Fit for the future
Annual Report 2006

Fit for the future Akzo Nobel Annual Report 2006

AKZO NOBEL

Profile

Akzo Nobel is a multicultural organization serving customers throughout the world with coatings, chemicals, and human and animal healthcare products. We employ around 62,000 people in more than 80 countries. We are a Fortune Global 500 company and are listed on both the Euronext Amsterdam and NASDAQ stock exchanges. We are also included on the Dow Jones Sustainability Indexes and the FTSE4Good Index.

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.

2006 highlights

Top-line up 6% to EUR 13.7 billion

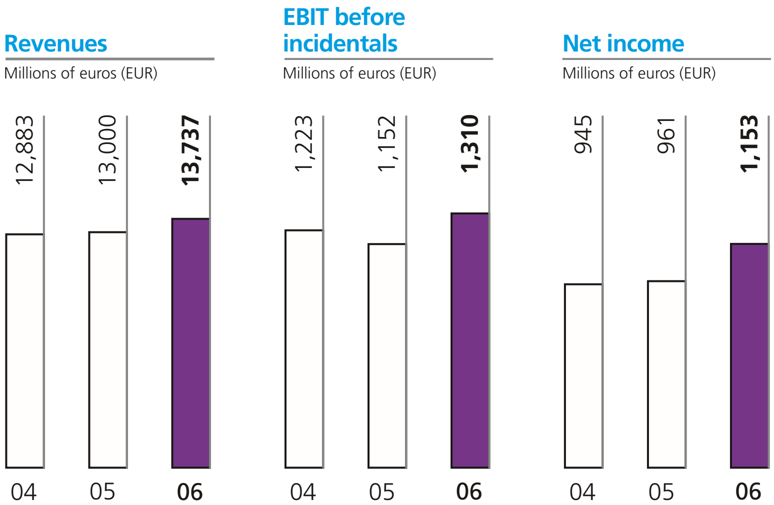
Growth in all segments

Operational results up 14% to EUR 1.3 billion

Record net income, up 20% to EUR 1.15 billion

Separation of Pharma imminent

Akzo Nobel is 'Fit for the future'



Akzo Nobel at a glance

Groups	Key activities
Akzo Nobel Coatings	Akzo Nobel is the world's largest coatings manufacturer and commands leading market positions in nearly all its businesses. Akzo Nobel develops, manufactures, and markets innovative, high-quality products and services for most market segments. Its portfolio includes decorative paints; products for industrial applications including powder and specialty coatings; car refinishes; marine, protective and aerospace coatings, and coatings-related products such as wood and building adhesives.
Akzo Nobel Chemicals	Akzo Nobel is one of the world's leading chemicals producers, holding leading or strong global positions in many markets. A key supplier to the polymer production and processing industries, they are also the world leader in pulp bleaching chemicals and an important producer of salt, functional chemicals, and surfactants. Focused on superior technologies and innovation, Akzo Nobel Chemicals is committed to sustainable growth, with the clear aim of consolidating or establishing leadership positions in strategic markets.
Organon	Organon creates, manufactures, and markets innovative prescription medicines that improve the health and quality of human life. Through a combination of innovation and business partnerships, Organon seeks to leverage its position as the leading biopharmaceutical company in each of its core therapeutic fields: fertility, gynecology, and selected areas of anesthesia. It has extensive expertise in neuroscience and a rich and focused R&D program. Research areas include immunology and areas of oncology.
Intervet	Intervet is dedicated to research and development, production, and marketing of innovative animal health products, and is providing a full range of innovative products for livestock, aquatic, and companion animals. Products are grouped in two main product sectors: vaccines and pharmaceuticals. Intervet operates globally with its own marketing organizations. Intervet is the world's third largest animal health company and has grown to its current status through a combination of organic development and strategic acquisitions.

Revenues by destination

Millions of euros (EUR)		%
U.S. and Canada	2,711	19
Latin America	924	7
Asia	1,755	13
Other regions	674	5
The Netherlands	915	6
Germany	1,209	9
Sweden	523	4
United Kingdom	781	6
Other European countries	4,245	31
Total	**13,737**	

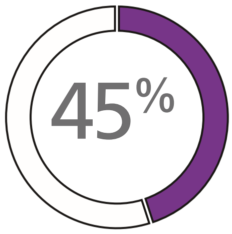
Revenues by origin

Millions of euros (EUR)		%
U.S. and Canada	2,732	20
Latin America	747	5
Asia	1,440	11
Other regions	383	3
The Netherlands	2,072	15
Germany	1,208	9
Sweden	1,284	9
United Kingdom	798	6
Other European countries	3,073	22
Total	**13,737**	

Key brands

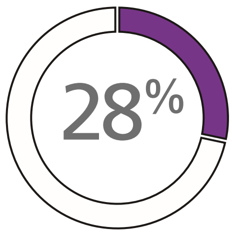
Contribution to revenues

Sikkens, International, Interpon Powder Coatings, Sadolin, Crown, Astral, Marshall, Nordsjö, Levis, Herbol, Vivechrom, Flexa, Lesonal, Schönox, Trimetal, Flood, Sico



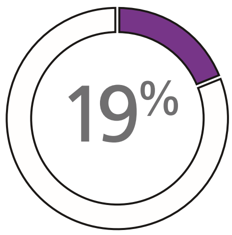
Find out more on pages 22–35

Demeon D, Expancel Microspheres, Jozo Salt, Nezo Salt, Bermocoll, Trigonox, MCA, Akucell, Eka, Dissolvine, Bolikel, Kromasil, Suprasel Salt



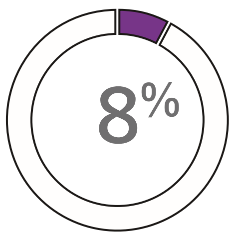
Find out more on pages 36–47

Organon, NuvaRing, Mercilon, Implanon, Puregon Pen, Livial, Remeron Sol, Esmeron



Find out more on pages 48–55

Intervet, Regumate, Prequenza, Scalibor, PreveNile



Find out more on pages 56–59

Employees by region

Number of employees end 2006

U.S. and Canada	8,800
Latin America	4,400
Asia	10,300
Other regions	2,100
The Netherlands	11,100
Germany	4,000
Sweden	3,900
United Kingdom	3,900
Other European countries	13,400
Total	61,900

Key developments

01


02

Akzo Nobel

Akzo Nobel announced its intention to separate into two independent companies: Akzo Nobel, active in coatings and chemicals, and Organon BioSciences, active in pharmaceuticals.

Shareholders approved the company's separation plans at an Extraordinary General Meeting in September.

Jörg Spiekerkötter was appointed Chief Financial Officer of Organon BioSciences NV, marking an important landmark in the establishment of Akzo Nobel's Pharma businesses as a separate company.

New strategic targets for Akzo Nobel's Coatings and Chemicals activities were announced. These included the intention to outpace growth in selected markets, a targeted operational ROI (return on investment) of more than 20%, and maintaining the company's A- credit rating.

Akzo Nobel's improved social responsibility performance was reflected in the company being ranked among the chemicals industry leaders on the prestigious Dow Jones Sustainability World Indexes (DJSI).

A one-time tax benefit of around EUR 125 million was recorded following an agreement with tax authorities in several countries.

Akzo Nobel Coatings

Significant acquisitions in 2006 included Sico Inc. (the largest coatings company in Canada), the Flood Company in the United States, Balakom in the Czech Republic and the Ukraine's Khimrezerv.

Akzo Nobel confirmed its position as the world's leading coatings manufacturer by launching the Global Coatings Report 2006, the first ever global assessment of the coatings market. (01)

The company's growth strategy in China continued to gather pace, with highlights including the opening of two new facilities – in Langfang and Jaishan – and the acquisition of the remaining shares in the Akzo Nobel Chang Cheng Coatings joint venture.

Two businesses – Decorative Coatings Europe and Decorative Coatings International – were integrated. This will enable Akzo Nobel to benefit not only from the global reach of the combined organization in areas such as technology, marketing, and purchasing, but also to leverage its scale and strong brands across multiple markets.

03

04

Akzo Nobel Chemicals

The strategic realignment of Akzo Nobel Chemicals was successfully concluded, transforming a relatively large and fragmented range of business segments into a focused, market-driven portfolio.

Two new chemicals plants in Delfzijl were officially opened, representing the company's biggest ever chemicals investment in the Netherlands – a total of approximately EUR 200 million. This also signaled the end of Akzo Nobel's regular Dutch chlorine transports by rail.

Pulp & Paper Chemicals opened a second facility in China – in Guangzhou – to further service the booming Chinese paper industry. The Surfactants business signed a marketing alliance with Feixiang Chemicals Ltd., while Functional Chemicals made plans to open a new Chinese plant in June 2007 for the production of polysulfides. (02)

As part of its growth strategy in China, Akzo Nobel announced plans to develop a new multi-site in Ningbo, Southern China. The facility – which would serve both the Chemicals and Coatings businesses – could become one of the company's largest locations in the world.

Organon

The Implanon® contraceptive implant developed by Organon was approved by the U.S. Food and Drug Administration (FDA). (03)

Organon's application for tibolone as a treatment for women in the United States with menopausal symptoms was not approved by the FDA.

Organon and Ligand Pharmaceuticals Inc. signed an agreement to terminate their Avinza® co-promotion agreement and return Avinza® rights to Ligand.

Organon decided to continue with the development of asenapine following the decision taken by Pfizer to terminate their collaboration in the new drug candidate's further development.

The second NuvaRing® direct-to-consumer campaign launched by Organon in the United States proved to be highly successful. The campaign was nominated for a National Advertising Award.

Intervet

New product approvals in the United States were granted for the PreveNile™ equine West Nile vaccine – which will strengthen Intervet's growth in the U. S. companion animal market – and for beef cattle product Zilmax®.

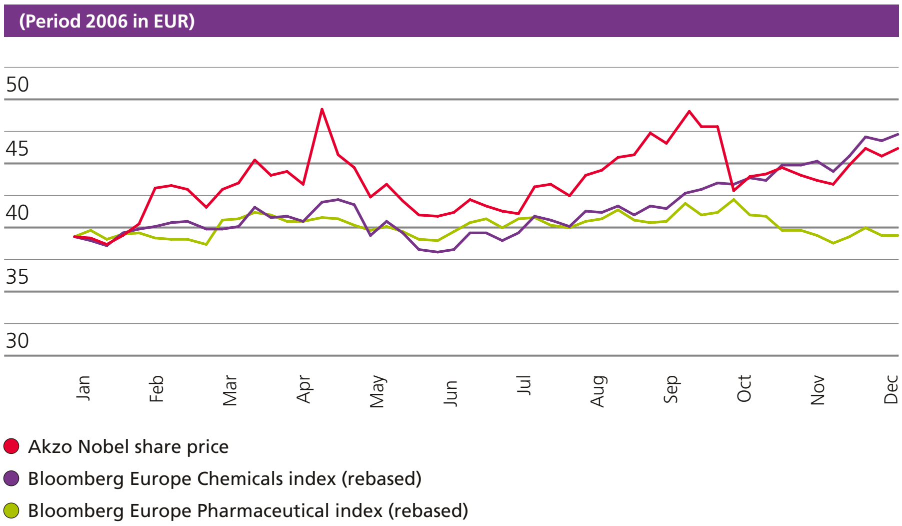
The European Union granted a conditional license for Intervet's Nobilis® Influenza H5N2 vaccine, which protects birds against the highly pathogenic H5N1 field strain of avian flu.

Intervet finalized the divestment of its international feed additives activities with the sale of CRINA SA.

The first phase of an ambitious expansion program in Boxmeer was completed with the opening of the new Tissue Culture Boxmeer (TCB); the facility will be used for the production of viral and parasitological antigens, to be used mainly in companion animal vaccines. (04)

Shareholder information

Performance Akzo Nobel share price and indices sectors



Akzo Nobel share price

- **Akzo Nobel shares increased in value by 18% in 2006**
- **Separation of the company approved by shareholders**
- **Dividend of EUR 1.20 proposed**

In 2006, Akzo Nobel shares again performed well, increasing in value by 18%. Total Shareholder Return (TSR) for the full year, including dividend, was 21%. Trading volumes of our common shares more than doubled compared with previous years.

Akzo Nobel's shares clearly outperformed the Bloomberg European Pharma index and performance was more or less in line with the Bloomberg European Chemicals index.

The Board of Management and the Supervisory Board are proposing a dividend of EUR 1.20. During the last five years, the dividend of Akzo Nobel was stable at EUR 1.20. It is the company's policy to distribute 35% to 40% of net income before incidentals as dividend. The payout ratio (dividend related to net income before incidentals) fluctuated between 38% and 43% during the last five years.

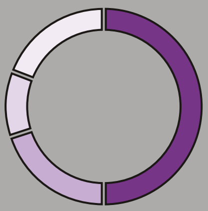
Akzo Nobel attaches great value to maintaining an open dialog with the financial community in order to promote transparency. Management gave presentations at a number of industry conferences, as well as in meetings with investors and analysts. In the spring a Pharma analysts and investors day was held, followed in the fall by a Coatings/Chemicals day. Both were staged in London with presentations by members of the Board of Management and business managers.

In addition to the Annual General Meeting (AGM) in April there was an Extraordinary General Meeting (EGM) in September 2006, when the separation of the company was approved. At both meetings, around 40% of the capital was represented.

In the Netherlands, Akzo Nobel uses the Shareholder's Communication Channel to distribute the agenda of the AGM, and to allow shareholders who hold their shares through an associated bank, to participate in proxy voting at the AGM. Holders of American Depositary Shares are also given the opportunity to vote by proxy.

Akzo Nobel's common shares are listed at Euronext Amsterdam and as American Depositary Shares at the NASDAQ in New York. For the financial calendar and contact details with Investor Relations, reference is made to page 130 and 133.

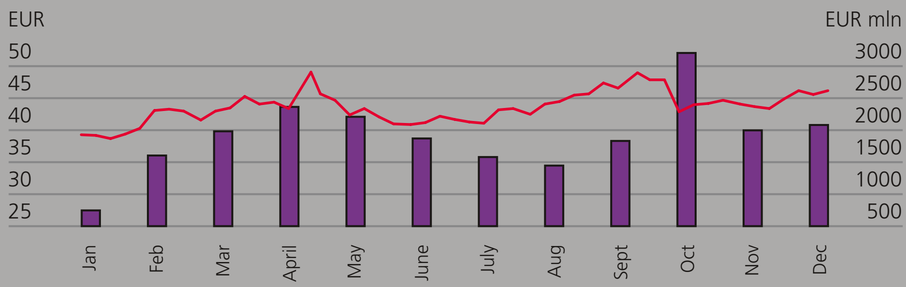
Geo-mix shareholders 2006



At year-end the distribution of Akzo Nobel shares was:

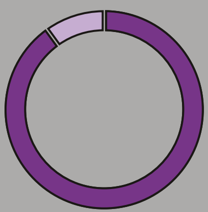
In %	2006	2005
United States	50	59
The Netherlands	20	18
United Kingdom	11	4
Others	19	19

Share price performance and share volume in FY 2006



Share price (left axis)
Share volume in EUR mln (right axis)

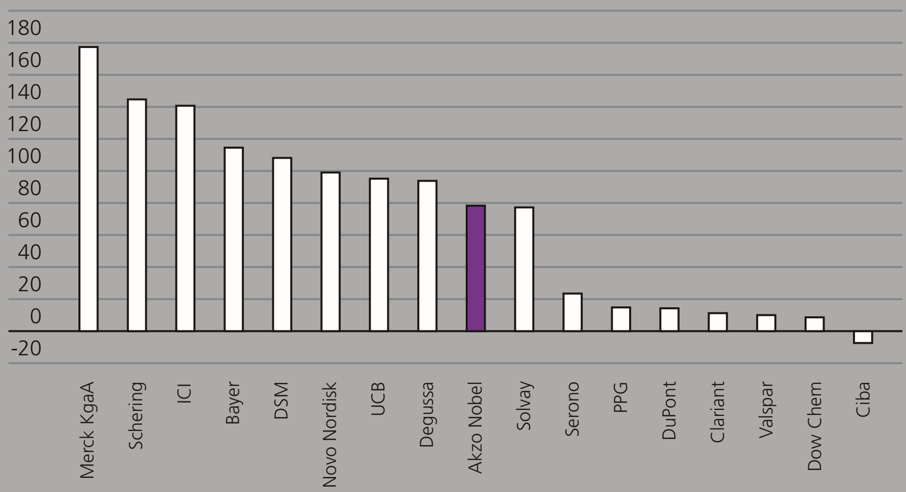
Institutions – Retail



Institutions	90%
Retail	10%

Total shareholder return

Akzo Nobel versus peers during period January 1, 2004 – December 31, 2006 (%)



Dividend and payout ratio

Pay-out ratio in % (right axis)
Dividend in EUR (left axis)

Chairman's statement

Dear Reader,

2006 has been another exciting and positive year for Akzo Nobel. We have made significant progress in transforming our company strategically, operationally and culturally, in line with our vision for the future.

In February 2006, we announced our intention to separate our Pharma activities from our Coatings and Chemicals activities, preferably through a listing on Euronext Amsterdam. We will transform Akzo Nobel into two strong, independent companies – Akzo Nobel, focused on coatings and chemicals, and Organon BioSciences, focused on human and animal healthcare.
The announcement was well received by our employees and our shareholders, and preparations have been going according to schedule. In July, we obtained a positive advice on the Dutch aspects from our Central Works Council and in August we specified our plans to complete the separation by early 2007. We will initially float 20% to 30% of the shares, with an intention to fully exit within two to three years. At an Extraordinary General Meeting in September, our shareholders gave overwhelming approval, with 99.99% supporting the separation plans. In parallel with these processes, many people throughout our company have also been working very hard to design and build the new Organon BioSciences organization, which is now fully prepared for its own journey. The decision to separate Organon BioSciences through a listing of a minority stake on Euronext Amsterdam has been taken on February 28, 2007.

Looking at some of the other main developments during 2006, we successfully completed the strategic realignment of our Chemicals activities. A lot has been achieved since 2004, when we first took the decision to rationalize our portfolio and focus on five growth platforms. Most of our Chemicals businesses are now delivering healthy results, enabling them to focus on expanding their activities through investments and acquisitions.

In Coatings, we've continued to strengthen our global leadership position. As well as introducing a number of exciting, innovative products, we've also acquired some first class companies from around the world and constructed several new sites in various countries. Operationally, we also took some major strides forward with regard to improving the performance of the company. Not only were we able to deliver strong top-line growth across the portfolio, but operational results have also improved at all businesses. This achievement means that we have delivered on our main operational objectives for the year.

Of course, 2006 also had its disappointments. Livial® was not approved by the Food and Drug Administration in the United States for the U.S. market. We also incurred some delay with the development of asenapine – a promising product in Organon's pipeline – along with the withdrawal of our asenapine partner, Pfizer. In Coatings, although our activities enjoyed healthy overall development, insufficient progress was made with regard to improving the performance of our Decorative Coatings business – particularly in the retail segments of some larger European countries. At Chemicals, we experienced unexpected operational problems during the start-up of the company's new MCA factory in Delfzijl, the Netherlands, which resulted in disappointing results for the Functional Chemicals business. I can assure you that we are working hard to successfully meet all these challenges and are optimistic about our ability to significantly improve in these areas.

During 2006, many employees in our decentralized, entrepreneurial company worked very hard to ensure that we comply with the stringent SOX 404 requirements. We will make our formal control statement in our Financial Report on Form 20-F, but I am very proud of the commitment and energy that so many hardworking people have shown – often in the face of other, equally difficult tasks – while handling these extremely demanding processes during the course of the year.

We have also made substantial progress with regard to our continuing efforts to develop a so-called "talent factory" at Akzo Nobel. For example, we have now completed the worldwide roll-out of our employee performance assessment and career development system. In addition, we conducted the company's first ever global employee survey in 2006, giving management at all levels important feedback on how we manage the company in the eyes of our employees. The study therefore presented us with a great opportunity to identify where we need to make any necessary improvements.

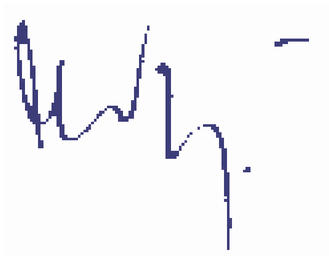
It has also been a very productive year for our Corporate Social Responsibility initiatives. Akzo Nobel was ranked among the chemicals industry leaders on the prestigious Dow Jones Sustainability World Indexes (DJSI), and our Community Program is going from strength to strength, having helped to improve the lives of tens of thousands of people all over the world.

It has taken a lot of hard work and some tough decision-making to position the company for what will be a major transformation. Having delivered on our main operational objectives for 2006 – including further revenues growth across the portfolio and stepping up our expansion strategy – we are fit for the future. We are in a strong position to accelerate profitable growth and establish the new Akzo Nobel as one of the world's leading and most respected industrial companies, and launch Organon BioSciences as a new and exciting independent biopharmaceutical company. Both will become highly focused organizations, primed for expansion. The successful realization of our growth ambitions will result in significant value creation as we push ahead.

The strategic changes taking place throughout Akzo Nobel – including the planned relocation of our headquarters to Amsterdam in July 2007 – are all designed to enable the company to capitalize on the tremendous worldwide growth opportunities that lie ahead. There's no doubt that 2006 was a successful and pivotal year, where we improved our customer focus and launched a steady flow of innovative new products. But now it's time to look forward, and with the separation within reach, the future looks more exciting than ever. Akzo Nobel is well positioned for profitable growth, supported by favorable signs of the world economy. Provided that no major discontinuities occur, we believe that we are well placed to outgrow our markets and further improve the financial returns in Coatings and Chemicals.

Finally, we are confident that the proposed separation of our pharmaceutical business will create further value for shareholders.

My colleagues on the Board of Management and I are proud to be leading our hardworking and dedicated employees into what promises to be a challenging new era of continued excellence and achievement.



Hans Wijers
Chairman of the Board of Management

Strategy

General

Akzo Nobel is a diversified, multicultural and truly global company with activities in coatings, chemicals and human and animal healthcare. 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 customer focus and entrepreneurial spirit of a decentralized business unit organization with the scale and power of a global organization which provides access to global capital markets, managerial talent, best management practices, and purchasing power.

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 the coatings and chemicals activities of Akzo Nobel.

Management is jointly convinced that separation – preferably through a listing at Euronext Amsterdam of Organon/Intervet – will best enhance shareholder value. This will create a new independent company, Organon BioSciences.

During 2006, we have been preparing for the separation of Organon BioSciences. We received a positive advice on the Dutch aspects from our Central Works Council in July and strong support at an Extraordinary Shareholders Meeting held in September. We aim to float 20%-30% of Organon BioSciences on the Amsterdam Stock Exchange in early 2007. Complete separation is planned after two to three years.

Coatings and Chemicals

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 world leader in coatings and consolidate our leadership positions in all our product markets and 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.

We have streamlined our Chemicals portfolio and are concentrating on growing profitable businesses which we have identified within selected strategic markets. We exited non-core businesses and rationalized support structures around selected platforms.

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

We have organized our activities into five growth platforms: Pulp & Paper Chemicals, Base Chemicals, Functional Chemicals, Surfactants, and Polymer Chemicals. We almost completed the divestment of the remaining non-core activities during 2006.

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

Across our portfolio we will continuously scrutinize our activities in mature markets for opportunities to improve productivity. We also aim to improve our performance in the use of operating working capital, particularly in certain segments of our Coatings activities.

We have the following medium-term ambitions:

- Outpace growth in our markets
- Realize an operational ROI of above 20%.

Board of Management
From left to right:

Rob Frohn (1960, Dutch)
Chief Financial Officer

Toon Wilderbeek (1950, Dutch) *
Board Member responsible for Pharma

Leif Darner (1952, Swedish)
Board Member responsible for Chemicals

Hans Wijers (1951, Dutch)
Chief Executive Officer
Board Member responsible for Coatings

* Resigned effective February 28, 2007

Pharma

In order to prepare for the separation we have incorporated our Pharma activities into a holding company: Organon BioSciences.

Organon BioSciences is a globally operating biopharmaceutical company which develops, manufactures and markets innovative products targeting selected therapeutic areas in human pharmaceuticals and covering a wide range of species in animal health. Our products enjoy leading positions in gynecology, fertility, selected areas of anesthesia and animal health. Organon, our human pharmaceutical business, currently has five compounds in late stage clinical development and has recently received approval from the U.S. Food and Drug Administration (the FDA) for one drug (Implanon®). Intervet, our animal health business, is the world's third-largest animal health company as measured by 2006 revenues, with an extensive product pipeline offering attractive opportunities. We believe that our leading positions in these areas, our strong pipeline – particularly in neuroscience – and our increased focus on the development of biotechnology products – including human vaccines – position us well for continued growth.

Our strategic objective is to further develop the strengths of Organon and Intervet in their existing core areas. In addition, we seek to expand our capabilities in the field of biotechnology and build upon our record of innovation with respect to both new biological and chemical entities. To achieve these strategic objectives we intend to:
- Continue our growth through innovation
- Further develop our strengths in the core indication areas in human pharmaceuticals
- Expand our biotechnology capabilities into new therapeutic areas within human pharmaceuticals
- Build upon our broad-based market leadership in animal health
- Exploit potential synergies between our human and animal health businesses
- Further strengthen our portfolio and pipeline through licensing deals and add-on acquisitions.

Through a separation by early 2007 we aim to create value for our shareholders. We expect that a separate listing will enhance the transparency of the value of both our Pharma and Coatings/Chemicals activities. We expect a full separation within two to three years.

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.

Report of the Board of Management

Financial highlights

Millions of euros (EUR)	2006	2005	Δ%
Revenues	**13,737**	13,000	6
EBITDA before incidentals	**1,862**	1,721	
EBIT before incidentals	**1,310**	1,152	14
EBIT (Operating income)	**1,462**	1,486	
Financing income and expenses	**(111)**	(156)	
Share in profit of associates	**89**	6	
Income taxes	**(258)**	(338)	
Net income	**1,153**	961	20
Earnings per share	**4.02**	3.36	
Cash generated from operating activities	**1,899**	1,358	40
Capital expenditures	**529**	514	
Depreciation and amortization	**552**	569	
Invested capital at year-end	**8,060**	8,007	
Net interest-bearing borrowings at year-end	**1,090**	1,573	

General financial overview

Top-line up 6%; record net income of EUR 1.15 billion

- Growth in all segments – revenues up 6%
- Operational results up 14%
- Record year – EUR 1.15 billion net income, up 20%
- Incidentals – positive contribution of EUR 152 million (2005: EUR 334 million)
- Strong cash flow – cash generated from operating activities up EUR 0.5 billion
- Dividend – EUR 1.20 per share proposed to shareholders
- Akzo Nobel is 'Fit for the future'

Coatings – strong revenues growth of 12%; operational EBIT up 22%

- Revenues growth 12% – of which 4% from acquisitions
- Strong EBIT margin of 8.3%, despite higher raw material prices
- Industrial activities, Marine & Protective Coatings – strong performance
- Car Refinishes – restructuring paid off, back on track
- Decorative Coatings – margin pressure in mature markets
- Savings from restructuring programs in mature markets increasing
- Ongoing acquisitions and investments in emerging markets

Chemicals – autonomous growth of 5%; steady EBIT at high performance level

- Revenues of ongoing operations up 5%
- EBIT margin improved to 9.2%
- Polymer, Base and Pulp & Paper Chemicals – strong performance
- Functional Chemicals – start-up problems in production being addressed
- Continued pressure from energy and raw material prices
- Successful portfolio realignment; divestment program almost completed

Total revenues

(in % versus 2005)

	Total	Volume	Price	Currency translation	Acquisitions/ divestments
Coatings	12	6	2	–	4
Chemicals	(2)	1	4	–	(7)
Organon	8	8	–	–	–
Intervet	3	6	–	–	(3)
Akzo Nobel	**6**	**4**	**2**	**–**	**–**

Organon – volume growth of 8%; EBIT before incidentals up 34%

- Revenues – up 8% for the year
- EBIT before incidentals up 34%, despite higher marketing and R&D expenditures
- NuvaRing® – sales and market share steadily increasing
- Record year for fertility product Puregon®/Follistim®
- Anesthesia – Esmeron® and Anzemet® performing well
- Asenapine – Organon continues with development

Intervet – 6% autonomous growth

- Revenues – 6% autonomous growth powered across regions and franchises
- EBIT margin of 18.9%
- Approvals received for Zilmax® and PreveNile™
- Higher marketing cost and inventory for future product launches
- Production costs up – IT and acquisition of a Foot & Mouth Disease vaccine plant
- Feed additives divestment program completed

Top-line growth of 6%; record net income of EUR 1.15 billion

Revenues amounted to EUR 13.7 billion, up 6% on last year. This was mainly attributable to autonomous (especially volume) growth across all segments. Coatings showed a strong growth of 12%, of which 4% was obtained from recent acquisitions. Revenues of the ongoing operations of Chemicals achieved a robust growth of 5%, mostly from higher selling prices. Organon realized revenues growth of 8%, driven by strong sales of NuvaRing® and fertility products. Intervet performed well across all regions and product ranges, delivering 6% autonomous growth. On balance, currency translation had no impact on revenues for the full year.

Report of the Board of Management

Information on segment and incidentals

Millions of euros (EUR)	2006		2005		Δ%
Revenues					
Coatings	**6,209**		5,555		12
Chemicals	**3,809**		3,890		(2)
Organon	**2,611**		2,425		8
Intervet	**1,125**		1,094		3
Intercompany revenues/other	**(17)**		36		
Total		**13,737**		13,000	6
EBIT (operating income) before incidentals					
Coatings	**518**		423		22
Chemicals	**351**		351		–
Organon	**362**		270		34
Intervet	**213**		209		2
Other	**(134)**		(101)		
Total		**1,310**		1,152	14
EBIT margin, in %	**9.5**		8.9		
EBIT (operating income)					
Coatings	**604**		384		57
Chemicals	**362**		312		16
Organon	**354**		415		(15)
Intervet	**219**		238		(8)
Other	**(77)**		137		
Total		**1,462**		1,486	(2)
EBIT margin, in %	**10.6**		11.4		
Incidentals:					
Special benefits	**55**		571		
Results on divestments	**213**		44		
Restructuring and impairment charges	**(112)**		(169)		
Charges related to major legal, antitrust and environmental cases	**(4)**		(112)		
Total incidentals		**152**		334	
IAS 39 fair value adjustments	**(26)**		26		

EBIT before incidentals was EUR 1,310 million, up EUR 158 million or 14% compared with 2005. EBIT margin was 9.5% (2005: 8.9%). Organon, up EUR 92 million or 34%; and Coatings, with an increase of EUR 95 million or 22%, led the way. Intervet's operating income was up EUR 4 million or 2%, while Chemicals maintained EBIT at the same level, in spite of divestments. EBIT for the year decreased 2% from EUR 1,486 million to EUR 1,462 million, with an EBIT margin of 10.6% (2005: 11.4%).

Incidentals, on balance, contributed EUR 152 million, which was EUR 182 million lower than the previous year. Special benefits of EUR 55 million were mainly attributable to a change in the U.S. post retirement healthcare plan and the transition to a defined contribution scheme for certain U.S. pension plans. The results on divestments of EUR 213 million were derived from the sale of a Coatings plant near Barcelona and the Chemicals divestment plan. The restructuring and impairment charges of EUR 112 million related to various restructuring activities at Coatings and Chemicals. Changes in the provisions for antitrust and environmental cases resulted, on balance, in a charge of EUR 4 million. In 2005, incidentals resulted in a gain of EUR 334 million, mainly due to the settlement of certain Organon cases, changes in the Dutch pension and other postretirement plans, and restructuring and impairment charges.

Financing income and expenses decreased from EUR 156 million in 2005 to EUR 111 million in 2006, due to lower interest charges for discounted provisions. Interest on net interest-bearing borrowings was also lower due to decreased net liabilities (2006: EUR 95 million; 2005: EUR 115 million). Interest coverage improved from 9.5 to 13.2. EBITDA coverage was 18.1 (2005: 13.2).

Share in profit of associates was EUR 89 million, up EUR 83 million compared with 2005. Operational earnings of the associates increased to EUR 50 million (2005: EUR 43 million). In 2006, earnings included incidental gains of EUR 39 million, mainly related to Acordis, while in 2005 net incidental losses of EUR 37 million were recognized, primarily due to the impairment of Methanor.

Income taxes included a one-time benefit of around EUR 125 million. This benefit was attributable to an agreement with tax authorities in several countries on transfer pricing issues related to the company's corporate income tax filings covering a period of almost ten years. Excluding this benefit, the tax rate of 2006 amounted to 28%, which was higher than the previous year (2005: 25%).

Net income was up EUR 192 million or 20% from EUR 961 million to EUR 1,153 million, which is EUR 4.02 per share (2005: EUR 3.36). Excluding incidentals, net income amounted to EUR 872 million, up 19% on 2005, when it was EUR 735 million.

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 2006 the EVA amounted to EUR 455 million.

Headcount

Number of employees

	December 31, 2006	Restructurings	Acquisitions/ divestments	Other changes	December 31, 2005
Coatings	31,660	(620)	1,970	1,110	29,200
Chemicals	9,680	(300)	(1,230)	(220)	11,430
Organon	13,710	(200)	(260)	70	14,100
Intervet	5,370	(40)	–	150	5,260
Other	1,460			110	1,350
Akzo Nobel	**61,880**	**(1,160)**	**480**	**1,220**	**61,340**

Headcount expansion in emerging markets – restructuring in mature markets
At the end of 2006, the company had 61,880 employees, compared with 61,340 at year-end 2005. Growth of our business in emerging markets resulted in a workforce expansion of 1,220, while restructuring programs in Coatings, Chemicals, and Organon in the mature markets resulted in a decrease of 1,160. Acquisitions (2,000) and divestments (1,520) on balance added 480.

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

Report of the Board of Management

Condensed consolidated statement of cash flows

Millions of euros (EUR)	2006		2005[1]	
Profit for the period	**1,182**		998	
Adjustments to reconcile earnings to cash generated from operating activities				
Depreciation and amortization	**552**		569	
Impairment losses	**29**		132	
Financing income and expenses	**111**		156	
Share in profit of associates	**(79)**		(17)	
Income taxes	**258**		338	
Operating profit before changes in working capital and provisions		**2,053**		2,176
Changes in working capital	**90**		(248)	
Changes in provisions	**(262)**		(598)	
Other	**18**		28	
		(154)		(818)
Cash generated from operating activities		**1,899**		1,358
Interest paid	**(213)**		(220)	
Income taxes paid	**(366)**		(391)	
Pretax gain on divestments	**(213)**		(44)	
		(792)		(655)
Net cash from operating activities		**1,107**		703
Capital expenditures	**(529)**		(514)	
Investments in intangible assets	**(12)**		(67)	
Interest received	**112**		109	
Repayments from associates	**–**		27	
Dividends from associates	**37**		19	
Acquisition of consolidated companies [2]	**(326)**		(55)	
Proceeds from sale of interests [2]	**371**		64	
Loans to APF [3]	**19**		(150)	
Other changes in noncurrent assets	**20**		53	
Net cash from investing activities		**(308)**		(514)
Changes in borrowings	**(58)**		(188)	
Issue of shares	**40**			
Dividends	**(369)**		(366)	
Net cash from financing activities		**(387)**		(554)
Net change in cash and cash equivalents		**412**		(365)
Cash and cash equivalents at January 1		**1,486**		1,811
Effect of exchange rate changes on cash and cash equivalents and impact IAS 32 and 39		**(27)**		40
Cash and cash equivalents at December 31		**1,871**		1,486

[1] Reclassified for comparative reasons. [2] Net of cash acquired or disposed of. [3] Akzo Nobel Pension Fund in the Netherlands.

Strong cash flow – cash generated from operating activities up EUR 0.5 billion
In 2006, cash increased EUR 0.4 billion, compared with an outflow of EUR 0.4 billion in 2005. This increase was generated by improved cash generated from operating activities, which was up EUR 0.5 billion to EUR 1.9 billion.

Capital expenditures amounted to EUR 529 million, EUR 15 million higher than the 2005 level. Capital expenditures were 106% of depreciation. Targeted investments were in the emerging markets, particularly China and Central and Eastern Europe, where growth continued at high rates and where we opened several new factories. Chemicals investments included projects in the Netherlands and Sweden.

Invested capital at December 31, 2006, amounted to EUR 8.1 billion, up EUR 0.1 billion from last year. Working capital declined with EUR 0.1 billion, despite the company's revenues growth of 6%.

In 2006, net interest-bearing borrowings decreased EUR 0.5 billion to EUR 1.1 billion. Equity increased EUR 0.7 billion as a result of retained income. As a consequence, year-end gearing improved to 0.26 (December 31, 2005: 0.44).

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 regulations including the company's Business Principles, 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.

Although the company routinely works toward improvement of its processes and procedures regarding its financial reporting, the Board of Management is of the opinion that these processes and procedures:
- provide a reasonable level of assurance that this Annual Report does not contain any material misstatements;
- have operated properly in the year 2006, and
- will also operate properly in 2007.

Regarding the company's compliance with the rules on internal controls over financial reporting of the U.S. Sarbanes-Oxley Act, the assessment process of which was not yet completed on the date of issue of this Annual Report, reference is made to the certification required by Section 404 of this Act, which will be set forth in the company's Financial Report on Form 20-F, to be issued later in the year. 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 64 and 65).

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

Dividend – EUR 1.20 per common share proposed

A dividend of EUR 1.20 per common share will be proposed at the Annual General Meeting of Shareholders on April 25, 2007. In October 2006, an interim dividend of EUR 0.30 was declared and paid.

Adoption of this proposal will result in a dividend payment of EUR 344 million, representing a payout ratio of 39% relative to net income before incidentals, which is within the dividend policy range of 35% to 40%. Subject to shareholder approval of this dividend proposal, the Akzo Nobel share will trade ex-dividend from April 27, 2007, and the final dividend will be made payable on May 7, 2007.

Positive for 2007

Akzo Nobel is well positioned for profitable growth, supported by favorable signs about the world economy. Provided that no major discontinuities occur, Akzo Nobel believes that it is well placed to outgrow its markets and further improve the financial returns in Coatings and Chemicals. Finally, Akzo Nobel is confident that the proposed separation of its pharmaceutical business will create further value for shareholders.

The Board of Management

Arnhem, February 28, 2007

Pages 22 to 65 form an integral part of the Report of the Board of Management

Supervisory Board

01 Maarten van den Bergh [1,2]

(1942, Dutch)

Chairman	
Initial appointment	2005
Current term of office	2005 – 2009

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

02 Karel Vuursteen [3,7]

(1941, Dutch)

Deputy Chairman	
Initial appointment	2002
Current term of office	2006 – 2010

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

03 Virginia Bottomley [2,3]

(1948, British)

Initial appointment	2000
Current term of office	2004 – 2008

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

04 Cees van Lede

(1942, Dutch)

Initial appointment	2003
Current term of office	2003 – 2007

Former Chairman of the Board of Management of Akzo Nobel; Chairman of the Supervisory Board of Heineken; Member of the Supervisory Board of Philips Electronics and Stork[8]; Nonexecutive Director of Air Liquide, Reed Elsevier, Sara Lee Corp. and Air France/KLM; Chairman of the Board of Directors of INSEAD; and Senior Advisor for Europe of JP Morgan Chase plc.

05 Alain Mérieux

(1938, French)

Initial appointment	2002
Current term of office	2006 – 2009

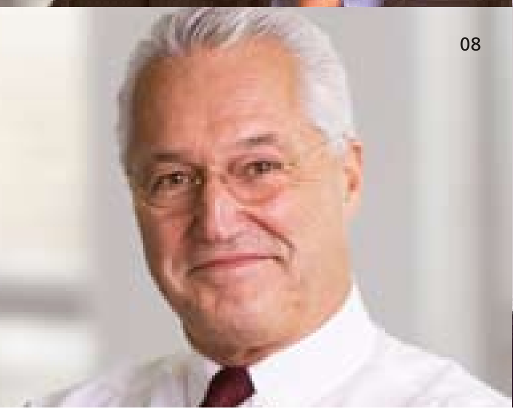
Chairman of bioMérieux; Director of Eurazeo and Compagnie Plastic Omnium SA.

06 Louis Hughes [6]

(1949, American)

Initial appointment	2006
Current term of office	2006 – 2010

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



[1] Chairman of the Nomination Committee as of May 1, 2006
[2] Member of the Remuneration Committee
[3] Member of the Nomination Committee
[4] Chairman of the Audit Committee as of January 1, 2006
[5] Member of the Audit Committee
[6] Member of the Audit Committee as of June 1, 2006
[7] Chairman of the Remuneration Committee as of May 1, 2006
[8] Temporary appointment by the enterprise chamber of the Amsterdam District Court

07 Dolf van den Brink [4]

(1948, Dutch)

Initial appointment	2004
Current term of office	2004 – 2008

Professor Financial Institution University of Amsterdam; Economic Advisor to the Managing Board of ABN AMRO Bank; Former Member of the Managing Board of ABN AMRO Bank; Chairman of the Supervisory Boards of Van der Moolen Holding and Nyenrode University; and Member of the Supervisory Board of Samas Groep.

08 Uwe-Ernst Bufe [5]

(1944, German)

Initial appointment	2003
Current term of office	2003 – 2007

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

09 Antony Burgmans

(1947, Dutch)

Initial appointment	2006
Current term of office	2006- 2010

Chairman of Unilever NV and Unilever plc; Member of the International Advisory Board of Allianz AG; Nonexecutive Director of BP plc; and Member of the Advisory Board of CVC Capital Partners Nederland.

10 Abraham Cohen [5]

(1936, American)

Initial appointment	1992
Current term of office	2005 – 2009

Former Senior Vice-President of Merck & Co.; Former President of Merck Sharp & Dohme International; Chairman of the Board of Directors of Vasomedical and of Neurobiological Technologies; Nonexecutive Director of Teva Pharmaceutical Industries, and of Chugai Pharmaceuticals.

11 Aarnout Loudon

(1936, Dutch)

Not pictured

Initial appointment	1994
Current term of office	2004 – 2006

Retired as Chairman as of May 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 NV for the financial year 2006, as prepared by the Board of Management and approved by the Supervisory Board in its meeting of February 28, 2007.

The 2006 financial statements were audited by KPMG Accountants NV. The Auditors' Report appears on page 122. 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 2006 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 2006 financial statements of Akzo Nobel NV 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 2006 financial statements as presented in this Annual Report. We also propose that the General Meeting of Shareholders resolves that the total dividend for 2006 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 2006 – will be made payable in May 2007. 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 2006, and the members of the Supervisory Board for their supervision of management.

Supervisory Board activities

The full Supervisory Board met seven times during the course of 2006, 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 Supervisory Board held a separate meeting, which was attended in part by the CEO, during which the Supervisory Board conducted a self-assessment and appraised its committees, working methods, procedures, and performance, as well as evaluating the functioning of the Board of Management and its individual members. The Supervisory Board also assessed its relationship with the Board of Management and discussed the composition of the Supervisory Board and its committees.

The Chairman of the Supervisory Board 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 2006, 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. During regular meetings, the company's strategic direction was a major point of discussion.

On September 7, 2006 an Extraordinary General Meeting of Shareholders (EGM) was held at which it was decided to separate the pharmaceutical activities from the rest of Akzo Nobel. For these purposes, a new company, Organon BioSciences NV, was incorporated. Throughout 2006, the Supervisory Board was given an update at each meeting on preparations for the separation of the pharmaceutical business and later Organon BioSciences. The Supervisory Board approved the decision to separate Organon BioSciences through a listing of a minority stake on Euronext Amsterdam on February 28, 2007.

Other discussion topics included:
- The acquisition of Sico Inc., Canada
- SOX 404 implementation
- Risk Management.

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, 2006, the Chairman of the Supervisory Board Mr. Loudon stepped down, having reached the age limit. The Supervisory Board and the Board of Management acknowledged a debt of gratitude to Mr. Loudon, who with his expertise and broad business experience has rendered outstanding service to the company over the past 37 years. During that time, he served for 29 years as respectively member of the Board of Management, Chairman of the Board of Management and Chairman of the Supervisory Board.

Also effective May 1, 2006, Mr. van den Bergh, former Chairman of Lloyds TSB Group plc and non-executive director of Royal Dutch Shell plc, was appointed Chairman of the Supervisory Board for a four-year term. Mr. Vuursteen was appointed Deputy Chairman as of the same date.

Having reached the age of 70, Mr. Cohen will resign from the Supervisory Board after the 2007 General Meeting of Shareholders. At the same time, Mr. Mérieux has informed the Supervisory Board and the Board of Management that, for personal reasons, he will resign from the Supervisory Board immediately after the 2007 General Meeting of Shareholders. The Supervisory Board acknowledges a debt of gratitude to both Mr. Cohen and Mr. Mérieux, who with their pharmaceutical expertise and broad business experience have rendered outstanding services to the company.

By May 1, 2007, the term of Mr. van Lede will have expired. Mr. van Lede holds supervisory and advisory positions at a number of multinational companies, and has, in addition, recently been appointed as a supervisory board member at Stork NV by the district court of Amsterdam. Mr. van Lede has therefore decided that he will not be available for reappointment. The Supervisory Board acknowledge a debt of gratitude to Mr. van Lede who, with his expertise and broad business experience, has rendered outstanding services to the company over the past 16 years, of which nine as Chairman of the Board of Management and four as member of the Supervisory Board.

At the 2006 General Meeting of Shareholders, Mr. Burgmans, Chairman of Unilever NV/plc and former Vice-Chairman of Unilever plc and Mr. Hughes, Chief Executive Officer of GBS Laboratories, and former Executive Vice-President of General Motors Corp. (USA); were appointed to the Supervisory Board for a four-year term.

It will be proposed at the 2007 General Meeting of Shareholders that Mrs. Bruzelius, former CEO of ASEA Brown Boveri AB and Former Executive Vice-President of Skandinaviska Enskilda Banken, will be appointed to the Supervisory Board for a four-year term. Furthermore, by May 1, 2007, the term of office of Mr. Bufe will have expired. Mr. Bufe is available and recommended for reappointment.

At the same time, the Supervisory Board proposes a reduction in the number of Supervisory Board members from the present ten members to eight members. The Supervisory Board and the Board of Management consider a reduction in the number of Board members a logical consequence of the separation of Akzo Nobel and Organon BioSciences into two separate companies as approved by the shareholders at the Extraordinary General Meeting of Shareholders on September 7, 2006.

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

Board of Management changes

In connection with the separation of Akzo Nobel, Mr. Wilderbeek resigned from the Board of Management of Akzo Nobel effective February 28, 2007. The Supervisory Board will propose a reduction in the total number of members of the Board of Management by one at the 2007 General Meeting of Shareholders. The vacancy created by the resignation of Mr. Wilderbeek will therefore not be filled. A Board of Management of three is seen as a logical consequence of the separation of Organon BioSciences.

Audit Committee

The Audit Committee consists of four members and is chaired by Mr. van den Brink. Mr. Hughes was appointed by the Supervisory Board as a fourth member of the Audit Committee in June 2006.

The Audit Committee had seven regular meetings in 2006. In principle, the CEO, the CFO, the director of financial reporting, the internal auditor, and the lead partner of the external auditor, KPMG, attend all regular meetings. In addition, the Audit Committee met once 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.

The Audit Committee further discussed such items as:

- KPMG's management letter and the Board of Management's follow up
- SOX 404 implementation
- KPMG's engagement letter, fee and audit plan
- Provisions and tax policy.

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

Remuneration Committee

The Remuneration Committee consists of four members and is chaired by Mr. Vuursteen. The Committee met four times in 2006, with three of the meetings being combined sessions with the Nomination Committee.

In 2006, The Remuneration Committee made recommendations on the remuneration and remuneration policy for the members of the Board of Management, including personal targets, and made recommendations on the remuneration of the Supervisory Board, which were approved by the Supervisory Board and adopted by the 2006 General Meeting of Shareholders.

More information on the remuneration of the Board of Management and the revised remuneration of the Supervisory Board can be found on page 113 in the Supervisory Board's remuneration report.

Nomination Committee

The Nomination Committee consists of four members and is chaired by Mr. van den Bergh. The Committee met four times in 2006, with three of the meetings being combined sessions with the Remuneration Committee. The Nomination Committee made proposals as described above for the appointment of Mrs. Bruzelius in 2007 in the Supervisory Board and for the reduction of the number of Supervisory Board members by two.

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 2006.

The Supervisory Board
Arnhem, February 28, 2007

Akzo Nobel Coatings

Activities

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

Industrial Activities
Comprises the company's Industrial Finishes and Powder Coatings businesses.

Marine & Protective Coatings
Global market leader in marine paints and anitfouling coatings, also manufactures fire retardant products for large plants and offshore installations, as well as protective coatings for structures such as bridges, aircraft and stadiums.

Car Refinishes
Supplies paints and services for the car repair, commercial vehicles and automotive plastics markets.

Revenues: EUR 6.2 billion

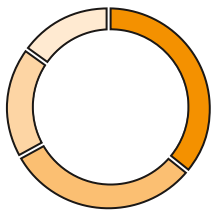
Key figures

Millions of euros (EUR)	2006	2005	%
Revenues	**6,209**	5,555	12
Operating income (EBIT)	**604**	384	57
EBIT margin, in %	**9.7**	6.9	
Return on invested capital, in %	**24.6**	17.8	
EBIT before incidentals	**518**	423	22
EBIT margin, in %	**8.3**	7.6	
Return on invested capital, in %	**21.1**	19.6	
EBITDA	**744**	519	43
Capital expenditures	**135**	112	21
Invested capital	**2,653**	2,259	17
Capital turnover	**2.53**	2.57	
Number of employees	**31,660**	29,200	8

2006 revenues by destination

EUR 6.2 billion	%
U.S. and Canada	16
Latin America	5
Asia	16
Other regions	5
The Netherlands	4
Germany	9
Sweden	4
United Kingdom	7
Other European countries	34

2006 revenues split



EUR 6.2 billion	%
Decorative Coatings	36
Industrial Activities	31
Marine & Protective Coatings	18
Car Refinishes	15

Akzo Nobel Coatings

City Plans

Akzo Nobel's color expertise and experience in developing restorative coatings through its Sikkens® brand are helping to preserve the local heritage of some of the world's most distinctive locations. Many local authorities – including Portofino in Italy – have been turning to the company for help in devising a City Plan, which guides all repainting activities in line with a particular area's historic background. The company's products are then used to carry out the work.

Accelerating profitable growth

Akzo Nobel Coatings came back on track in 2006. We consolidated our position as the world's leading coatings company, and our increasing reach and strength enabled us to even better serve our customers, and to harness global economic expansion to accelerate our profitable growth.

We returned to our strategic path of continuous financial improvement, pushing return on investment (ROI) back up to 21.1%. Including incidentals, ROI was 24.6%. Revenues rose 12% to EUR 6.2 billion, with operating income before incidentals up 22% to EUR 518 million.

A key driver of our growth was our strength in Asian markets such as China, Korea and Vietnam, which were ebullient in 2006. We opened two new plants in China, for powder and decorative coatings. Another crucial factor was our customer-driven corporate culture, which allows us to anticipate and react quickly to customer demands. Akzo Nobel Coatings delivered further on its long-held strategy of growing organically while solidifying its world-leading position through selective acquisitions. Akzo Nobel became the number one decorative coatings player in Canada through the acquisition of coatings company Sico Inc., and we established ourselves as a top-three player in the U.S. woodcare market with the purchase of the Flood Group. The company also strengthened its presence in emerging markets – where more than a third of our Coatings revenues are generated – by acquiring leading Czech coatings company Balakom and the Ukraine's Khimrezerv.

European industrial markets were unexpectedly vibrant. Our wood, coil, powder and protective coatings businesses all grew well in Western Europe. However, European retail markets were disappointing, and our Decorative Coatings Europe business delivered unsatisfactory results, especially in mature markets, where consumer spending was weaker and competition intense.

As of January 1, 2007, we have merged Decorative Coatings Europe and Decorative Coatings International into one integrated global business unit with regional sub-units. This will allow us to better co-ordinate key strategies for branding, product range and geographical expansion, whilst keeping local customer focus. It will also allow us to better leverage our scale in R&D, purchasing and production.

A significant development during 2006 was the successful turnaround of Car Refinishes, which demonstrated our ability to overhaul underperforming businesses. Our Specialty Plastics operation was a dynamic growth engine with its coatings for Apple's sought-after products and mobile phones from Nokia, Motorola and Sony Ericsson. We continued our flow of innovative product launches, including the next generation of our marine coating Intersleek®, the Duraflex™ non-stick

Decorative Coatings Europe

Business Unit Manager: **Leif Abildgaard**

"Sales to professional painters were strong, indicating an improvement in the general business climate in this segment."

powder coating for cookware, and an ultra-fast drying automotive topcoat from Sikkens® called Autoclear® UV. In June, we launched the first ever Global Coatings Report, cementing our position as a knowledge leader in the industry. However, the year was not without its challenges. Although less severe than in 2005, increases in raw material prices once again created pressure on margins. We addressed this partly by passing on some of the price rises to customers, and partly by changing the formulation of certain products to reduce their use of costly raw materials. We became more assertive with suppliers and shifted some of our supplier base to emerging markets.

Steps were taken to start reducing our operating working capital, which remains too high. We will continue our efforts over the coming years to cut operating working capital as a percentage of sales to the level of our best-performing peers. We should continue to benefit from expected high growth in emerging countries, adding capacity in these areas, and we will critically assess our cost base, especially in mature markets. Opportunities to improve our financial performance will be exploited and we expect further growth in revenues. Akzo Nobel Coatings is in good shape, but we still intend to seize every opportunity to further improve our performance and remain optimistic about the future.

Decorative Coatings

Millions of euros (EUR)	2006	2005	%
Revenues	**2,287**	2,038	12

Akzo Nobel merged its Decorative Coatings Europe and Decorative Coatings International activities in January 2007.

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

Decorative Coatings Europe

Leveraging brand strength

Decorative Coatings Europe experienced challenging business conditions in 2006 due to fierce competition and high raw material prices. However, despite these difficulties we were able to increase volume by 3%, while revenues were up 5%.

Sales to professional painters were strong, particularly in the fourth quarter. This indicated an improvement in the general business climate in this segment. Revenues performance improved in most key European countries, specifically the United Kingdom. Our joinery business, window frames and other pre-painted activities also grew well, supported by recovering construction activities in Germany.

On the retail side – sales to consumer outlets – we faced stiff competition. Good volume growth could not be translated into a similar growth in revenues, as market demand favored cheaper commodity products. However, the business still managed to improve in this segment, notably in the fourth quarter, when conditions began to improve in many markets.

Akzo Nobel Coatings

Canada's leading coatings company

Akzo Nobel significantly boosted its North American presence during 2006 with the purchase of Sico Inc., Canada's leading coatings company. Active in the architectural coatings market for more than 65 years and headquartered in Quebec City, Sico Inc. develops, manufactures and markets architectural paints including key brands such as Sico®, Para®, and Betonel®.

"Many of our products are household names in their respective countries and our strategy has been to grow our business by capitalizing on the quality and reputation of our many strong brands, such as Sikkens®, Crown® and Levis®. We introduced new innovations by rolling out 25 new products during the year."

We were very successful in Eastern Europe, boosted by Akzo Nobel's acquisition of Balakom a.s., one of the leading coatings companies in the Czech Republic and South-East Europe. The business also expanded its research and development facility in Poland and we announced details of the relocation of our Spanish manufacturing facilities situated in greater Barcelona.

Innovation and new concepts

Many of our products are household names in their respective countries and our strategy has been to grow our business by capitalizing on the quality and reputation of our many strong brands, such as Sikkens®, Crown® and Levis®. We continued to meet consumer needs and introduced new innovations by rolling out 25 new products during the year.

We also worked closely with IKEA to promote color usage and successfully launched new color concepts – such as "Fashion for Walls®" and "Extreme Colors" – as well as an innovative easy-to-pour packaging concept in a number of European countries. The relaunch of our Crown® brand in the UK received a particularly positive response from our customers.

Stringent environmental legislation regarding the reduction of volatile organic compounds (VOC) is being introduced throughout the European Union in two phases – in 2007 and in 2010. Our ambition is to maintain – or even improve – high aesthetic quality, ease of use and durability while introducing more environmentally-friendly ingredients. We intend to build on our strong technology base in water-based coatings to realize this ambition.

Decorative Coatings International

Business Unit Manager: **Jan Andersson**

"Strong brands are crucial for our global growth and by focusing on our leading brands in key markets we boosted our performance."

Decorative Coatings International

Seizing emerging market opportunities

Decorative Coatings International made good progress in 2006 with volumes and revenues substantially up. The business grew both organically and through acquisitions. We seized new opportunities in emerging markets and posted modest gains in mature markets.

One of our key strategies during the year was to focus on acquiring market share in countries that offered the biggest potential for future growth – primarily in the Asia-Pacific region, but also in Eastern Europe.

China contributed strongly to the business' overall volume growth following our acquisition of the coatings activities of Guangzhou Toide Manufacturing Co. We also completed an acquisition in the Ukraine by securing a controlling stake in Khimrezerv, one of the Ukraine's top five decorative coatings manufacturers. Both transactions helped to realize solid growth in the emerging markets.

Major acquisitions in North America

Two major deals were also concluded in North America during the year. Akzo Nobel acquired both Sico Inc. – Canada's leading coatings company – and The Flood Company, the biggest independent woodcare business in the United States. Indeed, we enjoyed vibrant growth in the woodcare sector during 2006 in the United States and Argentina. Once their integration is complete, both companies will boost our North American revenues in 2007.

On a regional level, Turkey faced challenging market conditions, which impacted our margins. We successfully addressed this issue with aggressive marketing, subsequently resulting in robust volume growth. In Morocco, we have restructured and taken cost-cutting actions and we now expect to reap the benefits in the course of 2007.

Strong brands are crucial for our global growth and by focusing on our leading brands in key markets we boosted our performance. All of our operations worked hard to maintain customer loyalty by maintaining their emphasis on quality and value for money. However, high raw material prices continued to create pressure on margins.

During 2006, we continued to maintain the highest safety standards throughout the organization while meeting ever-tighter environmental regulations. Our water-based paints in particular took a big step towards securing greater market share in China – where customers are displaying an increasing preference for environmentally-friendly coatings.

Akzo Nobel Coatings

Industrial Finishes

Business Unit Manager: **Bob Torba**

"We operate a deliberate strategy of bottom-up thinking and work right next to our customers at their own place of business."

Industrial Activities

Millions of euros (EUR)	2006	2005	%
Revenues	**1,959**	1,740	13

Akzo Nobel Industrial Activities comprises the company's Industrial Finishes and Powder Coatings businesses.

Industrial Finishes supplies factory-applied coatings for metal, wood, and plastic products. It is the world's largest producer of wood and coil coatings and a leading player in specialty plastic coatings and wood adhesives. Wood coatings are applied to flooring and furniture, while coil coatings (applied to coil sheet metal before being rolled, cut and pressed into shape) are used on domestic appliances and metal building products. Specialty plastics are found on items such as consumer electronics, cosmetics packaging and sporting goods. Industrial Finishes has supplied coatings for Sydney Opera House in Australia and Malaysia's Petronas Twin Towers.

Industrial Finishes

Solid business remains uniquely competitive

Industrial Finishes generated substantial organic growth in 2006 as a result of strategic investments, value-added product offerings and the efforts of its dedicated workforce.

Double-digit revenues growth was posted in the key emerging markets of China, Vietnam, India, Russia, and Eastern Europe, while the predominantly West European-based businesses recovered well due to stronger demand in the industrial markets.

Volatility in the cost and supply of petrochemical derivatives created relentless pressure on our operating performance throughout the year. However, the suppression of margins in 2006 was more than offset by volume growth in frontier markets and prudent cost management in mature markets.

It was an encouraging year in terms of financial performance, with all units in all regions delivering improved results compared with 2005. This was achieved through balanced growth, value enhancement and cost management.

Global reach

Our customers remain the key focus of attention. We maintain a value-added partnership with our customers by providing leading design capability, custom engineered products, and extensive end process service. Our customers include multinational corporations who market products with some of the most recognizable and respected brands in their industry.

We operate a deliberate strategy of bottom-up thinking and work right next to our customers at their own place of business, an approach which has resulted in the forging of many long-term relationships which we are proud of.

Cool Chemistry®

Akzo Nobel's Cool Chemistry® takes solar reflectance of coil coatings employed for metal roofing a step higher than previously possible. Special ceramic pigments specifically reflect the infra-red radiation of sunlight. This reduces the energy consumption necessary for the air-conditioning of buildings in hot climates and results in lower costs, while protecting natural resources and helping reduce emissions. This technology also reduces the urban heat island effect, which minimizes the production of smog and generally improves the environment and quality of life in urban areas.

Our overall strategy remains to migrate, change and innovate with our customers faster than the competition. Our forward investments in rapidly-growing emerging markets enable us to be there with local service and production when our customers need us. By combining our intense customer focus, global reach, and expansive technology base, Industrial Finishes remains uniquely competitive in the markets we serve.

We stay ahead of market trends in color and fashion by working with leading design and fashion consultants globally and continually investing in environmentally-friendly, energy efficient and renewable technologies.

Looking forward, our strategy is aimed at matching capacity with demand in both mature and emerging markets. We plan to grow our operations in the mature markets of Europe and North America and have targeted rapid growth in China.

The business is also making swift inroads into markets in Eastern Europe, Russia, Vietnam and India.

"Our customers include multinational corporations who market products with some of the most recognizable and respected brands in their industry."

Akzo Nobel Coatings

Powder Coatings
Business Unit Manager: **Rob Molenaar**

"Eastern Europe is rapidly emerging as a significant powder market and during 2006 the business also completed the construction of its first factory in Russia."

Powder Coatings

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

Building global strength

Powder Coatings posted double-digit growth in revenues and operating income in 2006 – far exceeding market growth – which was delivered despite cost hikes in raw materials. This was achieved by expanding capacity to meet growing demand in emerging markets, improving production efficiencies, boosting technological innovation and aligning core business functions. In China – where we enjoy first mover advantage and clear market leadership – we expanded the capacity of our four factories in line with strong market growth, as well as taking initial steps towards establishing a fifth facility.

Eastern Europe is rapidly emerging as a significant powder market and during 2006 the business also completed the construction of its first factory in Russia, while expansion work began on our newly acquired factory in the Czech Republic. In addition, we doubled our capacity in Turkey – one of the fastest growing markets in the world.

In Western Europe, we centralized operations into a single virtual plant coordinating supply from five factories to 17 countries. This will enable us to streamline the production process and achieve higher efficiencies of scale with individual plants focusing, for example, on powder for refrigerators or washing machines.

We expect to reap the benefits from this significant improvement in production efficiency during the years to come.

A major turnaround was achieved in the United States, where higher revenues were posted in 2006 than in any of the previous ten years, as we consolidated operations into our Nashville facility.

Our Functional Coatings activity continues to go from strength to strength, delivering record sales and income for the second year in a row. We also made major in-roads into the pipe coatings market and extended production into Asia and the Americas.

Environmental commitment

The environment is a major factor in the growth of powder coatings with environmental regulations in many markets driving customers from liquid to powder coatings in order to reduce emissions. Powder coatings – which contain no solvents – are often the best choice to enable compliance.

We are committed to technology and product innovation as a fundamental building block for the future growth of sales and earnings and currently have 485 individual patents. In 2006, we developed new innovations in powder coatings for temperature sensitive substrates – MDF and plastic – including ultra violet curing technology. We invested significantly in

Healthy working environment

A specially formulated, solvent-free powder coating developed by Akzo Nobel has been used to coat workstations installed in one of the "greenest" buildings in the world. Interpon Woodcote TE – which introduces no harmful emissions during or after application – was used in an innovative coatings system specified for the new Melbourne City Council building in Australia, which was specifically designed to create a healthier working environment.

creating new special effects and colors and also concentrated on developing specific performance attributes, such as anti-corrosion, antibacterial, and anti-fingermarking properties. These products found markets in coatings for furniture, shop fittings, automotive plastic components, personal computers, and in insulating products for wind turbines and hybrid car engines.

Global strength

A more integrated organizational structure was introduced in 2006 designed to capitalize on the strength of our global position. The organization is now structured more along functional lines at country, regional and global levels.

This provides a high degree of alignment throughout the business and allows us to leverage our global strengths. One example is the purchase of raw materials, where the new structure allows us to implement a coordinated global approach focusing on global and regional preferred suppliers, thereby enhancing control of quality and prices.

Another example is in R&D, which we have organized into a series of Centers of Expertise located in different countries around the world. This not only brings product development closer to the world of our customers, but also allows new developments to be deployed on a global scale. For example, in the United States and Germany, we have centers dedicated to automotive coatings; in Italy and China the focus is on domestic appliances; while France and Australia concentrate on fashion and design. These centers focus on local customers initially, but the products they develop are then rolled-out globally.

With regards to the future, our focus is on strong revenues growth in North America and Europe, and double-digit growth for Eastern Europe and Asia Pacific as more companies shift from liquid to powder and from mature to emerging markets.

"New, innovative products found markets in coatings for furniture, shop fittings, automotive plastic components, personal computers, and in insulating products for wind turbines and hybrid car engines."

Akzo Nobel Coatings

Marine & Protective Coatings

Business Unit Manager: **Bill McPherson**

"Our new Intersleek® 900 series reduces fuel consumption, saving costs for customers and enhancing our margin. Intersleek® and ballast tank coating Intershield® grew sales further in 2006."

"Each of our market segments – Marine Coatings, Protective Coatings, Yacht Paints and Aerospace Coatings – increased sales volumes in emerging markets, where we have invested significantly and generate an ever greater proportion of our business."

Marine & Protective Coatings

Millions of euros (EUR)	2006	2005	%
Revenues	**1,129**	975	16

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

Leading through innovation

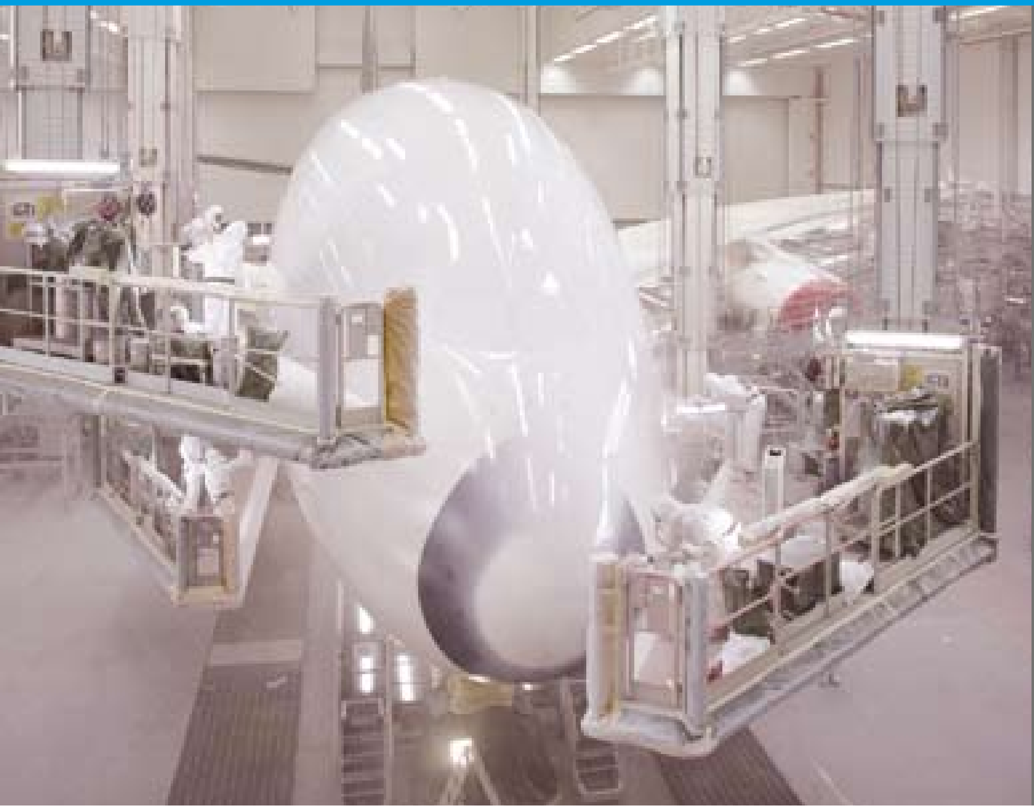
Marine & Protective Coatings enjoyed sustained revenues growth in 2006 as double-digit volume increases and internal cost savings more than offset high raw material prices and adverse currency effects. Revenues were up 16%, exceeding EUR 1 billion for the first time.

Our financial performance – which vindicated our strategy of growth through leadership – was strong despite unprecedented price rises in key raw materials such as copper and zinc, which squeezed Marine Coatings' margins in particular. Margins were also under pressure from higher oil prices. We reduced costs by improving supply chain efficiency, especially in manufacturing and delivery. Productivity was boosted at almost all our plants, both through centrally-driven and local initiatives.

Each of our market segments – Marine Coatings, Protective Coatings, Yacht Paints and Aerospace Coatings – increased sales volumes in emerging markets, where we have invested significantly and generate an ever greater proportion of our business. We also grew in mature markets, where we implemented the bulk of our productivity improvements.

Added-value products

Creating and marketing added-value products that offer our customers clear operational and financial benefits is a key driver of our strategy. An additional objective is to ensure that our product range causes as little harm to the environment as possible. During the year, we launched a host of innovative and groundbreaking products in each of our segments.



Superjumbo

The first completed Airbus A380 superjumbo to be coated with an advanced-technology aerospace coatings system developed by Akzo Nobel left its hangar during 2006. The second generation Selectively Removable System enables the topcoat to be quickly removed during maintenance intervals – avoiding the need to reapply the primer – so reducing the time it takes to prepare and repaint aircraft. The system has been fully approved by Airbus for use on the A380.

In Marine, with the International® brand name, we launched the second generation of Intersleek® – our premium biocide-free antifouling product – for a wide range of vessels, including liquid natural gas tankers and container fleets. The new Intersleek® 900 series reduces fuel consumption, saving costs for customers and enhancing our margin. Intersleek® and ballast tank coating Intershield® grew sales further in 2006. Our performance in the marine new-building market in Korea and China was particularly strong.

In Protective Coatings, we launched Intertherm® 751, which offers excellent corrosion protection in high temperature environments, including oil and gas installations, chemical plants and power stations. We also launched Intercure® 99, a cost-effective, single-coat product which helps to increase throughput at paint shops. In addition, we expanded our range of fire protection products with Chartek® 1709 – a strong competitor to concrete which offers thinner and better steel coating.

Yacht Paints performed well, benefiting in particular from a vibrant superyacht sector.

The Awlgrip® range – a powerful brand which sets the industry standard for topsides – was revitalized and performed especially well. As did the International® range of market-leading underwater antifouling products.

We introduced several new and innovative products to an aerospace market which continues to grow briskly. High quality coatings are crucial for aircraft. They must be able to withstand temperatures ranging from minus 55°C in the air to plus 55°C on the ground. They also have to cope with ultra-violet irradiation at 30,000 feet.

Aeroflex® HS is a special, lower weight wing coating which retains high flexibility throughout its service life. ECLG 854 – a two-component aerosol for touching up aircraft exteriors – made an instant market impact on its launch in 2006 and was swiftly adopted by major logistics companies and airlines. Finally, we signed a commercial licensing agreement with the North Dakota State University Research Foundation which made us the first to develop aerospace products containing breakthrough chromate-free technology. This patented technology has the same anticorrosive properties as toxic chromate, but is safer to use.

Protecting the future

Looking ahead, we expect the recent strength in the oil and gas market to continue and with it major investment in exploration and production. That should benefit Protective Coatings, along with the continued strong investment in installations such as power stations and waste water treatment facilities. Marine Coatings should benefit from increased activity in liquid natural gas tankers.

Our best response to challenges such as raw material prices and currency volatility is the strength of our industry-leading, high-value products. Innovative new products such as those launched in 2006 should ensure that we maintain the leadership positions we have established in the years to come.

Akzo Nobel Coatings

Car Refinishes

Business Unit Manager: **Rinus Rooseboom**

"Fostering and developing strong relationships with our customers is fundamental to our business operations."

Car Refinishes

Millions of euros (EUR)	2006	2005	%
Revenues	**922**	886	4

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

Driven by our customers

Car Refinishes continued the turnaround which began in 2005 by producing strong results in all business segments and regions in 2006. We improved our financial performance with increased restructuring to cut costs, along with further technology improvements, especially in Asia.

The restructuring initiatives and cost improvement measures that we launched several years ago are clearly paying off.

Revenues rose 4% to EUR 922 million, with all business lines contributing. Our automotive plastics business is experiencing growth in sales and profitability as the automotive industry in general is continually expanding its range of plastic components, including door handles, bumpers and interiors. A challenge in 2006, however, was static production by auto-makers in Europe and North America. We compensated by boosting our sales to higher-growth auto-makers in Asia, South America and Mexico.

The traditional aftermarket for Car Refinishes, made up of repairers, will continue to feel pressure from over-capacity in North America and Europe. However, gains are being made due to strong marketing programs such as e-benchmarking and a focus on our reputation for best-in-class color technology.

In Asia – where we opened a new color development lab in India – revenues were strong and outpaced market growth. Europe, the Middle East and Africa booked significant improvements, attributable to cost reductions and increased customer focus. In the Americas, Car Refinishes demonstrated a major improvement over 2005. We achieved this through continued production efficiencies, reduced cost structures and increased focus on meeting local customer requirements.

Product introductions in 2006 included a high speed undercoat, and Autoclear® UV – a new UV-curable topcoat which outperforms all other clearcoats on the market for drying time, thus allowing for a substantial increase in bodyshop productivity. We also developed new car interior paints, with a focus on styling and special effect coatings. These "soft feel" coatings – which mimic leather – are used heavily in the interior components of many vehicles.

Fostering relations

Everything we do is driven by our clear, customer-focused strategy. Fostering and developing strong relationships with our customers is fundamental to our business operations. Collision repair shops require the very best colors, at the best price. Producing coatings that are highly efficient to apply, with minimal waste, saves our customers money, as well as reducing emissions. By producing innovative new products that dry quicker, we enable our customers to paint more cars thus improving their customer service levels and profitability.

Award-winning coatings

The company's revolutionary automotive clearcoat, Sikkens® Autoclear® UV, made an instant impact when it was launched in 2006. The award-winning new clearcoat – which harnesses the power of ultra-violet to dry in just six minutes – was an industry first, and has the potential to radically improve bodyshop capacity.

Another development during 2006 was our introduction of new brand and distributor strategies. These plans will drive volume and follow the requirements of the many markets in which we operate. We adapt our distribution to meet local needs, whether selling directly to importers or independent distributors. In Japan, one of our more mature markets, we rejuvenated our sales by creating new sales teams and using newly-developed marketing tools. In Europe, the Middle East and Africa, we realigned our distribution networks to better meet local needs. We also offset some of the pressure from raw material costs by implementing new arrangements with our suppliers.

Our research and development investments yielded profitable technologies. Approval was received from General Motors to use the more environmentally-friendly Autowave® water-borne technology for warranty repairs on their new vehicles. We developed this technology in Europe, and effective technology transfer allowed us to capitalize on this in the United States. The commitment is strong to remain ahead of environmental regulations through advanced R&D efforts, and by taking a leadership position with the regulatory agencies around the globe.

We now operate color development laboratories that work closely with car manufacturers across the world. These can be found in countries such as Mexico, the Netherlands, Indonesia and India. By working together with these manufacturers – including Toyota, General Motors, Volkswagen, Hyundai and Renault – we are able to obtain advance information about color styling trends.

Our aspiration is to increase revenues growth in the years ahead, even as we continue to focus on our cost base to complete the turnaround. We intend to invest heavily in color development, marketing tools and training, as this is vital to the car refinishes business. We are prepared to invest in India and China, and we expect to reach critical mass in South America. Regardless of local circumstances, however, Car Refinishes is well prepared to meet constantly changing market conditions and preferences.

"We improved our financial performance with increased restructuring to cut costs, along with further technology improvements, especially in Asia. The restructuring initiatives and cost improvement measures that we launched several years ago are clearly paying off."

Kromasil®

Suprasel® SALT

Akzo Nobel Chemicals

Activities

Pulp & Paper Chemicals
Produces bleaching chemicals used in the manufacture of paper pulp and also supplies process chemicals and performance chemicals that improve the properties of paper.

Base Chemicals
Produces energy, salt, chlor-alkali products and derivatives. Its products are used in the manufacture of glass, pharmaceuticals and textiles, and in disinfectants for swimming pools.

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

Surfactants
Produces surface-active agents used in a wide variety of applications and nearly every industry as they allow two different materials to combine or separate.

Polymer Chemicals
Produces organic peroxides, and is also a major producer of metal alkyls and co-catalysts – chemicals used primarily in the production of plastic resins known as thermoplastics, and in processing industries that make a wide range of plastic goods.

Revenues: EUR 3.8 billion

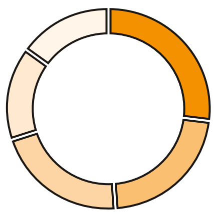
Key figures

Millions of euros	2006	2005	%
Revenues	**3,809**	3,890	(2)
Operating income (EBIT)	**362**	312	16
EBIT margin, in %	**9.5**	8.0	
Return on invested capital, in %	**17.0**	14.4	
EBIT before incidentals	**351**	351	–
EBIT margin, in %	**9.2**	9.0	
Return on invested capital, in %	**16.5**	16.2	
EBITDA	**583**	553	5
Capital expenditures	**231**	252	(8)
Invested capital	**1,960**	2,291	(14)
Capital turnover	**1.79**	1.79	
Number of employees	**9,680**	11,430	(15)

2006 revenues by destination

EUR 3.8 billion	%
U.S. and Canada	22
Latin America	7
Asia	11
Other regions	3
The Netherlands	13
Germany	11
Sweden	6
United Kingdom	3
Other European countries	24

2006 revenues split



EUR 3.5 billion, ongoing operations	%
Pulp & Paper Chemicals	27
Base Chemicals	22
Functional Chemicals	21
Surfactants	15
Polymer Chemicals	15

Akzo Nobel Chemicals

Revolutionizing paper-making

The Compozil® technology developed and introduced by Akzo Nobel's Pulp & Paper Chemicals business, Eka Chemicals, revolutionized the paper-making industry when it was first introduced in 1980 and it continues to evolve to meet market demands. Compozil® offers patented nanoparticle retention and drainage systems used in the early stages (wet-end) of paper manufacture. Benefits include higher retention of fiber, a cleaner system for improved runnability and improved sheet opacity and brightness.

Refocused and ready to grow

The strategic realignment of Akzo Nobel Chemicals was successfully concluded in 2006, two years after it was initiated. This restructuring has transformed a relatively large and fragmented range of business segments into a focused, market-driven portfolio. All five Chemicals business units now have a clearly defined strategy for continued performance improvement and growth.

Akzo Nobel Chemicals has achieved a significant financial turnaround in recent years. The divestment of 14 businesses between 2004 and 2006 took a modest toll on revenues. Yet the strategic logic of divesting those businesses showed in our ROI, which rose from 12% in 2003 to 17% in 2006. Revenues excluding divestments grew by 5% from 2005 to 2006, with operating income before incidentals of EUR 351 million, on a par with 2005.

The new clarity of direction is important for our employees, customers and investors. Creating five strong and focused growth platforms resulted in a new sense of confidence about the position of Chemicals within Akzo Nobel. For the near future, we see four growth drivers for Chemicals. First, to grow in close cooperation with our customers. Second, to invest in emerging markets in China, South America and Eastern Europe. Third, to focus on innovative and more environmentally-friendly products and applications. And finally, to step up our selective acquisitions, a process which has already begun.

China will play a pivotal role in our strategic development in Asia during the coming years. We already operate six chemical plants in China and plan to expand this rapidly. In November 2006, Pulp & Paper Chemicals opened a second Chinese facility – in Guangzhou – to further service the booming Chinese paper industry. Demand for Polymer Chemicals is also high, and we are investigating the possibility of opening a third Polymer Chemicals site in China. Surfactants signed a marketing alliance with Feixiang Chemicals Ltd., while Functional Chemicals is expected to open a new Chinese plant in June 2007 for producing polysulfides, which is used in the aerospace and glass industries.

As part of our growth strategy, Akzo Nobel also intends to develop a new multi-site in Ningbo, in Southern China. Here, different plants, laboratories and offices could be built to serve both our Chemicals and Coatings businesses. A memorandum of understanding was signed in October 2006. The Ningbo site could become one of Akzo Nobel's largest locations.

Brazil is another dynamic market which has our attention. Our Pulp & Paper Chemicals business – the global market leader in bleaching – invested EUR 70 million in a second bleaching plant in Bahia. In paper

Pulp & Paper Chemicals

Business Unit Manager: **Jan Svärd**

"The divestments of recent years are paying off in the shape of a more streamlined business with increased room for growth."

chemicals, we are a strong player in traditional markets such as Europe and North America, and we are expanding rapidly in emerging economies.

Our Base Chemicals business was boosted by significant investments amounting to EUR 120 million in the production of chlorine at our Dutch sites in Delfzijl and Rotterdam. Akzo Nobel's efficient and unique production chain in energy, salt and chlorine ensures Base Chemicals' market leadership in North Western Europe.

Two important internal initiatives were also launched during the year, both of which have been introduced at all five businesses. The first is designed to further improve safety performance at all sites around the world, while the second is focused on improving margins.

Our internal realignment has clearly worked and all market indicators tell us we have chosen the right path. Akzo Nobel Chemicals is well set for growth.

Pulp & Paper Chemicals

Millions of euros (EUR)	**2006**	2005	%
Revenues	**966**	893	8

Pulp & Paper Chemicals, which trades as Eka Chemicals, is the world's leading producer of bleaching chemicals used in the manufacture of paper pulp. Eka also supplies process chemicals and performance chemicals that improve the properties of paper, as well as systems and integrated services for the pulp and paper industry. Besides pulp and paper activities, Eka also produces specialty chemicals used in areas such as water treatment, electronics and separation products used in the pharmaceutical industry.

Preferred partner to the industry

Pulp & Paper Chemicals performed well in 2006 as increased turnover, higher volumes, contained costs and an enhanced product mix drove our improved financial performance. Although we experienced steep increases in energy prices – mainly in Europe – by capitalizing on strong demand and our product portfolio, revenues grew by 8% to EUR 966 million.

Demand for our pulp bleaching products was particularly robust. Revenues increased substantially in the fast-developing markets of Asia and South America, and there was also growth in North America.

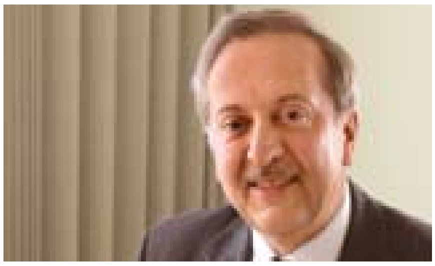
We doubled our Asia capacity with the opening of a second paper chemicals plant in China. This facility – in Guangzhou, Southern China – will give us production capacity closer to our customers in that region, in line with our strategy of building a strong presence in the expanding markets and remaining the preferred supplier of bleaching and performance chemicals to the worldwide pulp and paper industry.

Good progress

The steady flow of innovative product launches continued and we maintained our tempo of patent applications. A key launch during 2006 was Purate®, a novel concept to the paper industry which uses chlorine dioxide as a biocide to prevent microorganism and bacteria generation in paper mills.

Following the success in North America of our Compozil® retention chemicals system in the wood-containing paper sector, we increased sales by successfully marketing

Akzo Nobel Chemicals



Base Chemicals

Business Unit Manager: **Werner Fuhrmann**

"Nearly 90% of our chlorine production is based on modern membrane electrolysis technology, which is yielding substantial energy savings."

the concept in other parts of the world. Our specialty products – including Kromasil® separation products, Expancel® microspheres and the Permascand® activities – are making good progress.

Our divestments of recent years are paying off in the shape of a more streamlined business with increased room for growth. We are constantly improving our own cost efficiency, applying cost reductions in the supply chain, along with improved inventory management.

We plan to pursue our growth drive – particularly in Asia and South America – while continuing to contain costs in mature markets. Our sights are set on organic growth, though we do not rule out acquisitions that would create synergies. We will also strive to work even more closely with customers to carve out a greater role in the chemical supply chain. In this regard, operating plants on site at our customers' premises – a highly successful model which is becoming increasingly popular – will play an important role.

To gain market share, we plan to launch innovative new products and technologies, which in turn will help to make our customers more cost efficient. That means investing time, resources and competence. In order to better help customers to optimize their systems and reduce their own costs, we will also accelerate the introduction of new industrial IT tools.

Base Chemicals

Millions of euros (EUR)	**2006**	2005	%
Revenues	**767**	787	(3)

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

Growing with our customers

Overall, 2006 was a challenging but successful year for Base Chemicals. Although energy prices continued to rise, we achieved similar results to 2005. Our strong financial performance was supported by the implementation of a comprehensive internal

Biggest ever chemicals investment

The company opened two new plants in Delfzijl in September 2006, completing Akzo Nobel's biggest ever chemicals investment in the Netherlands. The construction of the chlorine and monochloroacetic acid (MCA) facilities – which involved the relocation of activities from Hengelo – also signaled the end of Akzo Nobel's regular Dutch chlorine transports by rail.

restructuring and efficiency program, which significantly offset higher energy costs. After a period of reorganization, we are now well placed to further strengthen our market leadership positions.

The opening in September of a new state-of-the-art chlorine plant at Delfzijl in the Netherlands – inaugurated together with Functional Chemicals' new MCA facility – was an important step in balancing the production and consumption of chlorine. Nearly 90% of Akzo Nobel's chlorine production is now based on modern membrane electrolysis technology, which is yielding substantial energy savings.

In the chlor-alkali segment, we completed our asset restructuring and modernization program in 2006. We have reduced the number of chlorine plants from seven to five. Following the plant closures in 2005 at Bohus, Sweden, and Delfzijl, the Netherlands, the Dutch chlorine plant in Hengelo was also shut down last June. This effectively ended Akzo Nobel's regular chlorine transports by rail in the Netherlands.

Also in 2006, Gasunie and Nuon began construction work on an underground gas storage facility in the north of the Netherlands. Base Chemicals is facilitating this investment by constructing a special type of salt cavern suitable for this application.

Benefiting the environment

Energy is the lifeline for the Base Chemicals business, which since 2005 has consisted of four activities – Energy, Salt, Chlor-Alkali and Ecosystems. The last two years have seen an unprecedented rise in the price of gas, our main fuel. In an effort to reduce our dependency on gas, we have taken steps to create a more balanced fuel mix. At our Salt plant in Mariager, Denmark, a new steam boiler is under construction which will run on biomass (wood chips) instead of gas. At other locations, we are exploring options to use steam supply from local waste incineration units. As well as cutting our energy bills, these projects will be more beneficial for the environment.

Steep gas prices have also led to high electricity costs, particularly in the Netherlands, where the dependency on gas for power generation is much higher than in the surrounding countries. We are participating in a Dutch consortium for the purchase of electricity which is generated by using cheaper solutions. The consortium, which is made up of Akzo Nobel and several other energy-intensive companies, is pursuing discussions with power suppliers and the Dutch government.

At two of our Dutch plants – Delfzijl and Rotterdam – we outsourced technical services during 2006 to Stork. Most of the employees were transferred to the new owner. At the Delfzijl chemical park, the operations of MA/CC and Methanor, a minority shareholding, were closed. For redundant staff, a social plan was agreed

Akzo Nobel Chemicals

Functional Chemicals

Business Unit Manager: **Jo Lennartz**

"Growth, margin management and operational excellence continue to be our main priorities."

with unions. We are pleased that the divestments and plant closures could take place without collective forced lay-offs. In the meantime, the former Methanor business resumed production of methanol under new ownership with the aim of converting feedstock away from natural gas.

Increasing safety in the production process topped the Base Chemicals agenda in 2006 and our ambition is to have zero incidents in operations.

Looking ahead, Base Chemicals will continue to build on the integrated product chain of Energy, Salt, Chlor-Alkali and Chlorine Derivatives. Our goal is to further develop our alliances with key customers, who are growing faster than their market competitors. With the near completion of Base Chemicals' overall restructuring and modernization program, we have built cost leadership positions, which will lay the foundations for profitable growth in the future.

Functional Chemicals

Millions of euros (EUR)	**2006**	2005	%
Revenues	**740**	703	5

Functional Chemicals consists of a number of different businesses that manufacture and sell a variety of chemical intermediates and performance chemicals on a global scale. It is a global leading supplier of ethylene amines, monocholoracetic acid, chelates, cellulosic specialties, sulfur products and polysulfides. It is also one of the leading producers of salt specialties in Europe. Many of these chemicals can be found in everyday items such as toothpaste, ice cream, wallpaper adhesives, camera film, bakery goods, deodorants, PVC and cosmetics; others are used by the mining, electronics and agricultural industries.

Confident for the future

For Functional Chemicals, 2006 was a year of mixed results. Continued strong global demand led to solid growth and substantially higher revenues. However, temporary setbacks in production and planned maintenance costs negatively affected our financial performance.

Nevertheless, we look to the future with confidence. Our strong businesses have leading market positions, with a clear intention to grow and a very solid structural return on investment.

Revenues increased in 2006 by 5%, from EUR 703 million in 2005 to EUR 740 million. But margins were depressed by operational start-up costs in the Netherlands – where we opened a new MCA plant in Delfzijl – and planned maintenance stops in Sweden, where we further expanded the capacity of our Ethylene Amines and Cellulosic Specialties plants to meet global demand.

Another challenge was the significant further increase in raw material and energy costs, and passing these costs on to our customers is gradually being reflected in higher product prices.

Global network

Looking at some of the business' individual activities, in MCA (an intermediate used in the manufacture of various products), our global number one position improved further in 2006, with a double-digit increase in revenues. During the relocation from Hengelo to Delfzijl, our global production network proved essential in maintaining supply to our customers.

Reducing iron deficiency

Akzo Nobel received official acceptance from the Food and Drug Administration in the United States in 2006 regarding the self-affirmed GRAS (Generally Recognized as Safe) status of its Ferrazone® iron compound. Developed by our Functional Chemicals business, Ferrazone® is used as an iron fortificant in foods and beverages to reduce iron deficiency, one of the most common nutritional disorders in the world.

In Chelates (chemical products that bind metal ions), where we lead both in product range and in geographical spread, our financial performance improved significantly. This was attributable to strong sales developments and the positive impact of the group-wide margin management program. Ferrazone® – our iron compound used to fortify foods and beverages in order to reduce iron deficiency – is enjoying more widespread recognition and use, and is a highly sustainable solution for this global issue. We also strengthened our leading position in chelated micronutrients for agricultural use.

Although production of Ethylene Amines in Sweden temporarily slowed in the latter part of 2006 due to the major maintenance and capacity expansion stop, annual revenues showed substantial growth. The expansion of production capacity to 75 kilotons at our Swedish Stenungsund plant further reinforced our worldwide number two position.

Our Sulfur Products business also performed well, thanks to strong volume demand in the United States for all product lines. Polysulfides volumes grew, but financial performance declined slightly, albeit at a high level. We expect our strong global number one position in polysulfides to be enhanced by the completion of the new grassroots polysulfides plant in Taixing, China. This facility is expected to start up in the second quarter of 2007.

Although Cellulosic Specialties came under pressure from high raw material costs and fierce competition in most of its markets, revenues further increased in 2006. We are increasing production capacity for Bermocol® – a rheology modifier used in paint and building products – at the Örnsköldsvik plant in Sweden, which will be completed by mid-2007.

In October, Salt Specialties became part of Functional Chemicals and a roadmap is being developed aimed at improving the business' performance. Restructuring and a strong focus on margin management are key elements in this plan.

Growth platform

Overall, the strong technology and market positions of our individual businesses continue to make Akzo Nobel Functional Chemicals a strong growth platform for the future. Growth, margin management and operational excellence continue to be our main priorities. Our strategic focus is on profitable growth and to that effect, we are exploring and pursuing investments in emerging markets, primarily China, which will radically improve our ability to meet the increasing local demand. Another priority is margin management, which is aimed at securing good profitability for our products at a time when raw material and energy prices remain at a high level.

We will also maintain vigilance on health and safety, where we are proud of our progress in recent years. The LeMoyne site in Alabama in the United States last year celebrated ten years of applying the behavior-based safety program, which is now being rolled out across all of the company's Chemicals plants. In 12 years, LeMoyne has not had a single lost time injury.

Akzo Nobel Chemicals

Surfactants

Business Unit Manager: **Frank Sherman**

"We are focused on expanding our higher value-added specialty products. Sales of new surfactants have grown to account for nearly a quarter of our total revenues."

Surfactants

Millions of euros (EUR)	2006	2005	%
Revenues	**523**	511	2

Surfactants is a global producer of surface-active agents used in a wide variety of applications. Its specialty surfactants and intermediate products are used by industrial as well as consumer goods producers. Surfactants are used in nearly every industry as they allow two different materials to combine or separate. Key markets include agriculture additives, household and institutional cleaning, oilfield applications and petroleum additives. In addition, surfactants products are used in printing inks, personal care, fabric care, asphalt paving, emulsifiers and flotation agents for the purification of minerals and mining.

Renewal, expansion and leadership

Surfactants completed a year of renewal in 2006, growing revenues by 2% to EUR 523 million (2005: EUR 511 million). The year's escalating raw material and energy costs were largely offset by prices increases. Meanwhile the business has grown to become the largest global supplier of specialty surfactants.
In August, we strengthened our position in the Chinese market by signing an alliance agreement with the local market leader, Feixiang Chemicals Company Ltd, in Zhangjiagang.

This joint venture will market both companies' products in China, where the surfactants industry is enjoying double-digit growth rates. Akzo Nobel will be the exclusive distributor for Feixiang's surfactants outside of China.

In South America, our local manufacturing presence in Brazil is enabling us to create new business opportunities, while in Eastern Europe and Russia we are making inroads into the asphalt and agro-chemical segments via distributors and direct sales.

We also continued to optimize our operations during the year – the final phase of a restructuring plan which began in 2003. Two plants in the United States were expanded in order to consolidate operations from the McCook facility near Chicago, which will shut down in 2007. This will result in further reductions in our fixed cost structure. By mid-2007, the business will have reduced its manufacturing headcount by more than a third over a three-year period. General and administrative staff numbers have also fallen by around 25%.

Serving customers better

Akzo Nobel's Surfactants business sells more than 1,500 surface-active agents and intermediate products to more than 2,500 customers. We have reduced complexity over the past few years and renewed our product range. Low-margin products have been pruned to reduce the total number by 20%, while the business has been simplified by transferring some smaller customers to our distributors, where they can be better served.

We are one of the industry leaders when it comes to introducing "greener" chemical products that are less toxic to the environment in applications such as offshore oilfield drilling and hard surface household cleaners. These products can be used in aqueous solutions or are more biodegradable. The European Union's REACH directive on product registration, which comes into effect in 2007, is another challenge for the industry. We have therefore been testing our products and have led various industry association consortia to use this regulation to our competitive advantage.

Greener surfactants

For many years, Akzo Nobel has been developing sustainable, eco-friendly products that meet the stricter regulations being introduced by the chemicals industry. These products, which are surfactants, include next generation blends for cleaning products that can be used in lower concentrations compared with old formulas. For example, the company has developed surfactants that not only improve the performance of products such as household cleaning products, but also significantly reduce their environmental impact.

In 2006, we also conducted a worldwide Customer Satisfaction Survey among 400 of our customers in 50 countries. This resulted in positive feedback, which cited product quality, delivery reliability, and the relationship with our sales and technical service people as motives for buying our products.

Focusing on growth
With a keen eye on selected growth opportunities, we are now focused on expanding our higher value-added specialty products. Sales of new surfactants have grown to account for nearly a quarter of our total revenues.

We continue to see room for accelerated expansion in both the consumer and industrial sectors, based on innovations in our core technologies. For example, in 2006 we introduced new biodegradable hard surface cleaners, adjuvants and dispersants for agro-chemical formulations and viscoelastic surfactants for oilfield stimulation.

Although we hold leadership positions in all our regions, the EUR 4 billion specialty surfactants market still provides sufficient room to grow. Indeed, over the coming years, demand in specialty surfactants is expected to exceed gross domestic product growth in emerging markets such as China, India, South America and Eastern Europe. Looking ahead, in 2007 we will shift our focus from restructuring toward growth by partnering with our customers that are market leaders. Awareness of what they need and expect from us provides a basis for growing with our partners in the years ahead. Our strategy here is to work closely with industrial leaders and provide technical assistance to solve their problems or enhance their products.

"Akzo Nobel's Surfactants business sells more than 1,500 surface active agents and intermediate products to more than 2,500 customers. We have reduced complexity over the past few years and renewed our product range. Low-margin products have been pruned to reduce the total number by 20%."

Akzo Nobel Chemicals

Polymer Chemicals
Business Unit Manager: **Bob Margevich**

"Our customers appreciate the service provided with respect to the safe handling and use of our products, which is an essential part of our business strategy."

Polymer Chemicals

Millions of euros (EUR)	2006	2005	%
Revenues	**516**	471	10

Polymer Chemicals is the world's leading producer of organic peroxides, and a major producer of metal alkyls and co-catalysts – chemicals used primarily in the production of plastic resins known as thermoplastics in processing industries that make a wide range of plastic goods. The business also supplies products used in polyethylene, polypropylene, acrylics, polystyrene and PVC, which are used for the manufacture of plastic bags, mobile phone housings, automotive parts and shoe soles. Polymer Chemicals also manufactures high purity metal organics, which are chemicals used in consumer electronics such as LEDs (light emitting diodes) and in the lasers inside CD and DVD players.

Global supplier to the plastics industry

For Polymer Chemicals, 2006 was a greatly improved year. Recent large-scale restructuring is now paying off, bringing our cost structure more in line with market reality. Our annual revenues rose steeply from EUR 471 million in 2005 to EUR 516 million in 2006, an increase of more than 10%. With profits showing a strong improvement compared with the previous two years, 2006 was a turnaround year for Polymer Chemicals.

Our results were enhanced by increasing demand in the global plastics market – especially in emerging economies – and by our ability to offset increases in raw material costs. In fact, the main driver of our growth has been the ongoing worldwide expansion of the plastics industry, which has been outpacing global economic growth for more than 30 years. In many industrial sectors, materials such as wood and metal continue to be replaced by plastics, while demand is growing in the emerging economies of China and India, in the Americas and the Middle East.

Improved margins

During 2006, we also took steps to combat the relentless rise in raw material prices – which has been impacting us for the last three years – by undertaking an internal project to help improve our margins. This strategy worked well, particularly in North America, where we concluded the divestment of our U.S. facility in New Jersey. Other important factors that contributed to our strong 2006 results included further enhancing relationships with customers and implementing ongoing internal efficiency programs.

Following the restructuring and reorganization of recent years, in 2006 we shifted our focus to growth and we expect to remain a major growth pillar in the years ahead. So it was encouraging to see all three of our activities – Organometallic Specialties (OMS), High Polymer Specialties (HPS) and Cross-linking and Thermoset peroxides, and Polymer Additives (XTP) – perform better than in 2005.

Our antifouling and suspending agents – which are used in the PVC industry and had been underperforming for a number of years – also achieved a positive turnaround in 2006.

Consistent reliability

Our customers appreciate our various services and our consistent reliability. They especially appreciate the service provided with respect to the safe handling and use of our products, which is an essential part of our business strategy.

We have also been busy implementing the group-wide behavior-based safety program, which is designed to further improve site safety among employees.

Helping technology to advance

Our Chemicals activities are continuing to play an important role in helping technology to advance. The company's High Purity Metal Organics business – part of Polymer Chemicals – supplies key products used in lasers, light emitting diodes (LEDs), solar cells and transistors. CD players, mobile phones and DVD players (including the newest formats) all rely on these vital chemicals, which are used in their tiny internal electronic chips.

Looking at the future, our main products – organic peroxides and metal alkyls – have a strong position in emerging economies and we are looking at expansion opportunities and the development of these products for non-polymer applications. All these factors make us confident that Polymer Chemicals will remain a major growth driver in the years ahead.

Akzo Nobel Technology & Engineering

Akzo Nobel Technology & Engineering (T&E) was created in April 2006 through the integration of service units mainly originating from the Chemicals group and Akzo Nobel Engineering. With a wide range of service products and support, T&E quickly fulfilled an evident need in the market, both inside and outside of Akzo Nobel.

By combining know-how and experience in engineering, inspection, technology, safety, health, environment, regulatory affairs, toxicology and sustainable development, we have raised the quality, efficiency and effectiveness of the total T&E organization to an even higher level.

Akzo Nobel T&E achieved a very successful first financial year. In 2006, our activities continued to thrive worldwide, mainly in the areas of chemicals, pharmaceuticals and the fiber industry. Our results are testament to the value we add for our customers both inside and outside Akzo Nobel. We are proud that work was never interrupted during the formation of T&E; clients were neither refused nor subjected to delays.

With offices in the United States, China, Sweden and the Netherlands, Akzo Nobel T&E employs around 260 permanent staff and 70 temporary employees.

Organon NuvaRing Mercilon Implanon Puregon Pen Livial Remeron SolTab Esmeron

Organon

Activities

Gynecology
Organon has great heritage and experience in the area of gynecology (contraception and HT). This has resulted in a leading position in contraception. Organon today offers a wide choice of effective and innovative methods and is one of only three companies substantially involved in research and development in this area.

Fertility
Organon is committed to reproductive health and has been bringing quality products to the field of infertility for about 75 years. This commitment makes it possible to build long term partnerships with experts in fertility and to develop a line of products focusing on effective patient-friendly treatment.

Neuroscience
Organon continues to invest considerable resources in the research and development of drugs for the treatment of mental disorders, particularly psychosis, insomnia, schizophrenia and bipolar disorder, and depression.

Anesthesia
Organon has long been a pioneer within the field of anesthesia, providing innovative products over the past 35 years. As a leader in muscle relaxants and objective neuromuscular monitoring, the company continues to research and develop products that optimize patient safety, improve patient care, and optimize therapeutic cost-effectiveness.

Revenues: EUR 2.6 billion

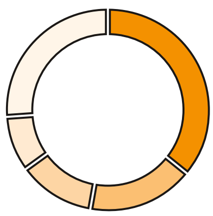
Key figures

Millions of euros	**2006**	2005	%
Revenues	**2,611**	2,425	8
Operating income (EBIT)	**354**	415	(15)
EBIT margin, in %	**13.6**	17.1	
Return on invested capital, in %	**21.1**	24.3	
EBIT before incidentals	**362**	270	34
EBIT margin, in %	**13.9**	11.1	
Return on invested capital, in %	**21.5**	15.8	
EBITDA	**475**	541	(12)
Capital expenditures	**103**	95	8
Invested capital	**1,579**	1,781	(11)
Capital turnover	**1.55**	1.42	
Number of employees	**13,710**	14,100	(3)

2006 revenues by destination

EUR 2.6 billion	%
U.S. and Canada	26
Latin America	8
Asia	11
Other regions	5
The Netherlands	3
Germany	7
Sweden	2
United Kingdom	5
Other European countries	33

2006 revenues split



EUR 2.6 billion	%
Gynecology	36
Fertility	17
Neuroscience	12
Anesthesia	9
Others	26

Organon

Prescription Drugs

General Manager: **Toon Wilderbeek**

"With around 19% of revenues invested in R&D, we continue to focus heavily on our product pipeline."

"The consistent strategy has been to build on the strength of Organon's existing portfolio of gynecology, fertility and anesthesia products while reinforcing the neuroscience portfolio and developing initiatives in the field of biotechnology."

Organon

Millions of euros (EUR)	**2006**	2005	%
Revenues	**2,611**	2,425	8

Organon creates, manufactures and markets innovative prescription medicines that improve the health and quality of human life. Through a combination of innovation and business partnerships, Organon seeks to leverage its position as a leading biopharmaceutical company in each of its core therapeutic fields: fertility, gynecology and selected areas of anesthesia. It has extensive expertise in neuroscience and a rich and focused R&D program. Research areas also include immunology and specific areas of oncology. Organon products are distributed in over 100 countries worldwide, of which more than 50 have an Organon subsidiary.

Organon restored to health as turnaround takes hold

Organon returned to growth in 2006. The turnaround which began in 2005 accelerated in 2006.

The consistent strategy has been to build on the strength of Organon's existing portfolio of gynecology, fertility and anesthesia products while reinforcing the neuroscience portfolio and developing initiatives in the field of biotechnology.

The existing Organon product portfolio has resulted in higher revenues, which generated improved operating income. Compared with 2005, revenues climbed 8% in 2006 to EUR 2,611 million.

Operating income before incidentals grew 34% to EUR 362 million, while the EBIT margin increased to 13.9% from 2005's 11.1%. Our operating margins have increased. We succeeded in compensating for lower Remeron® sales – caused by increased competition from generics – by boosting sales in other products, such as the contraceptive NuvaRing® and the fertility treatment Puregon®.

By increasing efficiencies in production, we managed to decrease working capital and further improve EBIT margins. Further streamlining initiatives included the closing of activities in Scotland. All initiatives together resulted in a reduction in total headcount of 390.

Organon R&D pipeline

Product groups	Phase II	Phase III
Gynecology	Org 39970 – androgen	NOMAC/E2 – progestagen/estrogen Org 50081 – hot flushes
Fertility		Org 36286 – corifollitropin alpha
Neuroscience	farampator – AMPAkine Org 34517 – GR antagonist Org 25935 – GlyT1 inhibitor	Org 50081 – insomnia asenapine – novel psychopharmacologic agent
Anesthesia		sugammadex – selective relaxant binding agent
Other	Org 42675 – antithrombotic dual inhibitor II/X	

Organon strives to find the right balance between improving its margin and spending the necessary amounts on R&D and marketing and sales for new products. Maintaining a well-filled pipeline of promising products is key to our growth strategy. Investment in 2006 focused on pipeline growth, which generated a significant increase in R&D spending to EUR 485 million, or 19% of revenues, from 18% the previous year.

NuvaRing® and Puregon® driving sales growth

The fertility product Puregon®/Follistim® and the innovative contraceptive NuvaRing® were the greatest contributors to Organon's advance and helped to improve the market positions of our products. NuvaRing®, which booked 67% global sales growth, topped the 1.5 million user mark worldwide, highlighting its increasing acceptance and high satisfaction rate. Demand for NuvaRing® was especially strong in the United States, where sales were supported by direct-to-customer campaigns and increased positive media attention. NuvaRing® was also approved for the Australian market, bringing to 32 the number of countries in which it has been introduced.

Puregon®/ Follistim®., the recombinant follicle-stimulating hormone which is Organon's biggest seller, saw sales rise 8%. The world welcomed its one millionth "Puregon baby" during 2006. The product has now been introduced in China, while sales in Japan took off after being launched there in late 2005.

The U.S. Food and Drug Administration (FDA) approved the innovative contraceptive implant Implanon®, after which it was launched on to the U.S. market in late 2006. Initial feedback from U.S. physicians on Implanon®, the first and only single-rod implantable contraceptive, has been positive. Implanon's® sales increased 39% in 2006 and it is well placed to join NuvaRing® and Puregon®/Follistim® as one of Organon's leading products in 2007 and beyond.

Within our hormone therapy portfolio, sales of Livial®, which is currently being marketed in around 90 countries, were flat in 2006.

"Fertility product Puregon®/ Follistim® and the innovative contraceptive NuvaRing® were the greatest contributors to Organon's advance. NuvaRing®, which booked 67% global sales growth, topped the 1.5 million user mark worldwide, highlighting its increasing acceptance and high satisfaction rate."

Organon

Anesthesia revenues grew 27%, boosted by muscle relaxant Esmeron® and the injectable Anzemet®, for post-operative nausea and vomiting. Anzemet®, which is licensed in by Organon from sanofi-aventis for the United States only, added to the already strong anesthesia franchise in the United States.

Neuroscience products turned in a satisfactory performance in 2006. Reinforcing this portfolio in the short and medium-term is high on our agenda. Remeron®, which represents around 10% of Organon revenues, continued its overall steady worldwide decline, but sales still increased in some countries.

Pharmaceutical ingredients sales showed a positive trend.

Royalties and services revenues were mainly attributable to royalty payments from Janssen on Risperdal® sales in selected countries and from GlaxoSmithKline on sales from Arixtra®. Service revenues were received mainly from Ligand, with whom our co-promotional collaboration on Avinza® was ended by the end of September 2006, although the royalty income from the product will remain for a number of years.

Collaborations adding clout to our R&D
We welcome strategic alliances that can help bring new drugs to the market. While we have built up know-how and experience which enables us to largely go it alone in fertility and gynecology, our pragmatic strategy is to strike collaboration and cooperation deals if we believe this will create value. We are particularly open to alliances in neuroscience and biotechnology. We are currently working in close collaboration with more than 15 partners in research, compound-oriented development, licensing and marketing.

Our partner Pfizer decided in November 2006 to withdraw from the asenapine development program. While unexpected, this has presented a new opportunity to Organon to pursue a go-to-market strategy which is more closely aligned with our own planning and positioning for this product candidate. Pfizer will return all product rights, intellectual property and data to us by May 2007, subject to certain conditions. We will evaluate whether we need a partner to commercialize asenapine in selected geographic areas in due course. Although we are disappointed about the withdrawal, we appreciate the positive contribution Pfizer has made to the development of asenapine.

Organon and Bayer Schering Pharma decided to halt their research collaboration into a male hormonal contraceptive after concluding that the implant-plus-injection method under consideration lacked sufficient commercial appeal.

During the course of 2006, we have entered into collaborative research agreements with:

- Sareum Holdings plc (novel therapies for autoimmune diseases such as rheumatoid arthritis)
- Shanghai Genomics Inc (identification of more selective steroid hormone receptor modulators)
- Medarex, Inc. (for the use of Medarex's UltiMAb Human Antibody Development System®)
- Radboud University Nijmegen Medical Center (to prove the principle for the therapeutic efficacy of targeting an undisclosed gene in the oncology field identified by scientists at the Medical Center)
- Gene Logic Inc. (seeking alternative development paths for multiple drug candidates of which Organon has previously discontinued clinical development)

More than one million users

NuvaRing®, Organon's once-a-month contraceptive ring, enjoyed a hugely successful 2006. More than 1.5 million women are now using the product, which was also approved for use in Australia early in the year. In the United States, the company's nationwide direct-to-consumer campaign for NuvaRing® was nominated for prestigious awards, as well as winning an award for an online promotion.

- KineMed Sciences Inc. (discovery of new applications for multiple drug candidates and identification of alternative applications for certain therapeutic compounds formerly in our clinical stage pipeline)
- Irish National Institute for Bioprocessing Research and Training (glycosylation in CHO cell culture)
- BrainCells Inc. (discovery and development of drugs for the treatment of central nervous system disorders).

Promising pipeline

With 19% of our revenues invested in R&D, we continue to focus heavily on our product pipeline. We have the ambition to file at least one major compound per year on average over the coming years. Organon's focused pipeline is fully aligned with our growth strategy, which is to build on the strength of our existing franchises, return to growth in neuroscience, and expand into the field of biotechnology.

The pipeline is well stocked with product candidates in various stages of development. The most advanced project in Organon's neuroscience pipeline is asenapine. The Phase III clinical trial program for the U.S. NDA submission for the indications schizophrenia and acute mania associated with bipolar 1 disorder has been concluded. In early 2007 the efficacy and safety outcomes of the program will be shared with the FDA in a so-called pre-NDA meeting, which will lead to the determination of the submission planning.

Also in an advanced stage of development (Phase III) is sugammadex, the first selective relaxant binding agent to reverse neuromuscular block. Sugammadex promises to be a perfect fit for our anesthesia portfolio. Within our fertility portfolio, we are developing a sustained follicle-stimulating hormone product to expand our range of treatments. Our contraception offering will be enhanced with NOMAC/E2, for which we expect to file a submission in 2009. Looking further ahead, we are developing Org 50081 as a treatment for insomnia.

"Organon welcomes strategic alliances that can help bring new drugs to the market. We are currently working in close collaboration with more than 15 partners in research, compound-oriented development, licensing and marketing."

Organon

Our biggest selling product

Puregon®, the fertility treatment developed and marketed by Organon, celebrated its tenth anniversary in 2006 and marked the occasion by announcing that an estimated one million children have been born following assisted reproduction treatment with this biotech product. A fertility hormone manufactured by recombinant DNA technology methods, Puregon®, is the biggest selling product of Organon and is available worldwide.

"The formation of Nobilon has allowed us to combine Intervet's expertise in fields such as host-pathogen interaction, vaccine design and vaccine manufacture with Organon's expertise in fields such as toxicology, clinical development, regulatory affairs and marketing."

Strong biotechnology platform
We have a solid and long-standing expertise in biotechnology, as evidenced by Puregon®/ Follistim®, our leading recombinant follicle-stimulating hormone. Our biotech strategy is aimed at expanding our capabilities into new therapeutic areas within the human pharmaceutical area.

At the beginning of 2002, we brought together our various human and animal vaccine-related competences to create Nobilon, our human vaccine business. This new business entity became operational in mid-2003. The formation of Nobilon has allowed us to combine Intervet's expertise in fields such as host-pathogen interaction, vaccine design and vaccine manufacture with Organon's expertise in fields such as toxicology, clinical development, regulatory affairs and marketing.

More recently, we have established a new biotech research facility in Cambridge, Massachusetts, which focuses on monoclonal antibody research in immunology and certain areas of oncology.

Our biotech strategy enables us to further exploit potential synergies between our human pharma and animal healthcare activities. We believe that our efforts position us well to compete in the area of biotechnology-based drug discovery and development and may assist us in enhancing the range and productivity of our R&D activities.

Addressing unmet needs

Nobilon's current development activities focus on vaccines against influenza and respiratory syncytial virus (RSV), two common respiratory diseases, and on vaccines for travelers. The development of flu vaccines is continuing forward. In July 2006, Nobilon entered into an agreement with The Netherlands Vaccine Institute for the co-development of a vaccine against RSV, one of the most common causes of lower respiratory tract infections in young children. In addition, Nobilon is in preclinical development of a combination vaccine against the most important bacterial pathogens that cause traveler's diarrhea, including Salmonella, Campylobacter jejuni and enterotoxigenic E. coli.

Market challenges

Organon operates in what is by definition a crowded, highly competitive and challenging market. Governments are trying to curb health spending and in many countries, fertility treatments are not fully reimbursed, though governments elsewhere have been spurred by low population growth into re-compensating such treatment.

The major challenges for 2007 and beyond – for Organon as for all pharmaceutical companies – will continue to be government-imposed price controls and competition from generic drugs. Aging populations mean increasing healthcare costs and many societies are seeking ways to limit that expense. Our answer to generic competition is to do what we do best – develop new and better products whose innovation is covered by patents.

Successful drug discovery and development is becoming increasingly challenging. We strive to shorten time-to-market and to contain R&D costs so they make products affordable to the market. The many hurdles include the regulatory environment, ensuring safety and efficacy, the scope and duration of clinical trials, the investments needed both to develop and protect products, and the relatively short window of opportunity to earn back these massive investments between product launches and patent expiry. This is demonstrated, for example, by the fact that Livial®/Tibolone® was deemed not approvable by the FDA for admittance to the U.S. market, while certain patents on this drug have successfully been challenged in other countries.

Nevertheless, Organon has successfully navigated these challenges over its more than 80-year history of mainly organic growth. The stage is now set for the proposed separation of Organon and Intervet from Akzo Nobel, which shareholders approved in September 2006.

Intervet

Activities

Vaccines
Intervet is world market leader in the production of animal health vaccines. Intervet offers customers a wide range of vaccines to protect animals against infectious diseases in poultry, pigs, ruminants, companion animals, and fish. Intervet is leading in marker concepts allowing to differentiation between infected and vaccinated animals, an important feature in disease eradication programs.

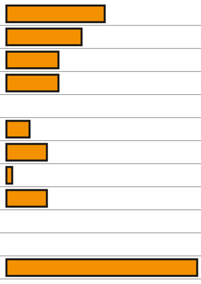
Pharmaceuticals
Intervet's pharmaceutical range covers anti-infectives against bacterial infections, antiparasitics to protect or treat animals against ecto- or endoparasites, endocrine products for fertility treatment, and pharmaceutical specialties including products for heart failure and diabetes. Intervet has a worldwide leading position in fertility management in livestock.

Revenues: EUR 1.1 billion

Key figures

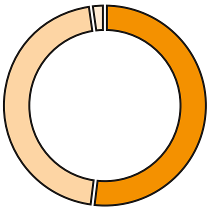
Millions of euros	**2006**	2005	%
Revenues	**1,125**	1,094	3
Operating income (EBIT)	**219**	238	(8)
EBIT margin, in %	**19.5**	21.8	
Return on invested capital, in %	**23.9**	28.3	
EBIT before incidentals	**213**	209	2
EBIT margin, in %	**18.9**	19.1	
Return on invested capital, in %	**23.3**	24.9	
EBITDA	**278**	292	(5)
Capital expenditures	**55**	54	2
Invested capital	**949**	883	7
Capital turnover	**1.23**	1.30	
Number of employees	**5,370**	5,260	2

2006 revenues by destination



EUR 1.1 billion	%
U.S. and Canada	17
Latin America	13
Asia	9
Other regions	9
The Netherlands	4
Germany	7
Sweden	1
United Kingdom	7
Other European countries	33

2006 revenues split



EUR 1.1 billion	%
Biologicals	52
Pharmaceuticals	46
Feed additives	2

Intervet

Veterinary Products

General Manager: **Ruurd Stolp**

"We bolstered our strong presence in the core market segments of vaccines and pharmaceuticals, with both areas achieving equally strong growth."

Intervet

Millions of euros (EUR)	2006	2005	%
Revenues	**1,125**	1,094	3

Intervet is dedicated to research, development, manufacturing, and marketing of innovative animal health products, and is providing a full range of innovative products for livestock, aquatic and companion animals. Products are grouped in two main product sectors: vaccines and pharmaceuticals.

A major force in animal healthcare
Intervet maintained its track record of steady revenues growth, attractive operating margins and new product introductions in 2006. Our robust performance is the best proof of our successful strategy of organic growth, selected acquisitions of products, components or companies, and in-licensing.

Revenues increased 3% to EUR 1,125 million. The livestock segment, which excluding feed additives represents nearly 80% of our turnover, saw revenues rise 7%. This was achieved despite consolidation among our livestock clients. Revenues in the companion animal segment grew by 7%, benefiting from increasing global prosperity: wealthier populations are more willing and able to spend money caring for their pets. Operating income before incidentals grew by 2% to EUR 213 million, equivalent to an EBIT margin of 18.9%. The latter was affected by various one-time cost effects relating to inventory write-offs and further investment in the marketing and distribution infrastructure, as well as selected restructuring measures at various sites. Operating income (EBIT) of EUR 219 million decreased by 8%, largely due to reduced one-off income relating to divestment activities.

Revenues in Europe – where Intervet generates 52% of its turnover – rose a healthy 5%, despite unfavourable business conditions triggered by the threat of avian influenza in early 2006. North America performed well with a 12% revenues increase, while Latin America recorded 8% growth. Overall, comparative revenues performance was influenced by the divestment of medicinal feed additives initiated in 2005. We have now divested most of our international feed additive range.

Intervet bolstered its strong presence in its core market segments of vaccines and pharmaceuticals, with both areas achieving equally strong growth.

From West Nile to canine diabetes
We have maintained a stable flow of product innovations over the years, and 2006 was no exception. PreveNile™, the equine vaccine against West Nile virus, was approved in August for use in the United States. That came just days after the European Union granted a conditional license for our Nobilis® Influenza H5N2 vaccine, which protects birds against the highly pathogenic H5N1 field strain of avian flu. Our Nobilis® Influenza vaccine range has been used successfully in Hong Kong, Mexico, Italy and Vietnam in governmental avian flu control programs. The EU's acceptance of vaccination as part of a preventative strategy against avian influenza marks an important and encouraging change in approach.

In early 2006, we announced an agreement with Bayer to acquire its Foot and Mouth Disease (FMD) vaccine factory in Cologne, Germany, strengthening our worldwide production and development capacity in that field. This is in line with the strategy to expand our presence in the FMD field, where considerable revenue was realized in 2006.

For pigs, Intervet introduced a Mycoplasma vaccine. Porcilis® M Hyo is a vaccine to protect against Mycoplasma hyo, an important cause of pneumonia in pigs.

U.S approval for equine vaccine

In August 2006, Intervet's equine West Nile Virus vaccine was approved by the United States Department of Agriculture (USDA) for use in the United States. PreveNile™ – which is the only one-dose USDA-approved equine West Nile Virus vaccine – protects vaccinated horses from fever and the presence of virus in the bloodstream. The virus, which can also be contracted by humans, is primarily spread by mosquitoes.

This is a major step towards completing the portfolio in pulmonal vaccines in pigs, the largest segment in the swine animal health market.

We also introduced new vaccines for companion animals. In November 2006, we began the rollout of Equilis® Prequenza, the new Equine Influenza and Tetanus vaccine, which uses an innovative adjuvant system and is proven against the most recent strains of equine flu. This new product strengthens the position of Intervet in the small yet profitable equine market. In the United States, Continuum® Feline was launched, the first U.S. – approved range of single shot vaccination providing three-year protection for cats. Sales of Vetsulin® (known in Europe as Caninsulin®) – the first insulin in the United States to treat diabetes in dogs – has taken off well following its U.S. introduction in 2005 and continues to grow strongly elsewhere in the world.

Significant for our U.S. business was the approval for Zilmax®, a product designed to improve production performance in beef cattle. Commercialization will begin in 2007 following completion of additional studies to define optimal usage recommendations under the unique U.S. cattle feeding and marketing conditions.

The business around our propriety molecule cefquinome was further extended by the European launches of Cobactan® IV 4.5% for horses and Cobactan® Long Acting 7.5% for cattle – two more additions to the fourth-generation cephalosporin family.

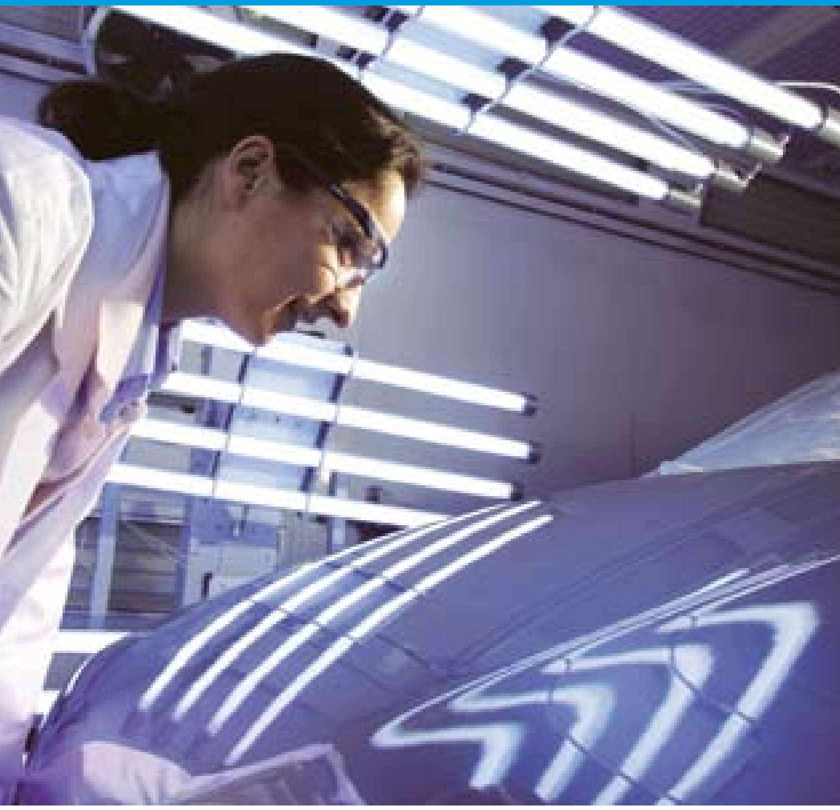
In fertility management, we strengthened our position with the EU launch of the equine fertility product Regumate® and the launch of Cyclix® Porcine and Cyclix® Bovine. Our recently introduced Chronogest® CR for fertility management in sheep was well received by the market.

Opportunities to grow

Intervet's investment in R&D has led to the launch of, on average, eight to ten new products each year in the past few years, and we aim to continue this trend. We intend to maintain high levels of investment in R&D in the future to ensure we have a well-filled product pipeline for the major species in which we are active. We expect the companion animal segment to remain our fastest growing animal health area and a significant part of our R&D effort is focused on this. Here, the United States continues to be one of our main focus areas. Dynamic economies such as Brazil, Russia, India and China will also continue to be a key focus. The demographic shift towards urbanization and tighter food compliance rules is expected to trigger a major scale-up in farming which can benefit Intervet. Population growth and prosperity will also continue to boost global animal protein consumption and by extension our livestock business.

The animal health industry has consolidated in the last ten years, with the top ten companies now representing around 75% of the market. Further consolidation is anticipated. That is a challenge and an opportunity and we want to play a major role in that.

Our people



Creating a "talent factory"

The company-wide human resources (HR) initiatives we began in 2005 to enhance our policy and to strive for the creation of a "talent factory" progressed well last year.

Performance & Development Dialog
We completed the introduction of our company-wide performance appraisal program, the Performance & Development Dialog (P&D Dialog). All employees can now benefit from this global program.

This means more clarity on annual personal objectives, in alignment with the company's goals.

The P&D Dialog fosters more dialog and discussion between employees and managers on their performance. And that in turn creates a stronger focus on company-wide competencies in support of the business and in support of the development needs of our people.

Managers everywhere are now being assessed annually on their ability to motivate employees, to stimulate their development and to create an open climate for discussion – key ingredients for continuous high performance by our company.

Creating a "talent factory" also means more focus on development, alongside employees' performance. The P&D Dialog was therefore extended further in 2006. By offering a development tool to employees and managers they are better equipped to conduct meaningful, consistent and focused development discussions. We expect to reap the benefits for the first time in 2007.

Employee survey
Following the introduction of the P&D Dialog throughout the company, 2006 witnessed a second major step in developing our worldwide HR policy: the first ever global survey for all our employees. The main objective was to find out how it feels to work for Akzo Nobel. We believe business results and customer satisfaction are stronger when our people feel motivated, energized and engaged. The survey was conducted in May 2006. All Akzo Nobel employees in more than 80 countries received a list of 50 questions,

"By offering a development tool to employees and managers they are better equipped to conduct meaningful, consistent and focused development discussions."

translated into 36 languages. The response rate was high, at more than 80%. This is a strong sign of trust from our employees. At the same time, it highlights the need to continue taking their feedback seriously and to act upon it.

The results of the survey show that staff score highly in most of Akzo Nobel's six business competences: 77% considered Akzo Nobel a strong, customer-oriented company and a majority of employees felt that Akzo Nobel attaches great value to quality commitment, safety engagement and environmental awareness. Three quarters of staff said they feel "engaged" in their work, which is a strong endorsement of our company's entrepreneurial culture.

While employees confirmed some improvement in the field of people management, they clearly indicated that our journey towards firmly establishing a "talent factory" has only just begun. Objective-setting and alignment already works well, but feedback and coaching have to improve as much as the connection of performance to pay. Senior management will also need to improve the information flow towards employees, primarily about the strategic direction the company is taking.

We intend to conduct a small sample survey in 2007 to monitor our progress.

Nurturing talent

As one of the key ingredients for a true "talent factory", 2005 saw us start up Leadership Talent Reviews, a more structured identification of leadership talent in the company. A key leadership role is to nurture the company's future and to find and develop those who will run Akzo Nobel in the future. We made good progress in this area in 2006 and were able to take Leadership Talent Reviews deeper into business units, sub-businesses, countries and functions. The P&D Dialog serves us in this process too, since it gives the company a common language to discuss performance and competencies. With the new HR tools and HR initiatives, Akzo Nobel is well equipped for the future.

"We started up Leadership Talent Reviews, a more structured identification of leadership talent in the company. A key leadership role is to nurture the company's future and to find and develop those who will run Akzo Nobel in the future."

Corporate Social Responsibility

Anchoring CSR at the heart of our business

Akzo Nobel is committed to excellence in all aspects of its global activities. This includes the management of substantial nonfinancial issues, such as improving energy efficiency and emissions of greenhouse gases; focusing on eco-efficiency and protecting raw material resources; adhering to the highest ethical standards and integrity in doing business; recruiting and developing a talented workforce and contributing to social equity.

Since we are convinced that managing substantial non-financial issues is crucial to our strategy and long-term success, Corporate Social Responsibility (CSR) is both part of Akzo Nobel's company culture and the way we do business.

Governance

The integration of CSR into our processes continues and has reached yet another critical level. We have finalized the process of making CSR a part of our internal audits. This has completed the management cycle – from our management objectives to our operational planning, our governance, risk management and compliance, CSR is now an inherent part.

Managers at all levels are responsible for embedding CSR into organizational structures and processes. All businesses must set ambitious targets during the strategic planning processes and monitor progress throughout. Managers and employees are evaluated and remunerated in accordance with these targets.

Creating sustainable value

CSR buy-in among our managers is high. Many of our businesses have their own examples of how it has contributed to their value creation processes. Our ambition to fully embed the concept of eco-efficiency analysis in our businesses has led to various best practices. These demonstrate how customer-driven innovation creates products that better meet clients' needs and reduce our ecological footprint.

Innovative, ecologically efficient products allow us to win market share and to enter new markets. Each business line strives to develop an optimal sustainable product portfolio.

We improve processes and save costs by reducing our ecological footprint. Saving energy and reducing or recycling waste also saves money. Since 1990 we have achieved 20% energy savings, which saves EUR 90 million on our annual energy bill while at the same time making a contribution to the mitigation of climate change. Around 73% of our power consumption is derived from zero or low carbon sources (mainly hydropower). Our soil protection programs prevent costly remediations. We track our progress by monitoring our performance on eight ecological Key Performance Indicators. These performance figures are made public in our annual CSR Report.

We take responsibility for the sustainability of the value chains of which we are part. The importance of suppliers to our company is clear: in 2006, we achieved our ambitious goal of ensuring that our main suppliers, representing the majority of our purchasing volume, signed our business principles.

We sent out summaries of the proposed European legislation on Registration, Evaluation and Authorization of Chemicals (REACH) to companies that supply our Coatings businesses with 80% of our raw materials in order to stress the importance of compliance with this legislation to our continued success.

Recognition

Our strong social responsibility performance is recognized in our ranking among chemicals industry leaders on the prestigious Dow Jones Sustainability World and Stoxx indexes (DJSI) and on the FTSE4Good index. Rated on the Dow Jones Sustainability Indexes for the second successive year in 2006, we significantly improved our average score in the individual indicators and achieved a best-ever overall mark, climbing from 78% to an industry-leading 86%.

Of 85 companies in the chemicals industry category, only the top ten are ranked as sustainability leaders. Our governance processes and our environmental performance were singled out for particular praise. This recognition motivates us even further to take CSR to a higher level.

For a detailed overview of our CSR principles, policies, performance and targets, please see our separate Corporate Social Responsibility Report.

"Managing substantial non-financial issues is crucial to our strategy and long-term success, CSR is both part of Akzo Nobel's company culture and the way we do business. From management objectives to operational planning, governance, risk management and compliance, CSR is an inherent part."

Akzo Nobel Art Foundation

Inspiring and connecting

The Akzo Nobel Art Foundation celebrated its 10th anniversary in 2006. Art and science may appear to be polar opposites – where art is open-ended, science seeks proof – yet our art collection is a perfect cultural complement to the work and spirit of Akzo Nobel as a company.

Established in 1996, the Foundation is based on four basic policy principles. The collection should serve as a source of inspiration and creative reflection in the working environment; it should reflect Akzo Nobel's social responsibility; it should equal Akzo Nobel's activities in terms of sophistication; and it should serve as an independent means of communication which may contribute to other forms of communication within the company.

We now own around 1,200 works in highly diverse disciplines, ranging from drawings and paintings to sculpture, photography and multimedia. We collect works by artists from all over the world, with a special focus on young talent.

Although it has proven to be a sound financial investment, the Akzo Nobel Art Foundation was not intended as such. We never sell our works and regard the collection as a human investment – in the artists, in our staff and our guests. Several of the artists featured in our collection won, or were nominated, for prizes in 2006. Maria Roosen won the Wilhelmina prize for the best sculptor 2006, also based on the outstanding glass installation she made for Organon in Oss, the Netherlands.

Ours is a focused, balanced corporate collection which is exceptional in its coherence: only works that fit in with existing pieces are acquired. Like our diverse businesses – which draw strength from unity – our art works are strengthened by being displayed together.

Our art is innovative; it poses questions. It has its finger on the pulse of the times, just like Akzo Nobel. Art is free-spirited; it lets the outside in. That suits a company which is closely attuned to the world outside its walls, in its business and its social engagement.

Based mainly at company headquarters in Arnhem, the Netherlands, parts of the collection have also been exhibited at Akzo Nobel sites around the world.

Our renowned collection is being held in increasingly high regard by international museums. In fact, we made 54 loans to museums in 2006. Ours is a young, living, working collection: regular art tours are conducted for staff and guests by specially-trained employee volunteers. Our art is also a means of communication through its liberal use in our company reports and publications.

Art, of course, is a perfect fit with the world's leading maker of coatings. Color – the language of all cultures – is where our art collection and our business really dovetail. We cooperate with artists in color research, such as the collaboration between the Sikkens color research center and artist/painter Jan Andriesse, who made an impressive painting of a rainbow sky, using 60 layers to create a smooth overflow in colors.

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 fulfil these responsibilities.
- Risk boundaries are governed by Akzo Nobel's Company Statement, Business Principles, Internal Authority Schedules, and Corporate Directives in areas such 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 pre-emptive 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 at 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. Around 24% 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 non-compliance 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 25 on page 109).

The company will be responsible for any liabilities arising out of non-compliance with laws and regulations. For instance, with respect to antitrust laws, the company is involved in investigations by the antitrust authorities in the European Union, the United States, and other countries into alleged violations of the respective antitrust laws in these jurisdictions and is engaged in civil litigation in this respect. The company is dedicated to minimizing such risks with special emphasis on the practical application of the company's Business Principles (see page 131). 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 24 on page 106).

The company's financial condition and results of operations could be adversely affected if the company does not successfully mitigate risks for example 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 24 on page 106).

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 19 on page 101).

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 sensitive 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 implement the company's strategic agenda effectively could adversely affect the company and its businesses.

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

Akzo Nobel's corporate governance structure is based on the requirements of the Dutch Civil Code, the company's Articles of Association, and the rules and regulations applicable to companies listed on Euronext Amsterdam 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 Meetings of Shareholders as a separate item for discussion. This specifically included a number of aspects where Akzo Nobel's corporate governance deviates from the Code, as explained in the 2004 Annual Report. The Board of Management and the Supervisory Board have taken these discussions into account in formulating a position on the company's corporate governance. One of the results is an amendment of the Articles of Association 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. To the extent applicable reference is also made to the Royal Decree Article 10 Takeover Directive ("Decree").

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 enterprises. 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: Coatings, Chemicals, Organon and Intervet.

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 effectively steer the strategy and operations of the business units, Board Committees have been constituted for each of the main segments Coatings and Chemicals, and for the main segments Organon and Intervet combined. 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. The authority of the Board Committees is laid down in an internal authority schedule.

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

Changes to the corporate governance
In preparation for the intended separation of Akzo Nobel into two independent companies, Akzo Nobel and Organon BioSciences, an organizational separation of Organon BioSciences within Akzo Nobel has been implemented with effect from October 1, 2006. However, until the time of the legal separation Organon BioSciences and its subsidiaries remain fully subject to Akzo Nobel's corporate governance. In case of and upon a minority listing of Organon BioSciences on Euronext Amsterdam, the announced preferred way for its legal separation, Akzo Nobel's shareholder rights in Organon BioSciences will be secured pursuant to a Separation Agreement, specifying Akzo Nobel's rights in relation to its percentage of participation from time to time in Organon BioSciences.

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 cancelled by the General Meeting of Shareholders.

The company subscribes to the Code's principle in general and therefore – as described in the 2004 Annual Report and discussed at the General Meeting of Shareholders in 2005 – it has been decided that in normal circumstances, the members of the Supervisory Board and the Board of Management will be appointed on the basis of a 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 anti takeover provisions and control, page 72). In normal circumstances, resolutions to appoint a person as a member of the Supervisory Board or the Board of Management will therefore require a simple majority of the votes cast. Of course, shareholders, meeting the requirements laid down in the Articles of Association, are also entitled to nominate members of the Supervisory Board or the Board of Management. According to the Articles of Association, such appointments will require a two-thirds majority representing at least 50% of the outstanding share capital.

Although a deviation from provision IV.I.I. of the Code, the Supervisory Board and the Board of Management hold the view that these provisions will enhance the continuity of the company's management and policies.

Members of the Board of Management are allowed to hold a maximum of two supervisory board memberships 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.

Corporate governance

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 73) and the Financial Statements (see pages 114 through 116).

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 64).

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 non-financial information.

The internal procedures aimed at an effective operating system of internal controls for financial reporting have been amended on the basis of the requirements of SOX 404, which applies to the company as of the year 2006. The Annual Report on 20-F filings to the SEC are accompanied by the CEO and CFO certificates on the financial disclosures (S. 302 and 906) and, as from the Annual Report on Form 20-F over the year 2006, on the internal controls over financial reporting (S. 404). 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 17) 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 back cover 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 67 and 68) 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 re-election twice. However, in deviation of the Code (provision III.3.5), a member can be nominated for re-election more often if in a specific case this is considered to be in the company's interest. Accordingly, in 2005, Mr. Cohen was appointed for a fourth term. However, Mr. Cohen will be resigning from the Supervisory Board at the 2007 General Meeting of Shareholders.

The composition of the Supervisory Board is such that the members are able to act with due objectivity and independently of one another and of the Board of Management.

All Supervisory Board members meet the independence requirements as stated in Code provisions III.2.1, III.2.2 and III.2.3, except for Mr. van Lede and Mr. van den Brink. In this respect, it should be noted that Mr. van Lede is a former member of the Board of Management of Akzo Nobel, who retired from this position in 2003. Mr. van Lede will step down as member of the Supervisory Board at the 2007 General Meeting of Shareholders.

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.

Corporate governance

The Chairman of the Supervisory Board determines the agenda and chairs the meetings of the Supervisory Board, monitors the proper functioning of the Supervisory Board and its Committees, arranges for the adequate provision of information to the members of the Supervisory Board, and acts on behalf of the Supervisory Board as the main contact for the Board of Management. He also initiates the evaluation of the functioning of the Supervisory Board and the Board of Management, and chairs the General Meeting of Shareholders. As of May 1, 2006, the Supervisory Board is chaired by Mr. van den Bergh.

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

Remuneration

Supervisory Board members receive a fixed annual remuneration 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. The fee structure of the Supervisory Board was adjusted at the 2006 General Meeting of Shareholders. More information on the Remuneration of the Supervisory Board members can be found on pages 113 and 114.

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. As of January 1, 2006, the Chairman of the Audit Committee is Mr. van den Brink, who in the opinion of the Supervisory Board meets the requirements of a financial expert pursuant to SOX and the Code.

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

The Nomination Committee 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. As of May 1, 2006 the Remuneration Committee is chaired by Mr. Vuursteen.

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

Relations with shareholders and other investors

Akzo Nobel has three classes of shares: common shares, cumulative preferred shares, and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange and in the form of American Depositary Shares on NASDAQ in the United States. On December 31, 2006 the total of 287,268,350 common shares had been issued and 48 priority shares had been issued, amounting to 99.997% and 0.003% respectively of the total issued and outstanding capital (Art. 1,a Decree). By December 31, 2006, the company had been notified by ING Group that its participation in the company's share capital was 5% (Art. 1,c Decree). 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. The meeting of holders of priority shares has the nomination rights for the appointments of members of the Board of Management and of the Supervisory Board (see pages 67 and 68 respectively) and the right to approve amendments to the Articles of Association of the company (Art. 1,a and h Decree).

The General Meeting of Shareholders of April 25, 2006, has authorized the Board of Management, for the period of 18 months after the said date and subject to approval of the Supervisory Board, to issue shares in the capital of the company up to a maximum of 10% of the issued share capital, to cancel the pre-emption rights for existing shareholders for those shares, and to purchase shares of the company.

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.

Corporate governance

Anti takeover provisions and control

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

The priority shares may be considered to constitute a form of anti-takeover measure. In 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 67), 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, Mr. A.M. van Drunen Littel, has held this position since July 2002. For the financial year 2007, he is succeeded by Mr. E. Weusten. The lead auditor is present at the General Meeting of Shareholders and may be questioned with regard to his statement on the fairness of the financial statements.

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

Remuneration report

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 113.

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.

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

Royal Ahold and Royal KPN and Wolters Kluwer are not included in the peer group for the CEO. The peer group included five direct competitors of Akzo Nobel. The Supervisory Board is of the opinion that it is relevant to incorporate compensation data from direct competitors to ensure that information relating to the specific industry pay levels and policies is available. 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 at 100% of the base salary for the CEO and at 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.

Remuneration report

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 non-recurring 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).

Due to a merger or takeovers of three companies of the peer group (Degussa, Schering and Serono) these companies are replaced by two new companies (Rohm & Haas and Sherwin Williams).

The TSR will be compared with the following peer group:

- Bayer
- CIBA Specialty Chemicals
- Clariant
- Dow Chemical Company
- DuPont de Nemours
- ICI
- Merck KGaA
- Novo Nordisk
- PPG Industries
- Rohm & Haas
- Royal DSM
- Sherwin Williams
- Solvay
- UCB
- Valspar

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 15 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 is based on an income- and age-related defined contribution plan and in line with the pension legislation as from January 1, 2006. 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 NV 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 67). 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 2006

General
The remuneration decisions made in 2006 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. The remuneration policy stresses the importance of the variable remuneration components. In 2006, the value of fixed and variable components at target levels breaks down as follows:

	CEO	Other Board members	Average
Fixed	36.3%	42.7%	40.9%
Variable	63.7%	57.3%	59.1%

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 2006
The salaries of the members of the Board of Management were increased by 3% on January 1, 2006. The base salary was fixed at EUR 685,000 on a yearly basis for the CEO and EUR 489,300 for the other members.

In spite of the salary adjustment in 2006, the base salary level of the CEO remains approximately 24% below the median level of the peer group of companies used in the external comparison. For the other members, the percentage amounts to approximately 12% below the median level.

Remuneration report

Short-term incentive (annual bonus) 2006
Bonuses, to be paid out over 2006 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%. The increase of the bonus for the chairman is reflecting the increase of the at-target bonus from 80% to 100% (as decided by the shareholder meeting in 2006) and the strong company performance.

Long-term incentives 2006
Under the option plan applicable as from the year 2004, 19,800 conditional options were granted to the CEO and 13,000 to the other members of the Board of Management. The number of performance-related shares granted to the members of the Board of Management in 2006 amounted to 23,000 for the CEO and 15,100 for the other Board members.

With respect to the performance shares granted in 2004, calculation of the TSR performance has been made for the companies of the peer group. In order to adjust for changes in exchange rates, all native currencies are converted into euros. Based on the EOI performance over the period 2004-2006, all stock options (conditionally) granted to the members of the Board of Management became unconditional.

Akzo Nobel's performance over the period January 1, 2004 to December 31, 2006, resulted in a ninth position within the ranking of the peer group companies. Consequently, the final vesting percentage of the 2004 grant equals 40%, resulting in a definitive grant of shares (including the compounded dividend yield till December 31, 2006) of 14,596 shares for the CEO and 9,731 shares for the other members of the Board of Management.

Akzo Nobel's Total Shareholder Return, compared with the adjusted peer group over a three-year period, determines the following position with regard to the performances shares, granted in 2005 and 2006:

- For the two-year period ending 2006: Akzo Nobel's position is 6 (2005: 7)
- For the one-year period ending 2006: Akzo Nobel's position is 6.

Financial statements

Financial statements

Summary of significant accounting policies

Akzo Nobel NV is a company domiciled in the Netherlands. The address of the company's registered office is Velperweg 76, Arnhem.

The consolidated financial statements of Akzo Nobel NV 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.

Consolidation

The consolidated financial statements include the accounts of Akzo Nobel NV and its subsidiaries. Subsidiaries are companies over which Akzo Nobel NV has directly and/or indirectly the power to control the financial and operating policies so as to obtain benefits. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Minority interest in equity and earnings is shown separately. Transactions between consolidated companies and intercompany balances are eliminated. Accounting policies, as set out below, have been applied consistently for all periods presented in these consolidated financial statements and by all subsidiaries. Certain comparative amounts have been reclassified to conform with current year's presentation.

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. Exceptions on the historical cost basis include derivative financial instruments and share-based compensation, which are based on fair value, and pensions, for which actuarial present value calculations are used.

Translation of foreign currencies

Transactions in foreign currencies are translated into the functional currency of entities using the foreign exchange rate at transaction date. The functional currency of foreign entities generally is the local currency. Assets and liabilities denominated in foreign currencies are translated using the exchange rates at the balance sheet date. Resulting foreign currency differences are included in the statement of income.

The financial statements of foreign entities are translated into euros. The balance sheet is translated into euros using the exchange rates at the balance sheet date. The statements of income of foreign entities are translated into euros using the foreign exchange rates at transaction date, approximating the 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 (cumulative translation reserve) within shareholders' equity. Upon disposal or liquidation of a foreign entity these cumulative translation adjustments are recognized in the statement of income.

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

Exchange rates of key currencies

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

	Balance sheet		Statement of income	
	2006	2005	**2006**	2005
USD	**1.317**	1.186	**1.256**	1.245
GBP	**0.671**	0.687	**0.682**	0.684
SEK	**9.047**	9.428	**9.247**	9.302

Principles of valuation of assets and liabilities

Property, plant and equipment

Property, plant and equipment are valued at cost less accumulated depreciation and impairment charges.

Costs include expenditures that are directly attributable to the acquisition of the asset, including financing income and expenses of capital investment projects under construction.

Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Depreciation is calculated 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. In the majority of cases residual value is assumed to be insignificant. Depreciation methods, useful lives and residual values are reassessed annually.

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

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

Leases
Lease contracts whereby the company has substantially all the risks and rewards of ownership are classified as finance leases. At inception these are recognized in the balance sheet at the lower of the assets' fair value and the present value of the minimum lease payments. Subsequently, these are amortized on a straight-line basis over the shorter of the lease term or the useful life of the asset. If the carrying value 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, which is normally on a straight-line bases over the term of the lease.

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

Intangible assets
Intangible assets with a finite life, such as licenses, know-how, brand names, customer relationships, 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 40 years.

Development costs are capitalized if costs can be measured reliably, the product or process is technically and commercially feasible and sufficient future economic benefits will be generated, and the company has sufficient resources to complete the development. Capitalized development costs are amortized on a straight-line basis over the estimated useful life, which in the majority of cases is 5 years. If there is an indication that an intangible asset may be impaired the recoverable amount of the asset is estimated; see Impairments. If the carrying value exceeds the recoverable amount an impairment charge is recognized in the statement of income.

Intangible assets with an indefinite life, which presently only include purchased goodwill, are not amortized, but tested for impairment annually. In cases where the carrying value of the intangibles exceeds the recoverable amount an impairment charge is recognized in the statement of income. Goodwill is determined as the difference between the fair value of the consideration paid for a business combination and the fair value of the acquired identifiable assets, liabilities and recognized contingent liabilities. Goodwill related to an investment in associates is included in the carrying value of that investment.

Business combinations
In accounting for the acquisition of subsidiaries the purchase accounting method is used. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of Akzo Nobel's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

The assets and liabilities from business combinations arising from transfers of interests in entities that are under the control of the company are accounted for at the carrying amounts recognized previously.

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

Associated companies and joint ventures
Investments over which Akzo Nobel has significant influence but no control over the financial and operational policies, are classified as associated companies and are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases. The consolidated financial statements include the company's share of the income and expenses of the equity-accounted investments, whereby calculation 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 under associated companies and joint ventures. Joint control is established by contractual agreement and requires unanimous consent for strategic, financial, and operational decisions.

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

Loans to associates and joint ventures are carried at amortized cost, less impairment losses.

Other financial noncurrent assets

Held to maturity investments

Other financial noncurrent assets are classified as held to maturity if the company has the positive intent and ability to hold these assets to maturity. These assets are measured at amortized costs using the effective interest method, less any impairment losses.

Other financial noncurrent assets available for sale

Other financial noncurrent assets classified as available for sale are measured at fair value, and changes in the fair value, other than impairment losses and foreign exchange gains and losses, are recognized directly in equity. Upon derecognition, the cumulative gain or loss in equity is transferred to the statement of income.

Inventories

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

Receivables

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

Assets and liabilities classified as held for sale

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

Shareholders' equity

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

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

Provisions

Provisions are recognized when a present legal or constructive obligation as a result of a past event exists, and it is probable that an outflow of economic benefits is required to settle the obligation. Provisions are measured at net present value, taking the timing of cash outflows into account. The expected future cash outflows are discounted at appropriate pretax 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 income and expenses.

Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

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

In certain countries the company also provides 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.

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

Other long-term employee benefits

Other long-term employee benefits include long-service or sabbatical leave, jubilee or other long-service benefits and other employee benefits payable more than 12 months after the related service rendered. These provisions are measured at present value, using actuarial assumptions. The discount rate is the yield at reporting date of risk-free credit-rated bonds that have maturity dates approximating the terms of the company's obligations.

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amounts expected to be paid under short-term bonus or profit sharing plans if a present legal or constructive obligation as a result of past services provided exists, and the obligation can be estimated reliably.

Deferred 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 temporary differences are expected to be reversed. Deferred taxes are not discounted. The tax effect on the elimination of intercompany profit in inventories is based on the tax rate of the country of the company receiving the goods.

Deferred tax assets, including assets arising from losses carried forward, are recognized 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 subsidiairies. 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.

Current taxes

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

Share-based compensation

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

The fair value of the options or performance shares granted is recognized as an employee expense with a corresponding increase in shareholders' equity. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options or performance shares. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options and performance shares were granted. For the performance shares the fair value is measured using the Monte Carlo simulation model. This model also includes the market conditions expected to impact the company's TSR performance in relation to the selected peers. 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 measured at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case the carrying amount is adjusted for the fair value changes caused by the hedged risk. Short-term debt is measured at amortized cost, using the effective interest method, less any impairment losses.

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

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

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

Changes in fair value of highly effective derivatives qualifying as a cash flow hedge are deferred in shareholders' equity until the hedged transactions have been reflected in the accounts.
At termination of the hedge, the deferred fair value changes are recognized in the statement of income. When a derivative qualifying as a cash flow hedge is not highly effective or has ceased to be highly effective, the changes in fair value related to the ineffective part are recognized immediately in the statement of income.

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

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

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

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 are generally 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 income and expenses
Financing income and expenses comprise:
- the interest payable on borrowings, calculated using the effective interest method;
- the interest expense component of finance lease payments;
- the increase of provisions as a result of the passage of time;
- entries related to interest rate derivatives;
- interest income, recognized using the effective interest method;
- the fair value changes of interest derivatives.

Income taxes

Income taxes 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.

Share in profit of associates

Income from investment in associates 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 value of assets other than inventories and deferred tax assets are reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 value of an asset or its cash generating unit exceeds its recoverable value. Impairment losses are recognized in the statement of income. The review for impairment is performed at the lowest level of assets generating largely independent cash inflows. Within a cash generating unit, impairment losses are allocated by first writing down the goodwill allocated to the cash generating unit and then pro rata writing down the other assets of the cash generating unit, whereby no asset is written down below its recoverable value.

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

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 granted.

Earnings per share

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

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.

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

Impairment of intangible assets and property, plant and equipment

The company reviews noncurrent assets for impairment when events or circumstances indicate carrying values may not be recoverable. Assets subject to this review include property, plant and equipment and intangible assets. In determining property, plant and equipment and intangible 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-term 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 value. This recoverable value 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.

Summary of significant accounting policies

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. In the event actual results differ from these estimates in future periods, and depending on the tax strategies that the company may be able to implement, changes to the deferred tax assets could be required, which could impact the financial position and results from operations.

Provisions

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

Contingent liabilities and provisions for environmental matters, antitrust cases, other litigation, and tax disputes are discussed in Note 25 – Contingent liabilities and commitments. Estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination as well as on the technology required for 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 are also based on an estimate of the costs, taking into account legal advice and information currently available.

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

Provisions for termination benefits and exit costs also involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs. 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 19. 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.

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.

New IFRS accounting standards

In 2005 and 2006 several new accounting pronouncements were issued, of which the company assessed that the following have an impact on the company's consolidated financial statements.

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures requires disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the risks arising from financial instruments. The standard becomes effective from 2007 onwards. The effect on the company's disclosures is expected to be limited.

- IAS 19 (Amendment), Employee Benefits, is mandatory for accounting periods beginning on or after January 1, 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the company does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the consolidated financial statements.

- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts, applies to annual periods beginning on or after January 1, 2006. Under this standard, a financial guarantee contract is initially recognized at fair value and is subsequently measured at the higher of (a) the amount determined in accordance with IAS 37 and (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18. Different requirements apply for the subsequent measurement of financial guarantee contracts that prevent derecognition of financial assets or result in continuing involvement. Financial guarantee contracts held are not within the scope of the standard.

- IFRIC 4, Determining whether an Arrangement contains a Lease, applies to annual periods beginning on or after January 1, 2006. This Interpretation provides guidance for determining whether an arrangement, comprising a transaction that does not take the legal form of a lease but conveys a right to use an asset should be accounted for in accordance with IAS 17. The standard did not impact the consolidated financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives requires that only when there are changes to the contract a reassessment should be made of whether embedded derivatives should be separated from the underlying host contract. IFRIC 9 becomes effective for the 2007 financial statements and is not expected to have any impact on the consolidated financial statements.

- IFRIC 10 Interim Financial Reporting and Impairments prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 is effective from 2007. It will apply prospectively from the date that IFRS was first implemented and does not impact the consolidated financial statements.

Consolidated statement of income for the year ended December 31

Millions of euros	Note		2006		2005 [1]
Revenues			**13,737**		13,000
Cost of sales			**(7,394)**		(7,070)
Gross profit			**6,343**		5,930
Selling expenses		**(3,436)**		(3,214)	
Research and development expenses		**(885)**		(810)	
General and administrative expenses		**(749)**		(680)	
Other operating income	2	**189**		260	
			(4,881)		(4,444)
Operating income			**1,462**		1,486
Financing income	3		**126**		125
Financing expenses	3		**(237)**		(281)
Operating income less financing income and expenses			**1,351**		1,330
Share in profit of associates	4		**89**		6
Profit before tax			**1,440**		1,336
Income taxes	5		**(258)**		(338)
Profit for the period			**1,182**		998
Attributable to:					
Equity holders of the company			**1,153**		961
Minority interest			**29**		37
Profit for the period			**1,182**		998
In EUR:					
Basic earnings per share	18		**4.02**		3.36
Diluted earnings per share	18		**4.00**		3.35

[1] Reclassified for comparative reasons

Consolidated balance sheet as of December 31

Before allocation of profit

Millions of euros	Note		2006		2005 [1]
Assets					
Property, plant and equipment	7		**3,346**		3,432
Intangible assets	8		**682**		488
Deferred tax assets	10	**953**		895	
Investment in associates	11	**177**		301	
Other financial noncurrent assets	9	**576**		604	
Financial noncurrent assets	9		**1,706**		1,800
Total noncurrent assets			**5,734**		5,720
Inventories	12	**2,042**		1,987	
Income tax receivable	13	**109**		137	
Trade and other receivables	14	**2,810**		2,773	
Cash and cash equivalents	15	**1,871**		1,486	
Assets held for sale	16	**219**		322	
Total current assets			**7,051**		6,705
Total assets			**12,785**		12,425
Equity	17				
Issued capital		**574**		572	
Share premium		**1,841**		1,803	
Other reserves		**1,729**		1,040	
Akzo Nobel NV shareholders' equity		**4,144**		3,415	
Minority interest		**119**		161	
Total equity			**4,263**		3,576
Liabilities					
Provisions	19	**2,132**		2,210	
Deferred income	20	**7**		27	
Deferred tax liabilities	10	**174**		156	
Long-term borrowings	21	**2,551**		2,702	
Total noncurrent liabilities			**4,864**		5,095
Short-term borrowings	22	**410**		357	
Income tax payable	13	**321**		380	
Trade and other payables	23	**2,331**		2,191	
Current portion of provisions	19	**571**		766	
Liabilities held for sale	16	**25**		60	
Total current liabilities			**3,658**		3,754
Total equity and liabilities			**12,785**		12,425

[1] Reclassified for comparative reasons

Consolidated statement of cash flows for the year ended December 31

Millions of euros		2006		2005[1]
Profit for the period	1,182		998	
Adjustments to reconcile earnings to cash generated from operating activities:				
Depreciation and amortization	552		569	
Impairment losses	29		132	
Financing income and expenses	111		156	
Share in profit of associates	(79)		(17)	
Income taxes	258		338	
Operating profit before changes in working capital and provisions		2,053		2,176
Changes in trade and other receivables	22		(169)	
Changes in inventories	(54)		38	
Changes in trade and other payables	122		(117)	
Changes in provisions	(262)		(598)	
Other	18		28	
		(154)		(818)
Cash generated from operating activities		1,899		1,358
Interest paid	(213)		(220)	
Income taxes paid	(366)		(391)	
Pretax gain on divestments	(213)		(44)	
		(792)		(655)
Net cash from operating activities		1,107		703
Capital expenditures	(529)		(514)	
Investments in intangible assets	(12)		(67)	
Interest received	112		109	
Repayments from associates	–		27	
Dividends from associates	37		19	
Acquisition of consolidated companies[2]	(326)		(55)	
Proceeds from sale of interests[2]	371		64	
Loan to APF[3]	19		(150)	
Other changes in noncurrent assets	20		53	
Net cash from investing activities		(308)		(514)
New long-term borrowings	4		3	
Repayment of borrowings	(83)		(269)	
Issue of shares	40			
Termination of currency swap	21		78	
Dividends	(369)		(366)	
Net cash from financing activities		(387)		(554)
Net change in cash and cash equivalents		412		(365)
Cash and cash equivalents at January 1		1,486		1,811
Effect of exchange rate changes on cash and cash equivalents and impact of IAS 32/39		(27)		40
Cash and cash equivalents at December 31		1,871		1,486

[1] Reclassified for comparative reasons

[2] Net of cash acquired or disposed of

[3] Akzo Nobel Pension Fund in the Netherlands

Consolidated statement of changes in equity

	Attributable to equity holders of the parent [1]							
Millions of euros	Subscribed share capital	Additional paid-in capital	Change in fair value of derivatives	Cumulative translation reserves	Other (statutory) reserves and undistributed profits	Shareholders equity	Minority interest	Total equity
Balance at December 31, 2004	572	1,803		(20)	250	2,605	140	2,745
Implementation IAS 32 and 39			11		(20)	(9)		(9)
Changes in fair value of derivatives			11			11		11
Changes in exchange rates in respect of foreign operations				162		162	16	178
Income/(expense) directly recognized in equity			22	162	(20)	164	16	180
Profit for the period					961	961	37	998
Total income/(expenses)			22	162	941	1,125	53	1,178
Dividend paid					(343)	(343)	(23)	(366)
Equity-settled transactions					28	28		28
Changes in minority interests in subsidiaries							(9)	(9)
Balance at December 31, 2005	572	1,803	22	142	876	3,415	161	3,576
Changes in fair value of derivatives			(24)	(2)		(26)		(26)
Changes in exchange rates in respect of foreign operations				(110)		(110)	(10)	(120)
Income/(expenses) directly recognized in equity			(24)	(112)		(136)	(10)	(146)
Profit for the period					1,153	1,153	29	1,182
Total income/(expenses)			(24)	(112)	1,153	1,017	19	1,036
Dividend paid					(344)	(344)	(25)	(369)
Equity-settled transactions					16	16		16
Issue of common shares	2	38				40		40
Changes in minority interests in subsidiaries							(36)	(36)
Balance at December 31, 2006	574	1,841	(2)	30	1,701	4,144	119	4,263

[1] Reclassified for comparative reasons

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

Subsidairies and associated companies

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

Changes in consolidated interests

In August 2006 Akzo Nobel acquired the Flood Company to strengthen its position in the North American wood coatings market. The purchase price amounted to EUR 31 million and included EUR 11 million for goodwill.

In June 2006 Akzo Nobel acquired Sico Inc., active in the architectural coatings market, for an amount of EUR 210 million, including EUR 118 million for goodwill.

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 total 2004 revenues of around EUR 700 million were to be divested. The processes to realize these divestments are near to completion. 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 16. Given their relatively limited size, none of these divestments meet the criteria for discontinued operations.

During 2006 and 2005, Akzo Nobel acquired several other businesses in strategic markets and geographic areas. Also a number of other activities were divested in 2006 and 2005. 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 2006 contributed EUR 202 million to revenues. If all acquisitions had occured on January 1, 2006, additional revenues would have been EUR 132 million. The acquisitions in 2006 only had a marginal contribution to net income, even if all acquisitions had occurred on January 1, 2006.

The acquisitions in 2006 (at acquisition date) had the following effect on Akzo Nobel's assets and liabilities:

	Recognized values
Property, plant and equipment	63
Intangible assets	102
Other fixed assets	12
Cash acquired	4
Inventories	68
Trade and other receivables	74
Provisions	(65)
Long-term borrowings	(58)
Trade and other payables	(44)
Net identifiable assets and liabilities	156
Goodwill on acquisitions	174
Consideration paid	330
Cash acquired	(4)
Net cash outflow	326

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 2006	2005	Group revenues 2006	2005	Operating income 2006	2005	Share in profit of associates 2006	2005	Depreciation and amortization 2006	2005
Organon	**2,589**	2,404	**2,611**	2,425	**354**	415	**2**	2	**121**	126
Intervet	**1,125**	1,094	**1,125**	1,094	**219**	238			**59**	54
Coatings	**6,203**	5,541	**6,209**	5,555	**604**	384	**(1)**	(1)	**140**	135
Chemicals	**3,791**	3,867	**3,809**	3,890	**362**	312	**41**	23	**221**	241
Other	**29**	94	**63**	117	**(77)**	137	**47**	(18)	**11**	13
	13,737	13,000	**13,817**	13,081	**1,462**	1,486	**89**	6	**552**	569
Intersegment revenues			**(80)**	(81)						
			13,737	13,000						

	Total assets 2006	2005	Total liabilities 2006	2005	Investment in associates 2006	2005	Capital expenditures 2006	2005	Impairment losses 2006	2005
Organon	**2,074**	2,262	**644**	677	**6**	5	**103**	95		73
Intervet	**1,153**	1,082	**270**	245			**55**	54		
Coatings	**3,821**	3,328	**1,524**	1,360	**6**	11	**135**	112	**5**	10
Chemicals	**2,549**	2,946	**895**	1,003	**128**	263	**231**	252	**24**	49
Miscellaneous and eliminations, including cash and cash equivalents, and borrowings	**3,011**	2,506	**5,189**	5,564	**37**	22	**5**	1		
Investment in associates	**177**	301								
	12,785	12,425	**8,522**	8,849	**177**	301	**529**	514	**29**	132

	Revenues by country of destination 2006	2005	Total assets 2006	2005	Capital expenditures 2006	2005
The Netherlands	**915**	862	**3,165**	3,061	**179**	179
Germany	**1,209**	1,238	**696**	750	**24**	25
Sweden	**523**	516	**863**	863	**78**	65
United Kingdom	**781**	809	**664**	690	**20**	31
Other European countries	**4,245**	4,075	**2,266**	2,112	**85**	81
United States and Canada	**2,711**	2,400	**2,093**	1,959	**70**	51
Latin America	**924**	830	**610**	619	**23**	42
Asia	**1,755**	1,590	**940**	1,017	**43**	32
Other regions	**674**	680	**252**	329	**7**	8
	13,737	13,000	**11,549**	11,400	**529**	514
Eliminations and cash and cash equivalents			**1,059**	724		
Investment in associates			**177**	301		
			12,785	12,425		

Note 1
Incidentals

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

Incidentals incuded in the statement of income are as follows:

	2006	2005
Special benefits	**55**	571
Results on divestments	**213**	44
Restructuring and impairment charges	**(112)**	(169)
Charges related to major legal, antitrust, and environmental cases	**(4)**	(112)
	152	334

The incidentals are included in the following cost lines:

	2006	2005
Cost of sales	**(39)**	(15)
Selling expenses	**(2)**	83
Research and development expenses		24
General and administrative expenses		24
Other operating income/(expenses)	**193**	218
	152	334

In 2006, the special benefits of EUR 55 million were mainly attibutable to the transition to a defined contribution scheme for certain U.S. pension plans and a change of the U.S. postretirement healthcare plan.

In 2005, the special benefits mainly related 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).

Results on divestments of EUR 213 million in 2006 were derived mainly from the sale of a Coatings plant near Barcelona and the profits from the Chemicals divestment plan.

Results on divestments in 2005 mainly concerned the divestment of Intervet's feed additives business BioVet and the divestment of the company's interest in Svensk Ethanolkemie AB.

The following restructuring and impairment charges were recognized:

	2006	2005
Asset impairments at:		
– Organon		(67)
– Coatings	**(5)**	(5)
– Chemicals	**(24)**	(49)
Restructurings at:		
– Organon	**(8)**	(3)
– Coatings	**(34)**	(31)
– Chemicals	**(40)**	(14)
– Other	**(1)**	
	(112)	(169)

In 2006, the asset impairments mainly related to some smaller impairments at Chemicals and Coatings. Of the total impairment charges of EUR 29 million, EUR 1 million relates to goodwill, EUR 19 million to property, plant and equipment, while EUR 9 million of impairments relate to other assets, which after impairment were included under assets held for sale.

In 2005, the asset impairments mainly related to Organon's active pharmaceutical ingredients activities and the McCook plant of Chemicals in the United States. Organon's active pharmaceutical ingredients activities were under pressure from difficult market circumstances, leading to a pretax 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, some smaller impairments at Chemicals and Coatings were recognized.

Both in 2006 and 2005, 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 2006 amounted to EUR 21 million for antitrust cases and a reversal of EUR 17 million for environmental risks at derelict sites of companies acquired in the past. In 2005, these charges related to antitrust (EUR 39 million), Remeron® cases (EUR 64 million) and environmental cases (EUR 9 million).

Note 2
Other operating income

	2006	2005
Incidentals	**193**	218
IAS 39 fair value adjustments	**(17)**	26
Results on sale of redundant assets	**9**	5
Currency exchange differences	**3**	5
Other items	**1**	6
	189	260

Note 3
Financing income and expenses

	2006	2005
Interest income	**126**	125
Interest expenses	**(221)**	(240)
Interest on discounting of provisions and other long-term receivables	**(16)**	(41)
	(111)	(156)

Included in the interest expenses was a reduction of EUR 4 million (2005: EUR 3 million) due to the capitalization of financing expenses of capital investment projects under construction. The average interest rate used for capitalization of borrowing cost was 4%.

Note 4
Share in profit of associates

The 2006 share in profit of associates amounted to EUR 85 million net of a tax charge of EUR 4 million (2005: EUR 4 million net of a tax charge of EUR 2 million). The operational performance of associates improved, mainly due to improved results for Flexsys. The 2006 earnings include net incidental profits of EUR 39 million, mainly related to Acordis. In 2005, the net incidental losses of EUR 37 million mainly related to the closure of Methanor and guarantees for environmental costs at Acordis.

Note 5
Income taxes

Pretax income (including the share in profit of associates) amounted to EUR 1,440 million (2005: EUR 1,336 million). Tax (charges)/benefits are included in the statement of income as follows:

	2006	2005
Tax on operating income less financing income and expenses	**(254)**	(336)
Tax on share in profit of associates	**(4)**	(2)
	(258)	(338)

The classification of current and deferred taxes is as follows:

	2006		2005	
Current tax:				
– for the year	**(487)**		(418)	
– adjustments for prior years	**141**		31	
		(346)		(387)
Deferred tax for:				
– origination and reversal of temporary differences	**109**		60	
– changes in tax rates	**(15)**		(9)	
– tax losses recognized	**(6)**		(2)	
		88		49
		(258)		(338)

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

	2006	2005
Corporate tax rate in the Netherlands	**30**	32
Effect of lower tax rates in certain countries	**(2)**	(6)
Tax-exempt income/nondeductible expenses	**(1)**	2
Nontaxable income from investment in associates	**(1)**	(1)
Changes in enacted tax rates	**1**	–
Under/(over)provided in prior years	**(9)**	(2)
	18	25

In 2006, the effective consolidated tax rate is affected by a change in the geographical mix of taxable income and by a one-time benefit of around EUR 125 million. This benefit is attributable to an agreement with tax authorities in several countries on transfer pricing issues related to the company's corporate income tax filings, covering a period of almost ten years. Also the enacted tax rates in several jurisdictions decreased. The main changes include the decrease of the tax rate in the Netherlands from 29.6% (2006) to 25.5% (2007), and a decrease of the tax rate in Spain from 35% to 32.5% (2007) and to 30% (2008).

In 2006, the aggregate amount of current and deferred taxes relating to items directly recognized in equity is a credit of EUR 46 million and relates to cashflow hedge accounting, share-based payments, and intercompany loans of a permanent nature. In 2005, this was a charge of EUR 51 million.

Note 6
Salaries, wages, and social charges

	2006	2005
Salaries and wages	**2,543**	2,402
Pension and other postretirement cost	**316**	304
Other social charges	**499**	515
	3,358	3,221

Pension and other postretirement cost exclude the special benefits of EUR 55 million, mainly related to the changes in the pension and postretirement plans in the United States (2005: EUR 283 million related to changes in the pension and postretirement plans in the Netherlands). Charges recognized in the statement of income for share-based compensation are included in salaries and wages (2006: EUR 16 million; 2005: EUR 12 million). For more details on share-based compensation see note *f* to the balance sheet of Akzo Nobel NV.

Employees

Average number of employees	**2006**	2005
Organon	**14,000**	14,200
Intervet	**5,300**	5,300
Coatings	**30,700**	29,000
Chemicals	**10,500**	11,600
Other units	**1,400**	1,300
	61,900	61,400
Number of employees at December 31	**61,900**	61,300

The average number of employees working outside the Netherlands was 50,500 (2005: 50,000).

Note 7
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, 2005						
Cost of acquisition	9,141	2,576	5,186	830	382	167
Depreciation/impairment	(5,606)	(1,109)	(3,753)	(626)		(118)
Carrying value	3,535	1,467	1,433	204	382	49
Changes in carrying 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 sale	(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)
Carrying value	3,432	1,414	1,443	232	298	45
Changes in carrying value:						
Acquisition through business combinations	63	37	23	3		
Divestitures	(25)	(18)	(7)			
Capital expenditures	529	97	318	87	18	9
Transfer between categories		26	(7)	17	(35)	(1)
Disinvestments	(45)	(23)	(7)	(12)	(2)	(1)
Depreciation	(501)	(107)	(310)	(82)		(2)
Impairment	(19)	(6)	(12)			(1)
Reversal of impairments	2	2				
Transfer to noncurrent assets held for sale	(27)	(13)	(11)	(1)	(2)	
Changes in exchange rates	(63)	(30)	(17)	(9)	(1)	(6)
Total changes	(86)	(35)	(30)	3	(22)	(2)
Balance at December 31, 2006						
Cost of acquisition	9,179	2,671	5,176	896	276	160
Depreciation/impairment	(5,833)	(1,292)	(3,763)	(661)		(117)
Carrying value	3,346	1,379	1,413	235	276	43

If an impairment indicator exists, an impairment calculation is performed. In cases where the carrying value of an asset exceeds the recoverable amount, an impairment charge is recognized in the statement of income. In 2006, EUR 19 million impairment charges were recognized (2005: EUR 97 million), while EUR 2 million impairment charges were reversed. Both the impairment charges and the reversal of impairments were recognized in cost of sales.

The 2006 impairment charges relate to several smaller restructurings.

In 2005 the asset impairments mainly related 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 due to difficult market circumstances. The recoverable value of the business was calculated by determining the value in use, using a pre-tax discount rate of 16%. The impairment of the McCook plant was due to the restructuring of the production capacity in order to address the competitive environment in which the Surfactants business operates. The recoverable value 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.

The carrying value of property, plant and equipment financed by hire purchase and leasing, and not legally owned by the company was EUR 54 million at December 31, 2006 (at December 31, 2005: EUR 61 million). Of this amount EUR 39 million relates to buildings and land, EUR 3 million to plant equipment and machinery and EUR 12 million to other equipment.

Purchase commitments for property, plant and equipment totaled EUR 96 million at December 31, 2006. At December 31, 2005, these commitments totaled EUR 76 million.

At December 31, 2006, and December 31, 2005, no items of property, plant and equipment were registered as security for bank loans.

Note 8
Intangible assets

	Total	Goodwill	Licenses, knowhow, brand names, customer relationships and intellectual property rights	Development costs
Balance at January 1, 2005				
Cost of acquisition through business combinations	628	342	286	
Cost of internally developed intangibles	13			13
Amortization/impairment	(193)	(65)	(123)	(5)
Carrying value	448	277	163	8
Changes in carrying 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)
Carrying value	488	285	195	8
Changes in carrying value:				
Acquisitions through business combinations	276	174	102	
Other investments – including internally developed	12		11	1
Transfer between categories		(3)	3	
Amortization	(51)		(47)	(4)
Impairments	(1)	(1)		
Transfer to noncurrent assets held for sale	(16)	(16)		
Changes in exchange rates	(26)	(19)	(7)	
Total changes	194	135	62	(3)
Balance at December 31, 2006				
Cost of acquisition through business combinations	930	467	463	
Cost of internally developed intangibles	17			17
Amortization/impairment	(265)	(47)	(206)	(12)
Carrying value	682	420	257	5

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

	2006	2005
Cost of sales	**23**	29
Selling expenses	**9**	8
Research and development expenses	**12**	6
General and administrative expenses	**7**	9
Restructuring and impairment charges	**1**	24
	52	76

An impairment test is performed for 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.

The annual impairment test compares the carrying value and the recoverable amount of the cash-generating unit. The recoverable amount is determined based on a calculation of the value in use and, where possible, compared to multiples of recent transactions to estimate the net selling price. Those calculations use cash flow projections based on actual operating results and the three-year operational plan as approved by the Board of Management. Projections are extrapolated beyond this three-year period using an appropriate perpetual growth rate that is consistent with the long term average market growth rate and that typically does not exceed 3%. The estimated post-tax cash flows are discounted to their present value using a post-tax weighted average cost of capital (WACC). A post-tax WACC is used because this is readily available in the financial markets. Calculating the recoverable amount on a post-tax basis using a post-tax WACC should lead to the same results as pre-tax calculations. The company often uses the WACC as starting point for the discount rate, which is adjusted to reflect the current market assessments of the time value of money and, if appropriate, the risks specific to the asset. The post-tax WACC used is 8%.

The key assumptions used in the predictions are:
- Revenue growth: based on actual experience, an analysis of market growth and the expected development of market share
- Margin development: based on actual experience and managements long term projections.

The impairment test carried out in 2006 showed that in the majority of cases the recoverable amount for each Cash-Generating Unit exceeds the carrying amount. Impairment charges of EUR 1 million were recognized. In 2005, the impairment charges were EUR 35 million, 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%.

Both at December 31, 2006 and December 31, 2005, there were no purchase commitments for intangible assets. Neither were there any intangible assets registered as security for bank loans.

Note 9
Financial noncurrent assets

			Investment in associates		
	Total	Deferred tax assets	Share in capital	Loans	Other
Balance at December 31, 2005	1,800	895	285	16	604
Acquisitions/loans granted/investments	197	(3)	6	52	142
Divestitures/repayments	(123)		(49)	(5)	(69)
Withdrawals	(46)				(46)
Amounts recognized as income/(expense)	197	102	79		16
Dividends received	(37)		(37)		
Fair value adjustments	(71)			(26)	(45)
Unwind of discount	4				4
Transfer to noncurrent assets held for sale	(130)		(130)		
Change in Medicare receivable	(13)				(13)
Changes in exchange rates	(72)	(41)	(14)		(17)
Balance at December 31, 2006	1,706	953	140	37	576

Other financial noncurrent assets
Other financial noncurrent assets at December 31, 2006, include the subordinated loan of EUR 89 million granted to the Akzo Nobel Pension Fund (APF) in the Netherlands, which was recognized at inception at its fair value of EUR 87 million and, subsequently accounted for at amortized cost, using the effective interest method. Also included is a loan to APF of EUR 21 million. Other long-term receivables related to the sale of the Sant Adria site (Barcelona), which amounted to EUR 81 million, and are included under other financial noncurrent assets as well.

Deferred tax assets
For details on deferred tax assets, see note 10.

Investment in associates
For details on investment in associates, see note 11.

Note 10
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:

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
Intangible assets	**100**	**33**	139	12
Property, plant and equipment	**58**	**118**	71	158
Inventories	**45**	**26**	25	14
Trade and other receivables	**55**	**82**	29	32
Provisions:				
– pensions and other postretirement benefits	**291**	**1**	347	27
– restructuring	**20**	**1**	30	1
– other provisions	**331**	**43**	399	48
Other items	**104**	**80**	75	194
Net operating loss carryforwards	**192**		145	
Deferred tax assets not recognized	**(33)**		(35)	
Tax assets/liabilities	**1,163**	**384**	1,225	486
Set-off of tax	**(210)**	**(210)**	(330)	(330)
Net deferred taxes	**953**	**174**	895	156

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. From the total amount of recognized deferred tax assets of EUR 953 million an amount of EUR 148 million is related to entities that have suffered a loss in either 2006 or 2005 in the tax jurisdiction to which a deferred tax asset relates, and where utilization is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

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

	Net balance January 1, 2005	Changes in exchange rates	Acquisitions/ divestitures	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
Deferred tax assets not recognized	(53)	(4)		22		(35)
Tax assets/liabilities	650	47	–	49	(7)	739

	Net balance December 31, 2005	Changes in exchange rates	Acquisitions/ Divestitures	Recognized in income	Recognized in equity	Net balance December 31, 2006
Intangible assets	127	(6)	(30)	(24)		67
Property, plant and equipment	(87)	2	7	18		(60)
Inventories	11	(1)	(1)	10		19
Trade and other receivables	(3)	(1)	(2)	(21)		(27)
Provisions:						
– pensions and other postretirement benefits	320	(12)	4	(22)		290
– restructuring	29	(1)		(9)		19
– other provisions	351	(11)	2	(54)		288
Other items	(119)	(1)	1	133	10	24
Net operating loss carryforwards	145	(6)	(4)	57		192
Deferred tax assets not recognized	(35)	2				(33)
Tax assets/liabilities	739	(35)	(23)	88	10	779

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

	2006	2005
Deferred tax assets	**953**	895
Deferred tax liabilities	**(174)**	(156)
	779	739

At December 31, 2006, losses carried forward amounted to EUR 632 million, of which EUR 88 million is not expected to be recognized. As a result, the deferred tax effect of EUR 32 million is not recognized in the balance sheet. Of the total losses carried forward EUR 9 million will expire within one year. For EUR 102 million of losses, there is no expiration date. Of the net deferred taxes EUR 156 million is expected to reverse in 2007.

The EUR 33 million deferred tax assets not recognized in the balance sheet relate to the following items:

	2006	2005
Deductable temporary differences	**1**	1
Tax losses	**32**	34
	33	35

For the movement schedule of deferred tax assets see note 9.

Note 11

Investment in associates

A summary of financial information for the investment in associates on a 100% basis is given below:

	2006	2005
Net revenues	**1,668**	2,500
Income before taxes	**65**	74
Net income	**36**	21
Total share in net income of investment in associates recognized in the consolidated statement of income	**79**	17
Current assets	**420**	629
Noncurrent assets	**625**	1,000
Total assets	**1,045**	1,629
Current liabilities	**319**	562
Noncurrent liabilities	**388**	455
Shareholders' equity	**338**	612
Total liabilities and equity	**1,045**	1,629
Investments in and loans to investment in associates included in the consolidated balance sheet	**177**	301

Several Akzo Nobel companies are general partners in a number of partnerships that are included in the balance sheet under investment in associates and assets held for sale (Flexsys). Akzo Nobel's equity in the capital of these partnerships was EUR 35 million at year-end 2006 (at December 31, 2005: EUR 55 million). Equity in 2006 earnings was EUR 5 million (2005: loss of EUR 14 million). At year-end 2006, there were no short-term receivables from investment in associates related to these partnerships (at December 31, 2005: EUR 1 million).

Note 12
Inventories

	2006	2005
Raw materials and supplies	**566**	616
Semifinished goods	**502**	401
Finished products and goods for resale	**970**	963
Inventory prepayments	**4**	7
	2,042	1,987

Of the total carrying value of inventories at December 31, 2006, EUR 59 million is measured at net realizable value (fair value less cost to sell). At December 31, 2005 this was EUR 64 million. In 2006, EUR 36 million was recognized in the statement of income for the write-down of inventories (2005: EUR 43 million), while EUR 9 million of write-downs was reversed (2005: EUR 18 million). There are no inventories subject to retention of title clauses.

Note 13
Income tax receivable and payable

Income tax receivable of EUR 109 million (2005: EUR 137 million) represents the amount of income taxes recoverable in respect of current and prior periods. Income tax payable of EUR 321 million (2005: EUR 380 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 14
Trade and other receivables

	2006	2005
Trade receivables	**2,216**	2,161
Non-income taxes	**119**	108
Receivables from associates	**39**	63
Prepaid expenses	**136**	114
Fair value derivatives	**10**	28
Other receivables	**304**	319
	2,824	2,793
Discounted portion	**(14)**	(20)
	2,810	2,773

Trade receivables are presented net of impairment losses of EUR 126 million (2005: EUR 142 million). In 2006, EUR 29 million of impairment losses were recognized in the statement of income (2005: EUR 14 million).

Note 15
Cash and cash equivalents

	2006	2005
Short-term investments	**1,427**	1,144
Cash on hand and in banks	**444**	342
	1,871	1,486

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

At December 31, 2006, the amount of cash and cash equivalents was freely available.

Note 16
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. The process to realize these divestments is nearly completed. 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: PVC Additives, MACC, Lubricants & Specialties and our investment in Flexsys.

Assets held for sale include the following:

	2006	2005
Property, plant and equipment	**32**	164
Intangible assets	**16**	
Investment in associates	**130**	
Inventories	**16**	75
Trade and other receivables	**25**	83
	219	322

Liabilities classified as held for sale include the following:

	2006	2005
Trade and other payables	**25**	60

Note 17

Equity

For the consolidated statement of changes in equity see page 89. For details on Akzo Nobel NV shareholders' equity see note *f* to the balance sheet of Akzo Nobel NV.

Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Cumulative translation reserves 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.

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 and other executives. For details of the stock option plan and the performance share plan for the Board of Management and other executives, see note *f* to the balance sheet of Akzo Nobel NV.

Note 18

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:

	2006	2005
Issued common shares at January 1	**286,147,260**	286,147,260
Issued common shares during the year	**732,721**	
Effect of own shares held	**(336,267)**	(374,021)
Shares for basic earnings per share at December 31	**286,543,714**	285,773,239
Effect of dilutive shares:		
– for stock options	**1,023,823**	658,646
– for performance-related share plan	**860,761**	519,841
Shares for diluted earnings per share	**288,428,298**	286,951,726

Note 19

Provisions

	Total	Pensions and other postretirement benefits	Restructuring of activities	Environmental costs	Other
Balance at December 31, 2005	2,976	2,070	199	268	439
Additions made during the year	433	137	109	35	152
Utilization	(527)	(224)	(119)	(47)	(137)
Amounts reversed during the year	(164)	(55)	(29)	(50)	(30)
Unwind of discount	22	2	3	12	5
Acquisitions/divestitures	26	12	(1)	13	2
Change in Medicare receivable	(13)	(13)			
Changes in exchange rates	(50)	(41)	(1)	(3)	(5)
Balance at December 31, 2006	2,703	1,888	161	228	426
Non-current portion of provisions	2,132	1,732	48	178	174
Current portion of provisions	571	156	113	50	252
Total	2,703	1,888	161	228	426

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.

Notes to the consolidated financial statements

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

During 2006, the postretirement healthcare and pensions plans in the United States were adjusted, whereby the benefit levels and the eligibility to participate in these plans were reduced. This is the major reason for the curtailment benefit of in total EUR 55 million, which was recognized. In addition, as a result of a change in medical provider in the United States, medical costs are expected to be lower. As a consequence, the defined benefit obligation reduced substantially in 2006, which resulted in a reduction of the unrecognized net loss.

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 and granted a EUR 100 million subordinated loan, which had a fair value at inception of EUR 87 million. The company also funded an interest-free loan of EUR 50 million, which will be redeemed by retaining future employee pension premiums. The fair value at inception of this loan was EUR 47 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 pretax gain was EUR 114 million.

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 pretax gain on the termination was EUR 169 million.

The table below shows a summary of the changes in the pension and the other postretirement benefit obligations and plan assets for 2006 and 2005.

	Pensions		Other postretirement benefits	
Asset/(liability)	**2006**	2005	**2006**	2005
Defined benefit obligation				
Balance at beginning of year	**(5,510)**	(8,975)	**(508)**	(514)
Acquisitions/divestments	**(12)**	(4)	**(1)**	
Settlements/curtailments	**3**	4,575	**79**	150
Service costs	**(82)**	(209)	**(13)**	(21)
Contribution by employees	**(7)**	(32)	**(2)**	
Interest costs	**(249)**	(437)	**(20)**	(30)
Benefits paid	**322**	484	**25**	23
Actuarial gains/(losses)	**(197)**	(747)	**93**	(59)
Changes in exchange rates	**(28)**	(165)	**55**	(57)
Balance at end of year	**(5,760)**	(5,510)	**(292)**	(508)
Plan assets				
Balance at beginning of year	**3,596**	6,781	**–**	–
Acquisitions/divestments		1		
Settlements	**(2)**	(4,502)		
Contribution by employer	**160**	397		
Contribution by employees	**7**	32		
Benefits paid	**(284)**	(436)	**–**	–
Expected return on plan assets	**233**	461	**–**	–
Actuarial gains	**214**	736		
Changes in exchange rates	**18**	126		
Balance at end of year	**3,942**	3,596	**–**	–
Funded status	**(1,818)**	(1,914)	**(292)**	(508)
Unrecognized net loss/(gain)	**302**	328	**(9)**	89
Unrecognized prior service costs	**1**	1	**(26)**	2
Medicare receivable			**(46)**	(68)
Net balance pension provisions	**(1,515)**	(1,585)	**(373)**	(485)

The defined benefit obligation breaks down as follows:

	2006	2005
Wholly or partly funded plans	**4,892**	4,663
Unfunded plans	**868**	847
	5,760	5,510

The funded status at the beginning and end of 2004 was as follows:

	Pensions		Other postretirement benefits	
Asset/(liability)	December 31, 2004	January 1, 2004	December 31, 2004	January 1, 2004
Defined benefit obligation	(8,975)	(8,579)	(514)	(521)
Plan assets	6,781	6,347	–	1
Funded status	(2,194)	(2,232)	(514)	(520)

As January 1, 2004 is the transition date for the implementation of IFRS, this information is not available for earlier years. The difference between the actual and the expected return on plan assets was a gain of EUR 214 million in 2006, of EUR 736 million in 2005, and of EUR 228 million in 2004. The 2006 actuarial gains and losses on the defined benefit obligation breakdown as follows:

Gain/(loss)	Pensions	Other postretirement benefits
Due to experience	2	74
Due to change in assumptions	(199)	19
	(197)	93

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, 2006, this value was EUR 46 million (December 31, 2005: EUR 68 million).

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

	Pensions		Other postretirement benefits	
Charge/(income)	2006	2005	2006	2005
Service costs for benefits earned during the period	**82**	209	**13**	21
Interest costs on defined benefit obligations	**249**	437	**20**	30
Expected return on plan assets	**(233)**	(461)		
Amortization of unrecognized losses/(gains)	**9**	11	**(1)**	
Settlement/curtailment gain	**(4)**	(132)	**(51)**	(169)
	103	64	**(19)**	(118)

The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 177 million in 2006 and EUR 57 million in 2005. This increase to a large extent concerns the transition in the Netherlands from a defined benefit pension plan to a defined contribution plan.

The weighted average assumptions underlying the computations were:

	Pensions		Other postretirement benefits	
Percent	2006	2005	2006	2005
Pension benefit obligation at December 31				
– discount rate	**4.9**	4.7	**5.8**	5.5
– rate of compensation increase	**4.2**	3.9		
Net periodic pension costs				
– discount rate	**4.7**	4.9	**5.5**	5.4
– rate of compensation increase	**3.9**	3.2		
– expected return on plan assets	**6.5**	6.7		

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

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

Pension plan assets principally consist of quoted equity securities, long-term interest-earning investments, and real estate.
At December 31, 2006 and 2005, 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, 2006 and 2005, and the target allocation for 2007 for the pension plans by asset category are as follows:

Percent	Target allocation 2007	Percentage of plan assets at December 31, 2006	2005
Equity securities	50–55	**50**	51
Long-term interest earning investments	35–45	**37**	36
Real estate	5–10	**8**	8
Other	0–5	**5**	5
Total		**100**	100

Weighted average assumptions for other postretirement benefits were as follows:

Percent	2006	2005
Assumed healthcare cost trend rates at December 31:		
– healthcare cost trend rate assumed for next year	**9.0**	8.5
– rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0**	5.0
– year that the rate reaches the ultimate trend rate	**2010**	2009

In line with plan agreements in place until December 31, 2006, 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	7	(5)
Effect on postretirement benefit obligations	19	(18)

Cash flows
The company expects to contribute EUR 122 million to its defined benefit pension plans in 2007. For other postretirement benefit plans the contribution for 2007 is expected to be EUR 20 million.

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

	Pensions	Other postretirement benefits
2007	296	23
2008	309	21
2009	317	22
2010	326	22
2011	336	24
2012-2015	1,732	141

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 before the balance sheet date. Most restructuring activities relate to relatively smaller restructurings and are expected to be completed within two years from the balance sheet date. However, for certain plans payments of termination benefits to former employees may take several years longer.

Provisions for environmental costs
For details on environmental exposures, see note 25.

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 177 million at December 31, 2006 (at December 31, 2005: EUR 204 million).

For details on antitrust cases, see note 25.

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

Note 20
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. At December 31, 2006, the remaining balance of the deferred amount was EUR 7 million (2005: EUR 27 million).

Note 21
Long-term borrowings

	2006	2005
Debentures:		
– issued by Akzo Nobel NV	**2,327**	2,368
– issued by consolidated companies	**121**	220
Debt to credit institutions	**18**	52
Other borrowings	**85**	62
	2,551	2,702

At December 31, 2006, the total amount of long-term credit facilities arranged by Akzo Nobel was EUR 1.5 billion (at December 31, 2005: EUR 1.5 billion) maturing at 2013. At December 31, 2006 and December 31, 2005 the facilities were not used.

During 2006, the average effective interest rate was 4.5% (2005: 4.2%).

Aggregate maturities of long-term borrowings are as follows:

	2008/2011	after 2011
Debentures:		
– issued by Akzo Nobel NV	2,327	
– issued by consolidated companies	20	101
Debt to credit institutions	9	9
Other borrowings	48	37
	2,404	147

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

At December 31, 2006, and December 31, 2005, 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
Within 1 year	10	1	9
Between 1 and 5 years	28	2	26
More than 5 years	1	–	1
	39	3	36

The amounts due within 1 year are presented under short-term borrowings. For details on the company's exposure to interest rate and foreign currency risk, see note 24.

Note 22
Short-term borrowings

	2006	2005
Debt to credit institutions	**240**	298
Borrowings from investment in associates	**12**	16
Current portion of long-term borrowings	**158**	43
	410	357

Akzo Nobel has a commercial paper program in the United States, which at December 31, 2006, as at December 31, 2005, had a maximum of USD 1.0 billion (year-end 2006: EUR 0.7 billion; year-end 2005: EUR 0.8 billion), and a Euro commercial paper program, which at December 31, 2006, as at December 31, 2005, had a maximum of EUR 1.5 billion. Both at December 31, 2006 and at December 31, 2005, there was no commercial paper outstanding.

For details on financial instruments, see note 24.

Note 23
Trade and other payables

	2006	2005
Prepayments by customers	**20**	24
Suppliers	**1,221**	1,180
Debt to associates	**3**	4
Taxes and social security contributions	**171**	153
Amounts payable to employees	**409**	369
Dividends	**1**	4
Pensions	**17**	7
Fair value derivatives	**13**	13
Other liabilities	**476**	437
	2,331	2,191

Note 24
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 investment in associates. Currency derivatives are not used for speculative purposes.

At December 31, 2006, outstanding contracts to buy currencies totaled EUR 775 million (at December 31, 2005: EUR 1.0 billion), while contracts to sell currencies totaled EUR 813 million (at December 31, 2005: EUR 1.0 billion). These contracts mainly relate to U.S. dollars, Swedish kronor, Norwegian kronor, pounds sterling, and Japanese yen, all having maturities within one year.

Interest rate 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 250 million fixed rate liabilities with an interest rate of 5.63% with 3-month floating rate EURIBOR-related liabilities, maturing in 2009.

In addition, the company swapped EUR 250 million 3-month floating rate EURIBOR liabilities into USD 223 million 3-month floating rate LIBOR liabilities, maturing in 2009. The combined effective interest rate was 5.0%.

The company swapped fixed rate liabilities with an interest rate of 4.25% with 6-month floating rate EURIBOR-related liabilities for an amount of EUR 650 million, maturing in 2011. The combined effective interest rate was 3.3%.

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 at 3.0% for a volume of EUR 100 million during the period January to April. 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 2008	2009	2010	2011	There-after	Total	Effective interest rate	Carrying amount	Estimated fair value
Assets									
Subordinated loan to Akzo Nobel Pension Fund			(100)			(100)	5.1	89	89
Average interest rate			3.5			3.5			
Liabilities									
Long-term borrowings									
Fixed Rate (EUR)									
Bond loan 98/08	511					511	5.49	513	521
Average interest rate %	5.38					5.38			
Bond loan 02/09		1,000				1,000	5.76	1,051	1,030
Average interest rate %		5.63				5.63			
Bond loan 03/11				750		750	4.41	763	751
Average interest rate %				4.25		4.25			
Fixed Rate (USD)									
Bond loan 09		14				14	6.35	14	14
Average interest rate %		6.28				6.28			
Bond loan 12					107	107	6.57	107	110
Average interest rate %					6.54	6.54			
Interest rate derivatives									
Interest rate swaps									
Fixed to variable (EUR)		250				250		13	13
Average pay rate %		Euribor 3 months + 0.47							
Average receive rate %		5.625				5.625			
Fixed to variable (EUR)				450		450		4	4
Average pay rate %				Euribor 6 months + 0.43					
Average receive rate %				4.25		4.25			
Fixed to variable (EUR)				200		200		2	2
Average pay rate %				Euribor 6 months + 0.445					
Average receive rate %				4.25		4.25			
Cross currency swap									
Variable (EUR) to Variable (USD)		250 EUR/ 223 USD						83	83
Average receive rate %		250 EUR Euribor + 0.47							
Average pay rate %		223 USD Libor + 0.439							
Forward rate agreements	Fixed interest rate on deposits – 3% (fixed rate) on EUR 100 million maturity 2007								

Notes to the consolidated financial statements

Credit risk management
The company has a credit risk management policy in place to limit credit losses due to nonperformance of financial counterparties and customers. The exposure to credit risk is monitored on an ongoing basis. 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.

Commodity price risk management
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 36,500 ton for the period of January through December 2007, whereby the price is fixed.
The company also concluded futures contracts for the purchase of 1,966 million m^3 of gas, reasonably spread over the period 2007 – 2009.

Furthermore, the company entered into future contracts for electricity in order to hedge the price risk for the expected use of electricity by certain subsidiaries over the period 2007-2010, 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, 2006, 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, 2006		December 31, 2005	
Asset/(liability)	**Carrying value**	**Estimated fair values**	Carrying value	Estimated fair values
Subordinated loan to Akzo Nobel Pension Fund	**89**	**89**	87	87
Trade and other receivables	**2,810**	**2,810**	2,773	2,773
Cash and cash equivalents	**1,871**	**1,871**	1,486	1,486
Interest swap contracts	**19**	**19**	81	81
Cross currency swap contracts	**83**	**83**	64	64
Forward rate agreements	**–**	**–**	–	–
Forward exchange contracts:				
– asset	**10**	**10**	23	23
– liability	**(13)**	**(13)**	(11)	(11)
Long-term borrowings	**(2,551)**	**(2,529)**	(2,702)	(2,833)
Short-term borrowings	**(410)**	**(410)**	(357)	(357)
Trade and other payables	**(2,331)**	**(2,331)**	(2,191)	(2,191)
Electricity futures	**2**	**2**	18	18
Petroleum swaps	**(16)**	**(16)**	4	4
Gas futures	**(1)**	**(1)**	1	1
	(438)	**(416)**	(724)	(855)
Unrecognized (losses)/gains		**22**		(131)

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 25

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 19, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 228 million at December 31, 2006 (at December 31, 2005: EUR 268 million). The provision has been discounted using an average pretax discount rate of 5.25%.

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, 2005, the company had a provision for antitrust cases of EUR 204 million. Fines, civil damage settlements, and legal costs incurred in 2006 in connection with these cases amounted to EUR 50 million (2005: EUR 12 million).

In March 2006, Akzo Nobel Chemicals International BV entered into a Plea Agreement with the United States that involved, among other material terms, an agreement that Akzo Nobel Chemicals International BV would plead guilty to a one-count Information charging it with violation of § 1 of the Sherman Act with respect to the sale of hydrogen peroxide over the period from July 1998 to December 2001. It also involved an agreement that the US DOJ would recommend a fine and related payments in the amount of USD 32 million (EUR 26 million). Pursuant to the Plea Agreement, on May 17, 2006, Akzo Nobel Chemicals International BV entered its plea of guilty and was sentenced by the Federal District Court in San Francisco, California, in accordance with the recommendation in the Plea Agreement.

In 2006, 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 21 million to the provision for antitrust cases. At December 31, 2006, the provision for antitrust cases amounted to EUR 177 million. Included in this amount are provisions for three cases pending in appeal by the company with the EU Court of First Instance (EU CFI) against decisions by the EU Commission to impose fines on the company for violations of EU competition laws regarding the following products: choline chloride (EUR 21 million), monochloroacetic acid (EUR 84 million), and hydrogen peroxides (EUR 25 million). The company's appeal against the European Commission's decision to fine the company for violation of the European competition laws regarding sodium gluconates (EUR 10 million) was dismissed by the EU CFI, which judgment is now under appeal by the company at the European Court.

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 DOJ and the EU Commission. We are aware that Flexsys entered into a settlement (which in 2005 received final approval by the Federal District Court in San Francisco, California) with a class of direct purchasers in the United States. We are also aware of a number of purported class actions having been filed against Flexsys in various state courts (by alleged indirect purchasers) and an individual action (by an alleged competitor) in federal court in the United States, and in the province of Quebec, Canada. The company has been named as codefendant in the federal individual action. 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 judgments against settlements made by, or related costs incurred by Flexsys. The carrying value of the company's investment in Flexsys, however, may be affected by these cases. Ultimo 2006 the carrying amount related to the Flexsys investment was EUR 131 million. This amount is included in assets held for sale.

Other Investigations and Litigation

Certain wholly-owned operating subsidiaries of Organon and Intervet were named in the final report of the Independent Inquiry Committee into the United Nations' Oil for Food Program for humanitarian support to Iraq. The report states that these entities made some improper payments in connection with four contracts (with a total value of USD 3 million) with the Iraqi Government to provide pharmaceuticals and vaccines. Akzo Nobel has been conducting an internal review of this matter and has voluntarily reported on that review to the U.S. Securities and Exchange Commission and to the US DOJ. The company is currently working with these authorities regarding the situation. The company also had preliminary communication with the relevant Dutch authorities. While neither of the said authorities has taken any action against Akzo Nobel or its subsidiaries, this matter could expose Akzo Nobel and/or its subsidiaries to regulatory and/or criminal charges and sanctions.

Late January 2006, Akzo Nobel Nederland BV and the Akzo Nobel Pension Fund in the Netherlands received a summons from the Association of Retired Akzo Nobel Employees with regard to the changed financing of the company's Dutch pension plan. In January 2007, the court dismissed all claims against Akzo Nobel Nederland BV and the Akzo Nobel Pension Fund.

In December 2006 Akzo Nobel Nederland BV received a summons from certain Dutch labor unions, acting on behalf of retired Dutch Akzo Nobel employees, claiming that Akzo Nobel Nederland BV's decision no longer to reimburse part of the health insurance premiums for those employees over time after a transition period is in breach of Akzo Nobel's employment contracts with these employees. The company is defending its position and based on legal advice believes that there will be no material liability to it on this matter.

A number of other claims are pending against Akzo Nobel NV 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 96 million at December 31, 2006. At December 31, 2005, these commitments totaled EUR 76 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 1.4 billion (2005: EUR 1.5 billion).

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated EUR 776 million at December 31, 2006 (at December 31, 2005: EUR 822 million). Payments due within one year amount to EUR 225 million (2005: EUR 261 million); payments between one and five years EUR 416 million (2005: EUR 441 million) and payments due after more than five years amount to EUR 135 million (2005: EUR 120 million).

Guarantees related to investment in associates totaled EUR 5 million (at December 31, 2005: EUR 3 million). As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2006, the risk ensuing from these liabilities was EUR 93 million (at December 31, 2005: EUR 113 million).

Note 26
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 (investment in associates). 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 2006. 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 NV.

Akzo Nobel NV statement of income

Millions of euros	Note	2006	2005
Net income from subsidairies and associated companies	a	**1,150**	1,002
Other net income		**3**	(41)
Net income		**1,153**	961

Akzo Nobel NV balance sheet

Before allocation of profit

Millions of euros, December 31	Note	2006	2006	2005[1]	2005[1]
Assets					
Financial noncurrent assets	c	**10,088**		9,318	
Total noncurrent assets			**10,088**		9,318
Trade and other receivables	d	**71**		80	
Cash and cash equivalents	e	**1,182**		1,034	
Total current assets			**1,253**		1,114
Total assets			**11,341**		10,432
Equity	f				
Subscribed share capital		**574**		572	
Additional paid-in capital		**1,841**		1,803	
Statutory reserves		**200**		209	
Cumulative translation differences		**30**		142	
Other reserves		**432**		(186)	
Undistributed profits		**1,067**		875	
Akzo Nobel NV shareholders' equity			**4,144**		3,415
Liabilities					
Long-term borrowings	g	**7,111**		6,936	
Total noncurrent liabilities			**7,111**		6,936
Income tax payable				6	
Other short-term debt	h	**86**		75	
Total current liabilities			**86**		81
Total equity and liabilities			**11,341**		10,432

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

[1] Reclassified for comparative reasons

Notes to Akzo Nobel NV statement of income

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

The financial statements of Akzo Nobel NV 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 78 to 84.

Subsidiaries of Akzo Nobel NV are accounted for using the equity method.

As the financial data of Akzo Nobel NV are included in the consolidated financial statements, the statement of income of Akzo Nobel NV is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code.

Note *a*

Net income from subsidairies and associate companies

Net income from subsidairies and associated companies relates to Akzo Nobel NV's share in the earnings of its subsidiaries, associates, and joint ventures. For further details see note c.

Note *b*

Remuneration and shares of the members of the Supervisory Board and the Board of Management

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

Supervisory Board

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

Euros	Remuneration	Committee allowance	Attendance fee	**2006** Total remuneration	2005
Maarten van den Bergh, Chairman [1]	63,700	12,300	16,000	**92,000**	32,000
Aarnout Loudon [2]	17,300	2,300		**19,600**	59,000
Karel Vuursteen [3]	53,700	12,300		**66,000**	48,000
Virginia Bottomley [4]	47,000	9,000	11,000	**67,000**	48,000
Dolf van den Brink [5]	47,000	15,700	1,000	**63,700**	52,000
Uwe-Ernst Bufe [5]	47,000	12,300	24,000	**83,300**	53,000
Antony Burgmans [6]	33,300			**33,300**	
Abraham Cohen [5]	47,000	12,300	13,000	**72,300**	54,000
Louis R. Hughes [7]	33,300	10,000	25,000	**68,300**	
Cees van Lede	47,000			**47,000**	41,000
Alain Mérieux	47,000		8,500	**55,500**	41,000

[1] From May 1, 2006, Chairman and member of the Remuneration Committee and member of the Nomination Committee.
[2] Until May 1, 2006, Chairman and member of the Remuneration Committee and member of the Nomination Committee.
[3] From May 1, 2006, Deputy Chairman and member of the Remuneration Committee and member of the Nomination Committee.
[4] Member of the Remuneration Committee and member of the Nomination Committee.
[5] Member of the Audit Committee.
[6] From May 1, 2006, member of the Supervisory Board
[7] From May 1, 2006, member of the Supervisory Board and from June 1, 2006 member of the Audit Committee.

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.

As from May 1, 2006, the remuneration of the members of the Supervisory Board has been changed. Fixed remuneration has been changed into EUR 75,000 (2005: EUR 52,000) for the Chairman, EUR 60,000 (2005: EUR 41,000) for the Deputy Chairman and EUR 50,000 (2005: EUR 41,000) for the other members. Members of committees receive an extra compensation. Attendance fees have been increased with respect to members living outside Europe and in Europe but outside the Netherlands. Members living in the Netherlands do not receive an attendance fee.

Notes to Akzo Nobel NV statement of income

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 NV common shares held by members of the Supervisory Board at December 31, 2006, were as follows:

Number of shares	**2006**	2005
Virginia Bottomley	**500**	500
Abraham Cohen	**4,000**	4,000
Cees van Lede		5,500
Karel Vuursteen	**400**	400

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

Board of Management

Active members

The individual service contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adopted by the General Meeting of Shareholders. For more detailed information on the decisions of the Remuneration Committee with respect to the service contracts of the Board of Management, see pages 73 through 76 of this Annual Report.

Overview of remuneration 2006

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	**2006**	2005	**2006**	2005	**2006**	2005
Hans Wijers, Chairman	**685,000**	665,000	**1,020,500**	790,000	**3,600**	6,600
Leif Darner	**489,300**	475,000	**474,500**	460,000	**3,600**	4,800
Rob Frohn	**489,300**	475,000	**474,500**	460,000	**5,900**	7,100
Toon Wilderbeek	**489,300**	475,000	**474,500**	460,000	**3,600**	3,200

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 123,400 for Mr. Darner, related to compensation for living expenses and contributions to an international school. The compensation fee for Mr. Frohn relating to his move to the Netherlands amounted to EUR 34,600.

Pension charges

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

Euros	**2006**	2005
Hans Wijers, Chairman	**421,300**	354,600
Leif Darner	**218,800**	167,900
Rob Frohn	**144,900**	111,900
Toon Wilderbeek	**263,500**	261,400

Incentives

In 2006, conditional and performance-related stock options and shares were granted to the members of the Board of Management.

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

Number of options	Year of issue	Exercise price in EUR	Outstanding at December 31, 2005	Granted in 2006	Excercised in 2006	Outstanding at December 31, 2006	Expiry date
Hans Wijers	2002	46.53	14,850			14,850	April 25, 2012
	2003	19.51	29,700			29,700	April 22, 2010
	2004	31.45	23,000			23,000	April 25, 2011
	2005	31.98	23,000			23,000	April 24, 2012
	2006	46.46	–	19,800		19,800	April 27, 2013
Value of outstanding options, in EUR						1,723,800	
Leif Darner	2001	46.75	4,950		(4,950)		
	2002	46.53	4,950			4,950	April 25, 2009
	2003	19.51	4,950			4,950	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98	15,000			15,000	April 24, 2012
	2006	46.46	–	13,000		13,000	April 27, 2013
Value of outstanding options, in EUR						701,500	
Rob Frohn	2001	46.75	4,950		(4,950)		
	2002	46.53	4,950			4,950	April 25, 2009
	2003	19.51	4,950			4,950	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98	15,000			15,000	April 24, 2012
	2006	46.46	–	13,000		13,000	April 27, 2013
Value of outstanding options, in EUR						701,500	
Toon Wilderbeek	2001	46.75	6,600		(6,600)		
	2002	46.53	3,300			3,300	April 25, 2009
	2002	46.53	13,200			13,200	April 25, 2012
	2003	19.51	26,400			26,400	April 22, 2010
	2004	31.45	15,000			15,000	April 25, 2011
	2005	31.98	15,000			15,000	April 24, 2012
	2006	46.46	–	13,000		13,000	April 27, 2013
Value of outstanding options, in EUR						1,346,800	

For the performance-related shares granted to the members of the Board of Management in 2004, a calculation of the TSR performance of the peer group companies, based on their home/primary listing were made by independent external specialists. The TSR was calculated over the period from January 1, 2004 through December 31, 2006. Akzo Nobel's TSR performance over this period resulted in a no. 9 ranking. In conformity with the Akzo Nobel Performance Share Plan as approved by the General Meeting of Shareholders, the final vesting percentage of the 2004 grant equals 40%.

Notes to Akzo Nobel NV statement of income

Number of performance-related shares	Series	Outstanding at December 31, 2005	Granted in 2006	Accumulated dividend till December 31, 2006 [1]	Forfeited	Vested on January 1, 2007	Outstanding at December 31, 2006
Hans Wijers	2004-2006	33,000		1,396	(19,800)	14,596	
	2005-2007	33,000		2,112			35,112
	2006-2008		23,000	607			23,607
Leif Darner	2004-2006	22,000		931	(13,200)	9,731	
	2005-2007	22,000		1,408			23,408
	2006-2008		15,100	399			15,499
Rob Frohn	2004-2006	22,000		931	(13,200)	9,731	
	2005-2007	22,000		1,408			23,408
	2006-2008		15,100	399			15,499
Toon Wilderbeek	2004-2006	22,000		931	(13,200)	9,731	
	2005-2007	22,000		1,408			23,408
	2006-2008		15,100	399			15,499

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 NV used in the calculations as at December 29, 2006 was EUR 46.21 (2005: EUR 39.15).

Shareholdings

Akzo Nobel NV common shares held by members of the Board of Management at December 31, 2006, were:

Number of shares	**2006**	2005
Hans Wijers	**5,934**	5,934
Leif Darner	**1,425**	1,425
Rob Frohn	**3,000**	3,000
Toon Wilderbeek	**2,740**	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 2006, charges relating to former members of the Board of Management amounted to EUR 394,600 (2005: EUR 800,500), mainly related to pension expenses.

[1] Equivalent in shares related to accumulated dividend

Notes to Akzo Nobel NV balance sheet

Note *c*
Financial noncurrent assets

		Consolidated companies		Other financial
	Total	Share in capital	Loans [1]	noncurrent assets
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		
Other changes, including dividends	(90)	(90)		
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
Investments/disinvestments	3	3		
Equity in earnings	1,150	1,150		
Other changes, including dividends	8	8		
Equity-settled transactions	16	16		
Change in fair value of derivatives	(26)	(26)		
Loans granted	641		641	
Repayment of loans	(887)		(866)	(21)
Fair value adjustments	(44)			(44)
Changes in exchange rates	(91)	(27)	(83)	19
Balance at December 31, 2006	10,088	3,310	6,586	192

Note *d*
Trade and other receivables

	2006	2005
Receivables from consolidated companies	**43**	35
Receivables from investment in associates	**12**	8
Other receivables	**16**	37
	71	80

Note *e*
Cash and cash equivalents

	2006	2005
Short-term investments	**1,151**	1,007
Cash on hand and in banks	**31**	27
	1,182	1,034

At December 31, 2006, as at December 31, 2005, the amount of cash and cash equivalents was freely available.

[1] Loans to these companies have no fixed repayment schedule.

Notes to Akzo Nobel NV balance sheet

Note *f*

Shareholders' equity

	Subscribed share capital	Additional paid-in capital	Statutory reserves[1] Change in fair value of derivatives	Other statutory reserves	Cumulative translation differences	Other reserves	Undistributed profits	Shareholders' equity
Balance at December 31, 2004	572	1,803		85	(20)	(694)	859	2,605
Change in accounting principles for IAS 32/39			11			(20)		(9)
Changes in fair value of derivatives			11					11
Changes in exchange rates in respect of subsidiaries, associates and joint ventures					162			162
Income directly recognized in equity			22		162	(20)		164
Net income							961	961
Total income/(expenses)			22		162	(20)	961	1,125
Dividend paid							(343)	(343)
Equity settled transactions						28		28
Addition to other (statutory) reserves				102		500	(602)	
Capitalized development costs				–				–
Balance at December 31, 2005	572	1,803	22	187	142	(186)	875	3,415
Changes in fair value of derivatives			(24)		(2)			(26)
Changes in exchange rates in respect of subsidiaries, associates and joint ventures					(110)			(110)
Income directly recognized in equity			(24)		(112)			(136)
Net income				18		(18)	1,153	1,153
Total income/(expenses)			(24)	18	(112)	(18)	1,153	1,017
Dividend paid							(344)	(344)
Equity settled transactions						16		16
Issue of common shares	2	38						40
Addition to other reserves						617	(617)	
Capitalized development costs				(3)		3		–
Balance at December 31, 2006	574	1,841	(2)	202	30	432	1,067	4,144

Subscribed share capital

Authorized capital stock of Akzo Nobel NV 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, 287,268,350 common shares, and no preferred shares. In 2006, 1,121,090 common shares were issued. In connection with Akzo Nobel's stock option plan, the company held 239,910 common shares at December 31, 2006 (December 31, 2005: 374,021). The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the annual meeting of shareholders. The holders of the priority shares are entitled to six percent per share or the statutory interest in the Netherlands, whichever is lower, plus any accrued and unpaid dividends. They have the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management.

[1] Reclassified for comparative reasons

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 685 in 2006 (2005: 675). The options for Senior Vice Presidents and executives expired 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 2001, except those for the members of the Board of Management, lapsed in 2006. 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 NV 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 performance-related share plan, see page 73 of this Annual Report.

Outstanding option rights and performance-related shares (including Board of Management)

Year of issue	Exercise price in EUR	Outstanding at December 31, 2005	Granted in 2006	Exercised in 2006	Lapsed in 2006	Outstanding at December 31, 2006	Expiry date
Unconditional options							
2000	44.82	148,500				148,500	April 27, 2010
2001	46.75	839,740		(483,080)	(356,660)		April 30, 2006
2001	46.75	144,342				144,342	April 30, 2011
2002	46.53	836,160		(37,200)	(21,230)	777,730	April 25, 2009
2002	46.53	176,550				176,550	April 25, 2012
2003	19.51	961,510		(426,080)	(16,830)	518,600	April 22, 2010
		3,106,802		(946,360)	(394,720)	1,765,722	
Conditional options							
2004	31.45	886,280			(19,580)	866,700	April 25, 2011
2005	31.98	815,898			(18,968)	796,930	April 24, 2012
2006	46.46		694,434		(7,276)	687,158	April 27, 2013
		1,702,178	694,434		(45,824)	2,350,788	
	in USD						
American Depositary Shares							
Unconditional options							
2001	41.69	133,210		(128,810)	(4,400)		
2002	42.05	139,810		(71,540)	(2,640)	65,630	April 25, 2009
2003	21.21	178,970		(81,730)	(3,960)	93,280	April 22, 2010
Conditional options							
2004	37.25	203,000			(12,800)	190,200	April 25, 2011
		654,990		(282,080)	(23,800)	349,110	
Total		5,463,970	694,434	(1,228,440)	(464,344)	4,465,620	

Number of performance-related shares	Series	Outstanding at December 31, 2005	Granted in 2006	Accumulated dividend till December 31, 2006 [1]	Forfeited	Vested on January 1, 2007	Outstanding per December 31, 2006
Board of Management	2004-2006	99,000		4,189	(59,400)	43,789	
	2005-2007	99,000		6,336			105,336
	2006-2008		68,300	1,804			70,104
Executives and former members of the Board of Management	2004-2006	22,000		931	(13,200)	9,731	
	2005-2007	1,076,888		67,055	(29,139)		1,114,804
	2006-2008		729,009	19,027	(8,275)		739,761
Total		1,296,888	797,309	99,342	(110,014)	53,520	2,030,005

The share price of a common share Akzo Nobel as at December 31, 2006 amounted to EUR 46.18.

[1] Equivalent in shares related to accumulated dividend

Notes to Akzo Nobel NV balance sheet

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, 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
Granted during the period	694,434	46.46		
Forfeited during the period	(440,544)	44.38	(23,800)	35.85
Exercised during the period	(946,360)	34.48	(282,080)	35.93
Balance at December 31, 2006	4,116,510	37.07	349,110	33.87
Exercisable at December 31, 2006	1,765,722	38.47	158,910	29.82

From July 1, 2005, the stock options are equity-settled. The employee receives the shares from the company upon exercise of the options and is free to sell the shares immediately afterwards.

The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options or performance shares

The 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

	2006	2005
Fair value at measurement date	**9.97**	7.45
Share price	**46.46**	31.98
Exercise price	**46.46**	31.98
Expected share price volatility (%)	**24.80**	33.40
Expected option life (years)	**5.00**	5.00
Expected dividend yield (%)	**2.74**	4.40
Risk-free interest rate (%)	**3.92**	3.25

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition and a nonmarket performance condition. Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with the share option grants.

The grant date fair value of the performance shares is amortized as a charge against income over the three-year vesting period. The fair value at grant date is based on the Monte Carlo simulation model taking market conditions into account. The value was calculated by external specialists and amounted to EUR 12.67 for the performance shares conditionally granted in 2005 and EUR 16.80 for the 2006 performance shares. The 2006 charge recognized aggregated EUR 9.6 million (2005: EUR 3 million).

Statutory reserves

At the Annual General Meeting of Shareholders of April 26, 2001, an amendment to the Articles of Association was approved whereby the par value of the priority shares was adjusted from NLG 1,000 to EUR 400 and of the common shares and the cumulative preferred shares from NLG 5 to EUR 2. As the revised par values are somewhat lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, the company recognized a statutory reserve of EUR 77 million for this reduction in subscribed share capital. Statutory reserves also include EUR 5 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates and joint ventures after 1983. Statutory reserves are nondistributable.

Dividend proposal

It is proposed that dividend on priority shares of EUR 768 and on common shares of EUR 344 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 7, 2007.

Note *g*

Long-term borrowings

	2006	2005
Debentures	**2,327**	2,368
Debt to consolidated companies	**4,784**	4,568
	7,111	6,936

For the fair value of the debenture loans and the related interest-rate derivatives, see note 24 of the notes to the consolidated financial statements.

Debentures

	2006	2005
$5^3/_8$% 1998/08	**513**	513
$5^5/_8$% 2002/09	**1,051**	1,064
$4^1/_4$% 2003/11	**763**	791
	2,327	2,368

Debt to consolidated companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 3.9% in 2006 (2005: 2.8%).

Note *h*

Other short-term debt

	2006	2005
Debt to consolidated companies	**22**	13
Borrowings from investment in associates	**12**	7
Other liabilities	**52**	55
	86	75

Akzo Nobel has a Euro commercial paper program, which at December 31, 2006, had a maximum of EUR 1.5 billion (at December 31, 2005: EUR 1.5 billion). Both at December 31, 2006 and at December 31, 2005, there was no commercial paper outstanding.

Note *i*

Financial instruments

At December 31, 2006, Akzo Nobel NV had outstanding foreign exchange contracts to buy currencies for a total of EUR 774 million (at December 31, 2005: EUR 1.0 billion), while contracts to sell currencies totaled EUR 804 million (at December 31, 2005: EUR 1.0 billion). These contracts mainly relate to U.S. 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 NV see note 24 of the notes to the consolidated financial statements.

Note *j*

Liabilities not shown in the balance sheet

Akzo Nobel NV is parent of the fiscal unit Akzo Nobel NV, and is therefore liable for the liabilities of the fiscal unit as a whole. Akzo Nobel NV has declared in writing that it accepts joint and several liability for contractual debts of certain Netherlands consolidated companies. These debts, at December 31, 2006, aggregating EUR 0.7 billion (at December 31, 2005: EUR 1.0 billion), are included in the consolidated balance sheet. Additionally, at December 31, 2006, guarantees were issued on behalf of consolidated companies in the amount of EUR 1.4 billion (at December 31, 2005: EUR 1.9 billion), including guarantees issued by Akzo Nobel NV 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 25 of the Notes to the consolidated financial statements. Guarantees relating to investment in associates amounted to EUR 5 million (2005: EUR 3 million).

Arnhem, February 28, 2007

The Board of Management	The Supervisory Board
Hans Wijers	Maarten van den Bergh
Leif Darner	Karel Vuursteen
Rob Frohn	Virginia Bottomley
	Dolf van den Brink
	Uwe-Ernst Bufe
	Antony Burgmans
	Abraham Cohen
	Louis R. Hughes
	Cees van Lede
	Alain Mérieux

[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, B.J.N. Irish Holdings Limited, Blundell Permoglaze (Ireland) Limited, and The Walpamur company (Ireland) Limited.

Auditor's report

To the Supervisory Board and Shareholders of Akzo Nobel NV

Report on the Financial Statements

We have audited the accompanying Financial Statements 2006 of Akzo Nobel NV, Arnhem as set out on pages 78 to 121. The Financial Statements consist of the consolidated Financial Statements and the Company Financial Statements.
The consolidated Financial Statements comprise the consolidated balance sheet as at December 31, 2006, statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Company Financial Statements comprise the Company balance sheet as at December 31, 2006, the company statement of income for the year then ended and the notes.

Management's responsibility

The Board of Management is responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report of the Board of Management in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the consolidated Financial Statements

In our opinion, the consolidated Financial Statements give a true and fair view of the financial position of Akzo Nobel NV as at December 31, 2006 and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the Company Financial Statements

In our opinion, the Company Financial Statements give a true and fair view of the financial position of Akzo Nobel NV as at December 31, 2006 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the Management report as set out on page 12 to 17 is consistent with the Financial Statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Arnhem, February 28, 2007

KPMG ACCOUNTANTS NV.

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 809 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 344 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 7, 2007.

Special rights to holders of priority shares

The priority shares are held by "STICHTING AKZO NOBEL" (Foundation Akzo Nobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation, thus complying with the provisions of article 10 of annex X of Rule A-2.7 of Book II, General Rules Euronext Amsterdam Stock Market.

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

Financial summary

Consolidated statement of income

	IFRS			NL GAAP[1]						
Millions of euros	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues	**13,737**	13,000	12,833	13,106	14,059	14,158	14,069	14,471	12,504	10,931
Operating income	**1,462**	1,486	1,527	1,064	1,362	1,198	1,487	525	982	1,038
Financing income and expenses	**(111)**	(156)	(144)	(166)	(204)	(257)	(245)	(245)	(179)	(93)
Income taxes	**(258)**	(338)	(412)	(254)	(335)	(294)	(395)	(106)	(278)	(298)
Earnings from investment in associates	**89**	6	10	7	30	55	143	40	23	54
Profit for the period	**1,182**	998	981	651	853	702	990	214	548	701
Minority interest, attributable to minority shareholders	**(29)**	(37)	(36)	(49)	(35)	(31)	(43)	(25)	(16)	(17)
Net income, attributable to the shareholders	**1,153**	961	945	602	818	671	947	189	532	684
EBITDA	**2,014**	2,055	2,092	1,716	2,043	1,872	2,151	1,296	1,660	1,635
Common shares, in millions at December 31	**287.0**	285.8	285.8	285.7	285.7	285.9	285.9	285.9	285.3	285.2
Dividend	**344**	343	343	343	343	343	343	286	278	275
Per common share, in EUR										
Net income	**4.02**	3.36	3.31	2.11	2.86	2.35	3.31	0.66	1.86	2.40
Dividend	**1.20**	1.20	1.20	1.20	1.20	1.20	1.20	1.00	0.98	0.97
Shareholders' equity	**14.44**	11.95	9.12	8.76	7.34	10.07	9.42	7.28	7.36	14.58
Number of employees at December 31	**61,900**	61,300	61,400	64,600	67,900	66,300	68,400	68,000	85,900	68,900
Salaries, wages, and social charges	**3,358**	3,221	3,216	3,505	3,552	3,416	3,285	3,777	3,368	2,969
Ditto, as % of revenues	**24.4**	24.8	25.1	26.7	25.3	24.1	23.3	26.1	26.9	27.2
Ratios										
Operating income as percentage of revenues	**10.6**	11.4	11.9	8.1	9.7	8.5	10.6	3.6	7.9	9.5
Operating income as percentage of invested capital	**18.2**	19.3	20.0	12.7	15.1	12.8	16.7	5.9	12.1	15.1
Net income as percentage of shareholders' equity	**30.5**	32.0	40.6	26.2	32.9	24.1	39.7	9.0	17.0	17.7
Interest coverage	**13.2**	9.5	10.6	6.4	6.7	4.7	6.1	2.1	5.5	11.2
EBITDA coverage	**18.1**	13.2	14.5	10.3	10.0	7.3	8.8	5.3	9.3	17.6
Share price										
Highest	**49.41**	40.18	33.79	32.44	54.50	57.85	59.15	52.40	58.58	42.84
Lowest	**38.30**	30.82	24.87	16.00	27.25	33.73	37.30	30.00	25.87	26.29
Year-end	**46.18**	39.15	31.38	30.60	30.23	50.15	57.20	49.80	38.80	39.66

[1] The 1997-2003 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.

Akzo Nobel

Consolidated balance sheet

	IFRS			NL GAAP[1]						
Millions of euros, December 31	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Property, plant and equipment	**3,346**	3,432	3,535	3,967	4,402	4,568	4,501	4,435	5,311	4,420
Intangible assets	**682**	488	448	590	629	508	388	326	166	133
Financial noncurrent assets	**1,706**	1,800	1,418	1,866	2,217	1,895	2,000	1,878	1,401	880
Total noncurrent assets	**5,734**	5,720	5,401	6,423	7,248	6,971	6,889	6,639	6,878	5,433
Inventories	**2,042**	1,987	1,978	2,133	2,206	2,270	2,267	2,091	2,291	1,835
Receivables	**2,919**	2,910	2,761	2,671	2,815	3,229	3,135	2,981	2,823	2,267
Cash and cash equivalents	**1,871**	1,486	1,811	727	520	455	416	932	536	317
Assets held for sale	**219**	322								
Total current assets	**7,051**	6,705	6,550	5,531	5,541	5,954	5,818	6,004	5,650	4,419
Total assets	**12,785**	12,425	11,951	11,954	12,789	12,925	12,707	12,643	12,528	9,852
Akzo Nobel NV shareholders' equity	**4,144**	3,415	2,605	2,502	2,098	2,878	2,694	2,082	2,101	4,158
Minority interest	**119**	161	140	140	137	138	159	154	190	118
Total equity	**4,263**	3,576	2,745	2,642	2,235	3,016	2,853	2,236	2,291	4,276
Provisions	**2,132**	2,210	2,877	3,333	3,855	2,400	2,279	2,110	2,178	1,668
Long-term borrowings	**2,551**	2,702	2,392	2,717	2,797	2,235	2,729	2,678	2,672	914
Other noncurrent liabilities	**181**	183	200	590	513	560	518	322	404	295
Total noncurrent liabilities	**4,864**	5,095	5,469	6,640	7,165	5,195	5,526	5,110	5,254	2,877
Short-term borrowings	**410**	357	560	441	979	2,267	1,967	2,803	2,663	778
Current liabilities	**2,652**	2,571	2,677	2,231	2,410	2,447	2,361	2,494	2,320	1,921
Current portion of provisions	**571**	766	500							
Liabilities held for sale	**25**	60								
Total current liabilities	**3,658**	3,754	3,737	2,672	3,389	4,714	4,328	5,297	4,983	2,699
Total equity and liabilities	**12,785**	12,425	11,951	11,954	12,789	12,925	12,707	12,643	12,528	9,852
Invested capital:										
Of consolidated companies	**8,060**	8,007	7,145	8,117	8,692	9,395	9,257	8,573	9,206	7,035
Of investment in associates	**177**	301	318	353	491	575	673	644	466	579
Total	**8,237**	8,308	7,463	8,470	9,183	9,970	9,930	9,217	9,672	7,614
Property, plant and equipment:										
Capital expenditures	**529**	514	551	581	689	822	725	797	819	641
Depreciation	**501**	528	540	599	622	635	631	740	661	587
Ratios:										
Revenues/invested capital	**1.71**	1.68	1.68	1.56	1.55	1.52	1.58	1.51	1.54	1.59
Gearing	**0.26**	0.44	0.42	0.92	1.46	1.34	1.50	2.03	2.09	0.32
Equity/noncurrent assets	**0.74**	0.62	0.51	0.41	0.31	0.43	0.41	0.34	0.33	0.79
Inventories and receivables/current liabilities	**1.87**	1.90	1.77	2.15	2.08	2.25	2.29	2.03	2.20	2.14

[1] The 1997 - 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 page 132]

Financial summary

Business segment statistics

Millions of euros	IFRS 2006	2005	2004	NL GAAP [1] 2003	2002	2001	2000	1999	1998	1997
Organon										
Revenues	**2,611**	2,425	2,344							
Operating income	**354**	415	275							
Invested capital [2]	**1,579**	1,781	1,628							
Operating income										
– as percentage of revenues	**13.6**	17.1	11.7							
– as percentage of invested capital	**21.1**	24.3	16.1							
EBITDA	**475**	541	393							
Capital expenditures	**103**	95	103							
Average number of employees	**14,000**	14,200	14,700							
Intervet										
Revenues	**1,125**	1,094	1,027							
Operating income	**219**	238	184							
Invested capital [2]	**949**	883	798							
Operating income										
– as percentage of revenues	**19.5**	21.8	17.9							
– as percentage of invested capital	**23.9**	28.3	23.5							
EBITDA	**278**	292	230							
Capital expenditures	**55**	54	54							
Average number of employees	**5,300**	5,300	5,300							
Pharma										
Revenues				3,600	4,061	4,085	3,898	2,904	2,345	2,111
Operating income				538	747	869	857	566	461	409
Invested capital [2]				2,506	2,475	2,558	2,367	2,081	1,399	1,243
Operating income										
– as percentage of revenues				14.9	18.4	21.3	22.0	19.5	19.7	19.4
– as percentage of invested capital				27.8	30.5	33.7	34.4	35.4	34.9	35.2
EBITDA				714	927	1,033	1,024	706	566	499
Capital expenditures				210	297	317	214	199	173	107
Average number of employees				21,300	21,700	21,000	21,200	18,300	16,200	15,500

[1] The 1997 - 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.

	IFRS			NL GAAP [1]						
Millions of euros	**2006**	2005	2004	2003	2002	2001	2000	1999	1998	1997
Coatings										
Revenues	**6,209**	5,555	5,237	5,162	5,444	5,522	5,501	5,203	4,517	3,568
Operating income	**604**	384	406	369	424	204	413	416	347	291
Invested capital [2]	**2,653**	2,259	2,067	2,043	2,221	2,351	2,279	2,158	2,136	1,409
Operating income										
– as percentage of revenues	**9.7**	6.9	7.8	7.1	7.8	3.7	7.5	8.0	7.7	8.2
– as percentage of invested capital	**24.6**	17.8	19.8	19.4	19.4	17.6	19.2	18.9	20.0	22.6
EBITDA	**744**	519	529	516	577	362	560	560	467	392
Capital expenditures	**135**	112	122	124	128	176	161	151	174	116
Average number of employees	**30,700**	29,000	28,700	29,000	28,800	29,700	29,700	30,100	27,200	21,600
Chemicals										
Revenues	**3,809**	3,890	4,317	4,473	4,679	4,680	4,814	4,217	3,723	3,756
Operating income	**362**	312	869	257	270	141	389	392	270	394
Invested capital [2]	**1,960**	2,291	2,048	2,604	2,893	3,176	3,108	2,841	2,700	2,776
Operating income										
– as percentage of revenues	**9.5**	8.0	20.1	5.7	5.8	3.0	8.1	9.3	7.3	10.5
– as percentage of invested capital	**17.0**	14.4	40.8	12.4	12.1	11.4	15.7	14.0	12.2	12.7
EBITDA	**583**	553	1,141	575	603	481	725	693	544	651
Capital expenditures	**231**	252	269	241	251	315	338	315	298	277
Average number of employees	**10,500**	11,600	13,600	14,900	15,300	15,800	16,000	15,300	14,700	15,000
Acordis/Fibers										
Revenues								2,242	1,947	1,606
Operating income								(830)	–	(27)
Invested capital [2]									1,682	1,144
Operating income										
– as percentage of revenues								(37.0)	–	(1.7)
– as percentage of invested capital								(6.4)	1.4	(0.2)
EBITDA								(672)	132	83
Capital expenditures								107	135	83
Average number of employees								17,400	16,100	13,700

[1] The 1997 – 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 page 132]

Regional statistics

Millions of euros	IFRS 2006	IFRS 2005	IFRS 2004	NL GAAP [1] 2003	NL GAAP [1] 2002
The Netherlands					
Revenues by destination	**915**	862	844	825	816
Revenues by origin	**2,072**	2,459	2,748	2,546	2,662
Operating income	**25**	474	446	171	179
Capital expenditures	**179**	179	189	173	197
Invested capital [2]	**2,405**	2,229	2,060	2,354	2,062
Number of employees [2]	**11,100**	11,600	11,300	12,700	13,000
Germany					
Revenues by destination	**1,209**	1,238	1,165	1,147	1,084
Revenues by origin	**1,208**	1,152	1,050	1,088	1,051
Operating income	**87**	144	159	73	34
Capital expenditures	**24**	25	23	27	36
Invested capital [2]	**471**	539	486	619	642
Number of employees [2]	**4,000**	4,100	4,100	4,100	4,700
Sweden					
Revenues by destination	**523**	516	509	510	517
Revenues by origin	**1,284**	1,237	1,155	1,102	1,184
Operating income	**98**	137	33	66	95
Capital expenditures	**78**	65	60	55	36
Invested capital [2]	**574**	604	530	555	585
Number of employees [2]	**3,900**	3,900	4,000	4,300	4,500
United Kingdom					
Revenues by destination	**781**	809	833	840	963
Revenues by origin	**798**	754	848	798	911
Operating income	**24**	(59)	(57)	(93)	75
Capital expenditures	**20**	31	29	26	25
Invested capital [2]	**438**	492	363	760	947
Number of employees [2]	**3,900**	4,100	4,200	4,600	4,900
Other European countries					
Revenues by destination	**4,245**	4,075	4,122	4,018	4,008
Revenues by origin	**3,073**	3,069	2,921	3,155	3,073
Operating income	**579**	527	532	509	591
Capital expenditures	**85**	81	81	110	136
Invested capital [2]	**1,456**	1,264	1,226	1,152	1,220
Number of employees [2]	**13,400**	12,900	13,500	13,500	14,400

Millions of euros	IFRS 2006	IFRS 2005	IFRS 2004	NL GAAP [1] 2003	NL GAAP [1] 2002
U.S. and Canada					
Revenues by destination	**2,711**	2,400	2,445	2,944	3,723
Revenues by origin	**2,732**	2,116	2,221	2,604	3,318
Operating income	**248**	(67)	60	94	100
Capital expenditures	**70**	51	52	81	177
Invested capital [2]	**1,571**	1,534	1,405	1,627	2,158
Number of employees [2]	**8,800**	8,200	8,400	9,500	10,600
Latin America					
Revenues by destination	**924**	830	729	704	767
Revenues by origin	**747**	626	493	470	506
Operating income	**120**	85	133	60	96
Capital expenditures	**23**	42	61	18	31
Invested capital [2]	**407**	448	304	259	265
Number of employees [2]	**4,400**	4,400	4,400	4,600	4,700
Asia					
Revenues by destination	**1,755**	1,590	1,536	1,453	1,513
Revenues by origin	**1,440**	1,231	1,087	1,022	1,064
Operating income	**241**	192	175	125	140
Capital expenditures	**43**	32	47	81	41
Invested capital [2]	**583**	661	550	567	598
Number of employees [2]	**10,300**	9,800	9,200	9,000	8,800
Other regions					
Revenues by destination	**674**	680	650	665	668
Revenues by origin	**383**	356	310	321	290
Operating income	**40**	53	46	59	52
Capital expenditures	**7**	8	9	10	10
Invested capital [2]	**155**	236	221	224	215
Number of employees [2]	**2,100**	2,300	2,300	2,300	2,300

[1] The 2002 – 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 page 132]

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Financial calendar

Report for the 1st quarter 2007
April 24, 2007

Annual Meeting of Shareholders
April 25, 2007

Quotation ex 2006 final dividend
April 27, 2007

Payment of 2006 final dividend
May 7, 2007

Report for the 2nd quarter 2007
July 24, 2007 *

Report for the 3rd quarter 2007
October 23, 2007 *

Quotation ex 2007 interim dividend
October 24, 2007 *

Payment of 2007 interim dividend
October 31, 2007 *

* Preliminary

Safe harbor statement[1]

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 2006 Annual Report on Form 20-F will be available in the second quarter of 2007.

1 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 NV 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.

Business principles

Core values
Akzo Nobel strives to meet high standards of performance and behavior based on the company's core values of business conduct. These core values are:
- Entrepreneurial spirit
- Personal integrity
- Social responsibility

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

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

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

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

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

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

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

Community Activities
Akzo Nobel companies are encouraged to support community activities.

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

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

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

Definitions

Revenues consist of goods and services, and royalty income

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

EBIT (Earnings Before Interest and Taxes)
Operating income

EBIT margin is EBIT (Operating income) as percentage of revenues

EBITDA
EBIT before Depreciation and Amortization

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

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

Shareholders' Equity per Share
Akzo Nobel NV shareholders' equity divided by the number of common shares outstanding at December 31

Invested Capital
Total assets less cash and cash equivalents, less current liabilities

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

Gearing
Net interest-bearing borrowings divided by equity

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

Interest Coverage
EBIT divided by the sum of financing income and expenses

EBITDA Coverage
EBITDA divided by the sum of financing income and expenses

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

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David Hannah. Photos courtesy of City of Melbourne (page 31)
Michael Clement (pages 8, 11 and 18)
Studio Toivo Steen AB (page 38)
All other photography Getty Images and Akzo Nobel

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