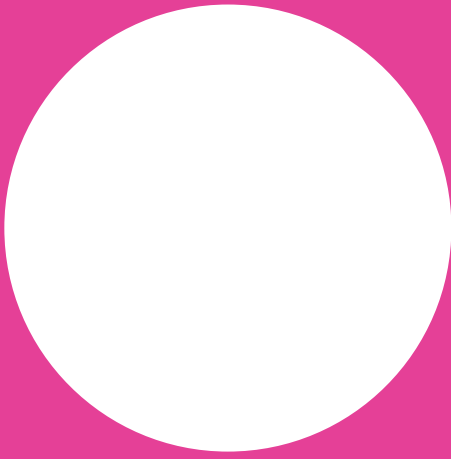


CORPORATE
SOCIAL
RESPONSIBILITY
REPORT
2004

THE PATH AHEAD





OUR PEOPLE MAKE THE DIFFERENCE

Akzo Nobel's success – both now and in the future – depends on the quality of the 61,450 people it employs in more than 80 countries around the world. At Akzo Nobel we acknowledge the link between our success as a company and the quality of our employees. Personal characteristics that fit the Akzo Nobel environment are described in our core values: personal integrity, entrepreneurial spirit, and social responsibility.

COVER: [ERIKA MAYUMI MATSUMOTO](#) (QUALITY CONTROL SUPERVISOR, ORGANON, SAO PAULO, BRAZIL)

“We can't just do CSR and not tell people about it. That's not enough. We have to spread the idea.”



STEFAN LÖHR (AKZO NOBEL CHEMICALS, COLOGNE, GERMANY)

“I got to know Akzo Nobel when I was still at school, through the Education Industry Partnership. I visited one of their sites with my chemistry class and saw for myself what kind of work that they were doing there. I was extremely pleased that they offered me an internship as a technician when I completed my schooling.”



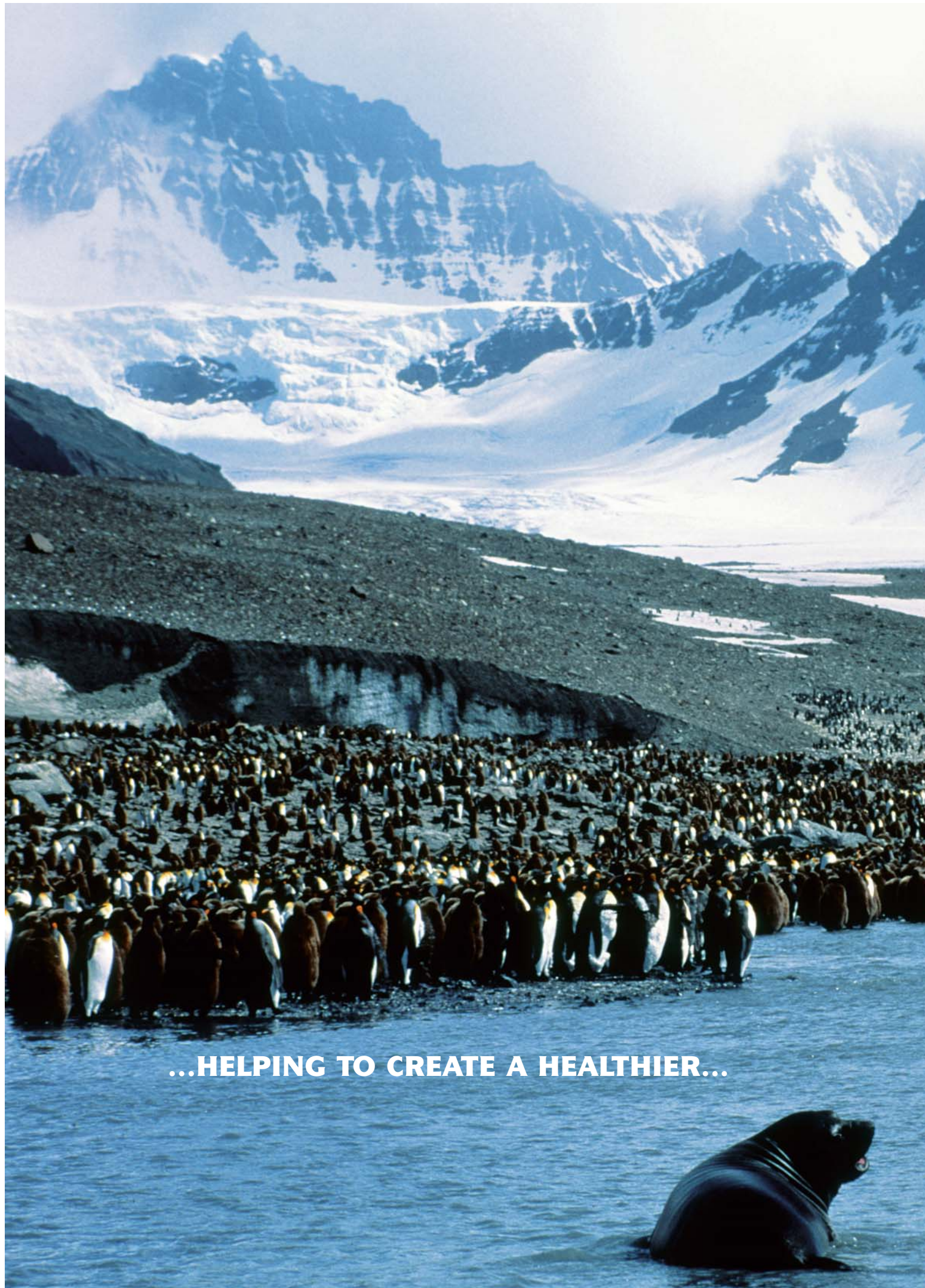
AKZO NOBEL

SHANGHAI, the dynamic commercial centre of China, and where Akzo Nobel has its main China country office and six business unit offices. Akzo Nobel has 24 legal entities in China and employs around 3,800 people. All our businesses are represented in China and are active there.

A PROGRESSIVE AND

PROFITABLE COMPANY...

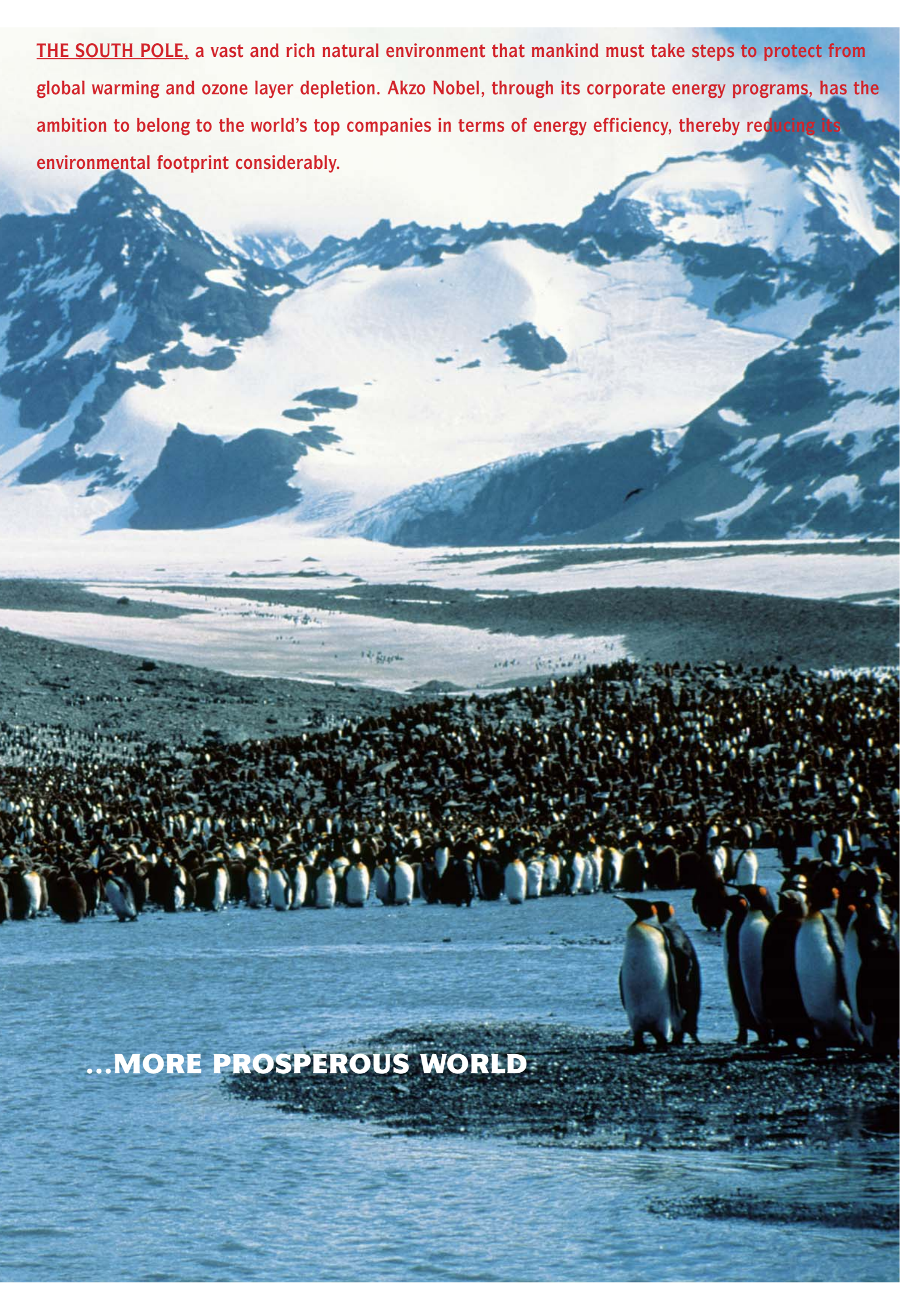




...HELPING TO CREATE A HEALTHIER...

THE SOUTH POLE, a vast and rich natural environment that mankind must take steps to protect from global warming and ozone layer depletion. Akzo Nobel, through its corporate energy programs, has the ambition to belong to the world's top companies in terms of energy efficiency, thereby reducing its environmental footprint considerably.

...MORE PROSPEROUS WORLD





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FOREWORD

DEAR STAKEHOLDER,

Over the last two years Akzo Nobel has initiated intensive reengineering processes to create an organization geared to meeting the demands of the future. We have challenged every aspect of our strategy, our organization, the quality of our portfolio, our operational effectiveness and our financial management. This has resulted in financial and organizational strength: our foundations are solid. From this carefully prepared platform, and with renewed vigor, we look to the future with confidence.

Corporate Social Responsibility (CSR) is an integral part of our platform for growth. Indeed, it is one of the cornerstones of our decision-making processes. We are convinced that our long term financial growth requires simultaneous success in developing our employees, contributing to the societies in which we operate and caring for the environment.

Some people may question how serious business is about CSR. Similarly, they may query our commitment. Given our limited communication about this in the past, such questions are understandable. It was difficult for outsiders to know what we were doing in CSR. We want to change this – now. It is therefore with pleasure that I present to you our first Corporate Social Responsibility report. In the process of defining our CSR roadmap and ambitions, we have used a broad range of inputs to define our CSR key issues. We have used questionnaires of SRI investors and rating agencies, and we have drawn on the Global Reporting Initiative guidelines. We have used input from meetings with stakeholders, such as clients, governments, suppliers and NGOs. Moreover, we have spoken with our managers and employees, for they run our businesses and serve our customers. Ultimately they are the ones who will

realize Akzo Nobel's ambition to be at the forefront of those companies that do business in a sustainable manner. Our goal is therefore clear: to further embed the concept of CSR into the day-to-day business practices of the entire company and to establish it as a component of good management. We have set up a structural framework and a common approach across our company to guide this process, to set clear performance indicators and to measure progress. These will help us to deal with dilemmas – issues that often defy classifications of “right” and “wrong.” Many challenges lie ahead and we recognize that there are areas in which we want to do better than we are at present.

This report includes details about some of our CSR successes, for example in product stewardship and Health, Safety & Environment (HSE) management. It also reflects on tough decisions made in restructuring and disappointing developments such as the competition law compliance cases we have faced. Compliance violations are totally unacceptable within our company and will not be tolerated. For many readers, this inaugural CSR report will be an introduction to parts of Akzo Nobel that were more or less previously hidden. I hope that it makes clear what Akzo Nobel stands for and the progress we are making in CSR. Ultimately I hope that you will recognize Akzo Nobel as a company with a deep-seated dedication to being a decent, transparent and socially responsible company. I look forward to receiving your comments and feedback on this report. These will help us to focus our efforts and to continue to improve our CSR performance. When I see what the people of Akzo Nobel have already achieved, I am extremely proud to be leading them into the future. The path ahead for us, and our other stakeholders, is certain to be interesting and inspiring.

Hans Wijers
CEO, Akzo Nobel





EXECUTIVE OVERVIEW

The Corporate Social Responsibility Report 2004 describes Akzo Nobel's approach to Corporate Social Responsibility (CSR) in 2004 and recent years. CSR is nothing new to Akzo Nobel. Indeed, examples of good CSR practices in the company can be found as far back as the 1920s, when our salt business introduced occupational healthcare and medical insurance schemes.

Notwithstanding the many examples of CSR practices that can be found throughout Akzo Nobel's history, in 2003 the Board of Management decided that CSR needed to be approached in a structural and strategic manner. To do that, in 2004 we set in motion a four-step process. First, we started by taking stock of relevant CSR issues and our general approach: "Which elements of CSR are already in place?", "What can be improved?" and "What things still need to be addressed?"

Akzo Nobel strongly believes that CSR can only be relevant when it is an integral part of overall business management. This led to the second step – integration of CSR thinking into our management systems. From this point of view, CSR is an intrinsic element of good management and not something to be achieved against a deadline, to be ticked off a list as being done. Since the challenge is to embed the concept of CSR into our management systems across the entire company, we need to measure and audit our progress. With measurement comes reporting and the third step: transparent communication – internally as well as externally – about what has been achieved and what still needs to be done. Communication is also related to the fourth and last step: exchanging best practices throughout the company. This might sound self-evident, but in a decentralized company such as Akzo Nobel with very diverse and independent business areas, learning from each other does not always come easy.

In this, our first, CSR Report we have chosen to reflect the multitude of activities related to Corporate Social Responsibility within Akzo Nobel. Of these, a number make a significant contribution to establishing CSR as a vital element in the management practices of the company.

BUSINESS PRINCIPLES ROLL-OUT AND EMBEDDING

After defining its Business Principles in 2000, Akzo Nobel made a fundamental decision that all employees should receive relevant training. Between 2003 and September 2004, all employees were trained and the embedding process was further defined. This led to specification of the Principles in certain areas considered to be of utmost importance and in which Akzo Nobel should apply the same standards worldwide: things like, for example, child labor, human rights, standards for suppliers, corruption and bribery. Procedures are in place to ensure that all new staff are given Business Principles training within three months of commencing employment. Special compliance training for employees in areas such as purchasing and marketing is also ongoing.





ENSURING QUALITY PHARMACEUTICALS

All systems at Organon and Intervet, the human and animal healthcare businesses, respectively, of Akzo Nobel are focused on Research & Development (R&D) processes aimed at discovering and developing medicinal products that are effective and safe to use. Both businesses employ large numbers of people and invest considerable financial resources to ensure that their products are just that – safe and effective. Increasing awareness of the ethical aspects of testing pharmaceuticals on animals has received attention in the company's human and animal healthcare businesses in recent years. This builds on long-standing practices to implement the 3Rs: reduce, replace and refine animal testing.

PRODUCT STEWARDSHIP

Through Coatings Care® and Responsible Care® in our Coatings and Chemicals activities, respectively, Akzo Nobel has put product stewardship systems in place to ensure that our coatings and chemical products are under constant improvement – in terms of functionality but also environmental performance. For example, continual review of raw materials and implementation of advanced technologies have made it possible for Akzo Nobel to introduce water-borne (no VOCs) formulations for a wide range of products. Similarly, Akzo Nobel is committed to using innovative approaches to simultaneously reduce VOCs discharged and recycle them back into the production chain, saving costs and sparing the environment.

ECO-EFFICIENCY

We are keenly aware of the need to integrate eco-efficient approaches into product development and design and our manufacturing processes. At Akzo Nobel, we are developing a comprehensive toolbox for evaluating products at all stages of their development on the criterion of their sustainability. In manufacturing, Akzo Nobel continues to actively reduce its energy consumption and associated emissions of greenhouse gases.

PUTTING PEOPLE FIRST

Akzo Nobel has long been committed to creating safe working conditions and improving the safety awareness of its employees. Even though 2005 health and safety targets were achieved in 2004 and before, the drive to improve occupational health continues, as demonstrated by the introduction of new health and safety performance indicators as from 2005. To ensure the development of all our employees in a consistent way, in 2004 Akzo introduced a new tool in Human Resource Management: the P&D Dialog. This company-wide performance appraisal system will ensure regular appraisal and development of our employees' talents. Experiences will be reported in our CSR report for 2005.

AT WORK IN OUR COMMUNITIES

In 2004 Akzo Nobel became a member of a number of global initiatives supporting basic human rights, such as the UN Global Compact. Complementary to this are a wide variety of Community Relations projects being run at site level by our businesses. Examples include a jeans factory set up by employees in Colombia to reduce local unemployment and the provision of Aids/HIV counseling and care set up by two of our businesses in South Africa.

CREATING VALUE FOR SHAREHOLDERS

Sound financial management and CSR go hand in hand; they are both part of good management. In answer to financial and economic headwinds, Akzo Nobel has focused on restructuring to reduce costs and strengthen the balance sheet by reducing debt and improving the company's cash position. The divestment of several chemicals businesses in 2004 allowed the company to improve financial performance in these areas. The dividend payout to shareholders for 2004 was a high 45% (before nonrecurring items) of net income.



OUR COMPANY STRUCTURE >

OUR CORE VALUES AND BUSINESS PRINCIPLES >

OUR BUSINESS STRATEGY >

CORPORATE GOVERNANCE >

THIS IS AKZO NOBEL

As a Global Fortune 500 company, Akzo Nobel ranks among the world's largest corporations. In 2003, and again in 2004, Fortune magazine ranked us No. 6 in the top 25 most admired chemical companies.



DANIELLI APARECIDA GUEDES DA SILVA (ADMINISTRATIVE TRAINEE, ORGANON, BRAZIL)

“How can we look future generations in the eye if we don’t operate in a sustainable manner now?
How can we tell our children that we wasted their inheritance?”

OUR COMPANY STRUCTURE >

Headquartered in the Netherlands, Akzo Nobel has activities in more than 80 countries and employed approximately 61,450 people at year-end 2004. Sales in 2004 were EUR 12.7 billion, with Pharma accounting for EUR 3.2 billion, Coatings EUR 5.2 billion and Chemicals EUR 4.3 billion.

Akzo Nobel is organized into three business segments – Pharma, Coatings and Chemicals. Each of them is divided into dedicated business units. At year-end 2004 the company comprised 17 business units: three in Pharma, seven in Coatings and seven in Chemicals. On January 1, 2005, our business for manufacturing active pharmaceutical ingredients (Dioysnth) was amalgamated with our human healthcare business (Organon) to form a new, single human healthcare unit named Organon. Early in 2005, during the presentation of the 2004 annual figures, we announced a further consolidation from seven to five business units in the Chemicals group.

Our Pharma businesses – Organon and Intervet – discover, develop, manufacture and market products for both the human and animal healthcare markets. Products developed for human healthcare include oral contraceptives, antidepressants, fertility treatments and neuro-muscular blockers. We are the world's third-largest animal healthcare company. Our animal healthcare products include veterinary vaccines and pharmaceuticals for a wide range of livestock and companion animals. We are the world's largest coatings company. Our Coatings group is the owner of leading international brands such as Sikkens®, International®, Sadolin® and Interpon®. You will find our coatings on houses, cars, ships, aircraft, kitchen appliances, cookware, interior furniture, mobile phones and renowned architectural structures such as the London Eye in the UK and the Öresund Bridge between Denmark and Sweden.

We are one of the world's leading manufacturers of specialty chemicals. We produce chemicals used in the manufacture of everyday items such as ice cream, toothpaste, cosmetics, plastics, semi-conductors, sporting goods, paper and tires.

FACTS & FIGURES 2004^a

- **Market capitalization (year-end) = approximately EUR 9.0 bln**
- **Total sales = EUR 12.7 bln**
- **Operating income (EBIT)^b = EUR 1.2 bln**
 - **ROS^b (%) = 9.5**
 - **Interest cover^b = 9.8**
 - **Net income^b = EUR 0.8 bln**
 - **EBITDA^b = EUR 1.8 bln**
 - **Net income per share^b = EUR 2.69**
 - **Dividend per share = EUR 1.20**
 - **Total shareholder return 2004 = 6.2%**
- **Total headcount (year-end) = 61,450 people**

^a Dutch GAAP

^b Excluding nonrecurring items



OUR CORE VALUES AND BUSINESS PRINCIPLES >

Akzo Nobel has identified three values – entrepreneurial spirit, personal integrity and social responsibility – as guidelines for the way in which we conduct ourselves in business. Our values provide direction for the daily behavior of employees in their demanding work arenas.

BUSINESS PRINCIPLES

To further align and focus our actions we have defined our Business Principles. Through these principles we have clarified the standards by which we want to operate. Our Core Values, entrepreneurial spirit, personal integrity and social responsibility are the basis for all our actions and inspire the way we do business. These values are matched with responsibilities towards our different stakeholder groups: customers, shareholders, employees, the communities in which we operate and society at large. They can all expect Akzo Nobel to take their interests into account. The Business Principles also regulate a number of issues explicitly: free enterprise, business integrity, community activities and transparent communication processes. To align theory and practice, we have included a compliance paragraph: management will not be held accountable for any loss of business resulting from compliance with our Business Principles, and no employee should suffer as a consequence of reporting a suspected breach of these principles.

EMBEDDING OUR PRINCIPLES: A ROBUST AND CONTINUOUS PROCESS

Akzo Nobel's Business Principles provide a framework for acting in the right way. Their value is closely connected to peoples' conviction that they are relevant in their day to day work. At Akzo Nobel, we believe it is this conviction, rather than a set of rules, which will ensure that employees actually put the principles into practice. This is why we decided to give our employees

Business Principles training, to raise awareness about what they mean and give them the opportunity to explore, discuss and specify how to put them into practice. Between 2003 and 2004 all employees of Akzo Nobel (then 63,400) received training, from the corporate boardroom down to the shop floor. This required a major logistical effort: extensive training material was produced and tailored to the needs of the different functions and the different cultures. To reach

the employees in the 80 countries in which Akzo Nobel is active, training was given in the local language with translated background material. The whole process was closely supervised by the Akzo Nobel Board of Management. In addition, for employees who have contacts with suppliers, competitors, customers, agents and distributors, as well as those who have decision making authority as regards prices and customers, special competition law

Our Core Values

Entrepreneurial spirit – the lifeblood of Akzo Nobel In all our businesses, success or failure depends on the individual. We value creativity and entrepreneurship at all levels of our organization. We rely on our employees to identify ways to do things better, faster and more cost effectively, and to act decisively, using the resources at hand to create value for the company's and our customers' bottom line.

Personal integrity – adhering to the highest ethical standards As a decent and responsible company, we want all our employees to behave according to the highest ethical standards.

Social responsibility – contributing to a sustainable society We want to be known as a socially responsible company in the broadest sense. We want to have a positive impact on the societies in which we operate through the products we bring to market, through our treatment of the environment and our interaction with all our stakeholders.

Business Principles and Compliance Cases

Despite the priority it attaches to maintaining high ethical standards, Akzo Nobel has had negative publicity due to past mistakes.

In 2004 the company was one of three major chemicals companies fined a total of EUR 66.4 million by the European Union for price fixing on animal-feed vitamins in certain European markets in the period 1994 to 1998.

Between them, the three companies controlled about 75% of the West European market for choline chloride, also known as Vitamin B4.

The market at the time (1997) was worth about

EUR 180 million worldwide, with about EUR 50 million in Europe. Akzo Nobel is still involved in a number of cartel cases. In 2000 all managers were given a once-only chance to confess any breaches of antitrust law under an amnesty program, and the company announced zero tolerance for all future cases involving breaches of antitrust law. Akzo Nobel also put in place a stringent competition law compliance program. For further information about compliance cases, see our Annual Report 2004, p. 100.

Codes of Conduct and Global Standards

In the year 2000, the OECD Guidelines for multinational enterprises (MNEs) were formally adopted by 33 countries, including all major developed countries. The Guidelines are recommendations addressed by governments to MNEs, providing voluntary principles and standards for responsible business conduct.

Although the Guidelines are not legally binding, OECD governments are committed to promoting their observance.

In the design of its internal ethical rules of conduct, the Akzo Nobel Business Principles, and the further implementation of these principles in internal directives and guiding notes, Akzo Nobel has been guided by the

OECD Guidelines for MNEs, ILO Fundamental Labor Principles, the Universal Declaration of Human Rights, the United Nations Global Compact and other authoritative, generally accepted codes and principles relevant to the business community. In 2004 Akzo Nobel became a signatory to the UN Global Compact.

- All Akzo Nobel employees – current and newly recruited – undergo comprehensive and ongoing training on the company's Business Principles.
- By the end of the roll-out of the Business Principles training in September 2004, a total of 63,400 employees had been trained.
- The number of reported cases in which employees were dismissed for breach of our Business Principles is six. As our registration procedures for this matter improve, we expect to be able to give a more accurate picture in future reports.
- In 2004, we estimate that approximately 50 complaints, including those pursuant to our General Complaints Procedure, were made. As our registration procedures for this improve, we expect to be able to be more transparent in future reports.

compliance training was devised. The worldwide roll-out for this began in 2003. Since this initial kick-off, we have included the Business Principles in all the processes of the company: finance, legal, HR, auditing, HSE and risk management. To this end, the company's annual Letter of Representation was reformulated to include the requirements of the Business Principles. A Compliance Committee, consisting of the Corporate Directors of the Legal, Audit, HR, Control and CSR departments, was created to evaluate the embedding process. The Committee reports to the Board of Management and the Supervisory Board (Audit Committee) on a quarterly basis, thus ensuring that we maintain momentum and that possible issues are recognized at an early stage. Other measures that support the embedding process are:

- All new employees must receive training in the Business Principles within the first three months of joining Akzo Nobel.

Business Principles – accepting the consequences

Akzo Nobel takes its Business Principles seriously. They stand for the way we want to act and thereby the sort of company we want to be. Putting principles into practice means facing issues head on and making decisions about what you want to actually achieve. For example, at what age does a 'child' become an 'adult'? And if we discover a case of child labor, does simply dismissing the child relieve us of all further responsibility? We think not. That's why in keeping with ILO's Convention 138, we do not employ anyone under the age of 16 years. However, if child labor is discovered in Akzo Nobel or its supply chain (vendors), we look for solutions that guard the children's interests: their health, schooling, personal development and means of existence. The Business Principles can have financial consequences too. For instance, these principles were instrumental in our Functional Chemicals business ceasing to sell choline chloride to a large Asian customer, because their purchasing manager demanded kickbacks for the sale. In this case, sticking to our principles resulted in a considerable loss of business. We accept that living by and working to our principles will require such decisions from time to time.

- A statement of support of the Business Principles will be added to the employment contracts of all employees in 2005.

- In February 2004, we adopted a General Complaints, or "Whistleblower", procedure, which gives employees of Akzo Nobel the opportunity to report actual or suspected breaches of the Business Principles.

At Akzo Nobel, transparency on the Business Principles is increasing: employees are becoming more aware of the Principles and the associated Complaints procedure. As a result we have seen an increase in the number of complaints company wide. Akzo Nobel publicly reports on the number of breaches of our corruption and bribery

policy, on the number of dismissals on account of breach of the Business Principles, and on the number of times the company Complaints Procedure is used.

BUSINESS PRINCIPLES SPECIFICATIONS

In the course of the Business Principles training, a number of issues arose that required a uniform approach all over the world, in all different businesses. This resulted in the Business Principles Specifications: a document adopted by the Board of Management in 2004 that addresses specific practical questions raised during the training sessions. Based on our Business Principles, the specifications set out the company's point of view on a number of important areas, such as child labor, forced labor, the right to organize, collective bargaining, presence in high risk countries, fair competition, business integrity and payments, commission payments, money laundering, facilitating payments, gifts, donations to political parties and compliance implementation. The Specifications are by definition a 'living document' – they will be amended and extended over time, in order to incorporate guidance for new issues as required.

The full text of Akzo Nobel's Business Principles Specifications can be found in Annex 4 of this report.





OUR BUSINESS STRATEGY >

We aim to create above-average economic value over the business cycle by leveraging the skills of our employees to a broad portfolio of activities in the sectors of pharma, coatings and chemicals. To perform well financially, we have to be a company that contributes to and is respected in the societies in which we operate. Early recognition that emerging markets offer great opportunities for growth – particularly for coatings and chemicals – resulted in the company establishing a considerable presence in these markets at an early stage of their development. Current rates of growth in these markets bear witness to the wisdom of this approach.

Our corporate strategy is to build sustainable, leading business positions – reflected in attractive growth, returns significantly above the cost of capital, and healthy operational cash flows. We actively restructure and divest activities that do not meet these criteria. We are continually evaluating the added value of the composition of our portfolio in a pragmatic way, driven by our desire to create long-term value for our stakeholders.

We are convinced that our long-term economic growth requires our simultaneous success in developing our employees, contributing to the societies in which we operate and caring for the environment. One cannot understand Akzo Nobel if one doesn't recognize that our strategic agenda and our Corporate Social Responsibility (CSR) objectives are both vital parts of our platform for growth. We only have one strategy; CSR is not a separate add-on.

We have to address society's concerns about our products and production processes. By integrating CSR in all our management processes, we safeguard the quality of the decisions made. CSR is not a burden outside of the normal business thinking and cycle, but belongs intrinsically to business decisions. Reasons for this are manifold: to argue defensively, we want to keep our license to operate, by showing our stakeholders that we

China – the enterprise revolution

The rapid expansion of business in China is a good example of the company's strategy of moving into new markets with long term growth prospects. From an initial position of importing products through five representative offices, Akzo Nobel's Chinese operations now have a dedicated organization employing 3,800 people at 22 sites around the country.

Nearly all of Akzo Nobel's businesses now have some active involvement in China, where nearly 75 percent of all locally manufactured goods are sold in the country itself. China has become an important strategic region for the company.

In 2004, Akzo Nobel sales in China were approximately EUR 480 million, having more than doubled in five years. Our Coatings group continues to be the biggest player (66%), followed by Chemicals (28%) and Pharma (6%).

China has been targeted as a strategic growth market for Akzo Nobel and the Board of Management has made public the company's ambition to double sales again in the next five years.

Akzo Nobel's presence in China contributes not only to economic growth, but also supports the development of liberal social institutions in the country.

Corporate Social Responsibility policy

Akzo Nobel's commitment to Corporate Social Responsibility means to embed our Values and our Principles in our day to day decision-making processes – to be open and accountable to our stakeholders – and to build a sustainable future for coming generations.

COMMITMENTS:

Akzo Nobel maintains and strengthens a culture of personal integrity, entrepreneurial behavior and social responsibility by:

- Ensuring a stimulating working environment
- Providing good working conditions
- Caring for health and safety

- Caring for the environment
- Respecting human rights
- Enforcing business integrity
- Abiding by the laws in the countries in which we operate
- Fostering community relations.

For Akzo Nobel, excelling in Corporate Social Responsibility is a strategic issue. We are convinced that our long term economic growth requires our simultaneous success in developing our employees, contributing to the societies in which we operate and caring for the environment.

OUR WAY FORWARD:

- Involve employees in embedding CSR in

their day to day business processes

- Identify areas for improvement by benchmarking and stakeholder consultation
- Exchange good practices internally and with our business partners
- Build partnerships with those stakeholders that contribute to CSR progress
- Measure and report our efforts transparently
- Stimulate innovation and technology contributing to sustainable development.

are trustworthy. Responsible behavior will also keep the company sustainable in the long run. We safeguard the planet and with it the environment in which our customers live – now and in future. But CSR also makes good business sense in the short term; saving energy and reducing or recycling waste saves money. Soil protection prevents costly remediation programs. Compliance with ethical values and the law avoids reputational damage and litigation costs and damages.

SUSTAINABILITY IN THE VALUE CHAIN

At Akzo Nobel we use CSR as an equivalent of sustainable development. We are convinced that we as a company have a progressive role to play in sustainable development: by applying the principles of CSR we create value for our company, for our business partners and for society. Embedding CSR principles in every day business decisions contributes to increasing operational efficiency, reducing risk, improving energy and eco-efficiency, and recruiting and retaining talent. CSR doesn't mean that we take a 'soft approach' to business decisions. Rather, we take other aspects into account than just (short-term) financial ones; social and environmental impact deserve attention too.

In embedding CSR in Akzo Nobel each and every employee has a role to play, at every step through the internal value chain.

Sustainability in R&D

Akzo Nobel's Surfactants business – surfactants are compounds used, for example, in hair and skincare products, detergents and water-based paints to change the way the liquid base works – uses a stage and gate system to identify early on which ideas offer long term value and meet the company's tough sustainability criteria.

In a stage and gate process, the project is divided into a series of predetermined stages separated by checkpoints (gates) at which the project is evaluated to ensure it complies with a number of criteria – business requirements and stringent "must meet" health, safety and environment requirements – before it can progress to the next stage. The Gate Model has been uniformly introduced into R&D processes at all Surfactants sites. And it has already delivered a new generation of highly effective, low-toxicity, sugar-based surfactants that are cheaper, more environmentally friendly and biodegradable – even in sea water – and made from renewable resources.

Sustainability in marketing and sales

Akzo Nobel is keen to work with customers and suppliers to produce innovative products that add value throughout the product-value chain. This means understanding the entire product-value chain and the needs of every player in it. Our Aerospace Coatings business works closely with customers such as Airbus and Boeing to produce coatings that enhance the performance and longevity of today's modern aircraft: minimizing air resistance to reduce fuel consumption; protecting the aircraft's skin against extreme fluctuations in ambient temperature; and reducing maintenance times on the ground.

Sustainability in purchasing

Akzo Nobel's vendor policy intends to anchor CSR in our purchasing processes. By the end of 2005 we aim to be spending 80% of the company's purchasing budget with vendors that endorse our Vendor Policy (see Annex 5).

An international measure of CSR performance

Through its business exposure, Akzo Nobel has learned the value of developing principles, directives, policies and guidelines to address in a responsible manner issues arising in the course of its every day activities. Our CSR agenda is shaped through dialog with our stakeholders and exposure to the markets and societies in which we operate.

To maintain a broader view of CSR and to benchmark itself against its international corporate peers, in 2004 Akzo Nobel participated informally in the Dow Jones

Sustainability World Indexes (DJSI World) for socially responsible performance. This resulted in a benchmark report that clearly depicted the company's strengths and weaknesses in comparison to our peers.

The report revealed that Akzo Nobel has above average approaches to issues such as corporate governance, risk management, customer relationship management, product stewardship, occupational health, safety and environmental management, involvement of the supply chain and stakeholder involvement. The report also

revealed that there is room for improvement in areas such as climate change strategies, community support, eco-efficiency and social and environmental reporting.

Akzo Nobel will continue to make use of the DJSI World and similar questionnaires used by the financial community to track key CSR issues and supplement its own processes for embedding sustainability as an item integral to the management agenda.

CORPORATE GOVERNANCE >

As a Dutch registered company, our management and supervision structure is organized in a two-tier system comprising a Board of Management, composed solely of executive directors, and a Supervisory Board, composed solely of non-executive directors. The two boards are independent of each other. Corporate governance 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 (i.e. a risk management and control system, as well as a system to ensure 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 among these are the Dutch Corporate Governance Code adopted in 2003 ("the Code") and the U.S. Sarbanes-Oxley Act of 2002 and its implementing rules issued by the SEC and NASDAQ.

(For further information on Akzo Nobel's Corporate Governance structure, please see our Annual Report 2004.)

CSR INFRASTRUCTURE

The Board of Management has established two dedicated bodies – the CSR Council and the CSR Advisory Group – to monitor the CSR integration process, to embed CSR in the regular management cycle, to measure progress and to advise the Board of Management on Akzo Nobel's CSR strategy.

The CSR Advisory Group consists of the Staff Directors of Human Resources, Legal, Audit, Communications, CSR/ Health, Safety and Environment, Investor Relations and the Secretary of the Board of Management. Its main tasks are:

- To foster a multi-disciplinary approach to the preparation of CSR policies, procedures and documents for the CSR Council
- Arrange input and feedback from relevant parties inside and outside the company
- Identify new developments and upcoming issues in the area of CSR
- Plan for review of CSR progress.



FACTS & FIGURES

- **Dutch Corporate Governance Code: Akzo Nobel is compliant, with explanations given for specific deviations.**
- **Risk management process: a renewed framework and process was set in motion in 2002.**
- **Once a year all business unit managers are required to declare in a Letter of Representation:**
"We have conducted our business in accordance with external rules, laws, and regulations and worked in conformity with Akzo Nobel's Company Statement, Corporate Directives and Business Principles."
- **Furthermore, in the Letter they declare: "All employees have received training on the Akzo Nobel Business Principles to the extent relevant for their function."**
- **On a quarterly basis, an overview of complaints, issues and disciplinary actions is prepared by the Akzo Nobel Compliance Committee. The data is discussed both with the Board of Management and with the Audit Committee of the Supervisory Board.**

The CSR Advisory Group establishes CSR working groups and task forces to identify and research the company's position on any issues it sees fit. In 2004 issues such as energy efficiency, animal testing and international codes of conduct have been reviewed by task forces at the request of the CSR Advisory Group. Each of Akzo Nobel's businesses has a CSR focal point through which it interacts and communicates with the CSR Advisory Group.

The CSR Council comprises the CEO, three business unit managers, three senior managers from Coatings, Chemicals and Pharma, and the staff directors of CSR/HSE and Communications. The Council's primary task is to check the feasibility of proposals from the Advisory Group. After agreement is reached within the Council, policy proposals are sent to the Board of Management for approval.

Overall objectives of the CSR infrastructure are:

- To set CSR policy and to embed the CSR process in the business
- To determine the future direction of CSR in the company
- Identify new developments and upcoming issues in CSR.

Each year our company financial report is subject to external audit. The lead external auditor is changed every 5 years. Our CSR Report is reviewed by accredited external parties.

The internal audit department of Akzo Nobel consists of 53 professionals. Both financial and non-financial performance is assessed on a regular basis as part of our normal business processes, which include three-year operational planning. Business unit managers submit each year a Letter of Representation confirming these activities.



FACTS & FIGURES 2004

Frequency of meetings of CSR Council = 3

• Frequency of meetings of CSR Advisory Group = 6

List of Akzo Nobel's memberships and endorsements

Akzo Nobel belongs to, or endorses, a number of international bodies and initiatives:

- World Business Council for Sustainable Development (WBCSD)
- UN Global Compact
- Round Table Amnesty International (the Netherlands)
- European Conference Board
- International Chamber of Commerce
- European Chemical Industry Council (CEFIC)
- European Federation of Pharmaceutical Industries and Associations (EFPIA)
- European Council of the Paint, Printing Ink and Artists' Colours Industry (CEPE)
- Responsible Care®
- Coatings Care®

CSR and Risk Management

Risk management is a key element of Akzo Nobel's corporate governance. Doing business inherently involves taking risks. With our risk management process we aim to create a proper balance between entrepreneurial attitude and levels of risk associated with business opportunities.

First implemented in the whole company in 2002, a structured risk management process is carried out each year throughout the company, on corporate level, and in every BU and sub-BU, to identify the most relevant risks (and opportunities) that may prevent us from achieving our business objectives.

Line management is responsible for addressing those risks affecting their particular business.

CSR issues involving, for example, the environment, health, safety, business integrity and people development are fully integrated in the risk management process since they are an integral part of Akzo Nobel's business strategies and objectives. The risk management process as performed by line management includes the following steps:

- Clarification of the business objectives, including CSR objectives

- Identification of risk scenarios affecting or potentially affecting the achievement of these objectives

- Assessment of identified scenarios' potential impact, likelihood of occurrence and existing control effectiveness

- Creation of specific responses to deal with identified material risks

Our risk management process is based on the Enterprise Risk Management – Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

At the corporate level, a number of issues surfaced during the 2004 risk management process that have a bearing on CSR. The list below, although not exhaustive, gives an indication of the sorts of issues identified:

- Product liability – All three areas of Akzo Nobel's operations – Chemicals, Coatings and Pharma – are exposed to risk from product liability claims.
- Environmental – Akzo Nobel uses hazardous materials, chemicals and biological and toxic compounds in product development programs and



manufacturing processes. This brings with it risks of accidental contamination. Furthermore, there is always the possibility of exposure to the consequences of future non-compliance with environmental laws, property damage, regulatory enforcement, personal injury and related claims resulting from these. The company has developed contingency plans and crisis management programs to deal with such issues.

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



CREATING VALUE FOR CUSTOMERS >

THE PLANET: REDUCING OUR FOOTPRINT >

OUR PEOPLE MAKE THE DIFFERENCE >

ADDING VALUE TO SOCIETY >

VALUE FOR INVESTORS AND

OTHER PROVIDERS OF CAPITAL >

FROM PRINCIPLES TO PERFORMANCE

We have talked about what Akzo Nobel stands for. However, what really matters is our actual performance relative to our principles: our ability to put principles into practice while executing our strategy.



LINDA YUAN (MANAGER, TECHNICAL SUPPORT CENTER, SHANGHAI, CHINA)

“My understanding of CSR is as a kind of company culture; a more enlightened way of doing business. Basically it sets the bottom line requirements on which you can base your decision-making.”

CREATING VALUE FOR CUSTOMERS >

We 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.

Many of Akzo Nobel's products are not readily associated with the company name, yet we are present everywhere: in the home, on highways, in the air. Some of our products and services make life easier for millions of people; others are essential to the health and well-being of people across the globe.

Our drive to create value for our customers can be seen throughout the company.

Product stewardship – estrogens at large

As a manufacturer of hormonal contraceptives, Akzo Nobel is concerned about the effects of estrogen emissions to surface water. Prior to the launch of one of our most ground-breaking products in the field, NuvaRing™, Organon carefully researched the potential environmental risks associated with its disposal to landfill.

A novel contraceptive ring, NuvaRing is effective for three weeks, after which it is thrown away with household waste.

A study designed and executed on behalf of Organon by Akzo Nobel Chemicals Research examined the potential environmental and health risks posed if the used product is disposed of in this way.

As NuvaRing also contains Ethinyl Estradiol (EE), additional studies carried out in 2003 examined the potential for EE leaching from landfills and soils. Using computer modeling simulation (PESTLA), the researchers concluded that NuvaRing poses no risk to either the environment or human health when discarded with domestic waste.

Inherent in that drive is an innovative approach to providing products and related solutions to customers' needs, a strong focus on product stewardship to provide our customers with better products and encouragement of entrepreneurial spirit. The way we express this can vary in our three main business areas, because of their different market dynamics

PHARMA HEALTHY BUSINESS

In human healthcare, our Organon business serves customers around the world by developing, manufacturing and marketing successful prescription medicines in the areas of women's healthcare, mental health and anesthesia. In animal healthcare, our Intervet business is world renowned for the innovative vaccines and veterinary pharmaceuticals it discovers, develops, manufactures and markets around the globe. Both our

Pharma businesses aim to provide products that can help people and animals live longer and healthier lives.

Organon is a mid-sized global pharmaceutical company that has built leading positions in its areas of therapeutic expertise by looking for innovative solutions to medical needs. We are among the top three suppliers of hormonal contraceptives in the world. We are the second largest supplier of fertility products, among the top five players in hormone therapy and world leader in neuromuscular relaxants. Intervet is the world's third largest supplier of veterinary products. In the animal vaccine market we are the world's largest, both in terms of sales and vials produced. We offer veterinarians and their

Animal welfare

At present it is not possible to develop and obtain market approval for new chemicals and medicines without animal testing. Legally we are obliged to test new compounds to ensure that they are as effective and as safe as possible. At the same time we recognize the intrinsic worth of (laboratory) animals and accept the moral duty to reduce animal use and to develop and implement validated non-animal test methods where possible.

We fully endorse the 3 Rs concept as outlined by Russell and Burch in The Principles of Humane Experimental Technique in 1959. The first R refers to Replacement, which is defined as any scientific method employing non-sentient material that may replace the use of conscious living vertebrates. The second R refers to Reduction, which means

lowering the number of animals used to obtain information. The third R, for Refinement, refers to reduction of discomfort.

All applications for animal experiments are reviewed by an appropriate ethical committee. The committee is comprised of a chairman drawn from outside the company and coworkers and independent experts. Applications are reviewed with respect to scientific quality, animal welfare (housing conditions, implementation of the three Rs) and cost-benefit analyses. The latter is to determine whether human needs outweigh the possible suffering of the animals. Animal welfare is supervised by veterinarians and animal welfare officers. And animals are handled by well trained and experienced personnel. In addition, Akzo Nobel only employs certified contract

laboratories for the testing of products. These are regularly inspected by the authorities, including all aspects of animal welfare.

To further reduce animal experimentation Akzo Nobel invests in new technologies such as in-silico testing and (toxico) genomics. The necessity of animal studies is challenged in discussions with health authorities and major effort is put into getting alternative non-animal test methods accepted by the authorities. Animal wellbeing is continuously improved by adapting housing conditions to reflect the natural habitat of the animal as much as possible, use of analgesics when practicable and relevant, and minimizing any discomfort.

FINANCIAL FIGURES & TARGETS, PHARMA

- **Return on Sales, medium-term target $\geq 17.5\%$**
- **Return on Sales, long-term target $\geq 20\%$**
- **Return on Sales 2004 = 16.1%**
- **Return on Investment, medium-term target $\geq 35\%$**
- **Return on Investment, long-term target $\geq 40\%$**
- **Return on Investment 2004 = 21.3%**
- **R&D expenditure 2004 = EUR 518 mln (16.0% sales)**



customers a comprehensive range of vaccines for the most important economic species (e.g. cattle, sheep, pigs, poultry) and for a wide range of companion animals (e.g. dogs and cats).

In addition to vaccines, Intervet's product range includes anti-infectives, anti-parasitics, endocrine products for fertility regulation, a large range of specialized pharmaceutical products and feed additives.

Research and Development (R&D) is a main driver common to Akzo Nobel's human and animal healthcare activities, which is why approximately one in five of our Pharma employees works in the area of R&D. With an R&D expenditure of 19% of its sales income in 2004 and 5 global R&D facilities, Organon had at year-end a pipeline with seven compounds in Phase II and four compounds in Phase III clinical trials. R&D efforts focus on the areas of therapeutic expertise in contraception, fertility, hormone therapy, mental health and anesthesia, with research also being done in immunology.

Intervet's business slogan is "Research makes the difference". It has proved its point by producing innovative vaccines and veterinary pharmaceuticals decade after decade.

Intervet maintains a global network of 13 R&D facilities which drive the veterinary pipeline of new products, e.g. targeting improved food safety, prevention of zoonosis, or eradication of highly infectious diseases that can be transferred from animals to humans. Excellence in R&D is the main force behind Intervet's renowned suite of marker vaccines against major diseases, e.g. Foot and Mouth disease and Classical Swine Fever.

Our Pharma group has also ventured into the area of human vaccines with the establishment in 2003 of our Nobilon business. Through Nobilon and its state-of-the-art manufacturing facility in Boxmeer (Netherlands), Akzo Nobel is exploring opportunities to discover, develop, produce and commercialize human vaccines. Nobilon is able to draw on the know-how and expertise of both Organon and Intervet.

CSR ISSUES

Our Pharma businesses, Organon and Intervet, are operating in an environment where social responsibility is integral to all their activities. Although different in detail, the ethical and legislative framework society has developed for human and animal healthcare products require safeguards during the development of a product. In human healthcare, in particular, this has many ramifications from 'informed consent' by the patient to transparent and accessible collection and storage of relevant data from clinical trials. Ultimately, whatever the field, human or animal, the end-product should be safe and effective. The investment in time and money required and the risks of products in development failing to meet the criteria of efficacy and safety demand sound management. Failure in trials, but also product withdrawals after launch in a market, can have enormous repercussions for pharmaceutical companies. Other CSR issues for our Pharma businesses are pricing of products (financial and societal issues), intellectual property rights, the role of animal testing in R&D, counterfeiting of pharmaceutical drugs, product stewardship and access to essential medicines.

Modern technology for animal health and consumer safety

Using modern biotechnology, Intervet, Akzo Nobel's animal healthcare business, is developing safer, high-performance vaccines that are changing the way outbreaks of infectious diseases are handled.

Intervet researchers have been able to develop marker vaccines and tests against Foot and Mouth disease and Classical Swine Fever. These marker vaccines enable health authorities to differentiate between vaccinated and infected animals and allow health authorities to use vaccination as part of their control strategies, thus avoiding large-scale killing of healthy animals.

Intervet is also involved in another extensive program to develop an effective marker system to control avian influenza. The ability to differentiate vaccinated from infected animals is to be an integral part of the research plan.

CSR RESPONSE

Organon and Intervet have in place systems and frameworks to do business in an ethical and responsible fashion. This is part of our normal business and a daily expression of Akzo Nobel's core values and Business Principles. Through a commitment to our customers we, as a matter of course, subject our products to extensive testing to ensure they are safe and effective. We value the role governmental regulators have to play in this process.

To ensure their value and quality, we continuously monitor the performance of our pharmaceutical products.

Regardless of whether it is human or animal healthcare, we aim to foster an environment that allows us to generate the profits needed to fund future research and provide a sound return on investment. Furthermore, to safeguard our business and employees, we take appropriate steps to protect our intellectual property, encourage science, promote ethical behavior and develop our people. We continue to support global regulatory systems that allow the fast approval of safe, effective and competitively-priced drugs.

In R&D, our animal testing policies are compliant with the most stringent regulatory standards, which reflect the principle of Replace, Reduce and Refine – known as the 3Rs. All testing on animals, both at Organon and Intervet, has to be approved by the ethical committees we have created to ensure we meet those standards.



COATINGS FOCUSING ON GROWTH

How others see us

"In 2001 Qatargas decided to use Intersleek from International Paint on their LNG (Liquid Natural Gas) ships. This followed a review of alternative TBT-free antifoulings, and Intersleek was selected because it had both the environmental and long-life performance that we required. The resulting in-service performance of this innovative product from International has more than matched our expectations and it has now been applied to seven out of 10 of our LNG ships."

Mr. Chafik Zitouni, Acting-Head of Technical Shipping, Qatargas

Akzo Nobel is the world's leading coatings company, producing paint and finishes for the industrial, transport and marine markets, as well as the Do-It-Yourself (DIY) and professional decorating sectors. The Coatings group has operational bases in 60 countries and employs around 29,000 people.

Our businesses cover almost every application in the global coatings market. We are the worldwide market leader in marine, protective and wood coatings, as well coil and powder coatings – used on some of the world's most prestigious buildings and engineering structures. Our paint systems also protect and enhance among other things mobile phones, furniture, snowboards, pipelines and construction machinery.

Our Coatings business is focused, has a global reach and is committed to innovation; at the same time, environmental responsibility is a major feature of our product range. We deliver 'more than just paint': our customers get strong brands and leading technologies, services and distribution networks.

The Coatings business focuses on growing in the emerging markets of Asia, East and Central Europe, and South and Central America. We will also continue to expand our market presence in the mature economies.

Product stewardship – paint is just the finishing touch

Six hundred of Coating's Car Refinishes 5,800 employees work in R&D – that's 10 percent of the workforce. It's a business decision which makes complete sense given the nature of the highly cyclical, competitive, and extremely innovative market for vehicle refinishes.

For Car Refinishes, the issue is how best to serve its customer base, which consists mainly of small and medium-sized enterprises, some of which are advanced in terms of their technology and services, while others operate at a more basic level.

Legislation over the years has targeted solvent emissions from the spray paints, either requiring costly containment installations at customer sites

or a change to products with fewer emissions.

All in all, the business environment has become increasingly complex for many bodyshops.

"In a competitive environment such as this, you cannot survive if you focus on just one problem – for example providing paint with less solvent content," says Rinus Roseboom, General Manager of Car Refinishes.

"We need to look at the whole picture, which is why we supply our customers not only with paint, but also with every service that is connected to their line of work. Over the last 35 years, we have replaced 40,000 mixing machines in bodyshops worldwide and trained 100,000 bodyshop workers

in our 65 Car Refinishes Instruction Centers.

By helping customers stay abreast of developments we ensure they can continue to do business.

And when our customers succeed, we succeed.

We also support bodyshop owners in managing their business efficiently (including book-keeping) and train them, for example, in safety – exposure prevention – in environmental awareness and in the reduction of waste product during the spraying process. For us the combination of people, planet and profit is fully integrated in our daily business practice."

FINANCIAL FIGURES & TARGETS, COATINGS

- Return on Investment, medium-term target $\geq 25\%$
- Return on Investment, long-term target $\geq 30\%$
- Return on Investment 2004 = 20.5%

CSR ISSUES

For our Coatings business, environmental considerations are key elements in the way products are developed and manufactured. The key challenges in the sector relate to product stewardship issues – in other words, the adequate management of potentially high-risk raw materials, hazardous waste, environmental pollutants and contamination. Modern standards and recent discoveries of soil contamination related to past activities – some of them by companies acquired later by Akzo Nobel – drive home the legacy of past practices and, in view of their impact on 'planet' and 'profit', are a lesson for the future.

In relation to broader environmental issues, the introduction and development of eco-efficiency models into our decision-making and business processes is also paramount. Occupational health and safety, management of effluents and residues and greenhouse issues have become key drivers in determining specifications and selection of raw materials for our coatings products. At the same time, ongoing consolidation within the industry and increased competition continue to make it necessary to restructure our businesses to make them more competitive, which in turn has, and will continue to have, a major impact on all those employees and communities involved.

CSR RESPONSE

Concern for health, safety and the environment is the foundation on which Akzo Nobel's business policy is built and is the springboard for strong CSR performance. To that end, the Akzo Nobel Coatings businesses have adopted the Coatings Care® program, the purpose of which is to integrate into the company continuous improvement of its Health, Safety and Environment (HSE) performance. This is put into practice by the businesses through stringent product stewardship programs which touch all areas of the coatings life cycle: R&D, manufacturing, transportation and distribution, application technology, customer needs and service and ultimate disposal.

Product stewardship demands that health, safety and environmental aspects of a new product be considered at the design stage, before the researcher decides which raw materials should go into a paint. The Marine & Protective Coatings business, for example, introduced a computer driven Raw Material Evaluation Process (RMEP) so that their laboratory chemists can study the environmental and safety properties of all substances they are considering for use in a new product. The process takes the chemist through a series of checks for each raw material to ensure that the final product contains substances that can be used safely with minimum impact on the environment.

The business also reviewed the information it was providing to customers and users of their products to ensure it was to a high standard throughout the world. It established a worldwide standard for labels and product Material Safety Data Sheets (MSDSs). For some product types, such as antifouling paints, the business

Vietnam – new country, new business

At face value, the construction of a new powder coatings factory in Vietnam's commercial center, Ho Chi Minh City, is simply a clear-cut example of Akzo Nobel's entrepreneurial spirit. Together with joint venture partner Chang Cheng Securities, our company was the first to invest in powder coatings manufacturing in Vietnam. It was our 12th powder coatings site in the Asia-Pacific region and it supports a series of strategic investments by the Coatings group in the region's markets, where we have a leadership position. Although we greatly value entrepreneurial spirit, to focus on this aspect alone would ignore the larger benefits the factory offers to the country and the region. In addition to creating approximately 80 new jobs, the factory has been built to the highest international standards and brings an environmentally friendly facility to Vietnam's industrial sector. The Interpon® powder coatings produced also provide Vietnam's economy with high quality products. In addition to powder coatings, Akzo Nobel also produces decorative coatings in Vietnam. In December 2004 we replaced our original production facility with a new 40,000 square meter site. The extra capacity will make it possible to make our full range of decorative coatings available to customers in Vietnam in the course of 2005.

Shipping news – the world after TBT

In October 2001, Akzo Nobel's Marine & Protective Coatings (M&PC) business, in line with its business strategy, publicly committed to comply with the International Maritime Organization (IMO) Conference resolution to phase out all tributyl tin (TBT) antifoulings globally, and did so by December 31, 2002. In the course of 2002 we sharply increased our production capacity of TBT-free and foul release products worldwide and introduced more TBT-

free alternative products. Although the IMO ban has not yet been formally ratified, we continue to actively promote our alternative products to customers around the world. To be able to do this, M&PC had actually been preparing and investing for many years: indeed, serious research into TBT-free alternative technologies actually began back in the 1980s. "This demonstrates the benefits of our product stewardship program, which supports our focus

on being prepared for changing customer requirements," says M&PC marketing Manager Jim Brown. "Despite the fact that the ban has not yet formally entered into force globally, most vessel operators are now applying TBT-free antifoulings and previously supplied (TBT) products have simply been replaced. Our product stewardship program has given us a competitive advantage."

issued guidance documents for safe application. In some cases, traditional products that have been sold for many years contain substances now recognized as potentially harmful to health and/or the environment. Under the product stewardship program, Akzo Nobel's Coatings businesses systematically review these substances and make recommendations to ensure they are used safely. This can involve reformulating products, changing the way they are marketed, giving detailed information to customers on safe use, and in some cases, removing products from our product range and substituting them with a safer product. The Coatings Raw Materials Policy regulates the use of hazardous materials and sets phase-out plans for them.

Companies which manufacture coatings on our behalf should also have acceptable Health, Safety and Environment standards. We are actively discussing key issues with our toll manufacturers and agents throughout the world to ensure the principles of product stewardship are included in the way they operate.

CHEMICALS STREAMLINING THE PORTFOLIO

Akzo Nobel has a long tradition in the chemicals industry and is one of the world's leading chemical producers. We are a global supplier of a wide range of functional, specialty and specification chemicals that are used as raw and intermediate materials for the manufacture of many everyday products.

Our businesses hold strong global positions within their respective markets. The chemicals we produce often remain unseen by the consumer but they nevertheless

make a significant contribution to the quality of life of people all over the world. Numerous products that many of us take for granted simply couldn't be made without our chemicals. These include such products as electronic devices, medications, disinfectants, detergents, soaps, plastics, ice cream, soups, paper, paints, glues, asphalt – even golf balls. And in the area of public health, another of our products – iodized salt – helps prevent iodine deficiency, the single most common cause of preventable mental retardation and brain damage in the world.

With an emphasis on superior technologies and driving innovation, our growth efforts are directed at North America and Asia, from an already strong base in Europe. Most of our businesses have a global presence – in terms of both production and services – and our extensive client list includes some of the world's biggest companies.

The industry's involvement in so many sectors of the world's economy makes it particularly susceptible to shocks and cyclical upward and downward movements. Akzo Nobel has adjusted its business strategy and is currently streamlining its Chemicals portfolio by concentrating on actively growing profitable businesses in selected strategic markets. In line with this approach, Akzo Nobel divested three of its Chemicals businesses in the course of 2004. The divestment of a number of other activities was announced when the company presented its 2004 annual results in February 2005.

How others see us

"We selected Eka Chemicals as a supplier of wet strength resins and softeners for our tissue and hygiene products because of their dynamic and innovative R&D. Moreover, Eka has demonstrated that they value the spirit of partnership and are able to provide good technical and commercial support, including on-site services. For all of these reasons we named Eka our Best Supplier 2004. We are looking forward to collaborating with them in other areas, such as chemicals for water treatment."

Senior Category Purchaser, Georgia Pacific Europe

Micronutrients – helping to raise standards

Improving farming techniques is one area in which Akzo Nobel contributes to raising living standards in a number of the world's developing countries. In China, there is a pressing need to improve farming methods and output by using micronutrients – trace elements such as iron, manganese, zinc, copper and magnesium, which are essential for the healthy development of agricultural products.

Akzo Nobel is a world leader in chelated micronutrients – when combined with chelates, the quantity of micronutrient required, as well as its solubility and absorption rate, is vastly improved compared with traditional forms. Our micronutrients business has been active in China since 1998.

After first completing successful field trials, which indicated that local farmers could double their crop yields, the company quickly realized that such successes would mean nothing if the message didn't get across to the end users – in the case of China, mostly small farmers with little experience in Western hi-tech farming methods.

The company's solution was to develop a "push and pull" approach by not selling directly to the farmers, but rather to local distributors, where the farmers go to buy what they need. The effect of this was to create a "push" effect in the distribution channels.

The next step was to train the distributors and supply them with marketing expertise. They then took on the role of demonstrating the products to

the farmers. To create the "pull" effect, the company launched a campaign to inform the farmers directly, using the help of TV commercials. Essentially, the micronutrient strategy in China has been, and continues to be, much more about development and education than about marketing chemicals and agricultural products. At its core has been the development of 'profitable partnerships' in which the solution to a particular problem has to be as beneficial to the end user – in this case subsistence farmers – as it is to the company. "Especially when we go into new markets, we try to price our products based on what they do, not on what it costs to produce them," explained the micronutrients marketing manager at the time, Anders Möllenståhl.

FINANCIAL FIGURES & TARGETS, CHEMICALS

• Return on Investment, target over the business cycle $\geq 17.5\%$

• Return on Investment 2004 = 15.2%



CSR ISSUES

Public trust and confidence in the chemical industry has never fully recovered from the reverses triggered by a series of high profile incidents that have taken place in past decades. These served to fuel growing concerns and widespread public debate about the impact the industry was having on the environment, society and public health, and whether proper management controls were in place.

For our Chemicals business, major issues currently include the management of hazardous substances (especially High Production Volume chemicals) and appropriate response to new EU legislation on chemical substances (REACH), environmental contamination, energy efficiency, greenhouse gas emissions, safety, health and security, and waste disposal. As the industry continues to consolidate and become more competitive, Akzo Nobel will need to constantly reevaluate its portfolio of business activities to adapt to an evolving marketplace and to guarantee its continuity. This will continue to have, both now and in the future, a major impact on all employees and communities involved.

CSR RESPONSE

The backbone of our health, safety and environmental efforts is our participation in and total adherence to the Responsible Care® program, the leading world benchmark for responsible management in the chemical industry.

Under the program, we practice responsible management of our raw materials, processes and products. This includes the safe handling of raw materials, from inspection, through product manufacture and distribution, to ultimate disposal – and involvement of the public in our decision-making processes.

Besides integrating the management of environmental, health and safety issues, Responsible Care® prioritizes community involvement. The basic premise of the program is an integral approach to managing our chemical operations by achieving excellence in the following six areas:

- Community awareness and emergency response
- Safe distribution of our products
- Safe and healthy working conditions for our employees, preventing pollution of air, water and land by our activities
- Preventing fires, explosions and accidental emissions related to our operations
- Establishing security procedures for our products and processes, including procedures against terrorist threats
- Making health, safety and environmental protection an integral part of designing, manufacturing, marketing, distributing, using and disposing of our products (product stewardship).

A classic case of product stewardship at work is the reuse of toxic acid waste at our Base Chemicals chlorine plant in Delfzijl, the Netherlands. There we used to dry chlorine gas with concentrated sulfuric acid. The diluted acid (70%) left after this process was just waste – 1,400 metric tons a year of toxic waste. The main raw material for the chlorine plant is a concentrated salt solution called "brine". The incoming brine has to be acidified to dissolve carbonated salts present, before electrolysis of the solution. Up until a few years ago, the brine was acidified by adding fresh hydrochloric acid. That changed when a clever technologist proposed using the sulfuric acid waste stream for the brine acidification. There are two benefits under the new process. On the one hand, the amount of waste and the cost of its disposal have been reduced significantly. And on the other hand, expensive hydrochloric acid no longer has to be bought.

Reducing toxic emissions, saving cost

Akzo Nobel directives stipulate that best-practice environmental control measures should be used in its operating units – wherever they may be in the world. This requirement was put into practice when Akzo Nobel's Surfactants business commenced operations at its new surfactants unit on Jurong Island, Singapore in 2003. The new unit produces a range of surfactants called Quaternary Ammonium Salts, which are used in the fabric care, personal care and industrial markets throughout South-East Asia.

During the processing steps, various solvents and volatile organic materials are used. To control emissions of these materials – which are potential ozone depleters – the Singapore plant operates a state-of-the-art cryogenic (i.e. under very low temperatures) recovery system. Similar systems have been tried and tested at company facilities in both the United States and Europe.

The cryogenic recovery system is a three-stage condensation process that permits the separation and recovery of these chemical components from vent streams in the process. The materials are then recycled back to the process, thus limiting their release into the atmosphere. Using these operating procedures, the unit achieves virtually complete control of volatile emissions from solvent-based products. Their recovery for recycling also means a reduction in raw material costs.

THE PLANET: REDUCING OUR FOOTPRINT >

An increasing number of international companies have come to share the view that business should reduce its so-called ecological footprint significantly. For many years Akzo Nobel has worked successfully to reduce its emissions to air and water and to reduce the amount of non-reusable waste from its processes. Also, some 20 years ago Akzo Nobel took a proactive stance on the problem of scarce fossil fuel resources by focusing on efficiency in energy production and consumption. Later on these policies also proved to be very helpful in minimizing emissions of greenhouse gases. Back in the nineties we realized that our plants and processes are only a part of much larger “process value chains”, which has led us to adopt “product stewardship” policies in all business units. This implies that the environmental impact of process value chains relevant to our businesses is assessed and managed. Today, balancing product stewardship with economical requirements, or in other words striving for eco-efficiency, is one of the main focuses of our business policies.

STRIVING FOR ECO-EFFICIENCY

Since 2000, we have been focusing more and more on improving eco-efficiency. Akzo Nobel endorses the World Business Council for Sustainable Development (WBCSD) approach: “Eco-efficiency is reached by the delivery of competitively priced goods and services that satisfy human needs and improve the quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle to a level at least in line with the earth's estimated carrying capacity.” We focus on eco-efficiency not only because it is the right thing to do from an environmental perspective, but also because it makes good business sense. This means in practice that we don't stop with the improvement of existing process value chains, but that we also challenge the viability of current products and value chains. This attitude is also reflected in our product development.

REDUCING GREENHOUSE GAS EMISSIONS

The United Nations Intergovernmental Panel on Climate Change reports that man-made emissions of greenhouse gases – mainly carbon dioxide (CO₂) associated with the burning of fossil fuels – are negatively influencing the global climate. Akzo Nobel shares this concern. Through the Kyoto Protocol,



DANTES: a partnership for eco-efficiency studies

Inside Akzo Nobel, the Sustainable Development group, part of our Surfactants business, is an active force in promoting the systematic, structured evaluation of eco-efficiency in our production processes. The group is the breeding ground for approaches on incorporating eco-efficiency criteria into decision-making on R&D and other functions in the company. Originally, the Sustainable Development group was co-funded by the European Union LIFE program by conducting the DANTES project in co-operation with the Swiss company ABB, Finland's Stora Enso and Chalmers University of Technology in Sweden. The aim of DANTES (Demonstrate and Assess New Tools for

Environmental Sustainability) is to offer a smorgasbord loaded with tools, strategies and important information about many aspects of environmental sustainability that can be used by any interested parties.

“We're demonstrating how one can work with different tools in three main areas, life cycle assessment, environmental risk assessment and life-cycle costing,” explains Klas Hallberg, project manager. “As well as providing the tools and helping other people to assess their efforts in these areas, we also want to show how these tools could be used in a strategic way.”

many industrialized countries have agreed to cut their greenhouse gas emissions. We see this as a concrete first step in acknowledging the urgent need for global action on this issue. To a large extent, man-made CO₂ emissions are a consequence of energy production and energy consumption. The manufacture of chemicals requires a lot of energy. In 2004, the company's total energy consumption worldwide was 56 Petajoules (mainly for heating and electrical power). This is equivalent to 1.3 million metric tons of oil, which is the amount of energy used annually by 800 thousand West European households. A significant part of the energy we consume is supplied by our own power plants. In addition to this fuel-related consumption, we also use 34 PJ of what is considered to be chemical energy, i.e. to upgrade raw materials to final products with a higher energy content.

INFLUENCING DIRECT CO₂ EMISSIONS

CO₂ emissions from the production of energy are called direct emissions. The level of these emissions can be influenced by improving the efficiency of energy plants. Well before the Kyoto reference year 1990, Akzo Nobel had already taken a proactive stance on the efficiency of its energy production by starting the construction of a series of Combined Heat and Power (CHP) plants in the Netherlands and Denmark.

Conventional power plants operate with efficiencies of 40–50%. By combining the generation of heat and power, CHP plants are able to achieve extremely high efficiencies of more than 80%. At Akzo Nobel, in 2004 CHP capacity amounted to 650 MW, with a power output of 5,000 GWh annually. By applying CHP technology, the emission of 1.3 million metric tons of CO₂ per year is avoided as compared with conventional, separate generation of heat and electrical power. In the context of the European Union, CHP is envisaged as the single biggest measure to be employed to meet the Kyoto targets. Within the EU, CO₂ emission trading began on January 1, 2005. Because of the low level of CO₂ emissions from our CHP plants, we are in a position to sell our CO₂ emission rights.

We monitor and report the overall direct CO₂ emissions of Akzo Nobel's activities. In 2004 this amounted to 2.4 million metric tons of CO₂.

Product stewardship and European legislation for chemicals (REACH)

The draft European Legislation for the new Chemicals Policy (REACH = Registration, Evaluation and Authorization of Chemicals) is aimed at making chemicals manufacturing and handling safer in Europe. This has a clear connection with product stewardship. Akzo Nobel has devoted considerable effort to make its position on this new legislation very clear.

While we fully support and agree with the objectives of the proposed REACH legislation, we are concerned about the massive amount of resources – financial and manpower – needed to implement the

proposals within the time proposed.

Akzo Nobel agrees with the response of CEFIC and CEPE on the first draft of the proposed legislation. Moreover, we have brought forward a number of items of particular concern to Akzo Nobel in the EU's Public Internet Consultation.

Keywords for us are:

- Simplify (not only from a cost standpoint, but also to prevent overburdening customers with information)
- Centralize (let one central agency do the work)
- Globalize (introduce REACH together and in line with the Global Harmonized System

as agreed at the Johannesburg meeting on Sustainable Development).

In October 2003, the draft REACH legislation was approved by the European Commission and passed to the European Parliament. It is anticipated that after a number of readings, with the possibility to make amendments, the legislation will pass Parliament and come into affect in 2006. In the meantime, Akzo Nobel is represented in various industry working groups that have close contacts with governments and EU authorities.

INFLUENCING INDIRECT CO₂ EMISSIONS, CAUSED BY ENERGY CONSUMPTION OF OUR PRODUCTION PROCESSES

In addition to direct emissions, indirect emissions of CO₂ – caused by energy consumption during production processes – are important in determining the Global Warming Potential (GWP) of an enterprise. Indirect CO₂ emissions are influenced by the energy efficiency of the production processes and the choice of the primary energy source.

Energy sources

Fifty-six percent of Akzo Nobel's power consumption is based on sustainable sources: hydroelectric power (37%), CHP (14%) and other (5%).

Another 16% of our power consumption is derived from nuclear plants. Although it cannot be classified as "sustainable" by current definitions, nuclear energy nevertheless has the great advantage of no CO₂ emissions.

INFLUENCING OTHER INDIRECT CO₂ EMISSIONS

"Other indirect CO₂ emissions" refers to the sum of CO₂ emissions arising at places along the "process value chain" that are attributable to third parties; this includes transport of our (raw) materials and products and employees commuting to work. We have started assessing the eco-efficiency of our process value chains, including its effect on climate change, which is increasingly being taken into account when making important business decisions.

For example, the Örnsköldsvik (Sweden) site of our Cellulose Specialties business (part of the business unit Surfactants) switched from road to rail transport of their raw materials and products after assessing a combination of the financial and environmental impact of different means of transportation.

EMISSIONS OF OTHER GREENHOUSE GASES

In 2004 we inventoried the emission of other greenhouse gases as defined in the Kyoto protocol. Their contribution, expressed in metric tons of CO₂ equivalent, proved to be about 2% of our direct CO₂ emissions. For this reason we have not included these emissions in our corporate parameter reporting.

ALTERNATIVE ENERGY SOURCES FOR REDUCING GREENHOUSE GAS EMISSIONS

In our R&D, we study the feasibility of non-conventional sources of energy. In close cooperation with business partners, we have developed a new generation of flexible solar cells. With yet another business partner, we are studying the feasibility of a hydrogen fuel cell, which can be used to produce electricity from hydrogen, a by-product of our chlorine production. From mid-2005 onwards, our chlorine plant in Rotterdam (Netherlands) will produce over 20,000 metric tons of hydrogen a year. Partner Nedstack and Akzo Nobel are working together to develop an electricity plant powered by this hydrogen-based fuel cell. The electrical power from this plant will be directly "recycled" back into the electrolysis process for the production of chlorine, thus reducing power consumption from the grid by 20%.

In another project, our new plant for the production of bleaching chemicals in Brazil will use power from a new biomass power plant (approximately 150 GWh in 2006). This will result in 100,000 metric tons less of indirect CO₂ emissions a year compared with power from a fossil fuel plant.

Energy efficiency

Energy efficiency – the amount of primary energy consumption per metric ton compared with the Kyoto reference year 1990 – is considered a key performance indicator for environmentally responsible production. As many countries still depend on fossil fuels as their primary energy source, improved efficiency translates into lower consumption of a scarce resource and reduced CO₂ emissions.

To facilitate effective monitoring of efficiency levels and trends, a monitoring system was introduced in 1990. Today the system – in the form of a web-based database – covers all our energy

intensive sites worldwide, which has enabled Akzo Nobel to record major improvements. Indeed, our overall energy efficiency at these sites has improved by 18 percent over the last 15 years.

Our ambition is to belong to the world's top companies in the field of energy efficiency. By introducing energy efficiency plans we intend to stimulate a systematic approach to achieving this goal. Examples of our approach can be found at all energy intensive sites in the Netherlands, where energy efficiency plans have been drafted and updated yearly since 1990.



Over the past 4 years we have been able to reduce the amount of non-reusable waste we produce by 54%, from 153,000 metric tons a year to 70,000 metric tons a year.

During the same period, 2000–2004, we reduced the amount of hazardous non-reusable waste produced by approximately 70%, i.e. from about 50,000 metric tons a year to 15,000 metric tons a year.

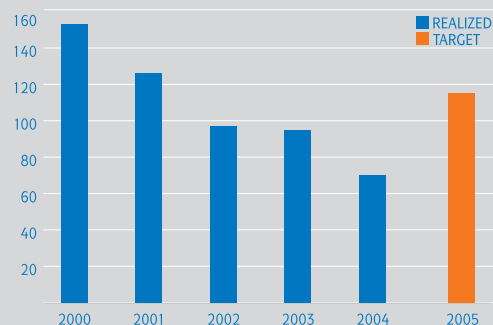
These figures only refer to waste that is sent to landfill. As we are currently focusing more and more on management of scarce resources, starting in 2005 we will also include waste that is incinerated in our non-reusable waste reporting (new definition in line with the Basel Convention).

The Chemical Oxygen Demand (COD) of waste water discharged to surface water declined from 2000 to 2002. The increase of COD in 2003 is due to increased activity by several of our Chemicals businesses and the Chemicals Innovation Unit.

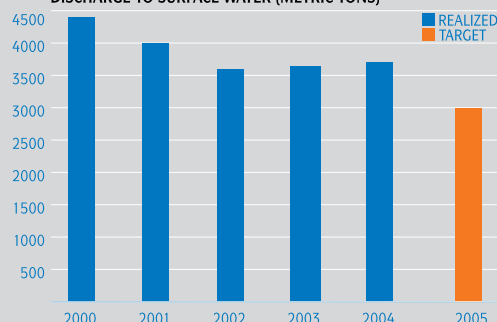
Improvements in production methods are leading to reductions in VOC emissions. Nevertheless, total annual emissions of VOCs may vary with overall growth in production and are subject to the influence of operations being acquired and divested. Work being done to harmonize the methods used for calculating VOC emissions is expected to lead to improvements in the accuracy of this data in the coming years.



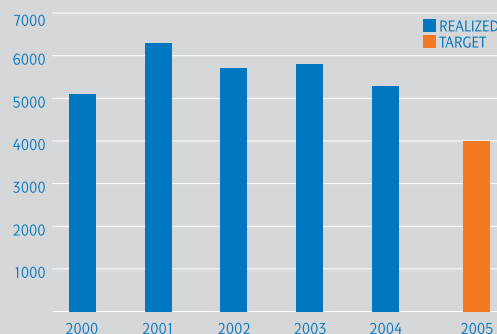
NON-REUSABLE WASTE (METRIC KILOTONS)



CHEMICAL OXYGEN DEMAND (COD) OF WASTE WATER DISCHARGE TO SURFACE WATER (METRIC TONS)



EMISSION OF VOLATILE ORGANIC COMPOUNDS TO AIR (METRIC TONS)



FACTS & FIGURES 2004

- Non-Reusable Waste = 70 metric kilotons
- Chemical Oxygen Demand = 3.7 metric kilotons
- Volatile Organic Compounds = 5.3 metric kilotons

Performance indicators and targets for non-financial report

Up until the end of 2004, Akzo Nobel reported on five corporate non-financial parameters. Targets for improvement have been set for each parameter in the areas of health and safety, non-reusable waste and emissions to air and water.

As from 2005, nine additional indicators* will be included in our regular performance framework and the management cycle of our businesses. This means that managers have to achieve agreed targets as part of their overall objectives. Internal audit assesses performance, including these targets, on a regular basis. The success of

managers over the entire portfolio of their objectives, including the non-financial ones, is part of their performance appraisal and affects their remuneration.

Four of these new parameters have been created in the area of health and safety in the workplace. These are occupational illness (OIFR), safety of contracted personnel from outside the company working on Akzo Nobel premises (CLTI), the frequency of injuries in general (Total Reportable Rate of Injuries) and on the number of serious incidents (Number of Reportable incidents).

Another five of the new parameters cover environmental performance. These include

three relating to energy consumption, which respond to worldwide concerns about the efficient use of energy resources and global warming and climate change: energy efficiency; use of low carbon and renewable energy sources; and direct green house gas emissions. The fourth parameter relates to our total water consumption in the areas groundwater, surface water and potable water, while the fifth relates to the management of hazardous waste.

* Akzo Nobel has already been monitoring some of these new indicators for varying periods of time. Where relevant, we have included results of our performance on these indicators in this report.

OUR PEOPLE MAKE THE DIFFERENCE >

Akzo Nobel's success – both now and in the future – depends on the quality of the 61,450 people it employs in more than 80 countries around the world. At Akzo Nobel we acknowledge the link between our success as a business and the quality of our employees – and we have put in place coordinated policies and actions to attract, retain and develop people with the talent and background that strengthen us as a successful, dynamic company. Indeed, it is our goal to become a talent factory. Basic elements of the persona that fit in the Akzo Nobel environment are described in our core values: personal integrity, entrepreneurial spirit and social responsibility. Our workplace offers our employees well defined health and safety standards, a transparent appraisal system and personal development planning.

FOCUSING HUMAN RESOURCES

In 2004, more than 61,000 people were employed by Akzo Nobel to work in the company's 17 business units and company offices situated on sites across the entire globe. Reflecting the diverse and independent nature of the company's activities, these employees take part in a variety of performance appraisal systems. Although each of them had its merits they all contributed to one drawback: lack of a consistent approach to human performance throughout the company.

In line with our aim to recognize and reward employees for their performance, we have started to put in place a consistent approach to performance management throughout Akzo Nobel's businesses.

Socially responsible solutions – the pain of restructuring

The dynamic business environment in which we operate demands hard decisions to preserve a sustainable future for our company.

These decisions may be painful for some of our employees – as was the case during the recent restructuring we conducted in response to the global economic downturn.

During 2004, cost cutting, restructuring and divestment of businesses resulted in a workforce reduction totaling 3,130 people: the number of Akzo Nobel employees fell from 64,580 at year-end 2003 to 61,450 employees at year-end 2004. Due to overcapacity in the global active pharmaceutical ingredients market, our Diosynth business was forced to lay off around 350 employees in Mexico, Scotland and the Netherlands. At the same time, especially in Coatings, the workforce expanded in those activities and regions where there was strong growth, such as in China and Eastern Europe. This led to the creation of approximately 1,000 new jobs.

In all cases where employees are affected by restructuring, we aim to create socially responsible solutions. When our Base Chemicals and Functional Chemicals businesses decided to optimize chlorine production and discontinue its transportation by rail across the Netherlands, the most effective solution was to close four plants – two each at production sites in Hengelo, near the German border, and Delfzijl in the far north of the Netherlands and relocate to two new plants in Delfzijl.

The management of both businesses pledged to take all reasonable steps to safeguard the jobs of employees affected by the relocations. Under the slogan "From Work to Work", they tried to find new employment for those affected, either in the two new plants to be constructed or at other facilities in Delfzijl and Hengelo, both within and outside of Akzo Nobel. This approach, and early retirement schemes, has resulted in virtually no one being forced out of a job as a result of this major change.

This links pay and performance with the opportunity to do challenging work in a dynamic environment.

At the beginning of 2005 we started rolling out this so-called Performance & Development Dialog (P&D Dialog) program. It includes six core Akzo Nobel competencies which will help embed our Core Values and Business Principles in each employee's daily work and behavior. Also included in the process are three people management skills that drive excellence in people management throughout the company.

By having established a best-of-breed performance appraisal program, we will enable our global businesses to focus more consistently on high quality people management. The P&D Dialog aims to support the annual alignment of individual objectives with business direction, fosters

NUMBER OF EMPLOYEES^a

	2004	2003
• Pharma	19,390	20,680
• Coatings	29,070	28,340
• Chemicals	11,890	14,410
• Other	1,100	1,150
• Akzo Nobel	61,450	64,580

^a Year-end



ongoing performance and development dialog, and ensures a fair and transparent annual overall assessment and rating for every employee. The rollout is being strongly supported by communication and training at business unit and country levels and is targeted to involve the majority of employees in 2005, with completion envisaged in 2006.

EXECUTIVE PAY

Akzo Nobel is fully aware of the public discussion on remuneration of top management. In our latest annual report, additional information on the process, the role of our Remuneration Committee and remuneration decisions for 2004 are given.

We aim to be transparent on these subjects, as shown by the information offered in our annual report. In the summer of 2004, a major review of our executive compensation scheme was conducted. This led later in the year to the announcement of a new EVA-based remuneration program for all our executives that is based on individual performance and is in line with the rationale behind the P&D Dialog. The remuneration program will also serve to improve teamwork among the businesses by emphasizing the focus on creating value for the whole of Akzo Nobel.

PENSION OBLIGATIONS

There is no one global labour market. Wages, emoluments and pensions are dependant on local legislation and market conditions. Therefore Akzo Nobel has various pension schemes across the globe. There is growing concern in the Western world about the affordability of the current pension system. Akzo Nobel pays close attention to pensions, on the one hand from the point of view of a responsible employer and on the other from the point of view of their effect on the balance sheet.

DEVELOPMENT AND TRAINING

With the ambition that 'Every employee shall develop to her/his maximum potential' much of the development of our employees is at present decentralized, so that business units, sites and country organizations can adapt training to local needs.

There are, nevertheless, two exceptions to this decentralized approach:

- *Specific corporate themes* that aim to generate a consistent, high level of awareness and implementation throughout the company. Typically these involve comprehensive training efforts. Examples are the Akzo Nobel Business Principles training and the P&D Dialog (our company-wide performance appraisal system). Both programs were developed centrally and rolled out worldwide using Akzo Nobel trainers and local providers.
- *Centralized Education and Training programs* that have been developed for a number of company-wide target groups. These programs focus primarily on the development of employees with identified general management talents. Training focuses on the skills and self-awareness necessary to be a good manager in Akzo Nobel. Sections of these programs cover, among other things, constructive feedback on personal

How others see us

Employee relations

"The Instituto Observatório Social (Social Observatory Institute) is a Brazilian organization with connections to the Brazilian trade union CUT, which tracks and investigates how multinational companies comply with international labor standards such as union freedoms and health and safety. In March 2004, Observatório Social carried out a case study in collaboration with the Dutch labor union FNV and Akzo Nobel. In this study we investigated labor relations at 13 Brazilian Akzo Nobel sites. Cooperation between Akzo Nobel and FNV/Observatorio was constructive. At some of the sites visited, we saw evidence of very advanced health and safety programs. We have had the opportunity to provide feedback to Akzo Nobel on areas that still can be improved upon, such as the exchange of good practices between the Akzo Nobel sites in Brazil and improving the exchange of information with local unions. At FNV/Observatorio we highly appreciate this type of investigation and cooperation. The aim is to provide a platform for exchange of good labor relations. We expect to continue to work closely with Akzo Nobel"

Ben Roodhuizen, head of the FNV delegation

FACTS & FIGURES 2004

• Number of serious incidents = 4

• Number of lost time injuries of contractors = 68

• Total Illness Absence Rate (TIAR) = 2.5%

• Frequency rate lost time injuries per million hours worked (LTI-FR) = 2.0%

management style, strategic thinking, entrepreneurial attitude and leadership. Some 500 employees participate in these development programs annually.

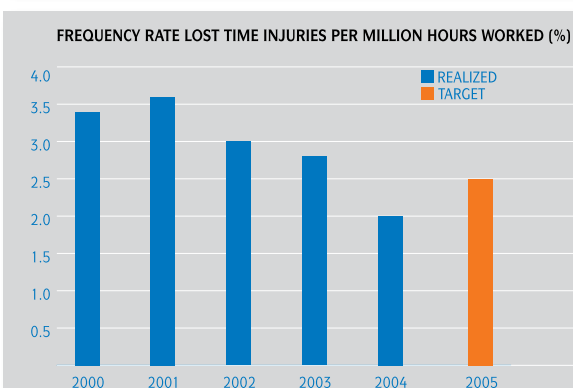
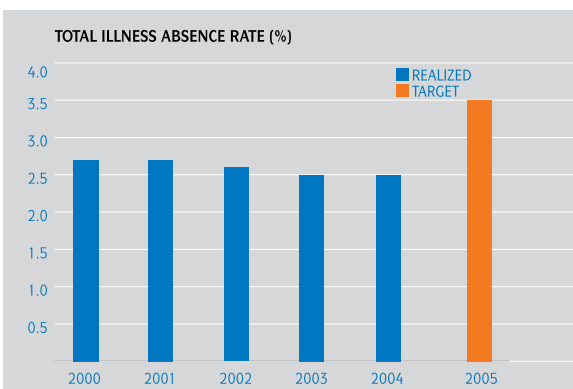
HEALTH AND SAFETY

No one comes to work to get hurt, or fall ill. Commitment to the health and safety of employees is an integral part of the Akzo Nobel culture.

For this reason we pay great attention to prevention of diseases and accidents, as well as emphasizing the importance of occupational health. We routinely record key health parameters of our employees. Through monitoring Lost Time Injuries Frequency Rate (LTI-FR) and Total Illness Absence Rate (TIAR), and linking these to targets for their improvement, Akzo Nobel aims to positively influence behavior and attitudes with respect to safety and health. Where LTI-FR or TIAR are high, we take all steps necessary to ensure we have the insight needed to implement corrective measures at short notice.

We see this comprehensive approach as crucial to contributing to employee health and well-being.

Safety and health parameters are audited within our internal HSE Audit System. Although full management responsibility lies with the BUs, since the mid-1990s every production site is visited once every five years (around 60 sites annually) by a qualified team of corporate HSE auditors, who check whether corporate HSE guidelines and company best practices are being applied. Any problem areas are targeted in improvement plans and corrective actions, which are carefully monitored by management. Any accidents are reported to corporate staff and analyzed statistically. Serious accidents are carefully investigated with a focus on the underlying causes. Through this approach we can help our business units improve their safety performance in an efficient manner.



HEALTH MATTERS: ILLNESS AND ABSENCE CAN BE MANAGED

Total Illness Absence Rate (TIAR) measures the total number of working hours lost due to illness in any one year as a percentage of scheduled working hours. Total illness absence – both private and occupational illness – can be reduced through positive management, i.e. by taking appropriate technical and organizational measures to tackle conditions in the workplace which can cause ill health or distress.

Of course, trained professionals cannot be effective unless they have adequate resources to call on. Management of absence due to sickness is based on the following infrastructure:

- Registration and analysis
- Information and training for supervisors
- Access to adequate healthcare provisions
- Support of medical intervention
- Employee assistance programs
- Improvement of working conditions (“fit the job to the man”)





Safety performance – raising the bar

Our performance

“Akzo Nobel strives to prevent any injuries at work both for our own employees and our contractors” reads the Akzo Nobel policy statement on Health, Safety and Environment. Our dedication to the safety and health of our employees is also reflected in our Core Values (socially responsible behavior). But how about bringing these guidelines to life in our daily work? Akzo Nobel has chosen a differentiated approach to this issue, because of the diversity of its businesses and the diversity of safety risks in its respective businesses. This approach has proved its value in the past four years: worldwide Lost Time Injury Frequency Rate (LTIs per million of worked hours) dropped from 3.6 in 2001 to 2.0 in 2004, a reduction of 45%. Nonetheless this still means 236 LTIs in a workforce of 61,450 people in the year 2004. On top of that we recorded 68 contractor LTIs. Also, we deeply regret that one contractor employee lost his life and another was seriously injured during construction work on our Rotterdam site (Netherlands).

Programs and actions

The common denominator in achieving this improvement was to increase attention in all businesses for creating safe working conditions and improving the safety behavior of employees.

Within our business unit Surfactants, in the past few years the program “Behavior Based Safety”, in which safety behavior of employees is observed systematically by specially trained colleagues, has been rolled out worldwide.

Within the business unit Functional Chemicals, special attention was given to safe handling of their product monochloroacetic acid: not only their own employees, but more than 600 truck drivers and some 550 employees at customers’ premises were also trained.

International Protective Coatings (IPC), part of our business unit Marine & Protective Coatings, where personnel are exposed to substantial dangers (e.g. working at great heights or in confined areas), has developed a safety training course called “Intersafe”. Available in eight languages, the course material consists of a two-disk CD-ROM containing practical, “in the field” video footage on a range of hazards. Throughout the program, the progress of participants is monitored and on completion of the final assessment a certificate is issued. Since the introduction of Intersafe, 98% of IPC’s

employees have successfully completed the course. A number of customers were so impressed with the Intersafe program that a customer version has been made. Demand has been tremendous, with many customers using it for in-house training of all their employees.

Monitoring our progress

Safety experts agree that LTI monitoring only shows “the tip of the iceberg”. For this reason it was decided in 2004 to start monitoring “total reportable injuries” (the sum of Lost Time Injuries, Restricted Work Injuries and Medical Treatment Injuries) on a corporate level as from 2005. A start was made with the monitoring of the number of Contractor LTIs (CLTIs) at the beginning of 2004.

Challenging Targets

During the evaluation of safety performance in 2004, it was announced that the long term LTI-FR target of 2.0% set for 2010 had already been achieved. It was also realized that this target no longer reflects our high ambitions to improve safety in a continuous process. In the course of 2005 new and ambitious long-term targets for our safety performance will be set.

Measuring occupational illness: learning, doing

Since 2004, Akzo Nobel has been recording a new health parameter. Known as OIFR – Occupational Illness Frequency Rate – it is linked to the quality of the workplace.

Different cultural perceptions of sickness absence have made it difficult to get an accurate measure of occupational illness. Nevertheless we are convinced that a focus on measuring the occupational illness frequency rate will provide us with an accurate indicator for health management. The evaluation of Lost Time Injuries (LTIs) gave a strong impulse to safety management, yet it took time to get a reliable LTI figure. And it will take even more time to get a reliable Occupational Illness figure. However, Akzo Nobel is convinced of the strength of OIFR as an indicator to prevent working conditions harmful to health. Tracking this is all about learning and doing. As with injuries at work, we believe that eventually every case of work-related illness can be prevented.

ADDING VALUE TO SOCIETY >

Akzo Nobel invests time, money and effort in forging strong and sustainable relationships with the communities and the jurisdictions in which it operates. It is an approach designed to reap mutual benefits for all the parties concerned and is one which is based on sound ethics, care for the environment and a forward-thinking approach to human rights. In many of the countries in which we operate, we are confronted with social, economic and environmental challenges which are outside the normal scope of our business activities. By taking a keen and active interest in resolving issues and improving the quality of life in local communities, and by taking a proactive stance with stakeholder groups, we aim to make a tangible difference to people's lives. Our aim is to keep developing and structuring our efforts.

How others see us

'Amnesty International has spoken with Akzo Nobel regularly about the role of the international business community in relation to human rights. We will be following closely Akzo Nobel's activities in this area in the near future. Formulating policy is in itself a challenging activity but, of course, we are more interested in its practical application: implementation, monitoring, independent auditing and reporting.'

Hilke Molenaar, Business Relations & Human Rights, Amnesty International

OUR RELATIONS WITH GOVERNMENTS AND REGULATORS

Akzo Nobel wants to be a good corporate citizen in every country that it works in. We follow local legislation. If our own standards are stricter than legislation in a certain country, we follow our own standards. We co-operate with governments and regulators. We obey the law and we pay our taxes.

The interests of the countries in which we are a guest and those of our company are mostly well aligned. We appreciate the infrastructures that we use and we share an interest in sound economic development, as well as sound social and environmental performance.

Akzo Nobel is alert to opportunities to cooperate with government authorities to find mutually beneficial solutions to issues that arise. A good example of this is the phasing out of chlorine transport in the Netherlands. As chlorine is an extremely hazardous substance, the Dutch government was under societal pressure to halt this practice. Through extensive consultations with the government, together we were able to create the conditions needed to make chlorine transport unnecessary. Agreements were made to make it possible to build two new integrated state-of-the-art facilities, each capable of producing and processing enough chlorine for its own use. When construction of the new sites is completed, routine transportation of chlorine will become unnecessary in the Netherlands.



El Cinco – a model of solidarity

In Colombia, unemployment is a major problem. It is particularly acute in Giradota, the town in that South American nation where Akzo Nobel's Casco Adhesives has a local company, Interquim. There, unemployment is 30% – with all the attendant social problems.

The 120 employees of Interquim decided to do something about it. They pooled funds from their annual bonuses and created an Employment Fund, known as El Cinco (The Five). Out of that fund, they have set up several enterprises, including the flagship – a jeans-producing business which has provided jobs for 42 single mothers.

The jeans factory has changed the lives of the 42 women. Their garments

have been marketed abroad, as well as being sold in Colombia. They, in turn, donated five percent of their monthly salaries to support other El Cinco projects. They have turned their enterprise into a cooperative – "Crear y Crecer" ("Create and Grow") and taken over its ownership.

In October 2003, the United Nations began supporting El Cinco with the aim of promoting seven new enterprises that will generate 500 new jobs. The UN is also exploring whether the El Cinco model can be replicated in other parts of Colombia. The Akzo Nobel employees work as volunteers for this initiative. They also promote social activities in the community, for families and children.



OUR COMMUNITY RELATIONS

Employees from an estimated 150 Akzo Nobel sites are involved in various kinds of community projects. Some are volunteers, taking time off with the support of the company. In some cases the company provides direct financial and material support for community initiatives. Such support covers projects in education, sports, culture, arts and healthcare.

For the past decade, Akzo Nobel employees have, through the company's Education Fund, been assisting children in developing countries with their education. Since its establishment in 1992, the Fund has supported 45 projects in 11 countries, such as Bolivia, Burkina Faso and India. In 2004, new Education Fund projects were approved in Brazil, China, Indonesia and Vietnam. Typically a project involves school construction and renovation, as well as supply of furniture and equipment.

In January 2005 the Board of Management announced that a Community Program will be launched during the course of the year. The Community Program will empower employees to propose initiatives that will make a difference to the communities in which we operate. They will be given the opportunity to propose and become involved in projects in their local communities using their own skills and the resources of Akzo Nobel. To support this, the Community Program will make funds available.

South Africa – counsel and care

In South Africa, one of the countries most seriously affected by the HIV/AIDS epidemic, two Akzo Nobel businesses have developed programs to educate, train and make young South Africans more aware of HIV/AIDS and assist those with the disease to live normal lives. The project is concentrated in areas where most employees of our powder coatings business and Intervet, our animal healthcare business, live. Through the initiative, the two companies are trying to counter what is a serious health, economic and social problem: the epidemic is not only a personal tragedy for people, but also an economic and social threat for the whole country – and the businesses. The assistance is directed through support for skills training and educational projects.

Making a difference: family planning in Asia

Organon, Akzo Nobel's human healthcare business, is using some of the considerable knowledge and expertise it possesses in the area of contraception to support family planning projects in Laos and Thailand.

In Thailand, Organon is working with local authorities on a program to support the spread of knowledge about reproductive health, sexuality, contraception and prevention of sexually transmitted diseases among secondary school students.

In Laos, Organon is working with the Ministry of Health to develop a training curriculum and related materials for providers of education on reproductive health and family planning to adolescents. In particular, adolescents working in factories and urban youths aged 17 to 25 years have been targeted by the project.

Enriching lives – iron fortification in deprived areas

UNICEF estimates that iron deficiency affects half of the developing world's infants, undermines the health of 500 million women of reproductive age and leads to more than 60,000 childbirth deaths a year. It also causes a range of other problems in millions of people, such as impaired cognitive development in children, fatigue, maternal mortality and low productivity in the workplace. Traditionally, one of the most effective ways to combat any deficiency has been to fortify staple foods, something that has been done in Western countries for the last half a century. However, fortifying foods with iron has been a particular challenge as the compounds most readily absorbed in food cause an unpleasant metallic taste, color changes or, even worse, accelerated

rancidity. Other iron compounds which do not cause taste problems are often not well absorbed.

The major problem has been to find a fortificant that not only works well but doesn't affect the taste. Now Chelates – part of our company's Functional Chemicals business – provides a solution with Ferrazone®, a stable iron fortificant.

"Ferrazone® seems to be an exception to the rule. There are no problems with taste and it is well absorbed in the human body," explains Carol Wreesmann, who has been working on iron chelates for the last seven years. "Many large-scale trials have proven the efficacy of Ferrazone® in reducing iron deficiency anemia.

"China and India – which both have huge

problems with iron deficiency – have a total population of more than two billion. In fact, China is already fortifying soy sauce with this compound, which shows that it is cost effective. The government there is actually rolling out a major fortification program across the whole country, because it's such a huge public health issue.

"Two billion people around the world are iron deficient," continues Wreesmann. "And it's not just the developing world; ten percent of women in Europe have it too. The World Bank has calculated that the cognitive damage done to children is severely hampering GDP growth in some countries, which in turn contributes further to the cycle of undernourishment."

VALUE FOR INVESTORS AND OTHER PROVIDERS OF CAPITAL >

Our CSR ambitions cannot be considered in isolation from our financials. They are both essential parts of Akzo Nobel's objectives. To a certain extent, our financials and CSR influence each other, although the exact financial value of CSR is difficult to calculate. Many would argue that they are two different worlds and that a company acts in either one or the other of them. We do not agree. Indeed, from our point of view – and in keeping with our philosophy that CSR is an integral part of doing business – CSR and our financials are inseparable. As we become more successful in embedding CSR into our daily business practices, the more obvious this relationship will become.

TURNING POINT FOR RENEWED GROWTH

Over the last two years we have focused on restructuring, costs and cash. At the same time we have invested in new growth opportunities in high growth regions. During 2005 we expect to reach a turning point for renewed growth. We face the future from a position of strength and will maintain a solid financial position. We are actively streamlining our business portfolio to focus our investments on areas showing most promise. Furthermore, over the past few years we have been restructuring to improve our efficiency and reduce debt.

KEY FINANCIAL DATA ^a	2004
• Net income per share ^b (EUR)	2.69
• Return on sales ^b (%)	9.5
• Return on investment ^b (%)	15.8
• Capital expenditure (EUR mln)	551
• Depreciation (EUR mln)	540
• Interest cover ^b	9.8
• Gearing ^c	0.36

^a Dutch GAAP

^b Excluding nonrecurring items

^c Year-end

Our medium-term human pharmaceuticals pipeline is promising and the growth of Coatings will accelerate as we expand our global leadership organically and through acquisitions, while continuing to improve financial returns. Also, following our wide-ranging restructuring efforts, Chemicals is now showing a satisfactory performance. We will continue to assess the best avenues for long-term value creation, while pursuing excellent business performance and laying the foundations for renewed growth.

PROVIDERS OF CAPITAL

At year-end 2004

Akzo Nobel had net

borrowings of EUR 1.1 bln (year-end 2003: EUR 2.4 bln.) and we paid a total of EUR 123 mln in financing charges. In 2004 we strengthened our balance sheet by reducing debt and maintaining a strong cash position.

We note that several banks embrace the notion of CSR and state that they will increasingly integrate CSR into their risk management and financial analyses. We appreciate this and share with them the belief that CSR has a (potential) positive influence on our risk profile. We expect that the notion of CSR will also become increasingly relevant to our providers of capital. Our current ratings with credit rating agencies are:

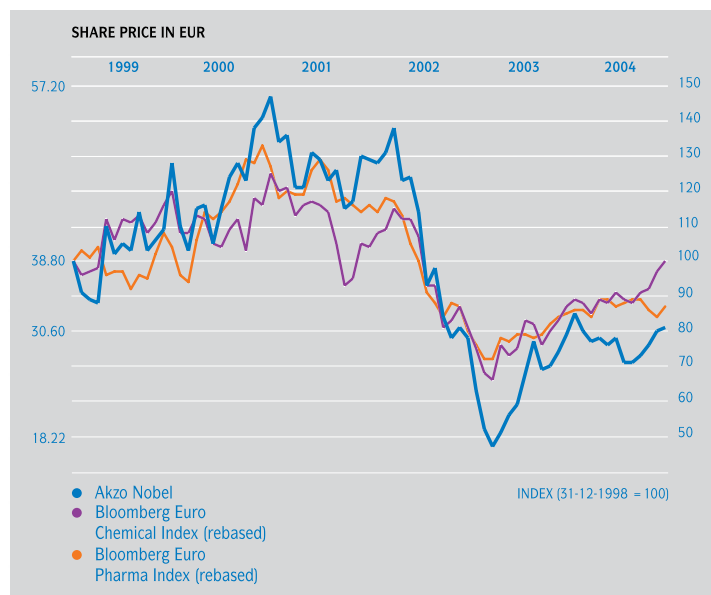
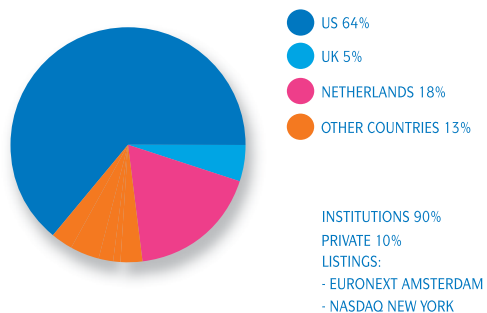
- Standard & Poor's A minus
- Moody's A3.

SHAREHOLDERS

Akzo Nobel shares are listed in Amsterdam (Euronext) and New York (NASDAQ). We enjoy the interest of an international group of shareholders, with the majority of shareholders coming from the U.S., followed by the Netherlands and the rest of Europe.



AKZO NOBEL SHARE DISTRIBUTION BY COUNTRY/REGION (YEAR END 2004)



Our share price at year-end 2004 was EUR 31.38 (2003: EUR 30.60). Over the full year, in 2004 the performance of the Akzo Nobel share (3%) was in line with the Bloomberg Pharma Index (2%) but below the Bloomberg Chemical Index (14%).

Since 2000 we have consistently paid a dividend of EUR 1.20 per share, resulting in a 2004 dividend yield (excluding nonrecurring items) of 3.82% (2003: 3.92%). The payout ratio to shareholders for 2004 was 45% (before nonrecurring items) of net income, above the company's normal range of 35–40%.

Social Responsible Investing (SRI) is growing steadily but it is still a niche area. However, we expect that CSR thinking will move up the mainstream investors' agenda because of a growing emphasis on integrity, transparency and accountability. Furthermore, we think there is growing acceptance of the notion that CSR is just good management and that it is important for a company to understand stakeholders' demands in order to be able to define the company's interests.

Currently the active interest of SRI-focused investors in our company is still insignificant, although that may be influenced by the fact that we are not yet included in sustainability indices, such as the Dow Jones Sustainability Index or FTSE4Good.

In the area of CSR, mainstream investors are commonly interested in issues related to corporate governance and risk management; other aspects, for example HSE, typically get less attention.

We hope that the publication of this first CSR report will contribute to a growing interest in and understanding of the value we add through our business-like approach to CSR.

EVA*

In managing our company we try to look at ourselves the way our shareholders do. Economic Value Added (EVA) is the tool employed to measure and guide value creation. By means of this tool, operational managers are continuously focused on capital productivity. EVA is also applied in our incentive policy for the Board of Management and staff. Units where EVA decreased substantially in 2004 will see this reflected in a significant reduction of bonuses for management and employees.

In 2004, EVA decreased by EUR 90 million to EUR 430 million. For more information on EVA, please see our Annual Report 2004.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As of January 1, 2005, our consolidated financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS). In April 2005, Akzo Nobel restated its financial figures for the full-year 2004 (see Annex 7 and www.akzonobel.com) to provide a transparent view on the impact of IFRS on the company. The adjusted figures – which have no effect on the underlying cash flows of the businesses – result in an increase in net income and a decline in shareholders' equity.

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

HCH court case concluded

The Court of Appeals in 's Hertogenbosch, the Netherlands, ruled in December 2004 that Akzo Nobel did not act in a negligent manner with soil from land it had bought that had been contaminated with HCH by the previous occupants. As a consequence of this ruling, Akzo Nobel is not liable to pay for any related remediation costs.

For further information about environmental liabilities, see our Annual Report 2004, p.100.



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ANNEXES

GORA MABAYE (OPERATOR ACRYLIC PRODUCTS, DECORATIVE COATINGS, COLOGNE, GERMANY)

"We owe it to each other to make our workplace safe and healthy. Together we can do it."



ANNEX 1: REPORTING PRINCIPLES

FIRST CORPORATE SOCIAL RESPONSIBILITY REPORT

This is Akzo Nobel's first CSR report. Although we have a clear commitment and ambition to be best in class in Corporate Social Responsibility (CSR), we regard it as a continuous learning process. On the one hand we have CSR policies that apply globally, for example in risk management, compliance and human resources. On the other hand, there are other aspects of CSR that have to be interpreted in line with the local, cultural, or societal contexts of the 80 countries in which we operate. Within the boundaries of our Core Values and Business Principles, as well as our corporate ambition to embed CSR into our daily business practices, we require local management and employees to find the best ways to realize our ambitions locally. We are continuously improving our management information systems and data gathering processes. Furthermore, we regularly sharpen our thoughts through dialog with our stakeholders and take their opinions into account. With this process in mind, we expect the clarity, consistency and accuracy of our reporting to improve over time.

SCOPE

This report covers Akzo Nobel's global activities and performance in the field of CSR. Specifically it includes quantitative and qualitative data relating to the calendar year 2004. This has, by and large, been obtained from our financial-management reporting system and the reporting system for corporate Health, Safety & Environment (HSE) performance indicators.

SELECTION OF TOPICS

We appreciate the work of the Global Reporting Initiative. We have used their 2002 Sustainability Reporting Guidelines as the framework for the selection of topics for this report: please refer to the matrix in Annex 3. We also used information from third-party questionnaires, notably the Dow Jones Sustainability Indices, and feedback from meetings with stakeholders.

REPORTING PROCESS

We have no specific, overall information system in place for CSR reporting that is comparable with the management information system used for obtaining financial information for the annual (financial) report. Therefore, where we could, we have used our financial-management reporting system and the reporting system for corporate HSE performance indicators as the basis for CSR reporting. This ensures consistency and accuracy. We have been in close contact with representatives of the business units to test and double-check this data. Although we are confident in the overall reliability of the data reported, we recognize that some of these data are subject to a degree of uncertainty that relates to limitations associated with measuring, calculating or estimating data.

At the end of the process, senior managers approved the data used in the sections of the CSR report relating to their respective areas of responsibility.

Our first CSR report has been reviewed by independent, external auditors. As this is the first verification of the CSR Report, we requested the external auditors to review the reliability of the consolidation process for the quantitative data (in addition to the review of the reliability of the descriptive data in relation to policy and management).

For the auditors' assurance statement, see Annex 2.

FURTHER INFORMATION ABOUT AKZO NOBEL

This report only covers limited aspects of Akzo Nobel's activities. For a more complete picture of our activities we refer readers to our annual reports and Form 20F filings, as well as our corporate website: www.akzonobel.com.



ANNEX 2: ASSURANCE REPORT

ENGAGEMENT AND RESPONSIBILITIES

We have received the assurance engagement to review the CSR Report 2004 of Akzo Nobel N.V. The scope of the CSR Report 2004 and the reporting principles, including any inherent limitations that could affect the reliability of the information, are set out on page 46 of the report. This report is the responsibility of the management of Akzo Nobel N.V. Our responsibility is to independently express a conclusion on the descriptive data in relation to policy and management and on the consolidation process underlying the data in this report. Our assurance engagement did not include a review of the accuracy of the quantitative performance data itself, nor did we review the comparative quantitative performance data. On page 46 of the CSR Report 2004 the management of Akzo Nobel N.V. has explained its reasons for the scope limitation of our assurance engagement. A review engagement is aimed at obtaining a limited level of assurance for our conclusions. The extent of evidence gathering procedures is less than that for an audit and therefore a review provides less assurance than an audit.

SCOPE OF WORK PERFORMED

We conducted our review in accordance with the standard for assurance engagements generally accepted in the Netherlands, as issued by the International Federation of Accountants and the Royal Netherlands Institute of Registeraccountants (Royal NIVRA), the Exposure draft of NIVRA's Assurance Standard 3410 'Assurance engagements relating to sustainability reports' and the Dutch Code of Professional conduct for Registeraccountants (GBR-1994).

Our principal review procedures were:

- Obtaining an understanding of the sector and its relevant social responsibility issues;
- Assessing the reliability of the consolidation process in preparing the CSR Report 2004;
- Examining, on a test basis, evidence supporting the descriptive data provided, and studying relevant company documents;
- Conducting interviews with the responsible company officers on Group level, Business Area and for Energy at Business Unit level in the Netherlands, mainly for the purpose of assessing internal control in relation to the consolidation process and the plausibility of the descriptive data in the CSR Report 2004;
- Evaluating whether the CSR report covers all material topics that result from Akzo Nobel's policy in relation to CSR.

CONCLUSIONS

Based on the review procedures performed and without having reviewed the accuracy of the quantitative performance data itself, nothing has come to our attention that causes us to believe that:

- the description of policy and measures in the CSR Report 2004 of Akzo Nobel N.V. do not properly reflect the efforts made in 2004;
- the consolidation process underlying the quantitative data included in the CSR Report 2004 of Akzo Nobel N.V. is not reliable, in all material respects;
- the CSR Report 2004 of Akzo Nobel N.V. does not address all material topics that result from Akzo Nobel's policy in relation to CSR.

Rotterdam, 13 June 2005
Ernst & Young Accountants

ANNEX 3: GLOBAL REPORTING INITIATIVE INDICATOR TABLE^{a,b}

INDEX OF ALL INDICATORS USED ACCORDING
TO GLOBAL REPORTING INITIATIVE (GRI) GUIDELINES

		AKZO NOBEL FINANCIAL REPORT 2004	AKZO NOBEL CSR REPORT 2004	AKZO NOBEL CORPORATE WEBSITE	INTERALLY AVAILABLE	NOT APPLICABLE/ NOT AVAILABLE
VISION AND STRATEGY						
1.1	Vision and Strategy					pp. 59-60
1.2	CEO Statement					p. 11
PROFILE						
2.1	Name of organisation					p. 14
2.2	Products and/or services					pp. 30-32
2.3	Operational structure					p. 66
2.4	Organisation structure					p. 66
2.5	Countries located					"Addresses" button
2.6	Nature of ownership					p. 65
2.7	Nature of markets served					pp. 30-32
2.8	Organisation scale					pp. 3, 84-86
2.9	Stakeholders					pp. 26-43, 54
2.10	Contact person(s) for the report					inside back cover
2.11	Reporting period					front cover
2.12	Previous report					"Social Responsibility/Reporting" buttons
2.13	Boundaries					p.16
2.14	Organisation changes					p. 8-9
2.15	Joint ventures					p. 87
2.16	Re-statements					p. 26
2.17	GRI principles applied					Annex 3
2.18	Criteria/definitions used					Annex 6
2.19	Measurement changes					
2.20	Policies and internal practices					Annex 1
2.21	Independent Assurance					Annex 2
2.22	Additional information					
STRUCTURE AND GOVERNANCE						
3.1	Governance structure					pp. 65-73
3.2	Independency					pp. 15-17, 69-71
3.3	Expertise board members					pp. 6, 12-13
3.4	Board-level processes					pp. 61, 66-71
3.5	Executive compensation					pp. 74-78
3.6	Key individuals					pp. 6, 12-13
3.7	Corporate Governance					pp. 65-73
3.8	Shareholders' mechanisms					pp. 72-73
Stakeholder Engagement						
3.9	Major Stakeholders					pp. 19, 54/"Social Responsibility/Statements" buttons
3.10	Consultations stakeholders					"Social Responsibility/Statements" buttons
3.11	Type of information generated					"Social Responsibility/Statements" buttons
3.12	Use of information					"Social Responsibility/Statements" buttons
Policies and Management Systems						
3.13.	Explanation precautionary approach					p. 61
3.14	Externally developed voluntary charters					pp. 17, 20
3.15.	Principal memberships in industry associations					p. 22
3.16.	Policies for impacts.					pp. 18, 20, 26-31, Annexes 4 & 5

AKZO NOBEL FINANCIAL REPORT 2004

AKZO NOBEL CSR REPORT 2004

AKZO NOBEL CORPORATE WEBSITE

INTERNALLY AVAILABLE

NOT APPLICABLE/ NOT AVAILABLE

3.17. Managing indirect impacts						pp. 61-63/pp. 22-23
3.18. Decisions during the reporting period						pp. 8-9
3.19. Programs and procedures						pp. 26-43
3.20. Status of certification						p. 60
PERFORMANCE INDICATORS						
Economic Indicators						
EC 1 Net sales						p. 3
EC 2 Geographic breakdown of markets						p. 2
EC 3 Procurement Spending						p. 84
EC 4 Percentage of contracts paid in accordance with agreed terms						
EC 5 Total staff costs						p. 84
EC 6 Distribution to capital providers						pp. 3, 84
EC 7 Group Capital						pp. 85, 93
EC 8 Taxes						pp. 84, 89
EC 9 Subsidies received broken down by country/region						
EC 10 Funds and Foundations (contributions)						p. 60
Environmental Indicators						
EN 1 Total material use other than water						
EN 2 Recycling materials						
EN 3 Direct energy use						pp. 33-34
EN 4 Indirect energy use						
EN 5 Total water use						p. 35
EN 6 Location and size of land owned/leased/ or managed in biodiversity rich habitats						
EN 7 Impacts on biodiversity						
EN 8 Green House Gas emissions						pp. 33-34
EN 9 Use and emissions of ozone-depleting substances						pp. 33-35
EN 10 NO _x , SO _x and other significant air emissions by type						
EN 11 Total amount of waste						p. 35
EN 12 Discharge to water						p. 35
EN 13 Significant spills of chemicals						
EN 14 Environmental impacts of principal products and services						p. 35 / "Social Responsibility" button
EN 15 Percentage of the weight of products sold that is reclaimable.						
EN 16 Description of non-compliance						p. 100
SOCIAL INDICATORS						
LA 1 Part time/full time distribution						
LA 2 Net employment						pp. 3, 120-121
LA 3 Percentage employees represented by independent trade union organisations						
LA 4 Labour/Management relations						Annex 4
LA 5 Occupational health						pp. 38-39
LA 6 Health and safety committees						
LA 7 Absentee rates						pp. 38-39
LA 8 Policies or programmes on HIV/AIDS						pp. 41, Annex 4
LA 9 Training per employee						

LA 10	Diversity						Annex 4
LA 11	Gender diversity						pp. 6, 12-13
Human Rights							
HR 1	Human Rights guidelines						Annex 4
HR 2	Human Rights impacts						Annex 4
HR 3	Human Rights performance						p. 40, Annex 4
HR 4	Non-discrimination						Annex 4
HR 5	Freedom of association policy						Annex 4
HR 6	Child labour						Annex 4
HR 7	Forced and Compulsory labour						Annex 4
SOCIETY							
SO 1	Impacts on communities						Annex 4
SO 2	Bribery and corruption						Annex 4
SO 3	Political contributions						Annex 4
PRODUCT RESPONSIBILITY							
PR 1	Policy preserving customer health and safety						pp. 26-31
PR 2	Product information and labelling						
PR 3	Respect for privacy						
<p>^a The CSR Report 2004 was prepared according to the guidelines provided by the Global Reporting Initiative (GRI).</p> <p>^b This table gives an overview of company sources from which information can be obtained about the items listed in the Global Reporting Initiative Guidelines. If information is to be found in Akzo Nobel's Annual Report 2004 and/or its external CSR Report 2004, these sources alone are indicated, since they are official publications of the company. The availability of that same information from other company sources is not indicated as the status of these sources is considered subordinate to official company publications.</p>							

ANNEX 4: BUSINESS PRINCIPLES SPECIFICATIONS



PURPOSE

To drive the practical deployment of the Business Principles, the Board of Management has adopted a set of Business Principles specifications. Like the Business Principles themselves these specifications are applicable to all employees. They are reviewed on a regular basis and revised if necessary.

HUMAN RIGHTS & DISCRIMINATION

Our employees must be recruited, selected, and promoted on the basis of objective and non-discriminatory criteria. No harassment or discrimination of any kind will be tolerated, such as discrimination based on race, color, sex, or religion. In the case of disability or chronic illness, including HIV/AIDS, employees should be able to work for as long as medically fit in available, appropriate work, avoiding prejudice and discrimination in the process (see corporate directive on Disability, Chronic Illness, HIV/AIDS).

CHILD LABOR

- 1 Akzo Nobel adheres to the legal minimum age requirements in all countries in which the Company is active.
2. Moreover, in adhering to the International Labor Organization's (ILO) Convention 138 "Minimum Age", and Convention 182 "Ban of worst Forms of Child Labor", Akzo Nobel does not employ children under age 16.
3. If children between age 16 and 18 are employed, the Company ensures that this work does not affect or prohibit schooling.
4. Business Relations: business unit management is responsible for making the Akzo Nobel standards with regard to child labor known to key suppliers and contractors (see corporate directive Child Labor).

FORCED LABOR

1. Akzo Nobel will under no circumstances make use of forced labor. Akzo Nobel will only employ employees that are working of their own free will. No employee is required to lodge deposits or will be deprived of identity papers upon commencing employment with the company.
2. Business unit management is responsible for making the Akzo Nobel standards with regard to forced labor known to key suppliers and contractors.

RIGHT TO ORGANIZE

Akzo Nobel recognizes the freedom of employees to establish or join an organization of their choice (including trade unions) and will respect this right. Akzo Nobel will not make the employment of a worker subject to the condition that he/she shall not join a union or shall relinquish trade union membership. Akzo Nobel will not dismiss or otherwise prejudice a worker for the mere reason of trade union membership.

COLLECTIVE BARGAINING

Akzo Nobel respects within the framework of applicable laws, regulations and prevailing labor relations and employment practices, the right of employees to be represented by labor unions and other employee organizations. Akzo Nobel will engage in negotiations either on its own behalf or through an employer's association, with a view to reaching agreement on employment conditions.

PRESENCE IN HIGH RISK COUNTRIES

Setting up business activities in countries where Akzo Nobel has no presence (through a new legal entity or an agent) is always subject to approval by the Board of Management.

Akzo Nobel business units must not operate in countries where the UN has imposed economic sanctions. The conditions and timeframe for withdrawal from such a country have to be decided by the Board of Management.

FAIR COMPETITION

Akzo Nobel operates a strict policy to ensure that its operations around the world are in full compliance with all applicable competition laws and the Akzo Nobel competition law compliance policy.

BUSINESS INTEGRITY & PAYMENTS

All payments have to be recorded in the appropriate ledgers so that they can be subject to internal and external audit. Secret accounts and/or bookkeeping outside the Company accounts are strictly forbidden. No payments will be channeled through an agent unless they form part of normal agency fees or reimbursement for incurred costs. Apart from petty cash transactions, cash payments to third parties are not permitted; all payments should be made to a bank account designated in writing. Payments to a so-called numbered account are not permitted. A request by a contract partner to divert a payment to an entity or person offshore shall always be rejected.

COMMISSION PAYMENTS

The rule prohibiting bribes of any form may not be circumvented by commission payments. Any commission payment should be justified by a clear and traceable service rendered to the Company. The remuneration of agents, distributors and commissioners (hereinafter Agents) cannot exceed normal business rates and practices. Government officials shall not be appointed by Akzo Nobel as Agents. Agents must comply with Akzo Nobel's Business Principles.

MONEY LAUNDERING

Akzo Nobel will not enter into nor tolerate any arrangement which appears to or which is suspected to be used to facilitate any acquisition, retention, use, or control of any property or money intended to disguise the proceeds of crime.

FACILITATING PAYMENTS

Facilitating payments are small payments made in money or in kind (for instance company products) which are occasionally made, in accordance with publicly known and widely followed local custom and practice, in connection with the performance, by officials in documentation, customs clearance and other matters, of their normal duties. A characteristic of facilitating payments is that the service obtained as the result of such payment represents the legitimate function of the official concerned and does not render undue advantage to the payer in comparison with other companies.

Akzo Nobel is opposed to the making of facilitating payments.

The Company will promote measures to eliminate such practices; at all events applicable laws and regulations should be complied with, which in some countries completely rules out the making of facilitation payments.

GIFTS

In every unit/department of the Company, there must be full transparency between subordinate and superior with respect to business gifts.

No personal gifts or favors of any material commercial value can be made to or accepted from a third party. A gift or favor of material value is defined as an object with such a value that it may influence a buying decision and/or may lead to a relation of dependency. In case of any doubt, a superior has to be consulted.

COMMUNITY ACTIVITIES & POLITICAL PARTIES

Akzo Nobel companies are encouraged to give their employees the opportunity to play an active role in society, including activities in political parties and standing for election to public office, where this is appropriate in the light of local circumstances.

Akzo Nobel companies are not to make any payments or donations in kind to political parties or their institutions, agencies or representatives. Akzo Nobel companies will also not facilitate political donations by employee action committees.

COMPLIANCE IMPLEMENTATION

All Akzo Nobel employees must have received training on Business Principles. The intensity of training may vary depending on the risk of possible infringement of Business Principles the various categories of employees may be exposed to.

New employees entering the Company must receive at least a basic training on Business Principles within their first three month of employment. Management at every level of the Company has to see to it that all employees are informed about

Akzo Nobel's Business principles (as an addendum to their employment letter).

Key suppliers to Akzo Nobel companies must sign that they comply with Akzo Nobel Business Principles and that they live up to these principles in their business relations with Akzo Nobel (see Corporate Directive Vendor/Supplier Policy).

ACCOUNTABILITY

The Board of Management will not hold management accountable for any loss of business resulting from compliance with Akzo Nobel's Business Principles.

SANCTIONS

All Akzo Nobel employees must comply with the Business Principles. Violation may lead to disciplinary action, including dismissal, notwithstanding any further civil or criminal action that may be taken.

GENERAL COMPLAINTS PROCEDURE

Complaints on (suspected) breaking of Akzo Nobel's Business Principles can be filed in accordance with Akzo Nobel's General Complaint Procedure (Ref Akzo Nobel .Intranet home page, under Policies and Guidelines). This procedure contains a provision to protect "whistleblowers".

LETTER OF REPRESENTATION

Reporting on compliance with the Business Principles is an integral part of the Letter of Representation, issued annually by the management of each business unit.



ANNEX 5: VENDOR POLICY

Akzo Nobel businesses operate and adhere to a set of Business Principles in all their dealings.

In the ever evolving global environment in which we operate, we have set the core values that should underlie the conduct of all Akzo Nobel companies in order to fulfill our ambition to be the first choice of customers, suppliers and shareholders.

Our Business Principles support our three core values: entrepreneurial spirit, business and personal integrity and social responsibility. You will find these Business Principles annexed to this letter and on our website <http://www.akzonobel.com/company/principles.asp> .

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

In light of the above, we should appreciate receiving your written confirmation that in doing business with Akzo Nobel you comply with the following specifications:

- Your products and services meet high health, safety and environmental standards;
- Your employees are recruited, hired and promoted on the sole basis of suitability for their job;
- You provide safe and healthy working conditions to your employees;
- Harassment of any kind and exploitation of child labor is prohibited;
- The laws in the countries in which you operate are observed and fundamental human rights are supported in line with the legitimate role of business and proper regard is given to health, safety and the environment in order to contribute to sustainable development;
- Bribery and any other form of unethical business practice is prohibited;
- All your business transactions with Akzo Nobel are accurately and completely recorded.

You are kindly requested to sign the declaration at the bottom of this letter and to return this letter to the undersigned. Please inform us if, for any reason, you are not able to sign the declaration, in which case we would like to discuss how we can ensure that the business between us does not breach these specifications.

Furthermore, we urge you to apply those of our Business Principles which are not covered by the above-mentioned specifications.

Declaration to be signed by supplier:

Herewith I confirm that in doing business with Akzo Nobel we comply with the above-mentioned specifications.

Name

(Company stamp)

Function

Date

Signature

ANNEX 6: DEFINITIONS

GENERAL CSR

CORPORATE GOVERNANCE

Organization, systems and processes in place to ensure the open, transparent and responsible management of the company.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CSR is the responsibility to conduct business in ways that produce social, environmental and economic benefits for the company and our stakeholders.

GLOBAL REPORTING INITIATIVE (GRI)

An independent body that develops and distributes internationally acknowledged, voluntary guidelines for reporting on sustainability. The guidelines provide a basis for reporting on the economic, environmental and social aspects of a company's activities.

LETTER OF REPRESENTATION

A declaration by company officers (in particular Business Unit managers) about their business conduct: *"We have conducted our business in accordance with external rules, laws, and regulations and worked in conformity with Akzo Nobel's Company Statement, Corporate Directives and Business Principles."* The declaration is made annually.

NON-GOVERNMENTAL ORGANIZATION (NGO)

A voluntary, not-for-profit, non-governmental organization that pursues specific interests and goals independently of state institutions.

STAKEHOLDER

Any person, groups of persons or body that interacts or could interact with Akzo Nobel as it pursues its business. Akzo Nobel's stakeholders include, but are not necessarily restricted to, employees, customers, shareholders, financing institutions, suppliers, competitors, governmental authorities, NGOs and local communities.

SUSTAINABLE DEVELOPMENT

Akzo Nobel sees Corporate Social Responsibility as the pathway to sustainable development. In the words of the Chairman Gro Bruntland of the World Commission for Environment and Development (1987), *"Sustainable development is development that meets the needs of the present without compromising the needs of future generations to meet their own needs."*

HEALTH, SAFETY & ENVIRONMENT (HSE)

CHEMICAL OXYGEN DEMAND OF DIRECT DISCHARGE TO SURFACE WATER (COD)

The amount of oxygen required for the chemical oxidation of substances in the waste water effluent that is directly discharged into surface waters in the reporting year. *(Current non-financial reporting parameter)*

DIRECT CO₂ EMISSIONS (SCOPE 1 GREENHOUSE GAS PROTOCOL)

The sum of fuel combustion and process-related direct CO₂ emissions from stationary sources on Akzo Nobel premises in the reporting year. *(New non-financial reporting parameter in 2005)*

ECO-EFFICIENCY

Cost rating of environmental impact and environmental risk of a (part of a) process value chain.

FRESH WATER CONSUMPTION

The intake of fresh water (three categories: ground, potable and surface water) for application in processes (three categories: cooling, process and other uses) on Akzo Nobel premises in the reporting year. *(New non-financial reporting parameter in 2005).*

GREENHOUSE GASES

Gases that contribute to the so-called greenhouse effect (global warming) as defined in the Kyoto Protocol (including CO₂, CH₄, N₂O, PFCs, HFCs and SF₆).

HAZARDOUS WASTE (HW)

The amount of waste in the reporting year that is classified as hazardous according to the definition of national, state or local legislation in place. Only HW that is part of Non-Reusable Waste is considered. *(New non-financial reporting parameter in 2005)*

INDIRECT CO₂ EMISSIONS FROM THE CONSUMPTION OF PURCHASED ENERGY (SCOPE 2 GREENHOUSE GAS PROTOCOL)

CO₂ emissions caused by the production of energy (at other places than Akzo Nobel premises) needed for processes on Akzo Nobel premises in the reporting year.

LOST TIME INJURY (LTI)

An instantaneous work-related event or exposure resulting in the employee/contractor being unable to work his or her next scheduled shift.

LOST TIME INJURY FREQUENCY RATE (LTI-FR)

The number of Lost Time Injuries for the reporting year per 1,000,000 hours worked (employees only). *(Current non-financial reporting parameter)*

MEDICAL TREATMENT INJURY (MT)

An instantaneous work-related event or exposure – other than an LTI or RW – requiring medical treatment or surgical care by a competent medical person resulting in the employee after treatment being able to return to his or her normal duties at the start of the next scheduled shift.

NON-REUSABLE WASTE (NRW)

The amount of waste as it leaves Akzo Nobel premises in the reporting year that is not used for resource recovery, recycling, reclamation, direct re-use or alternative uses. *(Current non-financial reporting parameter)*

NUMBER OF CONTRACTOR LOST TIME INJURIES (CLTI)

The number of Contractor LTIs for the reporting year. *(New non-financial reporting parameter in 2005)*

NUMBER OF REPORTABLE INCIDENTS

Number of incidents in the reporting year leading to one or more fatalities, severe injuries, serious health, safety or environmental incidents, severe violation of emission limits or those raising concern in national or international media. *(New non-financial reporting parameter in 2005)*

OCCUPATIONAL ILLNESS

Any abnormal condition or disorder – other than those resulting directly from an accident – caused by work-related factors over a period of time.

OCCUPATIONAL ILLNESS FREQUENCY RATE (OIFR)

The number of occupational illness cases for the reporting year per 1,000,000 hours worked. Cases involving no absence from work are also counted.



OTHER INDIRECT CO₂ EMISSIONS (SCOPE 3 GREENHOUSE GAS PROTOCOL)

The sum of CO₂ emissions arising at places along the process value chain other than Akzo Nobel production processes, including transport of (raw) materials, products and employees, in the reporting year.

PRODUCT STEWARDSHIP

The responsible and ethical management of health, safety and environmental aspects of a product throughout its total life cycle. This may involve redesigning products to use fewer hazardous materials or make them more durable, reusable or recyclable.

RESTRICTED WORK INJURY (RW)

An instantaneous work-related event or exposure resulting in the employee being unable to perform his or her normal duties, but able to return to work to perform work with restrictions, e.g. regarding physical burden or hours of work.

TOTAL ILLNESS ABSENCE RATE (TIAR)

The number of working hours lost per year due to all illnesses and injuries, as a percentage of the scheduled working hours per year.
(Current non-financial reporting parameter)

TOTAL REPORTABLE INJURIES

The sum of Lost Time Injuries, Restricted Work Injuries and Medical Treatment Injuries.

TOTAL REPORTABLE RATE (TR)

The number of Total Reportable Injuries for the reporting year per 1,000,000 hours worked.

VOLATILE ORGANIC COMPOUNDS EMISSION TO AIR (VOC)

The quantity of halogenated and non-halogenated organic compounds, including CS₂ and COS, that are discharged to air in the reporting year. *(Current non-financial reporting parameter)*

ZERO/LOW CARBON POWER CONSUMPTION AS A PERCENTAGE OF TOTAL ENERGY CONSUMPTION

The electrical energy consumption from zero or low CO₂ emitting sources, such as hydro, solar cells, biomass, wind ("green" sources), nuclear and Combined Heat and Power (CHP), as a percentage of the total electrical energy consumption in the reporting year. *(New non-financial reporting parameter in 2005)*

FINANCIAL

EBIT (EARNINGS BEFORE INTEREST AND TAXES)

Operating income before nonrecurring items.

EBITDA

EBIT before depreciation and amortization.

EVA (ECONOMIC VALUE ADDED)

Net Operating Profit After Taxes (NOPAT) less cost of capital.

GEARING

Net interest-bearing borrowings divided by equity.

INTEREST COVERAGE

EBIT divided by financing charges.

INVESTED CAPITAL

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

NET INCOME PER SHARE

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

NET INTEREST-BEARING BORROWINGS

Long-term borrowings plus short-term borrowings less cash and cash equivalents.

ROI (RETURN ON INVESTMENT)

EBIT divided by 1% of the average of invested capital at the beginning and at the end of the year.

ROS (RETURN ON SALES)

EBIT expressed as a percentage of sales. Also referred to as EBIT margin.

TOTAL SHAREHOLDER RETURN

Total return of a share to an investor: capital gain plus reinvested dividend for a specified period (usually expressed as an annual percentage).

ANNEX 7: KEY PERFORMANCE DATA

[illegible]





SAFE HARBOR STATEMENT*

This report may contain 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, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more complete discussion of the risk factors affecting our business please refer to our Annual Report 2004 and our 2004 Annual Report on Form 20-F filed with the United States Securities and Exchange Commission, a copy of which can be found on the Company's website.

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

Akzo Nobel n.v.

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Design

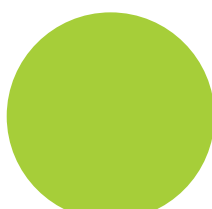
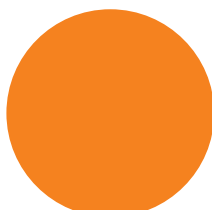
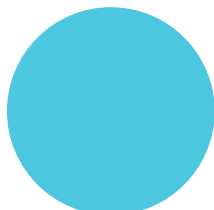
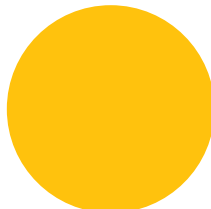
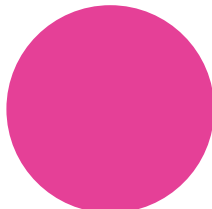
Jos Willemsse, Diemen

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