking into account legal advice and information currently available.

Should the actual outcome differ from the assumptions and estimates, revisions to the estimated provisions would be required, which could impact our financial position and results from operations.

Also provisions for termination benefits and exit costs involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs. Should the actual cash outflows differ from the assumptions and estimates, additional charges would be required, which could impact our financial position and results from operations.

Accounting for Pensions and Other Postretirement 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 20.

It should be noted that when discount rates decline or rates of compensation increase – due to e.g. increased inflation – pension and postretirement benefit obligations will increase. Net periodic pension and postretirement costs might also increase, but that depends 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.

Note [29] **Explanation of Transition to IFRS**

As stated on page 102, the company changed its accounting policies in order to be in compliance with International Financial Reporting Standards (IFRS) and the interpretations as adopted by the European Union.

In preparing the opening balance sheet on IFRS basis, the company has adjusted amounts previously reported in financial statements prepared in accordance with NL GAAP. As the company publishes comparative information for one year in the Annual Report, the transition date to IFRS is January 1, 2004.

An explanation of how the transition to IFRS has affected the financial position, financial performance and cash flows of the company is set out in the following tables and the accompanying notes.

IFRS Impact – Net Income up; Shareholders' Equity Down; Funds Balance Unchanged
In summary, the impact of IFRS on the company's accounts is an increase in net income for 2004 of EUR 89 million, but a decline in shareholders' equity, at December 31, 2004, of EUR 431 million. This is mainly attributable to the differences in the method of accounting under IFRS for pensions and other postretirement benefits, the recognition of deferred taxes on intercompany profit, the recognition of the payment received from Pfizer for the asenapine cooperation, and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of assets, liabilities, and related results. However, there is no impact on the underlying cash flows of the businesses.

Changes in Accounting Principles Due to the Adoption of IFRS

Employee Benefits

Pensions and Other Postretirement Benefits
Until December 31, 2004, the company accounted for pensions and other postretirement benefits in accordance with SFAS 87 and SFAS 106.

For the implementation of IAS 19 Employee Benefits in respect of pensions and other postretirement benefits, the company had to recognize the funded status, at January 1, 2004, of the projected benefit obligation (PBO) insofar as this was not covered by provisions or prepaid pension assets in the NL GAAP balance sheet. Any unvested portion of past service cost at that date had to be excluded.

On January 1, 2004, the company had a significant deficit for its pension and other postretirement benefit plans. The deficit in excess of provisions and prepaid pension assets in the NL GAAP balance sheet has been charged against shareholders' equity in the IFRS opening balance sheet at January 1, 2004. This concerned an amount of EUR 1,356 million after taxes. At December 31, 2004, this amount was EUR 1,246 million after taxes.

In the NL GAAP balance sheet, the company had also recognized a so-called minimum pension liability for the deficit determined on the accumulated benefit obligation (ABO) level, as required under SFAS 87. This consisted of an after-tax charge against shareholders' equity (January 1, 2004: EUR 824 million; December 31, 2004: EUR 759 million) and recognition of an intangible asset (January 1, 2004: EUR 165 million; December 31, 2004: EUR 137 million). As these are not allowed under IAS 19, the minimum pension liability-related entries were reversed, partly offsetting the aforementioned recognition of the deficits on a PBO basis.

The consequences of the U.S. Medicare Prescription Drug Improvement and Modernization Act of 2003 have also been taken into account in the IFRS opening balance sheet. This resulted in the recognition of a tax-free financial noncurrent asset of EUR 43 million (at December 31, 2004: EUR 53 million).

Going forward, the full recognition of the deficit at January 1, 2004 resulted in lower net period pension costs for 2004, as the deferred losses under SFAS 87 and SFAS 106 no longer had to be amortized. As a result of the improved pension funding situation at December 31, 2004, IFRS-based 2005 pension charges were expected to drop by some EUR 50 million, compared to 2004. Included in the 2004 net income effect of IAS 19 is an after-tax gain of EUR 43 million for the settlements/curtailments as a consequence of the Catalysts divestment.

Other Employee Benefits
IAS 19 requires provisioning of long-term employee benefits, such as payments on the occasion of a service jubilee of an employee. This was not specifically required under NL GAAP, where costs for such benefits often were recognized on a pay-as-you-go basis. The required provision for other long-term benefits in accordance with IAS 19 amounts to EUR 24 million, which is EUR 15 million after taxes (at December 31, 2004: EUR 24 million and EUR 15 million, respectively).

Revenues

General

Revenues under IFRS are 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. Revenues are recognized when the significant risks and rewards have been transferred to a third party.

The company used to report royalty income under Other Results in the statement of income. Under IFRS, royalty income is reclassified to Revenues. Also proceeds for certain services rendered by the company, which used to be deducted from cost lines in the statement of income, have now been reclassified to "Revenues".

Pfizer Payment

In December 2003, the company received an initial payment of EUR 88 million (EUR 70 million after taxes) from Pfizer for the co-development and co-marketing agreement for asenapine. In accordance with the contract and the spirit thereof, this payment is a nonrefundable reimbursement of the expenses incurred by Akzo Nobel in prior years for the development of asenapine-related know-how so far.
In accordance with NL GAAP, such payment was recognized as income immediately.

In accordance with IFRS revenue recognition rules, nonrefundable upfront fees are initially reported as deferred income and are recognized as revenue based on the (expected) development costs over the remaining first part of the development period, currently anticipated to be from 2004 to 2007.
At December 31, 2004 an amount of EUR 56 million (EUR 45 million after taxes) was deferred.

Consequently, this payment, which had already been recognized in 2003 NL GAAP income, is again recognized in IFRS revenues, but now over the years 2004-2007.

Income Taxes

As allowed under NL GAAP, the tax effect on the elimination of intercompany profit in inventories was based on the tax rate of the country of the company sending the goods, thus fully eliminating intercompany sales in the statement of income. IFRS, however, prescribes that tax on such elimination is to be based on the tax rate of the country of the company receiving the goods. As a consequence, the deferred tax asset related to intercompany profit increased by EUR 76 million at January 1, 2004.
At December 31, 2004, this amount was EUR 33 million. Going forward, the impact on earnings will be determined by the changes in levels of intercompany inventory in the various countries.

Furthermore, IFRS specifically prescribes that current and deferred tax assets and liabilities in countries which have separate tax rates for distributed and undistributed profits are measured at the tax rate applicable to undistributed profits. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized. For NL GAAP in certain circumstances such current and deferred tax assets and liabilities can be measured at the tax rate applicable to distributed profits.
The impact of this difference on the company's accounts is limited.

Business Combinations

Under NL GAAP, purchased goodwill is capitalized and amortized. IFRS 3 prescribes that purchased goodwill must be capitalized and not amortized, but tested for impairment annually.

Akzo Nobel has elected the transition option in IFRS 1 to apply IFRS 3 prospectively from the transition date. This option was chosen rather than to restate all previous business combinations.
The impact of IFRS 3 and associated transitional arrangements on Akzo Nobel is as follows:

- all prior business combination accounting is frozen at the transition date; and
- the value of goodwill is frozen at January 1, 2004, and amortization previously reported under NL GAAP for 2004 is removed for financial statements prepared under IFRS.

Provisions

Discounting

IFRS, in principle, prescribes discounting of all provisions, which is not always the case in NL GAAP. The impact of discounting of provisions thus far undiscounted at January 1, 2004, was a decrease in provisions of EUR 16 million, which was EUR 11 million after taxes. At December 31, 2004, these amounts were EUR 29 million and EUR 20 million, respectively.

Going forward, the interest accrued on discounted provisions are recognized under financing charges. Under NL GAAP, such charges were included in operating income.

Restructuring Provisions

In accordance with NL GAAP, restructuring provisions are recognized if the restructuring has been announced to the employees involved before the date of the financial statements. Under IFRS, a restructuring can only be recognized if this is announced before the balance sheet date.

Restructurings for which provisions amounted to EUR 9 million (EUR 6 million after taxes) were announced in January 2004. Therefore, these provisions did not qualify for recognition under IFRS in the balance sheet at January 1, 2004, but were recognized under IFRS in the first quarter of 2004. In the quarters of 2004, certain restructuring provisions reported under NL GAAP did not meet the IFRS recognition criteria either and therefore they were deferred for recognition in the next quarter. At December 31, 2004, all provisions qualified for recognition under IFRS.

Share-Based Payments

In accordance with NL GAAP, the company recognized expenses related to stock options as a direct charge to shareholders' equity when the related payments were incurred.

In accordance with IFRS 2, the company's stock option plans qualify as so-called cash-settled plans. As a consequence, the company has to charge the fair value of the stock options against income (first spread over the vesting period and later over the remaining life of the options) and recognize a related liability in the balance sheet. This liability at January 1, 2004, amounted to EUR 11 million, which is EUR 8 million after taxes. At December 31, 2004, these amounts were EUR 16 million and EUR 10 million, respectively. The fair value has been calculated using the binomial options valuation model. The charge to income over the relevant option vesting periods is adjusted to reflect actual and expected levels of vesting.

Nonconsolidated Companies

Valuation of the company's interest in nonconsolidated companies is based as much as possible on IFRS, as adopted by Akzo Nobel. The impact of the difference between NL GAAP and IFRS for nonconsolidated companies on the company's accounts is limited.

Jointly Controlled Companies

For interests in jointly controlled legally incorporated companies IFRS prescribes that they must be either proportionally consolidated or equity accounted as a nonconsolidated company. The chosen method has to be applied to all such interests. Under NL GAAP, the company equity accounted most of the jointly controlled interests. However, the joint venture with Sanofi-Synthélabo (for the antithrombotic Arixtra®) was proportionally consolidated.
Under IFRS, the company has elected to equity account all jointly controlled interests. The impact of the deconsolidation in the January 1, 2004, balance sheet of the joint venture with Sanofi-Synthélabo was

not significant and did not affect shareholders' equity or net income. Due to the change in set up in the first quarter of 2004, this joint venture ceased to exist and was replaced by a revenue arrangement based on future sales from jointly developed antithrombotic products.

It should be noted that the cooperation with Pfizer for asenapine is not legally incorporated. As a consequence, this cooperation is proportionally consolidated for both NL GAAP and IFRS.

Nonrecurring Items

In its NL GAAP statements, the company separately reported so-called nonrecurring items. These related to income and expenses resulting from normal business operations, which, because of their size or nature, were disclosed separately to give a better understanding of the underlying result for the period. These included items such as restructurings and impairment charges, significant gains and losses on the disposal of businesses, and costs related to major lawsuits and antitrust cases not meeting the requirements for extraordinary items.

NL GAAP operating income before nonrecurring items was one of the key figures management used to assess the performance of the company, as these figures better reflected the underlying trends in the results of the activities.

IFRS does not allow this concept. Therefore, the company will not report IFRS earnings figures excluding nonrecurring items. However, for a better understanding of the company's earnings development, the most important elements of nonrecurring items are now reported as Incidentals on separate lines within operating income in the statement of income.

Cumulative Translation Differences

The company chose the option in IFRS 1 whereby cumulative translation differences in shareholders' equity are deemed to be zero at the date of transition. The negative NL GAAP balance of EUR 1,045 million at January 1, 2004, is deducted from Other Reserves, which therefore starts with a negative balance of EUR 435 million. However, as 2004 net income is higher than dividends paid during the year, the balance of Other Reserves and Undistributed Profit at December 31, 2004, shows a positive balance of EUR 165 million. It should be noted that if the company would ever have negative Other Reserves, in principle, it will still be able to pay dividends but then from Additional Paid-in Capital.

Reconciliation of Equity

	Capital and reserves	Minimum pension liability	Shareholders' equity
NL GAAP shareholders' equity at January 1, 2004	3,326	(824)	**2,502**
Pensions and other postretirement benefits	(1,313)	824	**(489)**
Deferred taxes on intercompany profit	76		**76**
Pfizer payment	(70)		**(70)**
Discounting of provisions	11		**11**
Other long-term employee benefits	(15)		**(15)**
Share-based payments	(8)		**(8)**
Restructuring provisions	6		**6**
Other	12		**12**
IFRS shareholders' equity at January 1, 2004	2,025		**2,025**

	IFRS	NL GAAP
Subscribed share capital	**572**	572
Additional paid-in capital	**1,803**	1,803
Cumulative translation differences		(1,045)
Other statutory reserves	**85**	85
Other reserves and undistributed profit	**(435)**	1,911
Capital and reserves	**2,025**	3,326
Minimum pension liability		(824)
Shareholders' equity	**2,025**	2,502

AS AT JANUARY 1, 2004

Millions of euros	NL GAAP, at January 1, 2004		Effect of transition to IFRS		IFRS at January 1, 2004	
Assets						
Property, plant and equipment		3,967				3,967
Intangible assets		590		(166)		424
Financial noncurrent assets:						
– deferred tax assets	790		145		935	
– nonconsolidated companies	353				353	
– other financial noncurrent assets	723		(395)		328	
		1,866		(250)		1,616
Total noncurrent assets		6,423		(416)		6,007
Inventories	2,133		(14)		2,119	
Income tax receivable	161				161	
Trade and other receivables	2,510		8		2,518	
Cash and cash equivalents	727				727	
Assets classified as held for sale						
Total current assets		5,531		(6)		5,525
Total assets		11,954		(422)		11,532
Equity						
Subscribed share capital	572				572	
Additional paid-in capital	1,803				1,803	
Cumulative translation differences	(1,045)		1,045			
Other statutory reserves	85				85	
Other reserves, minimum pension liability, and undistributed profits	1,087		(1,522)		(435)	
Akzo Nobel N.V. shareholders' equity		2,502		(477)		2,025
Minority interest		140				140
Total equity		2,642		(477)		2,165
Liabilities						
Provisions	3,332		(408)		2,924	
Deferred income			88		88	
Deferred tax liabilities	591		(325)		266	
Long-term borrowings	2,677				2,677	
Total noncurrent liabilities		6,600		(645)		5,955
Short-term borrowings	441		40		481	
Income tax payable	177		90		267	
Trade and other payables	2,094		(46)		2,048	
Current portion of provisions			616		616	
Liabilities classified as held for sale						
Total current liabilities		2,712		700		3,412
Total equity and liabilities		11,954		(422)		11,532

RECONCILIATION OF PROFIT FOR 2004

Millions of euros	NL GAAP		Effect of transition to IFRS		IFRS	
Revenues		12,688		145		**12,833**
Cost of sales		(6,851)		26		**(6,825)**
Gross profit		5,837		171		**6,008**
Selling expenses	(3,255)		1		**(3,254)**	
Research and development expenses	(823)		7		**(816)**	
General and administrative expenses	(676)		2		**(674)**	
Other operating income/(expenses)	46		(47)		**(1)**	
Incidentals:						
– special benefits	60		24		**84**	
– results on divestments	509		70		**579**	
– restructuring and impairment charges	(199)		2		**(197)**	
– charges related to major legal, antitrust, and environmental cases	(199)		(3)		**(202)**	
		(4,537)		56		**(4,481)**
Operating income		1,300		227		**1,527**
Financing charges		(123)		(21)		**(144)**
Operating income less financing charges		1,177		206		**1,383**
Taxes		(298)		(114)		**(412)**
Earnings of consolidated companies, after tax		879		92		**971**
Earnings from nonconsolidated companies		12		(2)		**10**
Profit for the period		891		90		**981**
Minority interest, attributable to minority shareholders		(35)		(1)		**(36)**
Net income, attributable to the holders of equity		856		89		**945**
In EUR:						
Basic net income per share		3.00				**3.31**
Diluted net income per share		2.99				**3.30**

AS AT DECEMBER 31, 2004

Millions of euros	NL GAAP, at December 31, 2004		Effect of transition to IFRS		IFRS at December 31, 2004	
Assets						
Property, plant and equipment		3,535				3,535
Intangible assets		561		(113)		448
Financial noncurrent assets:						
– deferred tax assets	705		89		794	
– nonconsolidated companies	318				318	
– other financial noncurrent assets	730		(424)		306	
		1,753		(335)		1,418
Total noncurrent assets		5,849		(448)		5,401
Inventories	1,978				1,978	
Income tax receivable	210				210	
Trade and other receivables	2,557		(6)		2,551	
Cash and cash equivalents	1,811				1,811	
Assets classified as held for sale						
Total current assets		6,556		(6)		6,550
Total assets		12,405		(454)		11,951
Equity						
Subscribed share capital	572				572	
Additional paid-in capital	1,803				1,803	
Cumulative translation differences	(1,070)		1,050		(20)	
Other statutory reserves	85				85	
Other reserves, minimum pension liability, and undistributed profits	1,646		(1,481)		165	
Akzo Nobel N.V. shareholders' equity		3,036		(431)		2,605
Minority interest		140				140
Total equity		3,176		(431)		2,745
Liabilities						
Provisions	3,240		(363)		2,877	
Deferred income			56		56	
Deferred tax liabilities	479		(335)		144	
Long-term borrowings	2,694		(302)		2,392	
Total noncurrent liabilities		6,413		(944)		5,469
Short-term borrowings	258		302		560	
Income tax payable	350		118		468	
Trade and other payables	2,208		1		2,209	
Current portion of provisions			500		500	
Liabilities classified as held for sale						
Total current liabilities		2,816		921		3,737
Total equity and liabilities		12,405		(454)		11,951

Reconciliation of Equity

Millions of euros	Capital and reserves	Minimum pension liability	Shareholders' equity
NL GAAP shareholders' equity at December 31, 2004	3,795	(759)	**3,036**
Pensions and other postretirement benefits	(1,193)	759	**(434)**
Deferred taxes on intercompany profit	33		**33**
Termination of goodwill amortization	19		**19**
Pfizer payment	(45)		**(45)**
Discounting of provisions	20		**20**
Other long-term employee benefits	(15)		**(15)**
Share-based payments	(10)		**(10)**
Other	1		**1**
IFRS shareholders' equity at December 31, 2004	2,605		**2,605**

Millions of euros	**IFRS**	NL GAAP
Subscribed share capital	**572**	572
Additional paid-in capital	**1,803**	1,803
Statutory reserves	**85**	85
Cumulative translation differences	**(20)**	(1,070)
Other reserves and undistributed profits	**165**	2,405
Capital and reserves	**2,605**	3,795
Minimum pension liability		(759)
Shareholders' equity	**2,605**	3,036

FOR THE YEAR ENDED DECEMBER 31, 2004

Millions of euros	NL GAAP		Effect of transition to IFRS		IFRS	
Profit for the period	891		90		981	
Adjustments to reconcile earnings to cash provided by operations:						
Depreciation and amortization	593		(28)		565	
Impairment losses	74				74	
Financing charges			144		144	
Earnings from nonconsolidated companies	(52)				(52)	
Taxes recognized in income			415		415	
Operating profit before changes in working capital and provisions		1,506		621		2,127
Changes in trade and other receivables	(169)		6		(163)	
Changes in inventories	(23)				(23)	
Changes in trade and other payables	348		(194)		154	
Changes in provisions	(107)		44		(63)	
Other	104		(108)		(4)	
		153		(252)		(99)
Cash generated by operations		1,659		369		2,028
Interest paid			(139)		(139)	
Income taxes (paid)/received			(217)		(217)	
Pretax gain on divestments	(509)		(70)		(579)	
		(509)		(426)		(935)
Net cash from operating activities		1,150		(57)		1,093
Capital expenditures	(551)				(551)	
Investments in intangible assets	(28)				(28)	
Interest received			21		21	
Repayments in nonconsolidated companies	(29)		40		11	
Dividends received	123				123	
Acquisition of consolidated companies [1]	(80)				(80)	
Proceeds from sale of interests [1]	1,036				1,036	
Other changes in noncurrent assets	6		(4)		2	
Net cash from investing activities		477		57		534
New long-term borrowings	22				22	
Repayment of borrowings	(191)				(191)	
Dividends	(366)				(366)	
Net cash from financing activities		(535)				(535)
Net change in cash and cash equivalents		1,092		–		1,092
Cash and cash equivalents at January 1		727				727
Effect of exchange rate changes on cash and cash equivalents		(8)				(8)
Cash and cash equivalents at December 31		1,811		–		1,811

IFRS STANDARDS WITH A PROSPECTIVE IMPACT

Financial Instruments

IFRS as applied for the restated figures of 2004 did not include standards IAS 32 and 39 for financial instruments. The company opted for the transition provision of IFRS 1 to apply these standards as from January 1, 2005. The after-tax effect of the implementation of IAS 32 and 39 on January 1, 2005, on

[1] Net of cash acquired or disposed of.

balance, was a charge to shareholders' equity of EUR 9 million. The principal effects of the implementation of IAS 32 and 39 are described per instrument below.

Long-Term Borrowings

Long-term borrowings used to be valued at nominal value, any placement costs or premium or discount on issue used to be amortized on a straight line basis. IFRS prescribes that such borrowings are valued at amortized cost applying the effective interest rate method. The effect on shareholders' equity at January 1, 2005 was a credit of EUR 1 million after taxes.

Cash and Cash Equivalents

Short-term investments used to be valued at the lower of cost or market value. Under IFRS they need to be valued at market value. The effect on shareholders' equity at January 1, 2005 was an after-tax credit of EUR 1 million.

Forward Exchange Contracts

Forward exchange contracts concluded to hedge receivables or payables in foreign currency used to be valued at spot rates prevailing at the balance sheet date. Foreign currency hedges of anticipatory transactions or firm commitments used to be deferred in the balance sheet until the hedged transactions had been reflected in the accounts. Forward exchange contracts under IFRS need to be valued at fair value in the balance sheet and changes in fair value are to be recognized in the statement of income. The company in principle will not apply hedge accounting for these types of contracts. The effect on shareholders' equity at January 1, 2005 was an after-tax charge of EUR 1 million.

The company used to net the value of the forward exchange contracts per contract partner. Under IFRS such netting is not allowed. As a consequence, all contracts are recognized separately on the appropriate lines in the balance sheet.

Interest Rate Derivatives

The company holds certain interest swaps and currency swaps to hedge fixed-rate interest-bearing borrowings and in some cases foreign currency exchange risks. Interest rate derivatives in a hedge relationship used not to be valued in the balance sheet. The interest on the fixed and floating rate parts were recognized in the statement of income on an accrual basis. The cross currency element in the interest rate currency swaps was recognized in the balance sheet at the spot rate prevailing at the balance sheet date. The changes in the values so calculated were recognized in the statement of income to offset the currency exchange differences on the borrowings in foreign currency. Under IFRS these contracts have to be valued at fair value in the balance sheet. The company applies fair value hedge accounting for these contracts. The impact on shareholders' equity at January 1, 2005, on balance, was an after-tax charge of EUR 5 million. This is the combined effect of the fair value adjustment of the interest-rate derivatives and the fair value adjustment of the underlying bonds. The company also had some forward rate agreements, for which no hedge accounting is applied. The effect on shareholders' equity per January 1, 2005, is negligible. It should be noted that the company used to net the recorded book value of the interest derivatives with the book value of the loans. Under IFRS this netting is not allowed. The instruments under IFRS are now recorded separately on the appropriate line items in the balance sheet.

Commodities

In order to cover the price risk of natural gas and electricity, the company has entered into certain petroleum swaps and gas and electricity futures, which have to be recognized at fair value in the balance sheet. For the electricity related contracts cash flow hedge accounting is applied. For the other contracts no hedge accounting is applied. The effect on shareholders' equity as of January 1, 2005 was an after tax charge of EUR 5 million.

AS AT JANUARY 1, 2005, AFTER IMPLEMENTATION OF IFRS 32 AND 39

Millions of euros	IFRS, at December 31, 2004		Effect of IAS 32 & 39		IFRS at January 1, 2005	
Assets						
Property, plant and equipment		3,535				3,535
Intangible assets		448				448
Financial noncurrent assets:						
– deferred tax assets	794		5		799	
– nonconsolidated companies	318				318	
– other financial noncurrent assets	306		259		565	
		1,418		264		1,682
Total noncurrent assets		5,401		264		5,665
Inventories	1,978				1,978	
Income tax receivable	210				210	
Trade and other receivables	2,551		30		2,581	
Cash and cash equivalents	1,811		1		1,812	
Assets classified as held for sale						
Total current assets		6,550		31		6,581
Total assets		11,951		295		12,246
Equity						
Subscribed share capital	572				572	
Additional paid-in capital	1,803				1,803	
Cumulative translation differences	(20)				(20)	
Other statutory reserves	85				85	
Other reserves and undistributed profits	165		(9)		156	
Akzo Nobel N.V. shareholders' equity		2,605		(9)		2,596
Minority interest		140				140
Total equity		2,745		(9)		2,736
Liabilities						
Provisions	2,877		5		2,882	
Deferred income	56				56	
Deferred tax liabilities	144				144	
Long-term borrowings	2,392		289		2,681	
Total noncurrent liabilities		5,469		294		5,763
Short-term borrowings	560				560	
Income tax payable	468				468	
Trade and other payables	2,209		10		2,219	
Current position of provision	500				500	
Liabilities classified as held for sale						
Total current liabilities		3,737		10		3,747
Total equity and liabilities		11,951		295		12,246

Millions of euros	NOTE	2005	2004
Net income from affiliated companies	a	**1,002**	984
Other net income		**(41)**	(39)
Net income		**961**	945

AKZO NOBEL N.V. BALANCE SHEET

BEFORE ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2005		2004	
Assets					
Financial noncurrent assets	c	**9,318**		7,513	
Total noncurrent assets			**9,318**		7,513
Income tax receivable					
Trade and other receivables	d	**80**		118	
Cash and cash equivalents	e	**1,034**		1,451	
Total current assets			**1,114**		1,569
Total assets			**10,432**		9,082
Equity	f				
Subscribed share capital		**572**		572	
Additional paid-in capital		**1,803**		1,803	
Statutory reserves		**87**		85	
Cumulative translation differences		**142**		(20)	
Other reserves		**(64)**		(694)	
Undistributed profits		**875**		859	
Akzo Nobel N.V. shareholders' equity			**3,415**		2,605
Liabilities					
Long-term borrowings	g	**6,936**		6,056	
Total noncurrent liabilities			**6,936**		6,056
Short-term borrowings	h			227	
Income tax payable		**6**		69	
Other short-term debt	i	**75**		125	
Total current liabilities			**81**		421
Total equity and liabilities			**10,432**		9,082

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

GENERAL

Unless stated otherwise, all amounts are 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 has been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income given on pages 107 and 108.

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.

Change in Accounting Principles

As a result of application of the option in section 362 of Book 2 of the Netherlands Civil Code to use the same accounting principles as for the consolidated financial statements, the financial statements of Akzo Nobel N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the International Accounting Standards Board (IASB) and endorsed by the European Union. By making use of this option reconciliation is maintained between the consolidated and the separate shareholders' equity.

The company financial statements were previously prepared in compliance with the accounting principles as referred to in section 9 of Book 2 of the Netherlands Civil Code. The change in accounting policies is treated retrospectively, and results in a decline in shareholders' equity per January 1, 2004 of EUR 477 million and per December 31, 2004 of EUR 431 million. The impact on 2004 net income amounted to EUR 89 million.

The comparative figures have been adjusted on the basis of the changed accounting principles, but do not include the adjustments related to IAS 32 and 39 for financial instruments. The company has opted for the transition provision to apply these standards as from January 1, 2005. For more detailed information on the restatements as a result of changed accounting principles, see note 29 of the consolidated financial statements.

STATEMENT OF INCOME

Note [a] Net Income from Affiliated Companies

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

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

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

Supervisory Board

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

	2005				2004
Euros	Remuneration	Committee allowance	Attendance fee	Total remuneration	
Aarnout Loudon, *Chairman* [1]	52,000	7,000		**59,000**	59,000
Maarten van den Bergh [4]	27,300	4,700		**32,000**	–
Maarten van Veen [3]	13,700	2,300		**16,000**	48,000
Virginia Bottomley [1]	41,000	7,000		**48,000**	48,000
Dolf van den Brink [2]	41,000	7,000	4,000	**52,000**	32,000
Uwe-Ernst Bufe [2]	41,000	7,000	5,000	**53,000**	48,000
Abraham Cohen [2]	41,000	7,000	6,000	**54,000**	48,000
Cees van Lede	41,000			**41,000**	41,000
Alain Mérieux	41,000			**41,000**	41,000
Lars Thunell [5]	41,000	7,000	7,000	**55,000**	48,000
Karel Vuursteen [1]	41,000	7,000		**48,000**	48,000

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. Members of the Audit Committee receive a fee for attending a meeting of the Committee in person. This fee depends on the country of residence of the member involved.

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.

Akzo Nobel N.V. common shares held by members of the Supervisory Board per December 31, 2005, were as follows:

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

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

[1] Member of the Remuneration Committee and member of the Nomination Committee.
[2] Member of the Audit Committee.
[3] Until May 1, 2005, Deputy Chairman and member of the Remuneration Committee and member of the Nomination Committee.
[4] From May 1, 2005, Deputy Chairman and member of the Remuneration Committee and member of the Nomination Committee.
[5] Until December 31, 2005, member of the Supervisory Board and member of the Audit Committee.

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 97 through 100 of this Annual Report.

Overview of Remuneration 2005

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

Salaries, Performance-Related Bonuses, and Other Emoluments

	Salary		Bonus		Other emoluments	
Euros	**2005**	2004	**2005**	2004	**2005**	2004
Hans Wijers, *Chairman*	**665,000**	644,900	790,000	628,500	**6,600**	6,000
Leif Darner, *from July 1, 2004*	**475,000**	230,300	460,000	207,300	**4,800**	3,100
Rob Frohn, *from May 1, 2004*	**475,000**	307,000	460,000	276,300	**7,100**	4,300
Rudy van der Meer, *until May 1, 2005*	**158,300**	460,500	155,000	392,400	**1,100**	3,000
Toon Wilderbeek	**475,000**	460,500	460,000	414,500	**3,200**	6,000

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

Other Compensations

Other compensations for members of the Board of Management borne by the company amounted to EUR 120,100 for Mr. Darner, related to compensation for living expenses and contributions to an international school. The compensation fee for Mr. Frohn and Mr. Wilderbeek relating to their move to the Netherlands amounted to EUR 34,600 and EUR 24,200, respectively.

As a consequence of their 25th year of service with the company, Mr. Wilderbeek and Mr. Darner received a one month salary net (EUR 39,600).

Effective May 1, 2005, Mr. Van der Meer retired two years before the formal retirement age of 62. As a consequence, salary and pension provisions of EUR 1,300,000 have been made.

Pension Charges

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

Euros	**2005**	2004
Hans Wijers, *Chairman*	**354,600**	281,300
Leif Darner	**167,900**	44,500
Rob Frohn	**111,900**	119,900
Rudy van der Meer	**187,700**	15,100
Toon Wilderbeek	**261,400**	300,700

Incentives

In 2005, conditional and performance-related stock options and shares were granted to the members of the Board of Management. The stock options for 2002-2012 were fixed in 2005.

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

Number of options	Year of issue	Exercise price in EUR	Outstanding at December 31, 2004	Granted in 2005	Lapsed in 2005	Outstanding at December 31, 2005	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
Value outstanding options, *in EUR*						1,100,511	
Leif Darner	2000	44.82	4,950		4,950		
	2001	46.75	4,950			4,950	April 30, 2006
	2002	46.53	4,950			4,950	April 25, 2009
	2003	19.51	4,950			4,950	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98		15,000		15,000	April 24, 2012
Value outstanding options, *in EUR*						411,552	
Rob Frohn	2000	44.82	4,950		4,950		
	2001	46.75	4,950			4,950	April 30, 2006
	2002	46.53	4,950			4,950	April 25, 2009
	2003	19.51	4,950			4,950	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98		15,000		15,000	April 24, 2012
Value outstanding options, *in EUR*						411,552	
Rudy van der Meer, *retired at May 1, 2005*	2000	44.82	26,400			26,400	April 27, 2010
	2001	46.75	25,661			25,661	April 30, 2011
	2002	46.53	26,400			26,400	April 25, 2012
	2003	19.51	26,400			26,400	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98		15,000		15,000	April 24, 2012
Value outstanding options, *in EUR*						1,196,998	
Toon Wilderbeek	2000	44.82	6,600		6,600		
	2001	46.75	6,600			6,600	April 30, 2006
	2002	46.53	3,300			3,300	April 25, 2009
	2002	46.53	13,200			13,200	April 25, 2012
	2003	19.51	26,400			26,400	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98		15,000		15,000	April 24, 2012
Value outstanding options, *in EUR*						888,534	

In 2005, no stock options were excercised by members of the Board of Management.

In 2004 and 2005, the following performance-related shares were granted to the members of the Board of Management:

Number of performance-related shares	Year of issue	Number of performance-related shares	Accumulated dividend till December 31, 2005	Total number of performance-related shares per December 31, 2005
Hans Wijers	2004	33,000	2,548	35,548
	2005	33,000	1,208	34,208
Total December 31, 2005		66,000	3,756	69,756
Leif Darner	2004	22,000	1,698	23,698
	2005	22,000	805	22,805
Total December 31, 2005		44,000	2,503	46,503
Rob Frohn	2004	22,000	1,698	23,698
	2005	22,000	805	22,805
Total December 31, 2005		44,000	2,503	46,503
Rudy van der Meer, *retired at May 1, 2005*	2004	22,000	1,698	23,698
Total December 31, 2005		22,000	1,698	23,698
Toon Wilderbeek	2004	22,000	1,698	23,698
	2005	22,000	805	22,805
Total December 31, 2005		44,000	2,503	46,503

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.

The share price of a common share Akzo Nobel N.V. at December 31, 2005 was EUR 39.15.

Shareholdings

Akzo Nobel N.V. common shares held by members of the Board of Management at December 31, 2005, were:

Number of shares	
Hans Wijers	5,934
Leif Darner	1,425
Rob Frohn	3,000
Toon Wilderbeek	2,740

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

Former Members of the Board of Management

In 2005, charges relating to former members of the Board of Management amounted to EUR 800,500 (2004: EUR 547,900), mainly related to pension expenses.

Note [c] **Financial Noncurrent Assets**

	Total	Consolidated companies: Share in capital	Consolidated companies: Loans [1]	Other financial noncurrent assets
Balance at January 1, 2004	8,119	1,730	6,369	20
Investments/disinvestments	(384)	(384)		
Equity in earnings	984	984		
Dividends received	(1,165)	(1,165)		
Loans granted	1,178		1,178	
Repayment of loans	(1,199)		(1,196)	(3)
Changes in exchange rates	(20)	13	(33)	
Balance at December 31, 2004	**7,513**	**1,178**	**6,318**	**17**
Change in accounting principles (IAS 32/39)	259			259
Investments/disinvestments	1	1		
Equity in earnings	1,002	1,002		
Dividends received	(78)	(78)		
Equity settled transactions	28	28		
Change in fair value of derivatives	(6)	(6)		
Loans granted	863		776	87
Repayment of loans	(384)		(301)	(83)
Fair value adjustments	(26)			(26)
Changes in exchange rates	146	61	101	(16)
Balance at December 31, 2005	**9,318**	**2,186**	**6,894**	**238**

Note [d] **Trade and Other Receivables**

	2005	2004
Receivables from consolidated companies	**35**	53
Receivables from nonconsolidated companies	**8**	10
Other receivables	**37**	55
	80	118

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

	2005	2004
Short-term investments	**1,007**	1,434
Cash on hand and in banks	**27**	17
	1,034	1,451

At December 31, 2005, as at December 31, 2004, the amount of cash and cash equivalents was freely available.

[1] Loans to these companies have no fixed repayment schedule.

Note [f] **Shareholders' Equity**

	Subscribed share capital	Additional paid-in capital	Statutory reserves: Change in fair value of derivatives	Statutory reserves: Other statutory reserves	Statutory reserves: Cumulative translation differences	Other reserves	Undistributed profits	Shareholders' equity
Balance at December 31, 2003	**572**	**1,803**		**85**	**(1,045)**	**571**	**516**	**2,502**
Change in accounting principles (IFRS)					1,045	(1,522)		(477)
Balance at January 1, 2004	572	1,803		85		(951)	516	2,025
Equity settled transactions						(2)		(2)
Changes in exchange rates in respect of affiliated companies					(20)			(20)
Income directly recognized in equity					(20)	(2)		(22)
Net income							945	945
Total income/(expenses)					(20)	(2)	945	923
Dividend paid							(343)	(343)
Addition to other reserves						259	(259)	
Capitalized development cost				–				–
Balance at December 31, 2004	**572**	**1,803**		**85**	**(20)**	**(694)**	**859**	**2,605**
Change in accounting principles for IAS 32/39			(9)					(9)
Equity settled transactions						28		28
Changes in fair value of derivatives			11					11
Changes in exchange rates in respect of affiliated companies					162			162
Income directly recognized in equity			2		162	28		192
Net income							961	961
Total income/(expenses)			2		162	28	961	1,153
Dividend paid							(343)	(343)
Addition to other reserves						602	(602)	
Capitalized development cost				–				–
Balance at December 31, 2005	**572**	**1,803**	**2**	**85**	**142**	**(64)**	**875**	**3,415**

Subscribed Share Capital

Authorized capital stock of Akzo Nobel N.V. is EUR 1,600,019,200 and consists of 48 priority shares of EUR 400, 600 million common shares of EUR 2, and 200 million cumulative preferred shares of EUR 2. Subscribed share capital consists of 48 priority shares, 286,147,260 common shares, and no preferred shares. In 2005, no common shares were issued. In connection with Akzo Nobel's stock option plan, the company held 374,021 common shares at December 31, 2005 (December 31, 2004: 374,021).

Stock Options and Performance-Related Shares

Performance-related stock options and performance-related shares are granted to all members of the Board of Management, Senior Vice Presidents, and Executives. The number of participants was 675 in 2005 (2004: 733). The options for Senior Vice Presidents and Executives expire after five years. Options granted from 2002 onwards expire after seven years. Options granted to members of the Board of Management as from 2000 expire after ten years. Options granted from 2003 onwards expire after seven years.
All outstanding options from the series 2000, except those for the members of the Board of Management, lapsed in 2005. Options issued as from 1999 cannot be excercised during the first three years.
The company currently does not purchase own shares in connection with its stock option plan. No financing facilities exist for option rights or tax payable thereon. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share of EUR 2 or one American Depositary Share (ADS). As of 2005, all options

only entitle the holder thereof to buy Akzo Nobel common shares. The exercise price is the Euronext Amsterdam opening price on the first day that the Akzo Nobel share is quoted ex dividend or the opening price for an ADS on NASDAQ/NMS on the first day that the Akzo Nobel ADS is quoted ex dividend.

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, Senior Vice Presidents 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 perfomance-related share plan, see page 97 of this Annual Report.

Outstanding Option Rights (including Board of Management)

Year of issue	Exercise price in EUR	Outstanding at December 31, 2004	Granted in 2005	Exercised in 2005	Lapsed in 2005	Outstanding at December 31, 2005	Expiry date
Unconditional options							
2000	44.82	853,700			853,700		
2000	44.82	148,500				148,500	April 27, 2010
2001	46.75	852,500			12,760	839,740	April 30, 2006
2001	46.75	144,342				144,342	April 30, 2011
2002	46.53	852,440			16,280	836,160	April 25, 2009
2002	46.53	176,550				176,550	April 25, 2012
		3,028,032			882,740	2,145,292	
Conditional options							
2003	19.51	974,930			13,420	961,510	April 22, 2010
2004	31.45	899.980			13,700	886,280	April 25, 2011
2005	31.98		819,486		3,588	815,898	April 24, 2012
		1,874,910	819,486		30,708	2,663,688	
	in USD						
American Depositary Shares							
Unconditional options							
2001	41.69	137,610		2,640	1,760	133,210	April 30, 2006
2002	42.05	140,690			880	139,810	April 25, 2009
Conditional options							
2003	21.21	181,610			2,640	178,970	April 22, 2010
2004	37.25	205,700			2,700	203,000	April 25, 2011
		665,610		2,640	7,980	654,990	
Total		5,568,552	819,486	2,640	921,428	5,463,970	

Number of performance-related shares	Year of issue	Number of performance-related shares	Accumulated dividend till December 31, 2005	Total number of performance-related shares at December 31, 2005
Board of Management	2004	121,000	9,310	130,310
	2005	99,000	3,623	102,623
		220,000	12,933	232,933
Executives	2005	1,076,888	39,414	1,116,302
		1,296,888	52,347	1,349,235

The number of shares lapsed in 2005 amounted to 5,250. The share price of a common share Akzo Nobel as at December 31, 2005 amounted to EUR 39.15.

The number and weighted average exercise price of share options is as follows:

	Common shares		American Depositary Shares	
	Number of options	Weighted average exercise price in EUR	Number of options	Weighted average exercise price in USD
Balance at December 31, 2003	5,085,800	40.17	485,100	33.55
Granted during the period	904,480	31.45	216,800	37.25
Forfeited during the period	(1,087,338)	42.33	(36,290)	32.64
Balance at December 31, 2004	4,902,942	38.08	665,610	34.81
Granted during the period	819,486	31.98		
Forfeited during the period	(913,448)	44.25	(7,980)	33.45
Exercised during the period			(2,640)	41.69
Balance at December 31, 2005	4,808,980	35.87	654,990	34.79

Until July 1, 2005, the stock options qualified as cash-settled options as the employee had the option to receive cash from the company upon exercise of the options. Effective July 1, 2005, the arrangement was changed, so that the employee now has to take the shares from the company upon exercise of the options, and then could sell these shares immediately afterwards through her or his bank.

The fair value of employee service received in return for share options granted are measured by reference to the fair value of share options granted. Until July 1, 2005, the company recognized at each balance sheet a liability for the fair value of the options outstanding per that date, taking into account the passage of time of the three-year vesting period. The change in this fair value was recognized in income. At July 1, 2005, the fair value of the liability was EUR 20 million (December 31, 2004: EUR 16 million) and the charge recognized in the first half of 2005 amounted to EUR 4 million (full year 2004: EUR 4 million charge). At July 1, 2005, this liability was credited to shareholders' equity.

The amortized grant date fair value of the options outstanding at July 1, 2005, was EUR 41 million of a total grant date fair value of EUR 53 million. As a consequence, the remaining EUR 12 million will be charged to income over the remaining vesting period of the stock options after July 1, 2005. The charge for the second half of 2005 was EUR 3 million.

The expected value of performance stock options for the Board of Management is based on the Binominal Option Pricing Model, using certain assumptions. These assumptions were 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:

	Common shares, in EUR		American Depositary Shares, in USD
	2005	2004	2004
Fair value at measurement date	7.45	7.94	8.48
Share price	31.98	31.45	37.25
Exercise price	31.98	31.45	37.25
Expected share price volatility (%)	33.4	35.2	32.7
Expected option life (years)	5	5	5
Expected dividend yield (%)	4.4	4.1	4.1
Risk free interest rate (%)	3.25	3.2	2.8

The expected volatility is based in 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 non-market 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 market conditions into account. The value was calculated by external actuaries and amounted to EUR 10.84 for the performance shares conditionally granted in 2004 and EUR 12.67 for the 2005 performance shares. The 2005 charge recognized aggregated EUR 3 million (2004: EUR 0.4 million).

Statutory Reserves

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

Dividend Proposal

It is proposed that dividend on priority shares of EUR 768 and on common shares of EUR 343 million will be distributed. Following acceptance of this proposal, holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 will be made payable from May 5, 2006.

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

	2005	2004
Debentures	**2,368**	2,087
Debt to consolidated companies	**4,568**	3,969
	6,936	6,056

For the fair value of the debenture loans and the related interest-rate derivatives, see note 25 of the notes to the consolidated financial statements.

Debentures

	2005	2004
5⅜% 1998/08	**513**	512
5⅝% 2002/09	**1,064**	825
4¼% 2003/11	**791**	750
	2,368	2,087

Debt to Consolidated Companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 2.8% in 2005 (2004: 2.6%).

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

Short-term borrowings relate to the current portion of the long-term borrowings.

Note [i] **Other Short-Term Debt**

	2005	2004
Debt to consolidated companies	**13**	31
Borrowings from nonconsolidated companies	**7**	11
Other liabilities	**55**	83
	75	125

Akzo Nobel has a Euro commercial paper program, which at December 31, 2005, had a maximum of EUR 1.5 billion (at December 31, 2004: EUR 1.5 billion). Both at December 31, 2005 and at December 31, 2004, there was no commercial paper outstanding.

Note [j] **Financial Instruments**

At December 31, 2005, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of EUR 1.0 billion (at December 31, 2004: EUR 1.1 billion), while contracts to sell currencies totaled EUR 1.0 billion (at December 31, 2004: EUR 0.9 billion). These contracts mainly relate to U.S. dollars, Canadian dollars, Swedish kronor, Norwegian kronor, pounds sterling, 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 income statement to offset the fair value changes as recognized by the subsidiaries.

For interest-rate derivatives concluded by Akzo Nobel N.V. reference is made to note 25 of the notes to the consolidated financial statements.

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

Akzo Nobel N.V. is parent of the fiscal unit Akzo Nobel N.V., and is therefore liable for the liabilities of the fiscal unit as a whole. Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Netherlands consolidated companies. These debts, at December 31, 2005, aggregating EUR 1.0 billion (at December 31, 2004: EUR 0.7 billion), are included in the consolidated balance sheet. Additionally, at December 31, 2005, guarantees were issued in behalf of consolidated companies in the amount of EUR 1.9 billion (at December 31, 2004: EUR 1.1 billion), including guarantees issued by Akzo Nobel N.V. in relation to the exemption of certain Irish companies [1], under section 5(c) of the Companies (Amendment) Act 1986 Ireland.

The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated Balance Sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., as disclosed in Note 26 of the Notes to the Consolidated Financial Statements.

Guarantees relating to nonconsolidated companies amounted to EUR 3 million (2004: EUR 5 million).

Arnhem, February 6, 2006

The Board of Management
Hans Wijers
Leif Darner
Rob Frohn
Toon Wilderbeek

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

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

AUDITORS' REPORT

Introduction
We have audited the Financial Statements of Akzo Nobel N.V., Arnhem, for the year 2005 as set out on pages 102 to 161. These Financial Statements consist of the consolidated Financial Statements and the company Financial Statements. These Financial Statements are the responsibility of the company's management. Our responsibility is to express an opinion on these Financial Statements based on our audit.

Scope
We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our 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 the company as at 31 December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Furthermore, we have established to the extent of our competence that the annual report is consistent with the consolidated Financial Statements.

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 the company as at 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore, we have established to the extent of our competence that the annual report is consistent with the Company Financial Statements.

Arnhem, February 6, 2006

KPMG ACCOUNTANTS N.V.

A.M. van Drunen Littel RA

PROFIT ALLOCATION AND DISTRIBUTIONS IN ACCORDANCE WITH THE ARTICLES OF ASSOCIATION

Article 43

43.6

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

43.7

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

43.8

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

43.9

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

Article 44

44.7

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

PROPOSAL FOR PROFIT ALLOCATION

With due observance of article 43, paragraph 6, of the Articles of Association, EUR 618 million of net income is carried to other reserves. Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of EUR 768 and on common shares of EUR 343 million will be distributed. Following the acceptance of this proposal, the holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 will be made available from May 5, 2006.

SPECIAL RIGHTS TO HOLDERS OF PRIORITY SHARES

The priority shares are held by “AKZO NOBEL STICHTING” (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board, which are not a member of the Audit Committee. They each have one vote on the board of the Foundation, thus complying with the provisions of article 10 of annex X of the Euronext Amsterdam Listing and Issuing Rules.

The Meeting of Holders of Priority Shares has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments of the Articles of Association are subject to the approval of this meeting. Under normal circumstances no use will be made of the aforementioned rights.

Consolidated Statement of Income

	IFRS		NL GAAP [1]							
Millions of euros	**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Revenues	**13,000**	12,833	13,106	14,059	14,158	14,069	14,471	12,504	10,931	10,182
Operating income	**1,486**	1,527	1,064	1,362	1,198	1,487	525	982	1,038	846
Financing charges	**(156)**	(144)	(166)	(204)	(257)	(245)	(245)	(179)	(93)	(88)
Taxes	**(336)**	(412)	(254)	(335)	(294)	(395)	(106)	(278)	(298)	(251)
Earnings from nonconsolidated companies	**4**	10	7	30	55	143	40	23	54	41
Profit for the period	**998**	981	651	853	702	990	214	548	701	548
Minority interest, attributable to minority shareholders	**(37)**	(36)	(49)	(35)	(31)	(43)	(25)	(16)	(17)	(16)
Net income, attributable to the shareholders	**961**	945	602	818	671	947	189	532	684	532
EBITDA	**2,055**	2,092	1,716	2,043	1,872	2,151	1,296	1,660	1,635	1,392
Common shares, in millions at December 31	**285.8**	285.8	285.7	285.7	285.9	285.9	285.9	285.3	285.2	284.7
Dividend	**343**	343	343	343	343	343	286	278	275	242
Dividend in % of net income	**36**	36	57	42	51	36	151	52	40	45
Per common share, in EUR										
Net income	**3.36**	3.31	2.11	2.86	2.35	3.31	0.66	1.86	2.40	1.87
Dividend	**1.20**	1.20	1.20	1.20	1.20	1.20	1.00	0.98	0.97	0.85
Shareholders' equity	**11.95**	9.12	8.76	7.34	10.07	9.42	7.28	7.36	14.58	12.54
Number of employees at December 31	**61,300**	61,400	64,600	67,900	66,300	68,400	68,000	85,900	68,900	70,700
Salaries, wages, and social charges	**3,221**	3,216	3,505	3,552	3,416	3,285	3,777	3,368	2,969	2,820
Ditto, as % of revenues	**24.8**	25.1	26.7	25.3	24.1	23.3	26.1	26.9	27.2	27.7
Ratios										
Operating income as percentage of revenues	**11.4**	11.9	8.1	9.7	8.5	10.6	3.6	7.9	9.5	8.3
Operating income as percentage of invested capital	**19.3**	20.0	12.7	15.1	12.8	16.7	5.9	12.1	15.1	13.2
Net income as percentage of shareholders' equity	**32.0**	40.6	26.2	32.9	24.1	39.7	9.0	17.0	17.7	16.0
Interest coverage	**9.5**	10.6	6.4	6.7	4.7	6.1	2.1	5.5	11.2	9.6
EBITDA coverage	**13.2**	14.5	10.3	10.0	7.3	8.8	5.3	9.3	17.6	15.8
Share price										
Highest	**40.18**	33.79	32.44	54.50	57.85	59.15	52.40	58.58	42.84	26.99
Lowest	**30.82**	24.87	16.00	27.25	33.73	37.30	30.00	25.87	26.29	19.97
Year-end	**39.15**	31.38	30.60	30.23	50.15	57.20	49.80	38.80	39.66	26.77

[1] The 1996 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other postretirement 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.

Consolidated Balance Sheet

Millions of euros, December 31	IFRS 2005	IFRS 2004	NL GAAP [1] 2003	2002	2001	2000	1999	1998	1997	1996
Property, plant and equipment	**3,432**	3,535	3,967	4,402	4,568	4,501	4,435	5,311	4,420	4,304
Intangible assets	**488**	448	590	629	508	388	326	166	133	134
Financial noncurrent assets	**1,800**	1,418	1,866	2,217	1,895	2,000	1,878	1,401	880	846
Total noncurrent assets	**5,720**	5,401	6,423	7,248	6,971	6,889	6,639	6,878	5,433	5,284
Inventories	**1,987**	1,978	2,133	2,206	2,270	2,267	2,091	2,291	1,835	1,760
Receivables	**2,910**	2,761	2,671	2,815	3,229	3,135	2,981	2,823	2,267	1,981
Cash and cash equivalents	**1,486**	1,811	727	520	455	416	932	536	317	404
Assets held for sale	**322**									
Total current assets	**6,705**	6,550	5,531	5,541	5,954	5,818	6,004	5,650	4,419	4,145
Total assets	**12,425**	11,951	11,954	12,789	12,925	12,707	12,643	12,528	9,852	9,429
Akzo Nobel N.V. shareholders' equity	**3,415**	2,605	2,502	2,098	2,878	2,694	2,082	2,101	4,158	3,569
Minority interest	**161**	140	140	137	138	159	154	190	118	108
Total equity	**3,576**	2,745	2,642	2,235	3,016	2,853	2,236	2,291	4,276	3,677
Provisions	**2,210**	2,877	3,333	3,855	2,400	2,279	2,110	2,178	1,668	1,650
Long-term borrowings	**2,702**	2,392	2,717	2,797	2,235	2,729	2,678	2,672	914	975
Other noncurrent liabilities	**183**	200	590	513	560	518	322	404	295	241
Total noncurrent liabilities	**5,095**	5,469	6,640	7,165	5,195	5,526	5,110	5,254	2,877	2,866
Short-term borrowings	**357**	560	441	979	2,267	1,967	2,803	2,663	778	1,128
Current liabilities	**2,571**	2,677	2,231	2,410	2,447	2,361	2,494	2,320	1,921	1,758
Current portion of provisions	**766**	500								
Liabilities held for sale	**60**									
Total current liabilities	**3,754**	3,737	2,672	3,389	4,714	4,328	5,297	4,983	2,699	2,886
Total equity and liabilities	**12,425**	11,951	11,954	12,789	12,925	12,707	12,643	12,528	9,852	9,429
Invested capital										
Of consolidated companies	**8,007**	7,145	8,117	8,692	9,395	9,257	8,573	9,206	7,035	6,706
In nonconsolidated companies	**301**	318	353	491	575	673	644	466	579	561
Total	**8,308**	7,463	8,470	9,183	9,970	9,930	9,217	9,672	7,614	7,267
Property, plant and equipment										
Capital expenditures	**514**	551	581	689	822	725	797	819	641	836
Depreciation	**528**	540	599	622	635	631	740	661	587	537
Ratios										
Revenues/invested capital	**1.68**	1.68	1.56	1.55	1.52	1.58	1.51	1.54	1.59	1.59
Gearing	**0.44**	0.42	0.92	1.46	1.34	1.50	2.03	2.09	0.32	0.46
Equity/noncurrent assets	**0.62**	0.51	0.41	0.31	0.43	0.41	0.34	0.33	0.79	0.70
Inventories and receivables/current liabilities	**1.90**	1.77	2.15	2.08	2.25	2.29	2.03	2.20	2.14	2.13

[1] The 1996 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other postretirement 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.

For definitions of certain financial ratios and concepts see back cover fold-out.

Business Segment Statistics

Millions of euros	IFRS 2005	IFRS 2004
Organon		
Revenues	**2,425**	2,344
Operating income	**415**	275
Invested capital [2]	**1,781**	1,628
Operating income		
– as percentage of revenues	**17.1**	11.7
– as percentage of invested capital	**24.3**	16.1
EBITDA	**541**	393
Capital expenditures	**95**	103
Average number of employees	**14,200**	14,700
Intervet		
Revenues	**1,094**	1,027
Operating income	**238**	184
Invested capital [2]	**883**	798
Operating income		
– as percentage of revenues	**21.8**	17.9
– as percentage of invested capital	**28.3**	23.5
EBITDA	**292**	230
Capital expenditures	**54**	54
Average number of employees	**5,300**	5,300

	NL GAAP [1] 2003	2002	2001	2000	1999	1998	1997	1996
Pharma								
Revenues	3,600	4,061	4,085	3,898	2,904	2,345	2,111	1,793
Operating income	538	747	869	857	566	461	409	348
Invested capital [2]	2,506	2,475	2,558	2,367	2,081	1,399	1,243	1,083
Operating income								
– as percentage of revenues	14.9	18.4	21.3	22.0	19.5	19.7	19.4	19.4
– as percentage of invested capital	27.8	30.5	33.7	34.4	35.4	34.9	35.2	35.2
EBITDA	714	927	1,033	1,024	706	566	499	428
Capital expenditures	210	297	317	214	199	173	107	107
Average number of employees	21,300	21,700	21,000	21,200	18,300	16,200	15,500	15,100

[1] The 1996 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other postretirement 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] At December 31.

Business Segment Statistics

	IFRS		NL GAAP [1]							
Millions of euros	**2005**	2004	2003	2002	2001	2000	1999	1998	1997	1996
Coatings										
Revenues	**5,555**	5,237	5,162	5,444	5,522	5,501	5,203	4,517	3,568	3,175
Operating income	**384**	406	369	424	204	413	416	347	291	242
Invested capital [2]	**2,259**	2,067	2,043	2,221	2,351	2,279	2,158	2,136	1,409	1,300
Operating income										
– as percentage of revenues	**6.9**	7.8	7.1	7.8	3.7	7.5	8.0	7.7	8.2	7.6
– as percentage of invested capital	**17.8**	19.8	19.4	19.4	17.6	19.2	18.9	20.0	22.6	19.1
EBITDA	**519**	529	516	577	362	560	560	467	392	327
Capital expenditures	**112**	122	124	128	176	161	151	174	116	103
Average number of employees	**29,000**	28,700	29,000	28,800	29,700	29,700	30,100	27,200	21,600	20,500
Chemicals										
Revenues	**3,890**	4,317	4,473	4,679	4,680	4,814	4,217	3,723	3,756	3,769
Operating income	**312**	869	257	270	141	389	392	270	394	271
Invested capital [2]	**2,291**	2,048	2,604	2,893	3,176	3,108	2,841	2,700	2,776	2,702
Operating income										
– as percentage of revenues	**8.0**	20.1	5.7	5.8	3.0	8.1	9.3	7.3	10.5	7.2
– as percentage of invested capital	**14.4**	40.8	12.4	12.1	11.4	15.7	14.0	12.2	12.7	10.5
EBITDA	**553**	1,141	575	603	481	725	693	544	651	514
Capital expenditures	**252**	269	241	251	315	338	315	298	277	435
Average number of employees	**11,600**	13,600	14,900	15,300	15,800	16,000	15,300	14,700	15,000	16,200
Acordis/Fibers										
Revenues							2,242	1,947	1,606	1,540
Operating income							(830)	–	(27)	(2)
Invested capital [2]								1,682	1,144	1,155
Operating income										
– as percentage of revenues							(37.0)	–	(1.7)	(0.1)
– as percentage of invested capital							(6.4)	1.4	(0.2)	(0.2)
EBITDA							(672)	132	83	98
Capital expenditures							107	135	83	144
Average number of employees							17,400	16,100	13,700	14,500

1 The 1996 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other postretirement 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 At December 31.

For definitions of certain financial ratios and concepts see back cover fold-out.

Regional Statistics

Millions of euros	IFRS		NL GAAP[1]		
	2005	2004	2003	2002	2001
The Netherlands					
Revenues by destination	**862**	844	825	816	720
Revenues by origin	**2,459**	2,748	2,546	2,662	2,533
Operating income	**474**	446	171	179	178
Capital expenditures	**179**	189	173	197	235
Invested capital [2]	**2,229**	2,060	2,354	2,062	1,821
Number of employees [2]	**11,600**	11,300	12,700	13,000	12,700
Germany					
Revenues by destination	**1,238**	1,165	1,147	1,084	1,052
Revenues by origin	**1,152**	1,050	1,088	1,051	1,070
Operating income	**144**	159	73	34	12
Capital expenditures	**25**	23	27	36	52
Invested capital [2]	**539**	486	619	642	687
Number of employees [2]	**4,100**	4,100	4,100	4,700	4,200
Sweden					
Revenues by destination	**516**	509	510	517	512
Revenues by origin	**1,237**	1,155	1,102	1,184	1,088
Operating income	**137**	33	66	95	72
Capital expenditures	**65**	60	55	36	71
Invested capital [2]	**604**	530	555	585	716
Number of employees [2]	**3,900**	4,000	4,300	4,500	4,500
United Kingdom					
Revenues by destination	**809**	833	840	963	1,036
Revenues by origin	**754**	848	798	911	924
Operating income	**(59)**	(57)	(93)	75	(35)
Capital expenditures	**31**	29	26	25	36
Invested capital [2]	**492**	363	760	947	1,232
Number of employees [2]	**4,100**	4,200	4,600	4,900	5,200
Other European countries					
Revenues by destination	**4,075**	4,122	4,018	4,008	4,012
Revenues by origin	**3,069**	2,921	3,155	3,073	3,314
Operating income	**527**	532	509	591	641
Capital expenditures	**81**	81	110	136	104
Invested capital [2]	**1,264**	1,226	1,152	1,220	1,178
Number of employees [2]	**12,900**	13,500	13,500	14,400	14,800

Millions of euros	IFRS		NL GAAP[1]		
	2005	2004	2003	2002	2001
USA and Canada					
Revenues by destination	**2,400**	2,445	2,944	3,723	3,802
Revenues by origin	**2,116**	2,221	2,604	3,318	3,263
Operating income	**(67)**	60	94	100	144
Capital expenditures	**51**	52	81	177	220
Invested capital [2]	**1,534**	1,405	1,627	2,158	2,542
Number of employees [2]	**8,200**	8,400	9,500	10,600	10,300
Latin America					
Revenues by destination	**830**	729	704	767	917
Revenues by origin	**626**	493	470	506	660
Operating income	**85**	133	60	96	78
Capital expenditures	**42**	61	18	31	33
Invested capital [2]	**448**	304	259	265	429
Number of employees [2]	**4,400**	4,400	4,600	4,700	4,500
Asia					
Revenues by destination	**1,590**	1,536	1,453	1,513	1,429
Revenues by origin	**1,231**	1,087	1,022	1,064	1,039
Operating income	**192**	175	125	140	66
Capital expenditures	**32**	47	81	41	54
Invested capital [2]	**661**	550	567	598	560
Number of employees [2]	**9,800**	9,200	9,000	8,800	7,900
Other regions					
Revenues by destination	**680**	650	665	668	678
Revenues by origin	**356**	310	321	290	267
Operating income	**53**	46	59	52	42
Capital expenditures	**8**	9	10	10	17
Invested capital [2]	**236**	221	224	215	230
Number of employees [2]	**2,300**	2,300	2,300	2,300	2,200

[1] The 1996 - 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other postretirement 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] At December 31.

For definitions of certain financial ratios and concepts see back cover fold-out.

- Report for the 1st quarter 2006
  April 20, 2006
- Annual Meeting of Shareholders
  April 25, 2006
- Quotation ex 2005 final dividend
  April 27, 2006
- Payment of 2005 final dividend
  May 5, 2006
- Report for the 2nd quarter 2006
  July 20, 2006
- Report for the 3rd quarter 2006
  October 18, 2006
- Quotation ex 2006 interim dividend
  October 19, 2006
- Payment of 2006 interim dividend
  October 26, 2006

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