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PROFILE

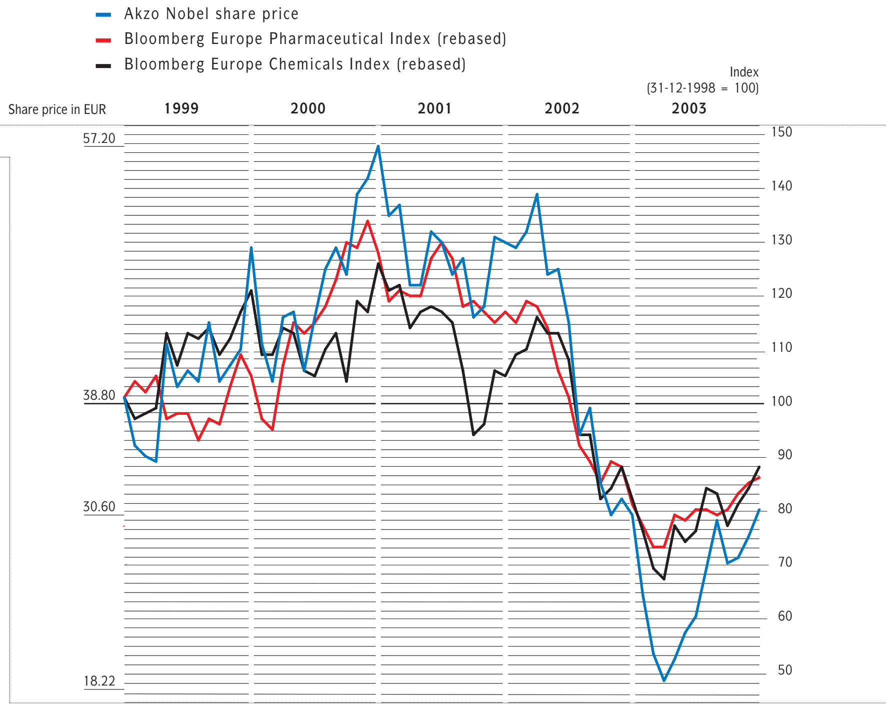
Akzo Nobel is a multinational company headquartered in the Netherlands, holding many leading positions in healthcare products, coatings, and chemicals. Employing 66,400 people in 2003, the Company conducts its activities through 19 business units and has subsidiaries in more than 80 countries.
Sales in 2003 aggregated EUR 13.1 billion, of which 27% in healthcare products, 40% in coatings, and 33% in chemical products.

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

SAFE HARBOR STATEMENT*

This Annual Report contains statements which address such key issues as Akzo Nobel's growth strategy, future financial results, market positions, product development, pharmaceutical products in the pipeline, and product approvals. Such statements, including but not limited to the "Outlook for 2004" 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, 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.

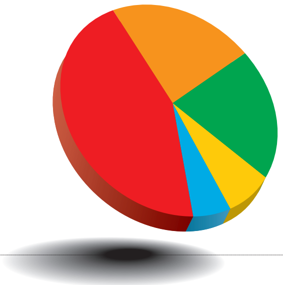
* *Pursuant to the U.S. Private Securities Litigation Reform Act 1995.*



2003 net sales by origin

(EUR 13.1 billion)

- [45%] Euro region*
- [21%] Other European countries**
- [20%] USA and Canada
- [8%] Asia
- [6%] Other regions

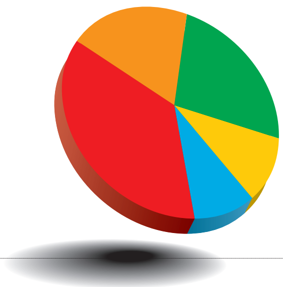


*	The Netherlands	20%
	Germany	8%
	Other	17%
**	Sweden	8%
	United Kingdom	6%
	Other	7%

2003 net sales by destination

(EUR 13.1 billion)

- [37%] Euro region*
- [19%] Other European countries**
- [23%] USA and Canada
- [11%] Asia
- [10%] Other regions



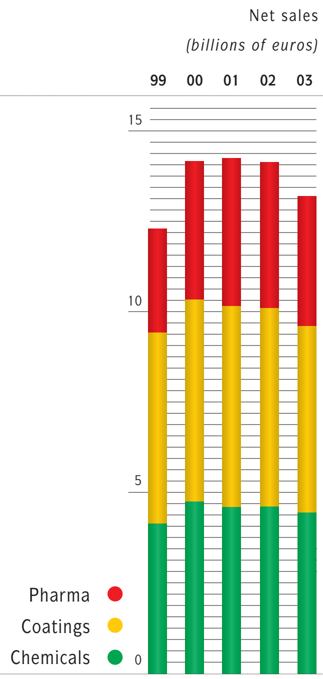
*	The Netherlands	6%
	Germany	9%
	Other	22%
**	Sweden	4%
	United Kingdom	6%
	Other	9%

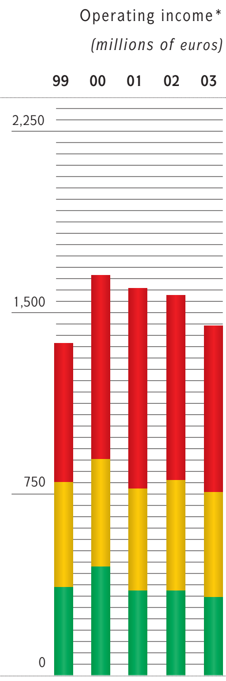
Akzo Nobel's common shares are listed on Euronext Amsterdam and NASDAQ (as American Depositary Receipts).

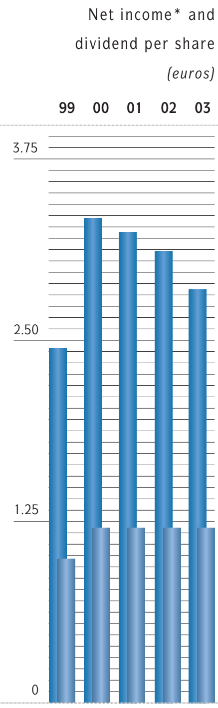
At year-end 2003, approximately 50% of Akzo Nobel's shares were held in the United States, 21% in the Netherlands, 8% in the United Kingdom, and 21% in other countries. About 10% of the total number of shares was owned by private investors, the rest by institutional investors. Under the Dutch Major Holdings Disclosure Act, ING has declared a 5% position in Akzo Nobel common shares.

To comply with the regulations of the U.S. Securities and Exchange Commission (SEC), the Company also files an Annual Report on Form 20-F, which after filing will be available at the Company's office, on the Company's internet website, and on the internet website maintained by the SEC. Pursuant to U.S. regulations, the Form 20-F includes the CEO and CFO certifications concerning the effectiveness of the system of internal control, and disclosure controls and procedures.

For definitions of certain financial ratios and concepts please refer to page 114.







COMPANY OVERVIEW

Millions of euros (EUR)	**2003**	2002
Net sales	**13,051**	14,002
Operating income before nonrecurring items (EBIT)	**1,347**	1,492
Depreciation and amortization	**652**	681
EBITDA	**1,999**	2,173
Capital expenditures	**581**	689
Operating income, after nonrecurring items	**1,064**	1,362
Economic Value Added (EVA)	**520**	531**
Net income excluding nonrecurring items	**811**	892
Net income	**602**	818
Per common share outstanding, in EUR		
Net income excluding nonrecurring items	**2.84**	3.12
Net income	**2.11**	2.86
Dividend	**1.20**	1.20
Shareholders' equity at year-end	**8.76**	7.34
Share price at year-end	**30.60**	30.23
Key ratios		
EBIT as percent of net sales (ROS)	**10.3**	10.7
EBIT as percent of invested capital (ROI)	**16.0**	16.5
EBIT : financing charges (interest coverage)	**8.1**	7.3
EBITDA : financing charges	**12.0**	10.7
Gearing	**0.92**	1.46
Number of employees at year-end	**64,600**	67,900

* *Excluding extraordinary and nonrecurring items*
** *Restated.*

Dear Shareholders,

Akzo Nobel more than delivered on its outlook for 2003, even though it was a very challenging year. Sales were of EUR 13.1 billion, operating income* EUR 1,347 million, and net income* EUR 811 million.

These results were achieved in a situation in which the Company faced a lot of headwind. There was no or even negative growth in Europe, North America, and Latin America, although in the United States there were signs of recovery in the fourth quarter. The weakening of the U.S. dollar and related currencies and higher pension charges impacted heavily on our top and bottom lines. Moreover, our traditionally most profitable line of business, Organon, the human healthcare company, was confronted with the loss of patent protection for its key drug Remeron® in the United States, which put a strong pressure on results.

Our company was well prepared to face this multitude of challenges. Ongoing restructuring programs were accelerated, and many new programs were started with the appropriate sense of urgency. The continued process of pruning our portfolio resulted in several divestments. Altogether, our total workforce was reduced from 67,900 to 64,600.

The strong focus on restructuring, costs, and cash did not prevent us from investing in new growth opportunities in high growth regions. We are actively participating in the exciting growth in Asia, particularly China. We also continue to invest in long lasting relationships with our customers across the globe.

CONFIDENT TO RESTORE PHARMA GROWTH

The results of our pharma businesses were strongly affected by Organon, whose impressive growth of the past years has temporarily come to an end. Under new management we started the year with an aggressive program to protect margins, which has already delivered substantial results. We also reassessed and redefined the strategy of this important business unit and adjusted the organization accordingly. Organon's new strategy of actively looking for partners was already reflected in the announcement of an agreement with the world leader in pharmaceuticals, Pfizer, to codevelop and comarket our very promising drug asenapine. As we go forward, we will continue to scrutinize the organization for additional restructuring opportunities. At the same time, we will look for additional opportunities for partnering, in-licensing and out-licensing. On the strength of our pipeline, we are confident that we will restore robust growth momentum in the next couple of years.

We strongly benefited from the broad scope of our coatings businesses. We are clearly the world leader in coatings and are strongly committed to further strengthening this very attractive business through customer-driven solutions. In spite of the difficult conditions, we again made substantial progress in building leading positions worldwide. We focused on restructuring and operational excellence in low growth markets and on participating in growth through capacity increases in high growth markets. Our Marine & Protective Coatings business unit showed a particularly impressive performance all over the world.

Our chemicals businesses showed robust performance in a very difficult market. We clearly profited from our ongoing restructuring efforts. In September, we announced our intention to sell the Catalysts, Phosphorus Chemicals, and Coating Resins businesses. We will continue to improve our performance in chemicals by focusing on a set of cost efficient and innovative, leading businesses.

* *Excluding nonrecurring items.*

IMPROVED BALANCE SHEET

Even in this challenging year, we showed serious commitment to a multiyear debt reduction program: we were able to bring net debt down by EUR 0.8 billion and to substantially improve our balance sheet. We also achieved an increase of the average maturity of our long-term debt through the successful issue of public bonds.

In 2003, we also reviewed the design of our corporate center. Roles were clarified and the cost base will be reduced. We will continue to be an active management holding that adds value to our diverse businesses through shared management processes in areas such as Human Resources, Information Technology, Legal, Strategy, Finance and Treasury, and Control.
To enhance the coordination and accelerate the progress of our diverse Corporate Social Responsibility programs we appointed a Director of CSR.

It is essential that public confidence be restored after the recent financial scandals at other companies. We are working hard to implement all the requirements of the new U.S. securities laws, including the Sarbanes-Oxley Act. We also support most of the principles and practices of the new Dutch Corporate Governance Code.

OUTLOOK FOR 2004

In 2004, the Company will be impacted by substantial additional sales losses for Remeron®. Given the present currency exchange rates, the Company will be facing headwinds from negative currency translation effects, as almost two thirds of our sales is generated outside the euro zone. On a more positive note, we will benefit from our aggressive restructuring programs in all three groups and some EUR 50 million lower pension charges.
The macroeconomic environment is also expected to improve somewhat.

On balance we expect net income, excluding nonrecurring items, to be below 2003. This outlook is based on our present portfolio of activities, and therefore excludes effects of the planned Chemicals' divestments. In addition, it is based on 2003 earnings excluding the special benefit from the asenapine cooperation.

In 2004, our focus will remain on cost to protect our earnings. At the same time, through the Chemicals' divestment program we are creating room to maneuver for growth opportunities in attractive strategic priority areas. We will continue to manage our funds in a highly disciplined manner and expect capital expenditures in the order of magnitude of EUR 650 million. Furthermore, we will continue to screen our activities and upgrade our portfolio based on value creation.

We will face the challenges with an even stronger focus on grasping profitable growth opportunities. We will be pushing profit improvements in underperforming businesses. We will continue to build a company that enjoys the pride of everybody involved.

I am grateful to all our employees across the globe for their contributions to our 2003 performance. It is a great privilege and honor to be entrusted with the responsibility to lead this great company into the future.

Hans Wijers
Chairman of the Board of Management

>

Our specialty coatings can be found on many types of plastic. We produce chemicals used to make performance plastics and we also supply a wide range of prescription drugs and medicines.

MAJOR EVENTS IN 2003

1ST QUARTER

U.S. Food and Drug Administration (FDA) grants *Organon's* Arixtra® priority review for new indication. In June 2003 the FDA approves this product for extended use.

Powder Coatings opens new facility in Vietnam.

2ND QUARTER

Diosynth signs long-term supply contract with Pfizer.

Surface Chemistry starts efficiency improvement program, primarily impacting its European and North American operations.

Car Refinishes launches "beyond paint" initiative to manage the complete car repair cycle.

In June the Company places a 4.25% bond of EUR 750 million due in 2011 to redeem borrowings.

3RD QUARTER

Decorative Coatings International to build new factory in China.

Pulp & Paper Chemicals to invest EUR 50 million in "Chemical Island" to be operated for Veracel, Brazil.

Car Refinishes to establish international R&D center in Pontiac, Michigan.

Polymer Chemicals announces restructurings. In the fourth quarter further restructuring plans are disclosed.

Akzo Nobel announces intention to sell Catalysts, Coating Resins, and Phosphorus Chemicals businesses.

Industrial Finishes acquires specialty coatings company TCI, Belgium.

4TH QUARTER

Powder Coatings acquires remaining 50% stake in Korean powder coatings joint venture.

Powder Coatings opens new nonstick coatings factory in China.

Pfizer and *Organon* enter into global collaboration for new psychotropic treatment.

Akzo Nobel improves its liquidity support through a committed multicurrency revolving credit and swing-line facility with a maturity of 5 years for an amount of EUR 1,500 million.

Akzo Nobel opens new Nobilon biotech vaccines facility in Boxmeer, the Netherlands.

Akzo Nobel and BASF to form chelates production joint venture in United States.

Financial Statements and Dividend Proposal
The Supervisory Board submits to the shareholders the financial statements and the report of the Board of Management of Akzo Nobel N.V. for the financial year 2003, as prepared by the Board of Management and approved by the Supervisory Board.

The 2003 financial statements were audited by KPMG Accountants N.V. The Auditors' Report appears on page 108. The financial statements were discussed extensively with the auditors by the Audit Committee and in the presence of the Chairman of the Board of Management (CEO) and the Chief Financial Officer (CFO). In addition, the 2003 financial statements were a topic of discussion for the full Supervisory Board with the full Board of Management, in the presence of the auditors. Based on these discussions, the Supervisory Board believes that the 2003 financial statements of Akzo Nobel N.V. meet all requirements for transparency and correctness and that they form a good basis to account for the supervision we provided.

We recommend that shareholders adopt the 2003 financial statements as presented in the Annual Report. We likewise recommend that shareholders adopt the Board of Management's dividend proposal of EUR 1.20 per common share. An interim dividend of EUR 0.30 has already been paid, leaving a final dividend of EUR 0.90 per common share.

Additionally, we request that shareholders discharge the members of the Board of Management of their responsibility for the conduct of business in 2003, and the members of the Supervisory Board for their supervision of the management.

Composition of the Supervisory Board
At the General Meeting of Shareholders of April 17, 2003, the total number of Supervisory Board members was increased by one and fixed at eleven.

Hilmar Kopper had announced that he wanted to relinquish his Supervisory Board membership and stepped down effective May 1, 2003. A member since 1990, Mr. Kopper made an outstanding contribution to the Board's work, bringing to the deliberations extensive knowledge of and experience in the international financial world.

Also effective May 1, 2003, Uwe-Ernst Bufe, former CEO of Degussa AG and a German national, and Cees van Lede, retiring Chairman of Akzo Nobel N.V., were appointed to the Supervisory Board. Virginia Bottomley and Lars Thunell were reappointed.

The Supervisory Board regrets the unexpected loss of the services of L. Paul Bremer III, who resigned his position in the Board on May 5, 2003, to take up a senior U.S. government post in Iraq. With his extensive knowledge of international affairs and business Mr. Bremer has made a major contribution to the Board.

At the General Meeting of Shareholders of April 22, 2004, Frits Fentener van Vlissingen will resign, having reached the age limit. Mr. Fentener van Vlissingen has served on the Board since 1984. For 11 years he was Deputy Chairman and for two interim years (1993/95) Chairman of the Supervisory Board. In addition, he was a member of the Audit Committee for 13 years; during 11 years he was this Committee's chairman. He also was a member of the Remuneration and Nomination Committee for 11 years. In him, the Supervisory Board will lose a valuable, experienced member with in-depth business and strategic knowledge.

At this Meeting, it will be proposed that membership of the Supervisory Board be decreased by one and fixed at ten and that Dolf van den Brink be appointed as member of the Supervisory Board. Mr. van den Brink is professor Financial Institutions at the University of Amsterdam and former member of the Managing Board of ABN AMRO Bank.

Also at this meeting, Aarnout Loudon will be stepping down. He will be available for reappointment. Given his broad knowledge and experience in the field of international business and his capacities as Chairman, the Supervisory Board recommends that the General Meeting of Shareholders reappoint Mr. Loudon for a two-year period.

As the rotation schedule of the Supervisory Board was adapted to meet the new Dutch Corporate Governance requirements, Mrs. Bottomley will be stepping down, although she had been reappointed in 2003. Mrs. Bottomley is recommended for reappointment for a four-year period.

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

The General Meeting of Shareholders determines the remuneration of the members of the Supervisory Board. The remuneration for the year 2003 was EUR 41,000 for members of the Supervisory Board and EUR 52,000 for the Chairman. For each committee membership, the remuneration was EUR 7,000. Details are given in the Remuneration Report on page 14.

Composition of the Board of Management

Effective May 1, 2003, Cees van Lede retired as Chairman of the Board of Management. He was succeeded by Hans Wijers. The Supervisory Board expressed its gratitude to Mr. van Lede, citing his great business acumen and his outstanding service and dedication to Akzo Nobel.

Effective May 1, 2004, Fritz Fröhlich will retire as Deputy Chairman and CFO. We are greatly indebted to Mr. Fröhlich for his excellent services to the Company. Mr. Fröhlich joined Akzo's Board of Management in 1993 with responsibility for Fibers. As Deputy Chairman and CFO (since 1998), he has earned great recognition in the financial world. We are sorry to lose his great expertise and wise counsel.

Dag Strömqvist will retire from the Board of Management effective July 1, 2004. The Supervisory Board wishes to thank Mr. Strömqvist for his excellent service to the Company and its predecessors for 37 years. Especially in the field of Chemicals he made major contributions.

The Supervisory Board discussed succession in the Board of Management and recommends the General Meeting of Shareholders to appoint Rob Frohn, until the end of 2003 General Manager of Surface Chemistry, as a member of the Board of Management and Chief Financial Officer to succeed Fritz Fröhlich as of May 1, 2004. Leif Darner, currently General Manager of Marine & Protectiv Coatings, will be proposed to succeed Mr. Strömqvist.

Supervisory Board activities

The full Supervisory Board met six times in the course of 2003, including an extraordinary meeting in October, called to discuss the Board of Management's intention to exploit a specific product of Organon (asenapine) in close collaboration with Pfizer Inc. The September meeting was held at the Akzo Nobel Coatings plant in Felling, United Kingdom, where a special focus was placed on the business units Marine & Protective Coatings and Powder Coatings. The Supervisory Board visited a plant of each business unit. Most meetings were attended by all Supervisory Board members.

All meetings were plenary sessions with the full Board of Management. On one occasion, the Supervisory Board met partly without the Board of Management being present to assess its own performance and the performance of the CEO, and partly with the CEO to discuss the performance of the other members of the Board of Management. In February the Supervisory Board met with only the retiring and incoming Chairmen of the Board of Management to discuss the functioning and composition of the Board of Management.

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

In view of global developments and new legislation, especially the U.S. Sarbanes-Oxley Act and the new Dutch Corporate Governance Code (Tabaksblat), corporate governance was discussed on several occasions. The Supervisory Board discussed and agreed a number of amendments to the governance rules of the Supervisory Board and its Committees. Examples are the adoption of a whistleblower protection procedure for financial matters, the alignment of the Policy on Auditor Independence, and the renewal of the Charters of the Audit Committee and the Remuneration and Nomination Committee in order to further strengthen the roles of these Committees. The Supervisory Board also made preparations to update its Rules of Procedure, containing its own governance rules and profile. The Rules of Procedure and Charters are available on the Company's website.

The Company's strategy was another important issue that received ample attention from the Supervisory Board in 2003. In order to address the declining results and to free resources for growth, the Board of Management formulated a new strategic direction, including a major divestment plan for Chemicals and changes at Organon. This strategic direction was discussed extensively with the Supervisory Board, while at each meeting a status report was given.

The Supervisory Board further discussed in detail:

- the pensions situation
- the divestment of the Impregnated Paper business
- the investment of Pulp & Paper Chemicals in a chlorate plant in Brazil
- the codevelopment agreement between Organon and Pfizer Inc. concerning asenapine.

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

Audit Committee
The Audit Committee currently consists of four members and is chaired by Mr. Fentener van Vlissingen. Mr. Bufe filled the vacancy caused by the resignation of Mr. Kopper in May 2003. The Audit Committee met four times in 2003. The CEO, the CFO, and the internal and external auditors attended all meetings.

The Audit Committee regularly discusses financial statements, internal and external control procedures, risk management, and the external auditor's performance and independence. In addition, in 2003 considerable time was spent on corporate governance. The Committee reviewed how it functioned and renewed its Charter. The Supervisory Board established that Lars Thunell fulfills the requirements of Audit Committee Financial Expert as defined in the rule adopted by the SEC under the Sarbanes-Oxley Act.

Remuneration and Nomination Committee
The Remuneration and Nomination Committee consists of four members and met two times in 2003. Mr. Loudon chairs the Remuneration and Nomination Committee. In 2003, Mr. Fentener van Vlissingen and Mr. Bremer resigned from the Committee. Virginia Bottomley and Karel Vuursteen filled the vacancies.

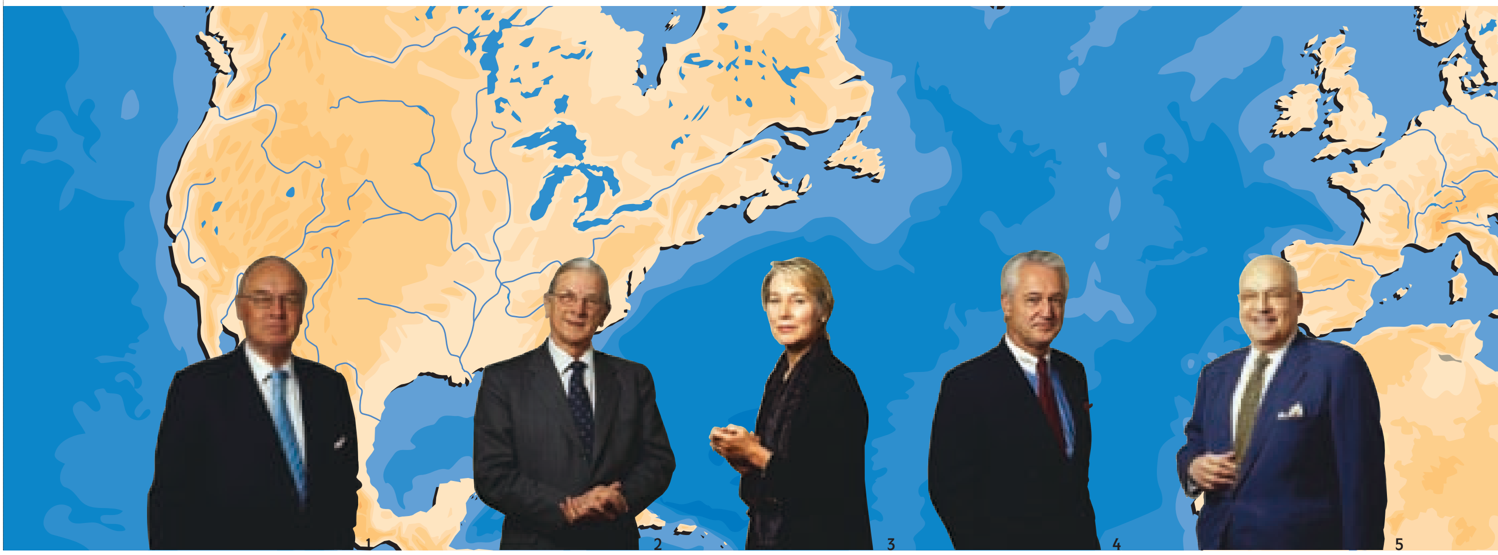
The Committee prepared proposals for the succession of Mr. Fröhlich and Mr. Strömqvist in 2004 and for nomination of new Supervisory Board members. Furthermore, it reviewed the remuneration policy for members of the Board of Management, resulting in a proposal for a long-term incentive plan, which was discussed in the Supervisory Board and will be proposed for adoption by the General Meeting of Shareholders.

The Supervisory Board wishes to thank the Board of Management as well as all employees for their dedication and hard work for the Company in 2003.

Arnhem, February 2, 2004

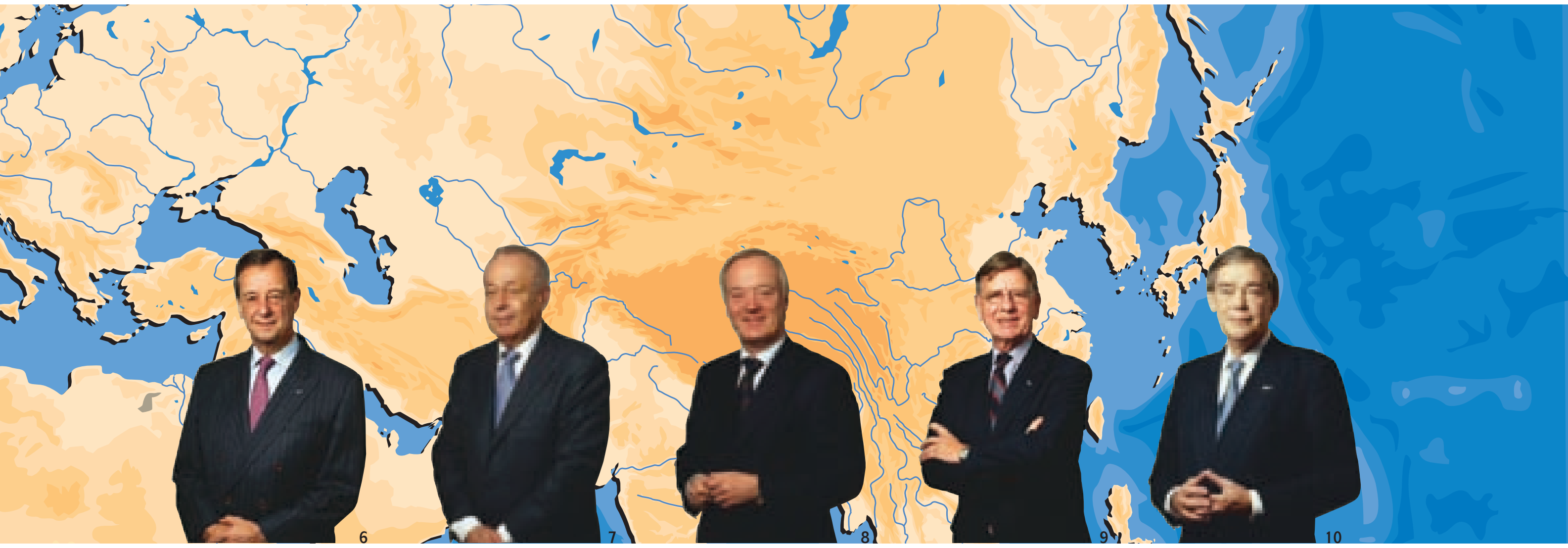
The Supervisory Board

SUPERVISORY BOARD



Has served in this or similar capacity since:

[1] Aarnout A. Loudon 1) (1936, Dutch), *Chairman*	1994	*Former Chairman of the Board of Management of Akzo Nobel* *Chairman of the Supervisory Board of ABN AMRO Bank* *Member of the Supervisory Board of Royal Dutch Petroleum Company* *Member of the International Board of Allianz AG. Germany*
[2] Frits H. Fentener van Vlissingen 2) (1933, Dutch), *Deputy Chairman*	1984	*Managing Director of Flint Holding, the Netherlands* *Deputy Chairman of the Supervisory Board of* *SHV Holdings, the Netherlands* *Chairman of the Supervisory Board of Draka, the Netherlands* *Member of the Supervisory Board of CSM, the Netherlands*
[3] The Rt. Hon. Virginia Bottomley MP 1) (1948, British)	2000	*Former Secretary of State for Health and Member of the British Cabinet* *Governor of the London School of Economics, Governor of the Ditchley Foundation* *Director of Odgers Ray & Berndtson*
[4] Uwe-Ernst Bufe 2) (1944, German)	2003	*Former CEO of Degussa AG* *Chairman of the Supervisory Board of UBS Investment Bank, Frankfurt* *Member of the Supervisory Board of Altana AG, Germany* *Member of the Supervisory Board of Frankfurter Allianz AG* *Member of the Supervisory Board of Rütgers AG, Germany* *Member of the Supervisory Board of Solvay S.A., Belgium* *Member of the Supervisory Board of Cognis Beteiligungs-GmbH, Germany*
[5] Abraham E. Cohen 2) (1936, American)	1992	*Former Senior Vice President of Merck & Co. and* *President of Merck Sharp & Dohme International* *Chairman of Vasomedical, New York, and Neurobiological Technologies, California* *Nonexecutive Director of Smith Barney (Mutual Funds), New York,* *and Teva Pharmaceutical Industries, Israel*



Has served in this or similar capacity since:

[6] Cees J.A. van Lede (1942, Dutch)	2003	*Former Chairman of the Board of Management of Akzo Nobel* *Chairman of the Supervisory Board of the Dutch Central Bank* *Nonexecutive Board member of Heineken, Philips Electronics,* *KLM, Sara Lee, Reed Elsevier, Air Liquide, Scania* *Chairman of the Board of Directors of INSEAD, France*
[7] Alain Mérieux (1938, French)	2002	*Chairman of bioMérieux* *Director of WENDEL Investissement, Eurazeo, Rue Impériale de Lyon,* *Compagnie Plastic Omnium SA, Lazard LLC*
[8] Lars H. Thunell [2] [3] (1948, Swedish)	1999	*President and CEO of SEB Skandinaviska Enskilda Banken* *Chairman of the Board of IBX, Integrated Business Exchange AB* *Member of the Board of Swedish Bankers Association and Swedish* *Industry and Commerce Stock Exchange Committee* *Member of the Board of b-business partners B.V., the Netherlands*
[9] Maarten C. van Veen [1] (1935, Dutch)	1997	*Former CEO of Koninklijke Hoogovens, the Netherlands* *Chairman of the Supervisory Board of Koninklijke Volker Wessels Stevin, the Netherlands* *Deputy Chairman of the Supervisory Board of ABN AMRO Bank and Imtech, the Netherlands* *Nonexecutive Director of Corus Group*
[10] Karel Vuursteen [1] (1941, Dutch)	2002	*Former CEO of Heineken, the Netherlands* *Chairman of the Supervisory Board of Ahold N.V.* *Member of the Supervisory Boards of Gucci Group, ING Group, and* *Randstad Holding, the Netherlands* *Member of the Supervisory Board of AB Electrolux, Sweden* *Vice Chairman of Nyenrode University, the Netherlands*

[1] *Member of the Remuneration and Nomination Committee.*
[2] *Member of the Audit Committee.*
[3] *Audit Committee Financial Expert.*

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

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

Euros	**2003**	2002
Aarnout A. Loudon, *Chairman*[1]	**56,100**	52,000
Frits H. Fentener van Vlissingen, *Deputy Chairman*[2]	**47,200**	45,500
Virginia Bottomley[3]	**45,700**	41,000
L. Paul Bremer, III[4]	**15,200**	42,100
Uwe-Ernst Bufe[5]	**32,000**	
Abraham E. Cohen[2]	**47,200**	45,500
Hilmar Kopper[6]	**15,200**	45,500
Cees J.A. van Lede[7]	**27,300**	
Alain Mérieux	**41,000**	27,300
Lars H. Thunell[2]	**47,200**	45,500
Maarten C. van Veen[1]	**47,200**	45,500
Karel Vuursteen[3]	**45,700**	27,300

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

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

Number of shares	
Virginia Bottomley	500
Abraham E. Cohen	4,000
Frits H. Fentener van Vlissingen	42,332
Cees J.A. van Lede	5,500
Maarten C. van Veen	297
Karel Vuursteen	400

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

1) *Member of the Remuneration and Nomination Committee.*
2) *Member of the Audit Committee.*
3) *As from May 1, 2003, member of the Remuneration and Nomination Committee.*
4) *Until May 1, 2003, member of the Remuneration and Nomination Committee.*
5) *As from May 1, 2003, member of the Supervisory Board and the Audit Committee.*
6) *Until May 1, 2003, member of the Audit Committee.*
7) *As from May 1, 2003, member of the Supervisory Board.*

Board of Management

Remuneration Policy 2003

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

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

Remuneration Structure 2003

The total remuneration package of the members of the Board of Management consists of:

- base salary
- performance-related short-term incentive
- stock options
- pension provisions
- other benefits.

The Remuneration and Nomination Committee considers the remuneration structure each year to ensure it meets the objectives of the remuneration policy.

Base Salary 2003

The Remuneration and Nomination Committee considers each year whether the circumstances are such that they warrant an increase in the base salary levels for the Board of Management. The salaries of the members of the Board of Management were increased by 2.5% on January 1, 2003.

Short-Term Incentive 2003

The short-term incentive is provided through an annual bonus. This bonus is directly linked to the value created by the Company and for that reason primarily dependent on the Economic Value Added (EVA). Using this measure directly in the Company's annual bonus, EVA-based management is encouraged, which implies a strong focus on capital effectiveness, efficiency, productivity, and competitiveness.

EVA performance accounts for 75% of the annual bonus opportunity. The remaining 25% bonus opportunity is at the discretion of the Supervisory Board and is based on the Board of Management's and the individual member's quantifiable performance during the year.

The bonus payout in any year can range between zero and a maximum of one times base salary. The target bonus opportunity is 65% of base salary.

*Stock Options**

In 2000, 2001, and 2002, stock options were granted to the Board of Management with a term of ten years and a performance-dependent vesting period of three years. After three years, the number of options granted can be decreased by a maximum percentage of 50, if specific performance criteria are not met or not sufficiently met.

Under the 2003 stock option plan, stock options were granted to the Board of Management and executives of the Company. The number of stock options granted was determined by the Supervisory Board based on the Company's relative performance as compared to a sample of pharmaceutical and chemical multinational companies.

The stock options granted in 2003 are conditional during a period of three years after grant and have a total term (including the three-year conditional period) of seven years. The exercise price of the stock options is the Euronext Amsterdam opening price on the first day after the General Shareholders' Meeting that the Akzo Nobel share is quoted ex dividend (2003: EUR 19.51).

Members of the Board of Management held no Akzo Nobel share options other than the stock options mentioned in this Annual Report.

All members of the Board of Management participate in the Akzo Nobel Employee Share Plan*. In 2003, 4 shares were granted (2001: 6 shares; 2002: 5 shares).

Pensions

Members of the Board of Management normally retire in the year that they reach the age of 62. Different pension plans are provided to members of the Board of Management, based on the salaries, local customs, and rules in the countries of origin.

The pension plan for all Dutch members of the Board of Management appointed after January 1, 2002, is based on an income- and age-related defined contribution plan.

Loans

As a policy, the Company does not provide loans to members of the Board of Management. There are currently no loans outstanding.

Contracts of employment

The current employment contracts for members of the Board of Management have been entered into for an indefinite period of time.

Former members of the Board of Management

Charges relating to former members of the Board of Management amounted to EUR 656,700 in 2003, mainly due to pension expenses (2002: EUR 274,200).

* *For a description of the option plan and the Akzo Nobel Employee Share Plan reference is made to note f on page 104.*

Overview of Remuneration 2003

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

Salaries, Performance-Related Bonuses, and Other Emoluments

Euros	**2003**	2002
Cees J.A. van Lede, *Chairman until May 1, 2003*		
Salary	**215,000**	623,100
Bonus	**118,800**	377,200
Other emoluments	**1,900**	5,600
G.J. (Hans) Wijers, *Chairman from May 1, 2003*		
Salary	**614,000**	134,700
Bonus	**338,400**	76,600
Other emoluments	**5,300**	1,500
Fritz W. Fröhlich, *Deputy Chairman*		
Salary	**552,200**	533,500
Bonus	**284,000**	316,700
Other emoluments	**6,400**	7,800
Rudy M.J. van der Meer		
Salary	**460,500**	445,000
Bonus	**235,500**	261,400
Other emoluments	**5,000**	5,600
Dag Strömqvist		
Salary	**460,500**	445,000
Bonus	**235,500**	261,400
Other emoluments	**4,500**	5,200
A.T.M. (Toon) Wilderbeek		
Salary	**460,500**	224,600
Bonus	**240,000**	127,800
Other emoluments	**77,100**	2,600

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

Euros	**2003**	2002
Cees J.A. van Lede	**76,000**	455,900
G.J. (Hans) Wijers	**198,100**	36,800
Fritz W. Fröhlich	**436,200**	465,500
Rudy M.J. van der Meer	**359,300**	402,700
Dag Strömqvist	**286,800**	277,100
A.T.M. (Toon) Wilderbeek	**237,200**	47,500

* *Employers' charges (social contributions and healthcare insurance contributions), and additional costs for Mr. Wilderbeek related to his stay in the United States in 2003 amounting to EUR 72,100*

The aggregate number of stock options held by the members of the Board of Management is as follows:

Number of options	Year of issue	Exercise price in EUR	Outstanding at December 31, 2002	Granted in 2003	Lapsed in 2003	Outstanding at December 31, 2003	Expiry date
Cees J.A. van Lede*	1998	47.40	36,000		36,000		
	1999	42.50	36,000			36,000	April 25, 2004
	2000	44.82	39,600			39,600	April 27, 2010
	2001	46.75	39,600			39,600	April 30, 2011
	2002	46.53	39,600			39,600	April 25, 2012
	2003	19.51		39,600		39,600	April 22, 2010
G.J. (Hans) Wijers	2002	46.53	14,850			14,850	April 25, 2012
	2003	19.51		29,700		29,700	April 22, 2010
Fritz W. Fröhlich	1998	47.40	24,000		24,000		
	1999	42.50	27,000			27,000	April 25, 2004
	2000	44.82	29,700			29,700	April 27, 2010
	2001	46.75	29,700			29,700	April 30, 2011
	2002	46.53	29,700			29,700	April 25, 2012
	2003	19.51		29,700		29,700	April 22, 2010
Rudy M.J. van der Meer	1998	47.40	24,000		24,000		
	1999	42.50	24,000			24,000	April 25, 2004
	2000	44.82	26,400			26,400	April 27, 2010
	2001	46.75	26,400			26,400	April 30, 2011
	2002	46.53	26,400			26,400	April 25, 2012
	2003	19.51		26,400		26,400	April 22, 2010
Dag Strömqvist	1998	47.40	6,000		6,000		
	1999	42.50	6,000			6,000	April 25, 2004
	2000	44.82	3,300			3,300	April 27, 2005
	2000	44.82	13,200			13,200	April 27, 2010
	2001	46.75	26,400			26,400	April 30, 2011
	2002	46.53	26,400			26,400	April 25, 2012
	2003	19.51		26,400		26,400	April 22, 2010
A.T.M. (Toon) Wilderbeek	1998	47.40	4,400		4,400		
	1999	42.50	4,500			4,500	April 25, 2004
	2000	44.82	6,600			6,600	April 27, 2005
	2001	46.75	6,600			6,600	April 30, 2006
	2002	46.53	3,300			3,300	April 25, 2009
	2002	46.53	13,200			13,200	April 25, 2012
	2003	19.51		26,400		26,400	April 22, 2010

In 2003 no stock options were exercised by the members of the Board of Management.
At December 31, 2003, the members of the Board of Management held Akzo Nobel N.V. common shares. The specification is as follows:

Number of shares	
G.J. (Hans) Wijers	1,600
Fritz W. Fröhlich	1,000
Rudy M.J. van der Meer	1,168
Dag Strömqvist	8,200

* *In early retirement at May 1, 2003.*

Remuneration Policy 2004

General
The Supervisory Board decided to review the Company's remuneration policy including all structures and policies related to the remuneration and employment contracts of the Board of Management in light of the Dutch Corporate Governance Code. The Supervisory Board adjusted the remuneration packages of the Board of Management for 2004 to ensure competitiveness of the remuneration provided and to enhance long-term value creation.

As it is essential to be able to attract and retain top management for a position on the Board of Management of Akzo Nobel, external reference data are used in determining market competitive levels of remuneration. The Supervisory Board considered the most appropriate peer group of companies, as is set out below. An increase in remuneration will be performance-related.

In order to enhance long-term value creation, the Supervisory Board will propose to the General Meeting of Shareholders that the performance-related variable share-based remuneration elements be adjusted. This will have an impact on current short-term and long-term incentive design.

Remuneration Elements
To ensure overall competitiveness of the remuneration provided to the Board of Management, the Remuneration and Nomination Committee assessed the remuneration levels of the Board of Management against the following peer group:

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

Royal Ahold and KPN are not included in the peer group for the CEO and the CFO.

The Remuneration and Nomination Committee consulted professional independent remuneration experts to ensure an appropriate comparison. The experts have used a statistical model to modify the data of the peer group companies to assume a similar size of Akzo Nobel and similar scope responsibilities of the Board of Management.

It is the Company's policy to gradually move toward overall remuneration levels that are at the median level of the external benchmark. In line with this policy, the main focus will be on variable, performance-related remuneration.

Base Salary 2004
The Supervisory Board considers each year whether the circumstances are such that they allow a reconsideration of the base salary levels. In the current situation it was decided not to adjust base salary levels for 2004 and to focus on performance-related remuneration elements.

Presently, the base salary levels of the members of the Board of Management are almost without exception at or below the lower quartile level of the peer group of companies used in the external comparison. The base salary level of the CEO is significantly below this peer group.

Short-Term Incentive (annual bonus) 2004
The target short-term incentive (annual bonus) will be 80% of base salary for the CEO and 65% of the base salary for the other members of the Board of Management.

Also for 2004, the bonus opportunity will be linked to EVA in order to encourage the Board of Management to create long-term value for the Company's shareholders and stakeholders.

The target EVA for the bonus will be determined annually by the Supervisory Board (based on plan). The Supervisory Board ensures that targets are stretching but realistic.

The EVA performance accounts for 75% of the annual bonus opportunity. The remaining 25% of the bonus opportunity will be based on individual quantifiable targets.

Below the threshold level of performance there will be no payout. The threshold level of the EVA-related part of the bonus is 80% of the targeted EVA. The maximum bonus in any one year will not exceed 1.5 times the target bonus. The maximum bonus for the CEO will not exceed 120% of his base salary and 100% for the other members of the Board of Management.

The Company will not disclose the actual targets for 2004, as these qualify as commercially sensitive information.

Long-Term Incentive 2004
For 2004, the Supervisory Board, at the advice of the Remuneration and Nomination Committee, reviewed the long-term incentive currently provided to the Board of Management. To stimulate the performance-driven culture at Akzo Nobel, the long-term incentive will be adjusted in 2004 and linked to stretching performance targets.

The Supervisory Board has decided to propose to the General Meeting of Shareholders that adjustment of the current long-term incentive plan be approved. The proposed new long-term incentive-plan consists of performance stock options and performance shares.

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

The performance measure used to determine the number of options that vest is EVA on EVA invested capital (EOI). This measure is used to encourage EVA performance over a longer period of time. The EOI targets are set annually by the Supervisory Board. These specific targets will not be disclosed as they qualify as commercially sentitive information.

There will be no vesting of stock options below 80% of the targeted EOI. The number of granted options is also the maximum number of options that vest upon achieving the targeted performance. If targeted performance is exceeded, there will be no increase in the number of options that vest.

The value of performance stock options for the Board of Management is based on the Black-Scholes methodology, which is in line with international accounting regulations. The calculations for the valuations will be reviewed by the Company's auditors.

In 2004, a performance share plan will be introduced. This plan has the following design. The Supervisory Board grants a number of conditional shares to the Board of Management each year. The actual number of shares the Board of Management will receive depends on the Company's Total Shareholder Return (TSR) performance over a three-year period, compared with TSR performance of a specified peer group.

The Supervisory Board has determined that TSR performance will be compared with the following peer group:

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

Based on this peer group, Akzo Nobel will be ranked for its total return to shareholders. Independent external specialists will conduct this analysis to determine the number of shares that will vest over a three-year period. The determination of the final ranking (and thus the vesting of shares) will be reviewed by the Company's auditors at the end of the performance period.

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

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

Introduction

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

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

The Board of Management is entrusted with the management of the Company and defines the strategic direction, establishes the policies, and manages the Company's day-to-day operations. The Supervisory Board is entrusted with supervision over the policies adopted by the Board of Management and the way business is conducted. The Supervisory Board is responsible for providing management continuity and renders advice to the Board of Management. Both Boards conduct their duties in the interest of the Company and its businesses.

Based on the requirements of the Civil Code of the Netherlands, the Company's Articles of Association, and the rules and regulations applicable to companies listed on Euronext Amsterdam and NASDAQ, Akzo Nobel's corporate governance is complemented by several internal procedures to ensure compliance with laws and regulations applicable to its status as a listed company. These procedures include a risk management system as well as a system of assurance of compliance with applicable governmental rules and internal company procedures, as substantiated by a Letter of Representation signed by corporate officers, business managers, and directors of operating companies.

Processes, systems, rules, and procedures designed to promote good corporate governance only tell part of the story. A strong ethical code followed by people committed to individual and corporate integrity is the foundation of good corporate governance. Akzo Nobel's Company Statement and Business Principles set out the Company's position. They are to guide all our employees in their daily work. The Business Principles are set forth in the Corporate Social Responsibility chapter on page 44.

A complaints procedure enables employees to file complaints on practices violating Business Principles; Human Resources, HSE and Security Policy statements; and Corporate Directives. This procedure has taken effect as of February 1, 2004.

Corporate Governance Developments

Public debate about the role and behavior of public companies has placed new emphasis on the position, powers, and responsibilities of the Board of Management and the Supervisory Board, its Committees, institutional investors, and the General Meeting of Shareholders.

Pursuant to the U.S. Sarbanes-Oxley Act, Akzo Nobel has revised its procedures for internal and disclosure controls and auditor independence. A Disclosure Committee has been formed, which is responsible for developing and supervising the procedures that ensure adequate and timely disclosure of financial and nonfinancial information. The Disclosure Committee consists of the CFO, the Senior Vice President – Finance, the General Counsel, the Directors of Corporate Control and Internal Audit, and the Company Secretary.

The internal procedure to assure an effective operating system of internal controls for financial reporting has also been revised. The 20-F filing to the SEC for the year 2002 was accompanied by CEO and CFO certificates. To support these certificates, senior managers and controllers signed backup certificates and confirmed their Letters of Representation.

In the Netherlands, the debate on corporate governance has resulted in the publication on December 9, 2003, of a new Corporate Governance Code (Tabaksblat Code). Akzo Nobel has reviewed the Code and agrees both with the general approach and with the vast majority of its principles and best practice provisions. To the extent it is of the opinion that its corporate governance policy warrants deviation from the Code, it shall explain such deviations in the chapter on Corporate Governance in the 2004 Annual Report in accordance with the procedure advised by the Tabaksblat Committee.

Depending on further implementation of recommendations by the Tabaksblat Committee, on legislation concerning several of the issues covered by its Code, and on further internal consideration and decision-making, deviations from the Code (possibly on a transitional basis) may relate to the following aspects:

- Number of supervisory board memberships of members of the Board of Management. (Reference is made to the actual rule in the paragraph on the Board of Management on page 24.)
- Chair of Supervisory Board by former member of the Board of Management. (It is the intention that Mr. Loudon will stay on as Chairman until his retirement as Supervisory Board member in 2006.)
- Combination of Remuneration and Nomination Committees of the Supervisory Board under the combined chair of the Chairman of the Supervisory Board. (It is the intention to address this issue in the course of 2004.)
- Binding nominations for the appointments of members of the Board of Management and the Supervisory Board. (We intend to follow current legislation and our Articles of Association.)

These aspects will be further elaborated and discussed during the Annual General Meeting of Shareholders in 2004. The Board of Management and the Supervisory Board will take these discussions into account when a final position on the Company's corporate governance is taken, which will subsequently be laid down in the 2004 Annual Report.

It should be noted that during a transition period several members of the Supervisory Board may have more than five supervisory board memberships of Dutch listed companies.

Board of Management
The General Meeting of Shareholders appoints the members of the Board of Management on the nomination of the Meeting of Holders of Priority Shares. As a rule, the members of the Board of Management step down at the Annual General Meeting in the year in which they reach age 62.

The members of the Board of Management collectively manage the Company and are responsible for its performance. They are jointly and individually accountable for all decisions made by the Board of Management.

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

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

For effective steering of the strategy and operations of its business units, the Board of Management has delegated certain authorities to Board Committees for Pharma, Coatings, and Chemicals. Furthermore, a Pensions Board Committee, established in 2003, oversees the general pension policies to be implemented in the various pension plans of the Company. Board Committees consist of two Board members assisted by staff officers. Delegation of authorities to Board Committees and individual Board members is laid down in an internal authority schedule.

Members of the Board of Management are allowed to hold a maximum of two supervisory board memberships in other companies. In the two years prior to their retirement, Board of Management members are allowed to hold more than two supervisory board memberships. Acceptance of external supervisory board memberships is subject to approval by the Chairman of the Supervisory Board.

The Supervisory Board has adopted a Code of Ethics for senior financial officers, effective January 1, 2004. The designated persons, including the CEO and the CFO, will have to confirm annually in writing that they have adhered to this Code.

Supervisory Board
The members of the Supervisory Board are appointed by the General Meeting of Shareholders on the nomination by the Meeting of Holders of Priority Shares. As a general rule, based on the mandatory rotation schedule, a member's tenure is four years. Members are eligible for reelection twice. The number of members of the Supervisory Board is fixed by the General Meeting on the proposal of the Meeting of Holders of Priority Shares.

The overall assignment of the Supervisory Board is to exercise supervision over the policies adopted by the Board of Management and over the general conduct of the business of the Company and its subsidiaries. The general duties of the Supervisory Board include supervision of the realization of the Company's objectives, the corporate strategy, the risks inherent to the business activities, the structure and operations of the risk management and control systems, and the financial reporting process. Furthermore, the Supervisory Board provides the Board of Management with advice. In fulfilling its assignments the Supervisory Board and its members consider the interests of the Company and its subsidiaries, rather than the interests of any particular stakeholder.

The composition of the Supervisory Board is such that the members are able to act with due objectivity and independently of one another and of the Board of Management. They may not represent any particular interest. The Chairman of the Supervisory Board has to be notified if an interest of a member of the Supervisory Board conflicts with that of the Company. Supervisory Board members receive a fixed annual remuneration as member of the Board. The Supervisory Board members receive all relevant information to carry out their duties from (a member of) the Board of Management. If the Supervisory Board considers it necessary, it may request the Board of Management for additional information from officers and/or external advisers of the Company.

To emphasize their independence all Supervisory Board members completed, for the first time in 2003, an independence questionnaire. All Supervisory Board members met the applicable independence requirements, except for Mr. van Lede, who had been an executive of the Company in the three years preceding the statement.

The Supervisory Board has established new Rules of Procedure, taking account of the new Dutch Corporate Governance Code. This document, which includes the former Set of Procedures, the Supervisory Board Profile, and the Charters of the Committees, reflects the tasks and responsibilities of the Supervisory Board and is available on Akzo Nobel's website.

The Supervisory Board may unanimously decide to delegate certain tasks to one or more of its members or Committees.

The Audit Committee and the Remuneration and Nomination Committee are Committees of the Supervisory Board.

Audit Committee

The Audit Committee assists the Supervisory Board in its oversight of the quality and integrity of the accounting, auditing, reporting, and risk management practices of the Company. Audit Committee members are appointed by and from among the Supervisory Board members. The Audit Committee reports its findings to the Supervisory Board.

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

The Supervisory Board has delegated to the Audit Committee the responsibility for receiving and handling complaints regarding accounting, internal control, and auditing matters and providing confidentiality for whistleblowers on such matters.

All the aforementioned documents and policies are available on Akzo Nobel's website.

Pursuant to the U.S. Sarbanes-Oxley Act, the Audit Committee should include at least one Audit Committee Financial Expert. An Audit Committee Financial Expert must have in-depth experience and knowledge of financial statements, international accounting principles, and internal controls and procedures for financial reporting. At its April 17, 2003 meeting, the Supervisory Board concluded that Mr. Lars Thunell meets these requirements.

Following the increased governance powers given to the Audit Committee, a new Audit Committee Charter was adopted in April 2003 and incorporated in the newly established Rules of Procedure for the Supervisory Board.

Remuneration and Nomination Committee
The objective of the Company's remuneration policy is to provide remuneration in a form that will attract, motivate, and retain members of the Board of Management as top executives of a major international company. In the determination and differentiation of the remuneration level of the Chairman, the Deputy Chairman, and the other members due allowance is made for the individual's specific responsibilities. Remuneration is differentiated on a basis comparable to that in other large international companies based in the Netherlands. To ensure that remuneration is linked to performance, members of the Board of Management are granted a variable remuneration component related to specific targets.

The service contracts of the members of the Board of Management are determined by the Supervisory Board, which has delegated this task to the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee advises on the composition of the Board of Management and on the division of its tasks. In addition, it prepares proposals for changes in the composition of the Supervisory Board.

To the Remuneration and Nomination Committee has been delegated the responsibility to prepare proposals for the Supervisory Board concerning the remuneration and benefits of members of the Board of Management, the remuneration schemes for Akzo Nobel executives involving Akzo Nobel shares, and proposals to the General Meeting of Shareholders concerning the remuneration of the members of the Supervisory Board.

Auditors
The external auditor is appointed by the General Meeting of Shareholders on the proposal of the Supervisory Board. The appointment is for an indefinite period of time with a review every three years by the Audit Committee. The Audit Committee advises the Supervisory Board, which will communicate the results of this assessment to the General Meeting of Shareholders. The lead auditor in charge of the Akzo Nobel account will be changed every five years.

Auditor independence is a particularly prominent issue for the Audit Committee. The Committee formally evaluates the independence of the external auditor and preapproves the fees for all audit, audit-related, and permitted nonaudit services rendered by the external auditor. The Audit Committee has adopted a policy on auditor independence which governs the external auditor's appointment, rotation, responsibilities, services rendered, compensation, and oversight.

Relations with Shareholders and Other Investors
Akzo Nobel has three classes of shares: common shares, cumulative preferred shares, and priority shares. The Akzo Nobel Foundation holds the priority shares. The Foundation's Board consists of the members of Akzo Nobel's Supervisory Board and Board of Management. Preferred shares, which have merely a financing function, may be issued at or near to the prevailing quoted price for common shares. No preferred shares have been issued to date.

General Meetings of Shareholders are held at least once a year. All resolutions are made based on the “one share, one vote” principle. The General Meeting of Shareholders reviews the Annual Report and decides on adoption of the Financial Statements and the dividend proposal, as well as on the discharge of the members of the Board of Management and of the Supervisory Board. Any representation of common shares representing at least one percent of the total issued capital may submit proposals in writing for the agenda of the General Meeting at the Company’s office, at least six weeks in advance. Such request shall be granted unless the Supervisory Board and the Board of Management are of the opinion that there are important reasons for not doing so.

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

Akzo Nobel actively communicates its strategy and the developments of its businesses to the financial world. Members of the Board of Management and business unit managers regularly attend analyst meetings in Europe and the United States. The quarterly results, press conferences, and the analyst conference calls as well as the presentations at analysts meetings are all web-cast and accessible on line.

BOARD OF MANAGEMENT

	Has served in this or similar capacity since:
[1] G.J. (Hans) Wijers (1951, Dutch), *Chairman and CEO*[1]	2002
Cees J.A. van Lede (1942, Dutch), *Chairman and CEO*[2]	1991
[2] Fritz W. Fröhlich (1942, German), *Deputy Chairman and CFO*	1993
[3] A.T.M. (Toon) Wilderbeek (1950, Dutch), *Pharma*	2002
[4] Rudy M.J. van der Meer (1945, Dutch), *Coatings*	1993
[5] Dag Strömqvist (1942, Swedish), *Chemicals*	2000

Secretary

G.H. (Han) Jalink

Corporate Officers

A. Jan A.J. Eijsbouts,	*General Counsel*
Frits H. Hensel,	*Senior Vice President – Finance*
Olle Werner,	*Senior Vice President – Human Resources*[3]
Derek W. Welch,	*Corporate Director – Strategy*
Jan H. Dopper,	*Senior Group Director – Pharma*
M. (Rinus) Rooseboom,	*Senior Group Director - Coatings*
Conrad S. Kent,	*Senior Group Director - Chemicals*

[1] *From May 1, 2003.*
[2] *Until April 30, 2003.*
[3] *Until September 30, 2003.*

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

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

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

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

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

Pharma

PRIORITY TO RESTORING GROWTH MOMENTUM

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

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

Diosynth is our focused niche player in the Active Pharmaceutical Ingredients market and our main biotech activity. It will continue to benefit from the expected growth in pharma markets.

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

Coatings

FOCUSING ON GROWTH IN EMERGING MARKETS

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

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

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

We have achieved significant performance enhancement through careful restructuring and we will continue these efforts. Our medium-term financial target is 25% ROI, leading in due course to around 30%.

Chemicals

IMPROVEMENT THROUGH RESTRUCTURINGS AND SELECTIVE DIVESTMENTS

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

We are presently focusing our attention on improving performance through restructuring and other measures, including selective divestments. We are also reassessing the portfolio with the aim of focusing on fewer activities so that we can concentrate our resources on those markets where we have leadership positions on a regional and increasingly global scale.

We intend to continue to invest, both through organic growth and carefully selected acquisitions in profitable and leadership positions.

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

Financing Objectives

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

We will defend our single A credit ratings.

GENERAL FINANCIAL OVERVIEW*

- **Net income 9% lower; net borrowings down EUR 0.8 billion**
- **Operating income, on balance, down EUR 145 million (–10%)**
  - **EUR 300 million impact of higher pension charges and weaker currencies affecting all groups**
  - **decline of Remeron® revenues – loss of market exclusivity in U.S.**
  - **restructuring programs strongly contributing**
  - **receipt of initial payment for asenapine cooperation**
- **Pharma – new strategy starting to deliver**
- **Coatings – solid performance; strongly benefiting from restructurings**
- **Chemicals – robust performance in a difficult market; forceful cost cutting**
- **Net nonrecurring charges EUR 209 million – reflecting aggressive restructuring programs**
- **Financial position – significantly improved**

Pharma

- New strategy starting to deliver – focus, alliances, and cost
- Organon
  - asenapine – cooperation with Pfizer; special benefit of EUR 88 million
  - Arixtra® – transfer to Sanofi-Synthélabo for revenue agreement
  - cost savings – surpassing targets
  - Remeron® – rapidly declining in U.S.; growth in the rest of the world
  - NuvaRing® – gathering momentum
- Intervet – under pressure in Americas; Europe improved
- Diosynth – impacted by weakening market conditions
- Negative currency impact of 9% on sales

Coatings

- Autonomous growth 3% – negative currency impact 7%
- Investing in growth opportunities in Asia Pacific
- Returns – aggressively protected
  - cost savings – workforce down 1,890
  - strict asset management
- Marine & Protective – star performer
- Powder Coatings and Industrial Finishes – strong performance
- Decorative Coatings and Car Refinishes – tough business conditions
- Impregnated Papers – divested

Chemicals

- Volumes and prices successfully protected in no-growth environment
- Negative currency impact of 7% on sales
- Cost saving programs paying off – workforce down 1,000
- Divestment program – on schedule
- Base Chemicals and Catalysts – strong performance
- Pulp & Paper Chemicals – reaping benefits from cost savings
- Polymer Chemicals and Surface Chemistry – under pressure; restructuring intensified
- Strict asset management – improved ROI and capital turnover

* *Unless stated otherwise, net income and operating income figures are exclusive of nonrecurring items.*

Condensed Consolidated Statement of Income

Millions of euros	**2003**	2002
Net sales:		
Pharma	**3,550**	4,008
Coatings	**5,233**	5,521
Chemicals	**4,397**	4,598
Other	**(129)**	(125)
Total	**13,051**	14,002
Operating income before nonrecurring items (EBIT):		
Pharma	**692**	768
Coatings	**431**	465
Chemicals	**324**	344
Other	**(100)**	(85)
	1,347	1,492
Financing charges	**(166)**	(204)
Operating income before nonrecurring items, less financing charges	**1,181**	1,288
Taxes	**(366)**	(399)
Earnings of consolidated companies, after taxes	**815**	889
Earnings from nonconsolidated companies	**36**	38
Earnings before minority interest	**851**	927
Minority interest	**(40)**	(35)
Net income excluding nonrecurring items	**811**	892
Nonrecurring items, after taxes	**(209)**	(74)
Net income	**602**	818

Net sales of EUR 13.1 billion were 7% down on the previous year. Autonomous growth (volume and price) was flat. A breakdown is given at the bottom of this page.

Change in operating income from 2002

Total	Operational performance	Currency translation	Increased pension charges
(76)	66	(110)	(32)
(34)	45	(47)	(32)
(20)	25	(13)	(32)
(15)	19	–	(34)
(145)	**155**	**(170)**	**(130)**

Operating income was EUR 1,347 million, on balance 10% below 2002. The improvement in operational performance attributable to significant cost savings did not fully offset the EUR 300 million negative effect from currency translation and higher pension charges. Return on sales was 10.3%, compared with 10.7% in 2002.

Financing charges decreased from EUR 204 million in 2002 to EUR 166 million in 2003. This was the result of a substantial reduction of net borrowings and lower short-term interest rates. Furthermore, due to the weaker U.S. dollar, interest denominated in this currency translated into lower financing charges. Interest coverage improved from 7.3 to 8.1. EBITDA coverage was 12.0 (2002: 10.7).

Earnings from nonconsolidated companies at EUR 36 million were slightly below 2002. Methanor, Acordis, and Brazilian catalyst joint venture FCC did better, while earnings of Flexsys were under pressure. ECI Elektro-Chemie has been consolidated since the fourth quarter of 2002, when the Company acquired the remaining 50%-stake.

Nonrecurring items of EUR 209 million consist of:

- EUR 308 million restructuring and impairment charges as specified in note 2 on page 86. They include *impairment charges* at Pharma, due to the reassessment of its global strategy. The writedowns concern facilities in the United States, Japan, the United Kingdom, and some other countries. The *restructuring charges* consist of provisions for severance payments and other restructuring costs. At Pharma, these predominantly concern the worldwide restructurings at Organon. Coatings' charges relate to the restructuring of Transportation Coatings and other cost saving measures. At Chemicals restructuring costs mainly related to Polymer Chemicals, Surface Chemistry, Base Chemicals, and Chelates.
- EUR 25 million nonrecurring gain on divestments mainly concerning the divestment of Chemicals' property in the United Kingdom.
- EUR 112 million tax deduction on the above items.
- EUR 9 million deduction for third party share in nonrecurring items.
- EUR 29 million nonrecurring items at nonconsolidated companies principally relating to restructuring and antitrust charges for Flexsys.

Development of sales in %	Volumes	Price	Currency translation	Acquisitions	Divestments	Total
Pharma	(3)	1	(9)	–	–	(11)
Coatings	1	2	(7)	2	(3)	(5)
Chemicals	–	1	(7)	3	(1)	(4)
Akzo Nobel	**(1)**	**1**	**(8)**	**2**	**(1)**	**(7)**

The 8% negative currency translation impact predominantly related to the weakening of the U.S. dollar, the pound sterling, the Brazilian real, and various Asian currencies. Acquisitions mainly concerned Ferro's powder coatings business, Crompton's Industrial Specialties, and ECI Elektro-Chemie. Divestments mainly related to Impregnated Papers.

Condensed Consolidated Statement of Cash Flows

Millions of euros	**2003**	2002
Earnings before minority interest	**651**	853
Depreciation and amortization	**652**	681
Cash flow	**1,303**	1,534
Other adjustments to reconcile earnings to cash provided by operations	**213**	(103)
Changes in working capital	**(119)**	117
Net cash provided by operations	**1,397**	1,548
Capital expenditures	**(581)**	(689)
Expenditures for intangible assets	**(27)**	(19)
Acquisitions	**(101)**	(257)
Proceeds from divestments	**203**	208
Net repayments nonconsolidated companies	**78**	(11)
Other changes	**(23)**	(11)
Net cash used for investing activities	**(451)**	(779)
Dividends paid	**(370)**	(363)
Total net cash used	**(821)**	(1,142)
Funds balance	**576**	406

The *funds balance* increased from EUR 0.4 billion to EUR 0.6 billion. Lower cash flow from operations was more than compensated by lower cash used for investing activities.

Cash flow from operations decreased from EUR 1.5 billion to EUR 1.4 billion in 2003, mainly due to the increase in working capital, which was caused by inventory build-up at Pharma.

As a result of the Company's focus on cash, *capital expenditures and acquisitions* were strictly controlled and made in line with the Company's priorities.

Pharma's investments were substantially lower than in the previous year but still significantly higher than depreciation. Coatings and Chemicals reduced their investments to well below depreciation. Investments were targeted at priority businesses and regions, particularly China and Central and Eastern Europe. In these areas, growth continued at high rates and we opened several new factories to participate in this development.

Acquisition expenditures mainly related to payments for CIRS and the final settlement for the acquisitions of ECI Elektro-Chemie and Crompton's Industrial Specialties, made in 2002. Proceeds from divestments principally related to the sale of Impregnated Papers and idle properties.

Condensed Consolidated Balance Sheet

Millions of euros, December 31	**2003**	2002
Noncurrent assets	**5,544**	6,081
Working capital	**2,573**	2,611
Invested capital of consolidated companies	**8,117**	8,692
Nonconsolidated companies	**353**	491
Other assets	**526**	676
Cash and cash equivalents	**727**	520
	9,723	10,379
Equity	**2,642**	2,235
Minimum pension liability	**1,342**	1,794
Provisions	**2,581**	2,574
Borrowings	**3,158**	3,776
	9,723	10,379

Invested capital at December 31, 2003, amounted to EUR 8.1 billion, down EUR 0.6 billion on year-end 2002, mainly due to negative currency translation effects and asset management.

As a consequence of our debt reduction programs, net interest-bearing borrowings were down EUR 0.8 billion to EUR 2.4 billion.

Equity increased EUR 0.4 billion, reflecting the EUR 0.3 billion after-tax decrease of the minimum pension liability and 2003 income, partially offset by dividends paid and negative currency translation effects.

Year-end gearing improved to 0.92 (December 31, 2002: 1.46).

Other assets mainly consist of deferred tax assets on the minimum pension liability.

Pension

Pension Funding

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

Pension Accounting Principles

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

Pension charges

The poor performance of the stock markets in 2002 had a negative influence on the investment results of Akzo Nobel's pension funds. In accordance with the rules of SFAS 87, this resulted in an increase in 2003 pension charges of EUR 130 million compared to 2002, affecting all groups. During 2003, stock markets restored somewhat. As a result, pension charges for 2004 will decrease by some EUR 50 million, compared to 2003.

Minimum pension liability

As a result of the positive developments on the stock markets in 2003, the after-tax minimum pension liability charged against shareholders' equity decreased from EUR 1.1 billion to EUR 0.8 billion at December 31, 2003, improving shareholders' equity by EUR 0.3 billion.

Pension premiums paid

Pension premiums to be paid by the Company are based on local regulations and arrangements with Akzo Nobel's pension funds. During 2003, no additional payments on top of normal pension premiums were required.

Workforce down 4,080 due to restructurings

Number of employees	December 31, 2003	Restructuring/ divestments of underperformers	Other changes	December 31, 2002
Pharma	20,680	(1,120)	(20)	21,820
Coatings	28,740	(1,890)	840	29,790
Chemicals	14,010	(1,000)	(40)	15,050
Others	1,150	(70)		1,220
Akzo Nobel	**64,580**	**(4,080)**	**780**	**67,880**

To date, the major restructuring programs initiated in 2001 and expanded during 2002 and 2003, have resulted in a total workforce reduction by 6,280, some 10% of the Company's workforce. Especially in Coatings, the Company expanded its workforce in those activities and regions where it is growing, such as China.

Financing Activities

Since the start of our debt reduction program in 1998, net debt decreased from EUR 4.8 billion to EUR 2.4 billion at year end.

Net cash generated by financing activities predominantly concerned the proceeds of the EUR 750 million bond sold in June 2003, more than offset by the redemption of borrowings. Of this bond, EUR 650 million was swapped into floating EURIBOR-related interest liabilities. These action resulted in an increase of the average maturity of long-term debt.

The redemption schedule is now well spread over the coming years (see note 16 on page 97). After the placement of this bond, the Company only made limited use of the money market, including the Euro and U.S. commercial paper markets for short-term funding requirements.

In November 2003, the Company entered into a five-year revolving committed credit facility with a syndicate of relationship banks for an amount of EUR 1.5 billion. This facility can be used for general corporate financing purpose and supports our Commercial Paper programs in the euro-market and in the United States. It replaced the USD 1.0 billion credit facilities and EUR 1.0 billion backup facility, which expired in the fourth quarter of 2003.

ECONOMIC VALUE ADDED (EVA)[1]

Focus on capital productivity
Throughout the Company, 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.
Link to Incentives
EVA is also applied in our incentive policy for the Board of Management and staff. Units where EVA decreased substantially in 2003 will see this reflected in a significant reduction of bonuses for management and employees.
EVA Formula
EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital calculated on the basis of an average return investors expect. The elements of the EVA calculation cannot be derived directly from the data given in the financial statements, as it takes into account certain adjustments such as addition of nonrecurring items to capital, inclusion of service costs for pensions only, and special treatment of strategic investments and acquisitions.

Millions of euros **EVA**	**2003**	2002[2]
Pharma	**331**	367
Coatings	**161**	153
Chemicals	**56**	32
Corporate	**(28)**	(21)
Total	**520**	531

2002 EVA figures have been restated for the changed WACC from 9% to 8% and revised treatment of nonrecurring items. The latter no longer are amortized over a period of 5 years but added to capital permanently.

EVA Award
The annual EVA Award was granted for a project to use recycled waste sulfuric acid instead of expensive hydrochloric acid, resulting in substantial cost savings. The winners, Marcel Beekman and Wim ten Asbroek of Base Chemicals, initiated the project. A salient feature is that the entry was submitted by a unit that is scheduled to close at the end of 2005. This once more shows that EVA is alive throughout the organization, motivating people at all levels to look for value-creating solutions.

Implementation of International Financial Reporting Standards

In June 2002, the European Commission decided that all listed companies in the EU should apply International Financial Reporting Standards (IFRS) in their financial statements from 2005 onwards. As a consequence, Akzo Nobel will report in accordance with IFRS starting with the Report for the First Quarter of 2005. To be well prepared in time, the Company started an implementation project in the fourth quarter of 2002. A project team has since identified the differences between Akzo Nobel's current accounting practices and IFRS. These differences not only concern accounting policies, but also additional disclosures in the notes to the financial statements. During 2004, necessary changes in financial reporting and consolidation systems will be made and the comparative 2003 and 2004 (quarterly) statement of income and balance sheet figures will be restated. Furthermore, the external communication approach will

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

be worked out, aiming at timely informing interested external parties of the impact of IFRS on Akzo Nobel's financial statements. So far the implementation project has progressed according to plan.

Fast Close Project
To improve the quality and speed of financial reporting processes throughout the organization a comprehensive Fast Close project was implemented during 2002 and 2003. We managed to speed up publication of the Annual Report and the reports on our quarterly and annual figures. The reports for 2001 and 2002 were published on February 22, 2002, and February 11, 2003; the report for 2003 will appear on February 3, 2004.

DIVIDEND PROPOSAL

A dividend of EUR 1.20 per common share (2002: EUR 1.20) will be proposed to the General Meeting of Shareholders on April 22, 2004. In November 2003 an interim dividend of EUR 0.30 was declared and paid. Adoption of this proposal will result in a dividend payment of EUR 343 million, a payout ratio of 42% relative to net income excluding extraordinary and nonrecurring items, compared with 38% in 2002 (average for 1998-2002: 39%).

Pages 37 through 76 form an integral part of the Report of the Board of Management.

OUTLOOK FOR 2004 – NET INCOME, EXCLUDING NONRECURRING ITEMS AND SPECIAL BENEFITS, BELOW 2003

In 2003, the Company had to absorb the impact of the loss of the Remeron® market exclusivity in the United States, substantial negative currency translation effects, and increased pension charges. That all occurred in a generally weak economic environment. Our answer was a clear focus on cost and cash. Restructuring programs resulted in a substantial workforce reduction and our balance sheet strengthened significantly. We also developed a new Pharma strategy with priorities on focus, alliances, and costs. Delivering on this strategy, we concluded a major transaction on our very promising asenapine with Pfizer, which resulted in a special benefit of EUR 88 million at the end of 2003.

In 2004, the Company will be impacted by substantial additional sales losses for Remeron®. Given the present currency exchange rates, the Company will be facing headwinds from negative currency translation effects, as almost two thirds of our sales is generated outside the euro zone. On a more positive note, we will benefit from our aggressive restructuring programs in all three groups and some EUR 50 million lower pension charges.
The macroeconomic environment is also expected to improve somewhat.

On balance we expect net income, excluding nonrecurring items, to be below 2003. This outlook is based on our present portfolio of activities, and therefore excludes effects of the planned Chemicals' divestments. In addition, it is based on 2003 earnings excluding the special benefit from the asenapine cooperation.

In 2004, our focus will remain on cost to protect our earnings. At the same time, through the Chemicals' divestment program we are creating room to maneuver for growth opportunities in attractive strategic priority areas. We will continue to manage our funds in a highly disciplined manner and expect capital expenditures in the order of magnitude of EUR 650 million. Furthermore, we will continue to screen our activities and upgrade our portfolio based on value creation.

Given the divestment plans in Chemicals, we anticipate that no additional funds will have to be raised for ongoing operations. Excluding acquisitions and divestments, the number of employees is expected to decrease due to the implementation of restructuring programs at all groups, while it will expand from investments in growth in strategic priority areas.

Arnhem, February 2, 2004

The Board of Management

HUMAN RESOURCES

During 2003, our employees experienced at first hand the realities of tougher times for Akzo Nobel. Continued restructuring and substantial reductions in headcount in most of our businesses caused some anxiety, but there is a resolve to make the necessary changes and get things right for the future.

CHANGE PRIORITIES?

In times like these, there is a threat that the longer term aspects of HR are forced to take a backseat. Thankfully, this is not the case. In fact, line management is acutely aware of the importance of sustained improvement in our HR processes. In a recent risk review, management throughout the Company identified failure to attract, retain, and develop talent as a major risk. Our leadership initiative aimed at improving motivational leadership skills reflects our efforts to reduce this risk.

LEADERSHIP SURVEY COMPLETED

The results of the Company-wide leadership survey were analyzed in spring. Over 32,000 employees were surveyed. The average response rate was 79 percent. Although there are differences in the results between units, sites, etc., two clear messages emerged:

- Akzo Nobel provides employees with stimulating jobs with delegated responsibility and freedom.
- Individual attention and quality of dialogue between employees and management at all levels need further improvement.

These results, which confirm the indications from the pilot survey held in 2001, were taken to heart and sparked off a range of focused activities within our business and service units to improve the dialogue and coaching skills of management. Several business units have put special emphasis on performance appraisals, developing new tools or introducing 360-degree feedback. Other business units introduced more regular formal dialogue opportunities to check on progress, especially for newly hired talents. Coaching training programs are also being introduced by specific business units and the Corporate Education and Training Department.

PERFORMANCE MANAGEMENT

The continual growth of talent is a crucial process for the long-term future of the Company. To improve in this area we are working on a more consistent approach to Performance Management. Company targets have been agreed which state that by 2005 there will be a 60% improvement in employee perception of the regularity of development dialogue (performance appraisals, personal development, etc.) with their manager. There will also be a more action-oriented management focus on top and low performers at all levels.

NEW CHALLENGES

Employees are rightly taking the initiative to find a new challenge within Akzo Nobel, using the “open market” provided by the internal vacancy bank on our Intranet. The site has become popular and enjoys a lot of hits. It has led to an increasing number of successful internal transfers, which stimulates further interest in this concept.

MENTOR PROGRAMS

Another visible result of our efforts to improve development opportunities for talents is the interest in mentor programs shown throughout the Company. The largest shared program, run by all Chemicals business units, paired 50 talents from three main regions (Sweden, Central Europe, and North America) with more experienced mentors from different organizational units. The benefits are cross-border sharing of experiences and further development of both mentee and mentor. This particular program was scheduled for 12 months, so a new batch of mentees will join in 2004.

COMPENSATION & BENEFITS

The process of implementing a more flexible remuneration system, more adaptable to individual needs, continues. As part of this project, every employee in the United States has received a total remuneration statement covering all compensation elements, such as base salary, variable pay, and pension benefits. Project teams are also working on this in the Netherlands and Sweden, and a UK team is expected to join in shortly.

As well as manufacturing specialty plastic coatings for various types of plastic, we also produce chemicals used to make certain plastics and manufacture Expancel® microspheres, which help to reduce weight in many applications. The Company supplies yacht varnishes, which can also be used to help protect tennis racket strings.

RESEARCH AND DEVELOPMENT

Through strong customer and market orientation, our R&D activities provide an excellent platform for sustainable business development. We are focusing on innovative approaches and technologies that ensure continuity and profitable growth. In 2003, R&D expenditures of Akzo Nobel's business units aggregated EUR 0.9 billion and break down as follows:

	Millions of euros		% of sales	
	2003	2002	**2003**	2002
Pharma	**566**	600	**16**	15
Coatings	**166**	166	**3**	3
Chemicals	**130**	135	**3**	3

PHARMA

IMPROVING R&D SUCCESS RATE

Organon

In 2000, human genome sequencing and elucidation of the genes encoding all human proteins revolutionized the drug discovery and development process. The impact was very significant for the phase focusing on the identification and validation of drug targets. Genomics technologies supported by bio-informatics have been implemented by the worldwide pharmaceutical industry, but the cost has been high.

Thus far the output has been limited to many novel protein targets that are used for screening compound libraries. The major hurdle in this new process proves to be the validation of previously unknown protein targets in the molecular etiology of disease. Therefore, it is not surprising that the worldwide pharmaceutical industry has made a huge effort to improve the validation process by developing novel physiological models, both in vitro and in vivo.

Organon's experience in this field mirrors that of the global pharmaceutical industry. Its response, with a focus on gynecology, psychiatry, cardiovascular diseases, immunology, and analgesia, has been to redesign the R&D process and organization by concentrating on (preclinical) pharmacological validation within newly formed academic networks. Additionally, the scope of the first phases of drug discovery has been broadened to show proof-of-concept of novel therapeutic approaches in the clinical setting. We are confident that these approaches will be successful in filling the pipeline in the long run.

Intervet
For many years R&D at Intervet has focused on a wide range of veterinary vaccines and pharmaceutical products for companion animals and livestock. One of the major drivers of Intervet's success has been the approach of developing complete product packages of vaccines and pharmaceuticals for all important species. Future R&D efforts will be directed at maintaining and adapting current product registrations and, simultaneously, at developing promising new products.

R&D efforts in 2003 resulted in key registrations in major countries for canine, equine, poultry, swine, and fish vaccines. In addition, four diagnostic tests were licensed.

Diosynth
Following the acquisition of a biotechnology foothold in the United States (CBSI), Diosynth completed the integration of its R&D infrastructure. A large scale fermentation and cell culture facility has been constructed, which will be validated in 2004. In addition, a novel peptide synthesis process (DioRaSPP) has been taken into operation. This system makes it possible to miniaturize and automate peptide synthesis; an important step forward to remain competitive in this area.

Nobilon
Nobilon offers Akzo Nobel a platform from which to explore the human vaccines market and create opportunities to harness synergies. A business strategy has been formulated to develop human influenza vaccines and vaccines against certain forms of travelers' diarrhea.

COATINGS

CUSTOMER-DRIVEN SOLUTIONS

In the customer-driven, technology-based organization of the Coatings business units the main driver for R&D is defining customer specific solutions. The framework for the carefully balanced portfolio of both short-term and long-term innovation projects is set by three main prerequisites:
- meeting environmental regulations
- improving the performance of products also in color aspects
- defining and applying novel product and process technologies.

These projects are executed by the various business units in geographically spread locations, always in the vicinity of the markets they serve. Typical examples of achievements during 2003 are:

- Industrial Finishes developed a line of photopolymerizable coatings for cosmetics packaging and sports equipment, which offer exceptional esthetics and performance attributes and cure in fractions of a second, while meeting current and future environmental regulations.
- Decorative Coatings introduced very successfully a new range of waterborne paints with better hiding and filling properties, based on a patented technology. Successful developments also included coatings having a drying system initiated by light.

- Car Refinishes made great progress in the characterization and prediction of special effect colors.
- Marine & Protective further developed a novel technology in the critical area of antifouling coatings and was able to file patents in the area of waterborne anticorrosive primer coatings.
- Industrial Products introduced a new fast, low temperature, curing adhesive system for the wood working industry.
- Powder Coatings developed a new generation of hyper durable powder coatings finishes and novel patented active anticorrosive primers.

The focus of our long-term-innovative R&D programs is gradually shifting toward new generation polymer engineering, applying new academic science, and creatively utilizing the potential of nanotechnology.

CHEMICALS

FOCUS ON EFFICIENCY AND SUSTAINABILITY

Continuous upgrading of core technologies is a key issue for all Chemicals business units in order to achieve and secure competitive market advantages. Therefore, R&D programs are customer-oriented, maintaining an adequate balance between short-term and long-term innovation goals. Sustainability is a major driver in the R&D efforts for both current and future operations and products. These programs are executed through R&D resources embedded in the individual business centers, with R&D units in all major markets.

To ensure access to developments in the scientific world and to be able to explore and exploit the latest technologies, business units also work together in technology programs, often including university partners. These efforts are supported by centers of excellence. These programs include:

- reduction of energy and raw material consumption by applying front end separation technology
- waste and energy reduction using modern solid catalysts
- closed loop production through process intensification
- low energy routes to high quality emulsions
- more stable and safer processes by application of control room simulation
- prospects of nanochemistry
- shortening time to market and/or time to production by high throughput experimentation.

ENGINEERING

Despite lower capital expenditures at Akzo Nobel in 2003, Akzo Nobel Engineering (AE) managed to keep its sales volume high through projects and consultancy assignments outside Akzo Nobel. This demonstrates AE's competitiveness thanks to the added value it offers with its integral engineering solutions. Within Akzo Nobel, AE serves especially a number of Pharma and Chemicals business units. Outside Akzo Nobel, companies active in fibers, chemicals, and paper-making are key clients.

CORPORATE SOCIAL RESPONSIBILITY

CORE VALUES

Akzo Nobel's commitment to Corporate Social Responsibility (CSR) and Sustainable Development is reflected in our core values—entrepreneurial spirit, personal integrity, and social responsibility—as stated in our Business Principles, included at the end of this chapter. They form the backbone of the manner in which we want to contribute to the economic, environmental, and social progress in the communities in which we operate. These core values are also the cornerstones for our strategy and risk management approach.

TRAINING PROGRAM

Akzo Nobel recognizes that its employees, customers, shareholders, and other stakeholders expect high standards of business conduct. In 2003 we started an extensive Business Principles training program. The program provides important guidance on how to sustain high levels of ethical behavior, transparency, and consistency throughout Akzo Nobel. The training, which is based on daily life experiences, involves all levels in the organization through a top-down approach. The training should be completed by June 2004. In 2003, 14,000 employees attended the training sessions.

The Board of Management has established two dedicated bodies—the Technology Council and the Business Principles Working Group—to develop management systems and directives aimed at embedding CSR in our corporate governance structure. Akzo Nobel's risk management policy, as described on page 46, includes the identification and management of risks in the CSR and HSE areas.

Akzo Nobel actively supports the guiding principles of the Business Charter for Sustainable Development of the International Chamber of Commerce, the Responsible Care® program of the chemical industry, and the Coatings Care® program of the paint and printing ink industries. Moreover, all locations have an Environmental Management System and an Occupational Health and Safety Management System in place. In 2003, all business units implemented tailored Product Stewardship Management Systems. Our Corporate Audit Protocol provides for an HSE performance audit of each Akzo Nobel site to be made at least once every five years. We want Akzo Nobel to be known as a responsible and responsive company for all employees and other stakeholders.

Akzo Nobel has started to work together with nongovernmental organizations (NGOs), which can be helpful in guiding our actions. These efforts include dialogues on human rights and environmental issues.

HSE PROGRESS

Commitment to HSE is an integral part of our company culture. The progress made in this area is the result of our long-term investments in learning and implementation. We intend to make this progress explicit, measurable, and reportable. The HSE report for 2003 will be made available on Akzo Nobel's internet website in April 2004.

Within Akzo Nobel, five key HSE parameters have been translated into specific targets for the operational plans:

Parameter	2001	2002	**2003**	2005 target
Frequency Rate Lost Time Injuries (LTI) per 1 million hours worked	3.6	3.0	**2.8**	2.5
Total Illness Absence Rate (TIAR) in %	2.7	2.6	**2.5**	3.5
Chemical Oxygen Demand of discharge to surface water, in tons	4,000	3,600	**3,200**	3,000
Volatile Organic Compounds (VOC) emission to air, in tons	6,300	5,700	**5,800**	4,000
Nonreusable waste, in tons	126,000	97,000	**95,000**	115,000

Safety performance has improved slightly compared to the previous year, thus moving the Company closer to its target of 2.5 in 2005. Unfortunately, in 2003 three employees lost their lives: two of the fatalities occurred in an incident in India and one employee lost his life in a traffic accident in Turkey.

The total illness absence rate (TIAR) is considered an important measure of employee health. In 2003, TIAR further improved to 2.5%. We continue to focus our attention on those sites where TIAR is above 3.5%.

In 2003 the values for two environmental parameters decreased. Compared to the previous year, the amount of Nonreusable Waste and the Chemical Oxygen Demand (the parameter for discharge to surface water) improved. The emission of Volatile Organic Compounds to air did not improve.

AKZO NOBEL IN SOCIETY

Akzo Nobel companies are encouraged to support community activities. A recent survey has shown that many sites are active in supporting community programs, for instance in the areas of education, sports, culture, arts, and healthcare. More than 150 Akzo Nobel sites reported that employees are involved in community projects as volunteers, sometimes with financial or material support from the Company and (partly) on company time.

The Education-Industry Partnership Program, stimulating the interest of young children in natural sciences and technology, has successfully been extended to partnerships with secondary schools in the proximity of our locations. The experiences in this field are shared with other major companies in the Netherlands and communicated through Jet-Net.

The Education Fund ’94, which finances educational programs in developing countries through the Plan International organization, has chosen four new educational projects in Brazil, Indonesia, Vietnam, and China. The financing of the Fund is helped by donations of our employees worldwide and special actions. For the second time we organized a worldwide photography competition among our employees and their partners and children; this time on the theme “Doors.” The winning entries were produced as Christmas cards and sold to our business units. The proceeds were donated to the Education Fund.

Our Akzo Nobel for Young Talent Program was awarded the Singapore Arts Supporter Award by the National Arts Council of Singapore. The Akzo Nobel for Young Talent Program encourages the international careers of talented young musicians by offering them performances with renowned orchestras and conductors in major cities around the world. In 2003, performances took place in Gothenburg (Sweden), Budapest, and Birmingham (United Kingdom). Since the start of the program in 1994, thirty concerts have been held, and the careers of 18 young soloists have been promoted.

On March 20, 2003, the Akzo Nobel Science Award was presented to Professor Anders Brahme at the Royal Swedish Academy of Engineering Sciences. Professor Brahme, department head at the Karolinska Institutet, received the award in recognition of his outstanding research on medical radiation physics, applying physics, radiobiology, mathematics, and molecular biology to achieve his goals.

The Akzo Nobel Art Foundation is building a collection of sculpture, paintings, drawings, and photographs by young artists of international repute. This art not only adorns Akzo Nobel offices but is regularly made available on loan to museums at home and abroad. Akzo Nobel’s art collection attracts broad attention, with increasing internal and external demand for viewing tours.

The background of the photo on page 4 is a painting “Limburgs Landschap” by Frank Boom, on page 28 a work of art “Lounge” by Michele Chiossi.

BUSINESS PRINCIPLES

Introduction

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

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

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

Core Values

Akzo Nobel strives to meet high standards of performance and behavior based on the Company's core values of business conduct. These core values are:

- entrepreneurial spirit
- personal integrity
- social responsibility.

Responsibilities

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

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

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

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

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

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

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

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

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

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

RISK MANAGEMENT*

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

Doing business inherently involves taking risks, and by taking measured risks we strive to be a sustainable company. This situation calls for creating a proper balance between entrepreneurial attitude and risk levels associated with business opportunities. We foster a high awareness of business risks and internal control procedures, geared to safeguarding transparency in our operations.

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

Risk Management procedures are reviewed by the Board of Management and discussed in the Supervisory Board.

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

MAJOR RISK FACTORS

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

External Risks

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

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

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

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

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

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

Due to Akzo Nobel's business activities it is exposed to risks of environmental calamities.
The Company uses hazardous materials, chemicals, and biological and toxic compounds in its product development programs and manufacturing processes. We have been exposed and can be exposed to risks of accidental contamination. We could be exposed to events of noncompliance with environmental laws, regulatory enforcement, property damage and possible personal injury and property damage claims resulting therefrom. Contingency plans and crisis management are in place to mitigate these risks. (see also note 19 on page 98).

The Company faces possible liabilities arising out of antitrust litigation.
The Company is involved in investigations by the antitrust authorities in the United States, Canada, and the European Union into alleged violations of the respective antitrust laws in these jurisdictions. The Company is dedicated to minimizing such risks with special emphasis on the practical application of the Company's Business Principles (see page 44).

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

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

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

Exchange rate fluctuations can have a harmful impact on the Company's financial results.
The Company has operations in more than 80 countries and reports in euros. It is particularly sensitive to the relation between the euro and U.S. dollar, pound sterling, Swedish krona and Latin American and Asian currencies. The Company has a hedging policy for certain currency exchange rate risks (see note 20 on page 99).

The Company's financial condition and results of operations could be adversely affected if the Company does not successfully mitigate risks associated with interest rate changes.
The Company has a central financing policy to minimize financing charges and manage interest rate-related risks (see note 20 on page 100).

Adverse stock market developments may affect assets of pension funds, causing higher pension charges and pension premiums payable.
This led to a substantial provision on the balance sheet in 2002 and to additional pension charges in 2002 and 2003 (see pages 91 through 96).

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

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

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

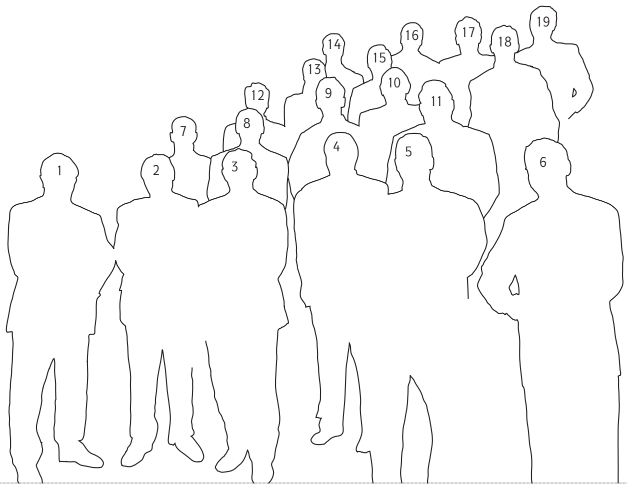
Strategic Decision Making Risks
A failure to manage expansion effectively could adversely affect Akzo Nobel's business. The Company may not be able to identify future acquisitions or alliances in time or may not be successful in integrating acquired businesses.
The Company continuously aims for sustainable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

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

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

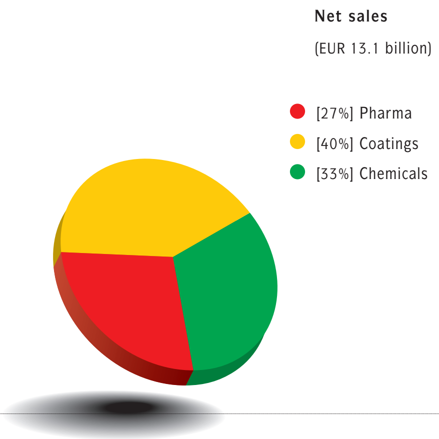
If the Company's management of change is not adequate it may possibly lead to failure to attract the right people or the loss of key staff or knowledge, which could have an effect on productivity and reduced customer focus.
The Company puts emphasis on attracting, retaining, motivating, and educating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

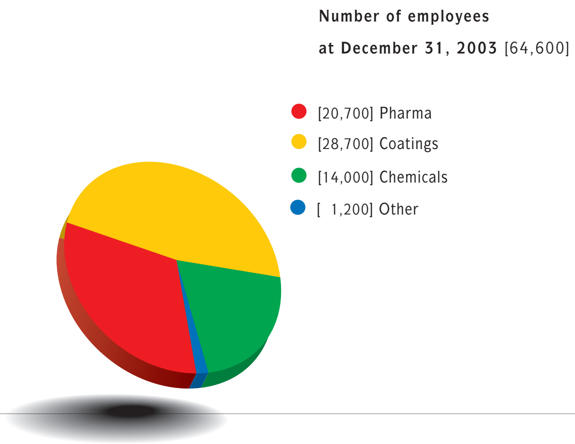
There may be current risks that the Company has not fully assessed and are currently identified as not having a significant impact on the business but which could in a later stage develop a material impact on the Company's business. The Company's risk management systems are focused on timely discovery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



1 Cor de Grauw, *Car Refinishes*
2 Jan Andersson, *Decorative Coatings International*
3 Leif Abildgaard, *Decorative Coatings Europe*
4 Lars-Erik Thomsgård, *Industrial Products*
5 Peter Gommers, *Salt*
6 Frank Sherman, *Surface Chemistry*[1)]
7 Jon Meijnen, *Functional Chemicals*
8 Bill McPherson, *Powder Coatings*
9 René Scheffers, *Base Chemicals*
10 Gert van Ingen, *Energy*
11 Bob Torba, *Industrial Finishes*
12 Leif Darner, *Marine & Protective Coatings*
13 Bob Margevich, *Polymer Chemicals*
14 Ray Hurley, *Catalysts*
15 Johan Evers, *Diosynth*
16 Ruurd Stolp, *Intervet*
17 Toon Wilderbeek, *Organon*
18 Rob Frohn, *Surface Chemistry*[2)]
19 Jan Svård, *Pulp & Paper Chemicals*

[1)] *as from January 1, 2004*
[2)] *until December 31, 2003*





BUSINESS ACTIVITIES

Our products help to make life easier in the kitchen. We produce salt which enhances the flavour of all types of food, while our non-stick coatings are used on cookware and bakeware. We also supply vaccines for a growing number of aquatic animal species.

PHARMA

2003 SALES: EUR 3.6 BILLION

Prescription drugs, veterinary products, and complex active pharmaceutical ingredients

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

Main human healthcare products in the pipeline (Phase II and later)

Product	Description	Phase
Contraceptives		
Org 33628	progesterone receptor modulator	II
"Male pill"	andogen/progestagen combination	II
HT/osteoporosis		
Livial® 1.25 mg	selective tissue estrogenic activity regulator (STEAR)	III
Fertility		
FSH-CTP	long-acting FSH	II
Psychiatry		
Variza®	5HT-1A partial agonist (depression)	filed
Asenapine/Org 5222	DA/5HT antagonist (psychosis)	III
Org 34517/34850	HPA axis modulator (depression)	II
Org 24448	AMPAKINE (psychosis)	II
Org 4420	NASSA (sleep)	II
Anesthesia		
Org 25969	muscle relaxant binding agent	II
Immunology		
Org 37663	anti-inflammatory steroid	II
Org 39141	auto-antigen	II

Veterinary products in the pipeline

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

Active pharmaceutical ingredients

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

Organon
REMERON SolTab
Puregon Pen
Mercilon
Livial tibolone
ESMERON rocuronium bromide
Implanon
NuvaRing
intervet
Vasotop
Equilis Equenza
Scalibor
Diosynth

COATINGS

2003 SALES: EUR 5.2 BILLION

Coatings and related products.

The world's leading coatings producer

Key Products/Applications	Competitive Position
Decorative Coatings: coatings for decoration and protection of architectural structures	Market leader in Europe
Industrial activities: powder coatings, coatings for wood, metal, coil, and plastics, and nonstick coatings	World leader in selected markets
Marine & Protective Coatings for protection and decoration of hulls, interiors, and superstructures of ships and yachts, aerospace coatings, protective coatings, and fire-retardant products for large plants and offshore installations	World leader
Car refinishes: finishes for passenger cars, commercial transportation, and automotive plastic components	Among top three global suppliers
Industrial Products: adhesives and resins for wood-based board, panels, furniture, floors, doors and expandable microspheres	Leader in selected market niches

CHEMICALS

2003 SALES: EUR 4.4 BILLION

Specification, functional, and specialty chemicals

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

Chemical activities are also conducted through joint ventures. In 2003, sales of these nonconsolidated companies totaled EUR 1,4 billion on a 100-percent basis.

>

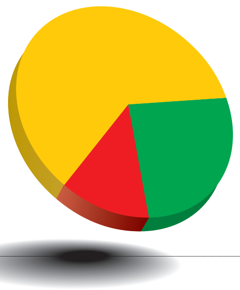
Thanks to our diverse portfolio, we not only produce various drugs to aid family planning but also manufacture chemicals used in diapers and flame retardants. We supply various products for the textile-making industry and develop powder coatings for a wide range of applications.

PHARMA

2003 business unit sales

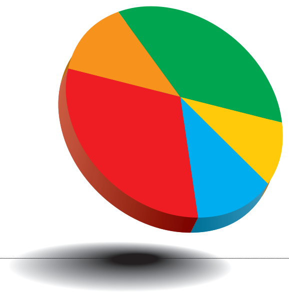
(EUR 3.8 billion)

- [60%] Organon
- [27%] Intervet
- [13%] Diosynth



2003 net sales by destination

- [34%] Euro region*
- [14%] Other European countries**
- [27%] USA and Canada
- [11%] Asia
- [14%] Other regions



* 3% The Netherlands
8% Germany
8% France
15% Other

** 5% United Kingdom
9% Other

Millions of euros	**2003**	2002
Net sales	**3,550**	4,008
Operating income before nonrecurring items (EBIT)	**692**	768
Depreciation and amortization	**176**	180
EBITDA	**868**	948
Capital expenditures	**210**	297
R&D expenditures	**566**	600
Invested capital at year-end	**2,506**	2,475
EVA	**331**	367*
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**19.5**	19.2
– invested capital (ROI)	**27.8**	30.5
Net sales/invested capital	**1.43**	1.59
Capital expenditures/depreciation	**1.3**	2.0
Number of employees at year-end	**20,700**	21,800

**Restated for change in cost of capital.*

FACING HEADWINDS

Challenging is the one word to describe 2003. For Organon the challenges came from the commercial and regulatory fields and the weak U.S. dollar. Organon's leading product, Remeron® antidepressant, lost its exclusivity in the U.S. market and had to face stiff generic competition. Organon partially offset this setback through growth of Remeron® sales in other countries and promotion of Remeron® SolTab®.

On the R&D front, Organon moved asenapine antipsychotic into phase III. It identified a suitable strategic partner in Pfizer and negotiated a satisfactory relationship, thus underlining its commitment to pharmaceutical research and development. In the regulatory area, Organon received a warning letter from the FDA following inspection of an important facility in West Orange, New Jersey. Organon promptly responded to the FDA's concerns. Toward the end of the year the FDA issued an approvable letter for Follistim®-AQ™ cartridge.

The challenges facing Intervet included the dramatic slide of the U.S. dollar versus the euro. Combined with the temporary supply problems for several important vaccine products, this prevented the U.S. Intervet organization from reaching its goals. In Europe, Intervet performed much better but not enough to offset the currency and product losses in the United States.

Delays in approval of several biotechnology products and lower than expected demand for some already registered products impacted the entire biotech industry. A key participant and supplier in this field, Diosynth was also affected by this trend. As the major supplier to Organon, Diosynth also had to adjust to lower captive demand. The Nobilon human vaccine facility was officially opened in December. Initially, the facility will produce antigens for veterinary vaccines in the next few years.

Overall, Pharma's sales and operating income were 11% and 10% below the previous year's levels.

For definitions of certain financial ratios and concepts see page 114.

Sales (millions of euros)	
2003: 2,273	
2002: 2,593	

ORGANON – PRESCRIPTION DRUGS

General Manager: A.T.M. (Toon) Wilderbeek (next to his responsibilities as member of the Board of Management)

A CHALLENGING YEAR

Organon experienced a challenging year in 2003 with a downturn in sales of 12% compared to 2002, resulting in a program to bolster financial performance. The decrease in sales was due largely to a global negative currency effect against the euro (9%). The economic malaise in a number of countries, coupled with an increase in generic competition, caused pressure on 2003 operating income. U.S. sales volume in particular was hard hit (down 26%) by generic competition for our main product Remeron®. As a result, global sales volume declined 5%.

Hormone Therapy and Cardiovascular products showed volume growth compared to 2002. Other product groups registered lower sales, mainly related to currency effects.

Millions of euros	2003 Sales	Autonomous growth, %
Remeron® (in the U.S.)	208	(45)
Remeron® (in rest of the world)	316	26
Contraceptives	517	7
Puregon®	331	(1)
Livial®	197	(1)

To safeguard margins and further healthy development, we instituted a cost reduction program as well as a restructuring of marketing and global manufacturing. The cost reduction program resulted in savings of EUR 140 million and a headcount reduction of 940 compared to year-end 2002. This was achieved without reducing R&D efforts.

The contraceptives business started to benefit from increasing sales of NuvaRing®, which has been launched in a number of countries after its introduction in the United States in 2002.

We also made changes to both our business structure and global processes to cultivate teamwork across geographic and departmental borders and to operate closer to our business and customers. We slimmed our central sales and marketing operations in favor of regional support activities in Asia and Latin America. Additional charges were taken to restructure our global manufacturing operations.

We thoroughly reviewed our operations and reorganized key parts in 2003. The principal steps taken were the separation of “R” from “D” in the R&D process and the establishment of Global Venture Teams (GVT) to bring key potential products to market. GVTs will optimize the development efforts for key products. The teams will ensure an optimal balance between development time and product labeling to maximize product launches. Research will be solely responsible for exploratory development of a compound until its “proof of concept” is achieved (clear output with commercial utility). Full development projects will be used to determine the ultimate disposition of a compound: to develop the compound internally or with an external partner, to outlicense, or to cancel it.

An independent analysis of our pipeline yielded the assessment that Organon has high promise for a medium-sized pharmaceutical company. One such example is Org 25969, a fast-acting binding agent being developed to reverse “deep block” muscle relaxants used in surgery. Org 25969 could very well revolutionize anesthesiology by offering physicians far better control and patients faster recovery time with a positive side effect profile.

We are committed to a strategy that maintains a high level of investment in R&D in order to exploit the full potential of our product pipeline. We also are retaining the flexibility to partner with companies in areas in which optimization of late-stage development and/or marketing and sales performance is needed. This is best illustrated by an in-licensing agreement made in 2003 with Ligand Pharmaceuticals to copromote Avinza® in the United States and a global agreement with Pfizer to codevelop and copromote our phase III antipsychotic asenapine.

A Global Business Development group has been created, which is responsible for increasing and maximizing business development opportunities.

In the course of 2003 we renegotiated our thrombosis alliance with Sanofi-Synthélabo to revise the terms of the collaboration on the antithrombotic Arixtra® and certain oligosaccharides such as idraparinux (sanOrg 34006). Pursuant to this deal Organon will transfer to Sanofi-Synthélabo its remaining rights for Arixtra® and development obligations for Arixtra® and other oligosaccharides in exchange for revenues based on sales. This deal safeguards long-term financial interests and limits the short-term financial burdens, enabling Organon to maintain a healthy profit level and execute an extensive phase III development program.

Sales (millions of euros)
2003: 1,010
2002: 1,081
WELL POSITIONED

INTERVET – VETERINARY PRODUCTS

General Manager: Ruurd Stolp

Following several key acquisitions in recent years, Intervet has consolidated its position as a major player in the global animal health market and is now lining up for a selective strategy to expand its presence in promising segments. Intervet is well positioned to maintain its No. 3 position in the sector, despite the economic headwinds that have also hit the global animal health market.

In 2003, Intervet maintained its position as the leading animal healthcare company in Europe. Business performance in Northern Europe was adversely affected by a flat aquaculture market, mainly in Norway, and the outbreak of Avian Influenza, which temporarily decimated poultry stocks in the Netherlands. In Southern Europe, Intervet performed better than the European industry average. In other regions, particularly North America, results were impacted by currency effects. Markets in Latin America showed encouraging improvement, especially in the second half of 2003, while in Asia the picture was mixed, generally reflecting developments in national agricultural markets. Under these conditions, Intervet's operating income trailed that of 2002.

Intervet's R&D strategy continues to focus on product-based innovation. In 2003, dedicated teams again brought numerous new products to the livestock and companion animal health market. In April we launched a new vaccine with proven protection against agents involved in feline respiratory disease and started other pan-European marketing campaigns. Another milestone was the introduction of a vaccine targeting Salmonella as a major advancement in efforts to make poultry meat and eggs safer for human consumption.

After a major outbreak of Foot and Mouth Disease a few years ago, in 2003 Europe was again plagued by a serious outbreak of an infectious disease, this time Avian Influenza. These outbreaks led to a comprehensive approach to combating infectious livestock diseases, with the availability of marker systems and emergency vaccination as key elements of a disease control strategy. These efforts will be aided by our cooperation with a Dutch agricultural institution, which has resulted in a solid basis for the production of effective antigens and marker vaccines against Foot and Mouth Disease. An EU Commission Decision was made in late 2003 to approve the positive evaluation of Intervet's discriminatory test for Classical Swine Fever (CSF). The test, in combination with corresponding marker vaccines, is an essential tool for any vaccination campaign undertaken to contain outbreaks of CSF in Europe.

In May 2003 we opened our new life science center in DeSoto, Kansas. This center now serves as a major research facility for livestock vaccines and a production facility for swine and cattle vaccines. It is our largest distribution center and "Center of Excellence" for the clinical development of livestock and equine pharmaceuticals in the United States.

In 2003 we embarked on a major investment program in Boxmeer, the Netherlands, aimed at modernizing our multifunctional headquarters site and enlarging our production capacity for biological products. Ongoing investments in global activities are reflected in the commissioning of new production facilities at our German site in Unterschleissheim, near Munich. This center produces pharmaceuticals for livestock and companion animals to serve our needs worldwide.

In line with the restructuring program for our operations in India, preparations are under way to close one of the two production units there in early 2004.

Following a logistics and manufacturing initiative that began in 2002, we have made significant progress in harmonizing our business processes and in developing and evaluating related information templates. This preparatory design phase, scheduled to be completed by mid-2004, will be followed by a rollout in several of our larger subsidiaries.

Sales (millions of euros)	
2003:	**479**
2002:	529

HAMPERED GROWTH

DIOSYNTH – COMPLEX ACTIVE PHARMACEUTICAL INGREDIENTS

General Manager: Johan C.C.B. Evers

The pharmaceutical industry is in a stage of transition. The innovative pharmaceutical industry faces major challenges set by imminent loss of patent protection for major products, reduced approval rates, too high expectations for new products, and increasing pressure on pricing. As a consequence, active pharmaceutical ingredient manufacturers like Diosynth are adversely impacted by soft demand, a developing overcapacity situation, and a decline of the U.S. dollar compared to the euro in the last two years. In 2003, Diosynth's sales were 9% down, while operating income also fell in comparison with 2002.

Because of its excellent reputation as a reliable producer and its relatively protected position in niche oriented markets, Diosynth had anticipated only limited consequences for 2003. In reality, the impact was greater than expected.

In the chemical sector the situation was bearish. Focusing on the compound classes Diosynth specializes in, we see that the crisis in the hormone replacement therapy market might indicate that the long-term use of steroids is under increasing pressure. For peptides and alkaloids the growth in market demand was disappointing due to delays in registration of our customers' products.

In the traditional biochemical market (mainly extraction products), Diosynth managed to maintain its position volumewise.

In the biotechnology sector we are being confronted with decreasing funds, a limited number of new products, and delays or failures following recent clinical trials. These factors caused underutilization of existing capacity. Despite our intensified cost saving programs, volumes and profitability of this business were strongly impacted.

Although it is too early to predict when and how a turnaround will occur, Diosynth remains optimistic about its role in this promising market segment because of its recognized reputation and commitment to serve the pharmaceutical market. The multiyear contract—announced mid-2003—for Diosynth to supply Pfizer with the active ingredient for their growth hormone disorder drug Somavert®* is illustrative of our standing in the industry.

* *Somavert is a registered trademark of Pfizer Inc.*

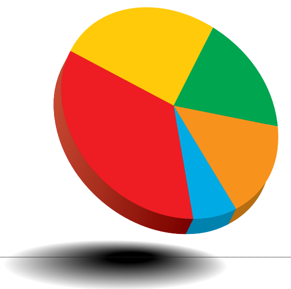
We supply paints, services, and decals for many transportation markets and produce chemicals used in automotive parts and road marking paints. Our chemical products are also used for the road paving industry and we manufacture salt for deicing.

COATINGS

2003 business unit sales

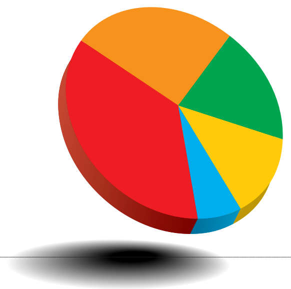
(EUR 5.3 billion)

- [35%] Decorative Coatings
- [25%] Industrial activities
- [17%] Car Refinishes
- [16%] Marine & Protective Coatings
- [7%] Industrial Products



2003 net sales by destination

- [37%] Euro region*
- [25%] Other European countries**
- [17%] USA and Canada
- [14%] Asia Pacific
- [7%] Other regions



* 4% The Netherlands
8% Germany
10% France
15% Other

** 4% Sweden
9% United Kingdom
12% Other

Millions of euros	**2003**	2002
Net sales	**5,233**	5,521
Operating income before nonrecurring items (EBIT)	**431**	465
Depreciation and amortization	**151**	158
EBITDA	**582**	623
Capital expenditures	**128**	131
R&D expenditures	**166**	166
Invested capital at year-end	**2,087**	2,264
EVA	**161**	153*
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**8.2**	8.4
– invested capital (ROI)	**19.8**	20.0
Net sales/invested capital	**2.41**	2.37
Capital expenditures/depreciation	**0.9**	0.9
Number of employees at year-end	**28,700**	29,800

**Restated for change in cost of capital.*

PERFORMANCE OVER GROWTH

In 2003 we realized 3% autonomous growth and maintained our ROI at the 20% threshold, despite difficult economic circumstances, negative currency influences, and further increased pension costs. This was achieved through improvement of the business mix by divesting Impregnated Papers and 20 smaller noncore businesses, selling idle assets and limiting acquisitions. We also stepped up our restructuring programs in mature markets. These measures offset headcount increases in emerging markets, resulting in a net decrease to 28,700. Restriction of capital expenditures to 90% of depreciation and further reduction of working capital (moving average) from 23.0% to 22.3% of sales contributed to maintaining our ROI level.

Conditions for decorative coatings in Europe were tough, especially in the retail sector. The decorative coatings business in emerging markets continued to expand. The industrial part of our portfolio held up reasonably well, not only our star performers Marine & Protective Coatings and Industrial Finishes but also Powder Coatings. Market conditions for Car Refinishes remained very competitive, and pressure on volumes continued.

We continued to grow in Asia Pacific, which now represents 14% of worldwide sales. In 2003, we opened a powder coatings facility in Vietnam and a nonstick coatings facility in Dongguan City, China, and announced the investment in a decorative coatings facility in Suzhou, China. Furthermore, we acquired full ownership of our powder coatings activities in South Korea and decided to set up our own marketing and sales company for marine and protective coatings in Japan.

In the coming years our main challenge will be a balancing act between continued restructuring in mature markets and accelerated growth in emerging markets.

Sales (millions of euros)

2003:	**1,842**
2002:	1,915

DECORATIVE COATINGS

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

DECORATIVE COATINGS EUROPE

General Manager: Leif Abildgaard

ADAPTING TO WEAKER MARKETS

In general, 2003 was a weak year for the decorative coatings industry in Europe, except for the southernmost regions. Volumes showed an overall decline. The uncertainty in the world fueled by the war in Iraq, the downturn in construction of new houses, and slowing economic growth in several countries had an adverse effect on the market.

Decorative Coatings Europe was not able to match the previous year's record operating income in a falling market with aggressive competition for volume, despite extensive cost cutting programs. The results of Trade and Specialties were satisfactory and virtually on a par with the previous year, but we had difficulty in keeping up successful growth in the Retail business. During the year we acquired a selected number of distributors in an effort to safeguard and strengthen the availability of our strong brands to the professional painters. We also continued strengthening core brands like Sikkens®, which is now distributed as top of the market trade brand in nine countries. Retail has used 2003 to prepare a coordinated relaunch of our strong local retail brands within a pan-European positioning and to step up the transfer of proven successful product concepts to more countries.

At the end of the year we announced a major headcount reduction across countries and functions in response to weaker markets and the need for a structural reduction of cost levels.

As the deadline for compliance with the EU directive on volatile organic compounds (VOC) is coming closer, the business unit has decided to take a proactive approach. Rephrasing recipes and formulations will involve a major research effort to comply with the regulations. However, this apparent threat can also be viewed as an opportunity for more innovation. During the year we have already seen some product introductions that can be linked directly to the VOC regulation. Early in 2003, we successfully launched TINOVA VX, a quick drying high solids paint. Another directly related success was the improvement in gloss and color of waterborne lacquers, for which we received an internal research award. The introduction of our new and advanced tinting machine concept is well under way, which should also help us to comply with future regulations.

In the United Kingdom, Retail successfully introduced the innovative new product Indicoat®: a paint that is pink when wet but turns white when dry, thus facilitating white on white painting. The technology will be introduced in more European markets in the coming year.

DECORATIVE COATINGS INTERNATIONAL

General Manager: Jan Andersson

MODEST IMPROVEMENT

Decorative Coatings International registered a slight improvement in operating income, aided by a small volume gain and somewhat higher margins. Costs were very much under control and "sales and marketing"—our largest cost category—was down relative to sales and in absolute figures. As capital turnover also improved, return on investment was substantially up from the previous year.

The Eastern European business was further consolidated, with growing production volumes in our Russian factory. A restructuring program was implemented in Hungary and Poland, which involved major divestments of activities and assets in the Hungarian distribution company. Headcount in both countries was reduced significantly, and the platform for profitable future growth is now in place.

With the Olympics approaching, Greece registered a rising demand. In Turkey the second half of the year looked promising, giving rise to some optimism for 2004. Following the Sadvel acquisition, we finalized the restructuring project in Morocco, including divestment of the idle assets involved. Volume growth exceeded total market development.

Asia Pacific (China, Indonesia, Vietnam, and Papua New Guinea) continues to show a double digit volume increase. Our Indonesian company registered a strong performance, reflecting the success of the concept with mixing machines for the mid-tier segment of the market, where we are the first player. A new factory to be built in China should be operational in early 2005. In addition, a factory is also planned for Vietnam.

Our niche strategy for wood care products in North America and Argentina has proven once again that reliability generates good returns.

Building Adhesives registered growing volumes despite the depressed German building industry, a key market for this activity. A new sales organization will further penetrate in the Eastern European territories.

The efforts aimed at developing low-priced product formulations for low-cost markets have been intensified.

Sales (millions of euros)
2003: 1,336
2002: 1,310

INDUSTRIAL ACTIVITIES

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

INDUSTRIAL FINISHES

General Manager: Bob Torba

SOLID PERFORMANCE AMID SOFT BUSINESS CONDITIONS

Bolstered by a strong fourth quarter in 2002, Industrial Finishes entered 2003 with optimism and a clear focus on accelerating business development. Unfortunately, industrial sectors were flat in Europe. High interest rates, unemployment, and inflation in the South American economies hindered investment and economic growth. North American consumption began slowly, but during the year the economy improved as world tensions eased and confidence returned. Remarkably, demand from China remained strong and consistent. Overall operating income remained slightly below the previous year's level.

Against this global economic backdrop, Industrial Finishes continued to invest and seize growth opportunities in frontier markets. Also, we restructured existing capacity and maintained market share in the low growth European and North American markets. As a result of these actions, we emerged from 2003 a stronger international industrial coatings supplier.

Our ongoing R&D activities continued to provide our customers with a stream of products that helped them become more efficient and better able to differentiate their products in this increasingly competitive global economy. At the same time, our products met high health, safety, and environmental standards. Combining an intense customer focus with a decentralized organizational structure and Akzo Nobel's expansive technology base, Industrial Finishes remains uniquely competitive in the markets in which it operates.

In October 2003, Industrial Finishes acquired the specialty coatings business of Belgium-based Techni-Coat International N.V. This business excels in lifestyle-driven plastic coatings for consumer electronics, cosmetics packaging, and sports and leisure goods. This strategic addition of talent and technology will significantly enhance our ability to bring exciting, leading-edge technology to our global customers in this fast-growing market segment.

POWDER COATINGS

General Manager: Bill McPherson

IMPROVED PERFORMANCE

Tough market conditions in Europe and the Americas prompted us to focus hard on cost cutting measures throughout 2003. Considerable restructurings in Europe and a drive to put in place improved manufacturing and operational efficiencies paid off in reduced costs and increased profitability. Operating income was considerably in excess of the previous year. Post-acquisition integration and restructuring moves in the United States, following the acquisition of Ferro in 2002, were completed ahead of plan.

While markets in the northern and western parts of Europe remained flat throughout 2003, opportunities for growth occurred in the southern and eastern regions. We expanded capacity in our Turkish factory and strengthened our sales, marketing, and distribution network in Eastern and Central Europe.

We had a year of outstanding growth in Asia Pacific. Our new factory in Vietnam, opened at year-end 2002, is already profitable. We acquired the remaining 50% stake in Interpon Powder Coatings Korea held by DPI, assuming full ownership in the important Korean market.
We purchased new land in Guangdong Province, which will enable further expansion of our South China business.

We maintained the flows of unique Interpon® powder technologies into our global businesses. Product launches in 2003 included a new generation of hyper-durable architectural coatings, a range of patented active anticorrosion primers, and an antibacteriological coating. We also started to launch in our Asian markets the automotive components technologies acquired in the Ferro deal.

Our Nonstick Coatings business had a successful year of profitable growth, including the opening in October of a new factory at Dongguan City in South China.

Our Cromadex® distribution business also had another satisfactory year. In 2003, we created a solid platform for further growth in profitability.

Sales (millions of euros)	
2003:	**880**
2002:	937

DISAPPOINTING YEAR

CAR REFINISHES

General Manager: Cor J.L.M. de Grauw

In 2003, Car Refinishes integrated three market segments with considerable synergies in people, products, and technologies: car refinishes, commercial vehicles, and automotive plastic coatings.

We relaunched our approach in the commercial vehicles segment with a dedicated global organization, a dedicated sub-brand Sikkens® Autocoat® BT®, and an optimal, renewed product assortment.

In recent years, the business unit made a number of strategic investments to stimulate organic growth for its mid-term and long-term future.

The doubling of our total R&D effort paid off with a number of innovations reaching the market in Europe. Examples are Sikkens® Autoclear® WB, the first workable waterborne clearcoat in the collision repair industry, and Sikkens® Autoclear® III, our fastest growing two pack urethane clearcoat.

A large part of our current product assortment, including all of our basecoats, are now younger than five years. Our strategy of creating super dispersions (SUPDIs) made us both faster and more flexible in bringing new topcoat products to market.

Following the opening of our own offices in Dubai, Saudi Arabia, and Pinetown, South Africa, we now have strong regional organizations in all parts of the world, driving our multisegment approach (high, mid, and low) within the collision repair industry.

Nobilas, a service company for claims and fleet solutions, saw its market launch. This company is currently building its customer base and setting up its organization.

Our sales suffered from the weakening of the U.S. dollar versus the euro as well as from economic circumstances. The business unit made substantial cutbacks in personnel, especially in its mature markets, to structurally reduce costs. However, these measures failed to prevent a substantial decline in operating income, compared to the 2002 level.

An investment of USD 30 million for a new laboratory and plant extension in Pontiac, Michigan, has been approved. This is the single largest R&D investment ever in the Coatings business.

Sales (millions of euros)

2003: 832

2002: 830

EXCELLENT PERFORMANCE CONTINUED

MARINE & PROTECTIVE COATINGS

General Manager: Leif Darner

2003 was another year of excellent performance with growth in sales and operating income in all markets and regions.

International® Marine Coatings benefited from the continued high level of newbuilding of ships, in particular in Korea and China. Following the IMO's (International Maritime Organization) ban on tin-containing antifoulings from January 1, 2003, the business has undergone a successful conversion to tin-free antifouling and the Intersleek® biocide-free foul-release technologies.

International® Protective Coatings achieved unprecedented growth in the year, spurred by organic expansion in China and Central/Eastern Europe. The launch of Interfine® 979 polysiloxane patented technology was successful, and our Chartek® fire proofing material achieved impressive sales growth.

The Yacht Coatings business continued to improve its performance in the key markets of Europe and the United States with the strong International®/Interlux® brands. The integration of the Awlgrip® professional topside coatings business acquired in 2002 was very successful, with particularly good performance in Europe.

In Aerospace Coatings, Akzo Nobel challenged the general decline in the airline industry with increased sales in Europe of Aviox® coatings to Airbus and by successfully securing coatings contracts for a number of major airline livery changes.

Sales (millions of euros)	
2003:	**391**
2002:	532

A CHALLENGING YEAR

INDUSTRIAL PRODUCTS

General Manager: Lars-Erik Thomsgård

The economic climate remained weak and markets failed to recover. Volumes stayed on the same level as in the previous year, and margins were under strong pressure. These factors were reinforced by negative currency developments. Working capital was kept under control and expenditures were low.

In mid-2003, the impregnated paper activities were divested. Some adhesives activities not related to the wood working industry were also divested or are in the process of being divested. A restructuring program for the Swedish industrial resins activities is in progress, and one production plant will be closed down. An investigation into the future of the industrial resins activities in France was initiated.

Successful R&D has resulted in important inroads for wood adhesives into the U.S. and Japanese markets. Also, new Expancel® microspheres were launched and new applications found. To meet increasing demand for microspheres a major program for capacity increase was initiated.

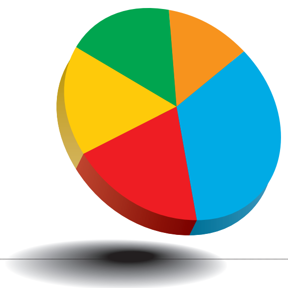
We supply coil coatings, which are commonly used on many domestic appliances. Our powder coatings are also used by the domestic appliance sector, and we provide various chemicals for the textile industry. A number of our chemical products are also found in various detergents, while our Salt business produces a specialist brand used for water softening.

CHEMICALS

2003 business unit sales

(EUR 4.7 billion)

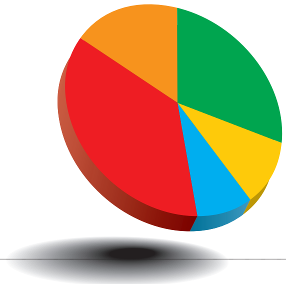
- [19%] Pulp & Paper Chemicals
- [17%] Functional Chemicals
- [17%] Surface Chemistry
- [12%] Base Chemicals
- [35%] Other*



*10% Polymer Chemicals
8% Resins
7% Catalysts
6% Salt
4% Energy

2003 net sales by destination

- [37%] Euro region*
- [17%] Other European countries**
- [26%] USA and Canada
- [11%] Asia
- [9%] Other regions



*11% The Netherlands
10% Germany
16% Other

** 6% Sweden
5% United Kingdom
6% Other

Millions of euros	**2003**	2002
Net sales	**4,397**	4,598
Operating income before nonrecurring items (EBIT)	**324**	344
Depreciation and amortization	**314**	328
EBITDA	**638**	672
Capital expenditures	**237**	248
R&D expenditures	**130**	135
Invested capital at year-end	**2,560**	2,850
EVA	**56**	32*
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**7.4**	7.5
– invested capital (ROI)	**12.0**	11.5
Net sales/invested capital	**1.63**	1.54
Capital expenditures/depreciation	**0.8**	0.8
Number of employees at year-end	**14,000**	15,100

Restated for change in cost of capital.

ROBUST PERFORMANCE IN A DIFFICULT MARKET

The Chemical Industry had one of its worst years in 2003, but modest improvement is expected for 2004. Akzo Nobel Chemicals performed better than most of its peers, thanks to several top of the line products and a combined efficiency and restructuring drive throughout the entire group. The workforce has been reduced by 1,100 people, and several of the programs continue into 2004.

2003 saw one selective acquisition, CIRS SpA (Italy), an antifouling/suspending agent producer for the polymer industry.

On January 1, 2004, the Casco Polymers business was transferred from Coatings to Chemicals.

In September we announced our intention to sell our Catalysts, Phosphorus Chemicals, and Coating Resins businesses to create room to maneuver and improve the Company's balance sheet. Together, these solid and profitable businesses represent some EUR 1 billion in sales, and in the course of 2004 we expect divestment proceeds that reflect their value.

Three significant projects came into operation: a major expansion of our chlor-alkali plant in Rotterdam, expansion of ethylene amines production in Sweden, and a grass-root quat plant in Singapore. To meet growing demand from the rapidly expanding South American pulp and paper industry, an investment in a "Chemical Island" at the new Veracel pulp mill in Brazil was approved. Additionally, further chlor-alkali expansion in Rotterdam and an increase in salt capacity in Hengelo, the Netherlands, will go ahead.

Overall, sales and operating income were, respectively, 4% and 6% lower than in 2002.

We will create value for our customers and the Company by driving innovation, growing our people, and concentrating on selected growth areas and cost leadership.

Sales (millions of euros)

2003: 896

2002: 969

CONSIDERABLE IMPROVEMENT IN WEAK MARKET

PULP & PAPER CHEMICALS

General Manager: Jan Svård

Pulp & Paper Chemicals (Eka Chemicals) managed to considerably increase its operating income during the year, despite continued weak markets in several areas and the negative impact of the lower dollar. The improvement was driven primarily by lower costs as restructuring programs initiated in recent years delivered the expected results.

In Europe a tighter market for bleaching chemicals raised prices, and production plants were working at high utilization rates. Energy costs, which are of crucial importance in chlorate production, rose substantially and are likely to show a further increase in 2004.

The chlorine dioxide concept, which involves on-site production at the customers' plants, has proven to be very successful and continues to grow. Several new units have been established, resulting in closer cooperation with customer mills in Europe and South America. At the end of the year we concluded an agreement on the first unit for a North American mill.

A chlorine dioxide process unit and a chlorate factory form the major part of a EUR 50 million investment in a "Chemical Island" at the new Veracel pulp mill in Brazil. The commencement of construction is the latest step in a series of actions taken in South America to meet growing demand from the rapidly expanding pulp and paper industry.

The Paper Chemicals market in North America, while strained, showed some improvement in various segments. The improvement for the region in 2003 is entirely related to lower costs. The amalgamation of the bleaching chemicals and paper chemicals organizations in North America and the other regions resulted in a reduction of the administrative workforce. These restructurings will be followed in 2004 by a concentration of paper chemicals production in fewer, more comprehensive plants close to customer locations.

Pulp and paper production in Asia is growing rapidly, resulting in increased demand for our chemicals. In the face of fierce competition, Pulp & Paper Chemicals has established a solid base for expansion in Asia; the region accounts for a growing part of our global business.

The Purate® water purification system, an activity of Specialty Products, showed growth and improved performance.

Sales (millions of euros)
2003: 789
2002: 831

WEATHERED HIGHER COSTS AND CURRENCY EFFECTS, RESTRUCTURED FOR A BRIGHT FUTURE

FUNCTIONAL CHEMICALS

General Manager: W.W. (Jon) Meijnen

Functional Chemicals experienced a tough year with stagnant sales in most of its businesses, exacerbated by weakening currencies. Restructuring efforts significantly offset the effect of higher raw material prices, resulting in a slightly lower operating income.

Although higher raw material costs and a scheduled production stop caused Ethylene Amines to fall short of its 2002 performance, additional production capacity was brought on stream to significantly improve future business, consistent with our leadership position in a tight market. Rising sales revenues of monochloroacetic acid, mainly in China, were offset by higher raw material costs, resulting in reduced margins. However, the outlook for our Chinese business is rapidly improving.

Phosphorus Chemicals successfully weathered major currency effects and higher costs to post a slightly lower result. The unit initiated a comprehensive restructuring of its U.S. operations to significantly improve performance. In September 2003, Akzo Nobel announced its intention to divest this business.

Despite sluggish market conditions and higher raw material prices, the Chelates business showed strong improvement, benefiting from structurally lower costs and improved logistics. Additional steps to boost earnings were taken by creating a production joint venture with BASF in the United States, starting from February 2004. Major restructuring efforts at the production sites helped overcome record raw materials price hikes, enabling Sulfur Products to post a favorable result. Price erosion and excess capacity lowered the results of our PVC additives business, while adverse market conditions led to aggressive restructuring of the methylamines and choline chloride businesses.

An investment to set up a pilot plant for a promising break-through wood preservative was approved in the final quarter.

Sales (millions of euros)
2003: 784
2002: 836

SLOWDOWN TAKES ITS TOLL

SURFACE CHEMISTRY

*General Manager: Rob Frohn**

The downward trend in many of our market segments that started in the second quarter of 2002 continued, as is evidenced by weak volume and price developments across the board. The ongoing slide of the U.S. dollar impacted sales and results in all three of Surface Chemistry's business areas. Operating income fell from the 2002 level.

Our Surfactants business, in particular in the Americas, suffered from weak demand for such products as agro-surfactants and asphalt additives, and for our petroleum additives and oilfield business, while higher energy and raw material prices could not be fully passed on. A cost efficiency program was initiated to restore Surfactants' profitability. Industrial Specialties, acquired in June of 2002, contributed positively to the 2003 results.

Oleochemicals reported lower results than in the previous year, as Southeast Asian competitors added substantial capacity while demand remained weak in the traditional markets of Europe and North America.

Cellulosic Specialties (a combination of the former Rheology Additives and CMC businesses) suffered from a slowdown in segments like flotation, drilling, and pelletizing. Sales of Bermocoll® thickeners for water-based paint and building applications continued on a steady growth path at above GDP rates.

* *As from January 1, 2004, Frank Sherman.*

BASE CHEMICALS

General Manager: H.C.J. (René) Scheffers

Sales (millions of euros)	
2003:	**544**
2002:	464

STRONG IN ROUGH WEATHER

Despite low prices, Base Chemicals' operating income rose strongly, mainly as a result of high volumes, ongoing cost reductions, and the acquisition of full ownership of ECI Elektro-Chemie GmbH, Ibbenbüren, Germany in the fourth quarter of 2002.

In 2003, the workforce was reduced, and further reductions are anticipated for the coming three years.

In November we commissioned the second capacity expansion of our Rotterdam Chlorine plant to 470,000 tons per annum. The added capacity will enable us to meet increased demand from our customers.

Good progress is made with the preparations for the third expansion to the Rotterdam Chlorine plant and the relocation of the Chlorine and MCA plants from Hengelo to Delfzijl to comply with the convenant concluded with the Dutch authorities to stop chlorine transportation in the Netherlands. Realization of these projects is contingent on EU approval of the financial compensation agreed upon with the Dutch government. The earlier announced closure of the Delfzijl Chlorine plant will be postponed and aligned with these projects.

The Delfzijl Chloromethane plant was closed as planned at the end of 2003.

The 30% joint venture Methanor registered excellent results, reflecting strong demand.

POLYMER CHEMICALS

General Manager: R. (Bob) Margevich

Sales (millions of euros)	
2003:	**492**
2002:	560

RESTRUCTURING FOR NOW AND THE FUTURE

Sales and operating income were below the 2002 level due to continued weaker than expected economic conditions that had a direct effect on the polymer markets, and to the weak U.S. dollar and pricing pressure from both global and regional competitors.

In the course of 2003 we embarked on an aggressive restructuring program that is being implemented on a global basis. Three older organic peroxide plant facilities were closed during the year, one in each of our main geographic regions: Europe, the United States, and Asia. The capacity reduction was offset by expansions in other facilities.

In March, we acquired full ownership of CIRS SpA of Italy. This acquisition expanded our product offering to include antifouling agents and suspending agents. These products are mainly used for PVC production but are finding use in other polymer fields as well.

We continued our expansion activities in the fast growing Asia Pacific market, especially China. We acquired 95.5% of the shares in CANP, our crosslinking peroxide business and expanded the facility in Ningbo, China. We also started construction of a grassroots ketone peroxide and dimethyl phthalate plant in Tianjin, China, to serve the thermoset market in Asia through majority owned joint venture KANP.

Promising sales gains were shown by our newly created “New Business Development” unit, which includes high purity metal organics, safety services, and continuous dosing technology for PVC.

Sales (millions of euros)
2003: 394
2002: 414

RESINS

*General Manager: J.(Jo) Lennartz**

GROWTH ACTIONS AND OWNERSHIP CHANGE

Operating income was down from 2002. Coating Resins' volumes were in line with the previous year, whereas UV Resins' volumes were up. Margins for Coating Resins, including UV, were under pressure due to the combined effects of high raw material costs, unfavorable currency developments, and sluggish economies.

In 2003, we started up "Emergo," a series of projects to implement a profitable growth strategy for Coating Resins, as defined in 2002. Coating Resins sold its Unsaturated Polyester (UPE) business and announced the closure of the site in Dunston, United Kingdom.

The construction of the new resins plant in Suzhou, China, to serve the growing coatings market, is well underway.

In 2003, Printing Ink Resins continued to improve its results. Raw material prices helped to offset weaker market demand and price pressure.

The second half of 2003 was dominated by the announced intention of Akzo Nobel to divest Coating Resins, including UV, and to merge Printing Ink Resins into the Pine Specialties business of Pulp & Paper Chemicals in order to improve operational effectiveness and efficiency. This is expected to result in a firm global position in Ink & Adhesive Resins.

During the year we continued to invest in R&D technologies and in personnel development.

Sales (millions of euros)
2003: 349
2002: 375

CATALYSTS

General Manager: Ray Hurley

LEADERSHIP MAINTAINED

Catalysts maintained a leadership position in refinery catalysts with innovative products for the fuel industry. Many of the novel products introduced help our customers meet new and future environmental regulations, particularly in the areas of emission control and low sulfur fuels.

Operating income continued its strong showing in 2003, following the record 2002, although sales declined slightly, mainly due to currency effects. In 2003, operating income gains came from our strengthened positions in the performance segments of the HPC market and in the FCC additives market. In FCC catalysts we maintain a strong and stable position supported by our improved cost base resulting from the consolidation of our North American business.

Growth in HPC continues to be aided by new transportation fuel specifications. In this key growth area we were able to provide catalytic solutions for difficult challenges our customers were facing in their businesses. During the year, an expansion of the American HPC manufacturing capacity was completed to supply the growing North American market more effectively.

The Nippon Ketjen joint venture in Japan had an off year following the record 2002. FCC-S.A. results improved in part due to the strengthening Brazilian economy. Our Eurecat joint venture completed an investment in Italy for catalyst regeneration, further strengthening the Total Catalyst Management businesses.

In the course of the year, the Company announced its intention to sell the Catalysts business.

We continued to invest in R&D during 2003. Innovations derived from R&D remain a key part of the success of the Catalysts business.

* *Jo Lennartz was appointed Manager of Diosynth RTP in Durham, North Carolina, effective October 1, 2003. Rob Harmsen assumed responsibity for Coating Resins and UV Resins with effect from the same date.*

SALT

General Manager: Peter Gommers

Sales (millions of euros)
2003: 267
2002: 269

SOLID PERFORMANCE – FOCUS ON CUSTOMER

Salt registered a solid performance in 2003. Sales and operating income were in line with 2002 and costs were kept under tight control. This performance was characterized by continued high sales to the chemical industry throughout the year. The business unit continues to invest in technology in order to strengthen its position as global leader in vacuum salt and solution mining. Expansion of the Hengelo plant (the Netherlands) to a capacity of 2.5 million tons per year makes it the world's largest vacuum salt plant, surpassing our Delfzijl plant (the Netherlands).

The specialty salt business strengthened its position in a competitive market. We completed the restructuring program, consisting of the closure of the Stade, Germany production site, relocation of production, reduction of the headcount in the Hengelo location, and upgrading of the product portfolio. The introduction of the premium Jozo® salt line symbolizes our renewed customer focus.

In its second operational year, the solar salt facility in Onslow, Western Australia, performed in line with expectations.

ENERGY

General Manager: Gert N. van Ingen

Sales (millions of euros)
2003: 171
2002: 158

FAVORABLE PERFORMANCE – IMPROVED PROSPECTS FOR COGENERATION

Operating income from our gas, electricity, and steam supply activities was substantially better than in the previous year, despite volatile oil and gas markets throughout 2003. Our cogeneration joint ventures operated reliably. In Europe, politicians appreciate cogeneration as preferred technology and are willing to support this technology long term via Council Directives, including carbon dioxide emission trading and security of supply.

OTHER NONCONSOLIDATED COMPANIES

Flexsys

Weak economic conditions continued during 2003, resulting in a flat sales level and lower results compared to the previous year for this 50% rubber chemicals joint venture.
The implementation of the cost savings and production restructuring program continued.
A decision was made to close down the Primary Accelerators plant in Nitro, West Virginia, by the end of the first quarter 2004.

Delamine

Sales volumes for this 50% ethylene amines joint venture were higher than in the previous year with a quite stable price level. The sales gains combined with lower raw material costs resulted in higher earnings compared to 2002.

FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Consolidation

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

Joint ventures where Akzo Nobel has joint control are proportionally consolidated in those cases that this presents the true and fair view required by law. Interests in companies where Akzo Nobel can exercise significant influence are treated as nonconsolidated companies.

Valuation

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

Translation of Foreign Currencies

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

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

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

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

Exchange Rates of Key Currencies

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

	Balance sheet		Statement of income	
	2003	2002	**2003**	2002
USD	**1.262**	1.047	**1.131**	0.944
GBP	**0.708**	0.651	**0.693**	0.630
SEK	**9.082**	9.183	**9.119**	9.135

Principles of Valuation of Assets and Liabilities

Intangible Assets

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

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation. Cost includes the financing charges of significant capital investment projects under construction. Capital investment grants are deducted from property, plant and equipment.
Depreciation is computed by the straight-line method based on estimated useful life, which in the majority of cases is 10 years for plant equipment and machinery, and which ranges from 20 to 30 years for buildings. In cases where the book value so computed permanently exceeds the value to the business an impairment charge is recognized.

Financial Noncurrent Assets

Investments in nonconsolidated companies are stated at the amount of Akzo Nobel's share in shareholders' equity. The calculation of shareholders' equity is based as much as possible on the Akzo Nobel principles of valuation.

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

For the valuation of deferred tax assets reference is made to deferred taxes.

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost, defined as all direct manufacturing costs incurred in bringing the inventories to the present location and condition, is determined by the first-in first-out (FIFO) method. Provisions are made for obsolescence.

Receivables

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

Cash and Cash Equivalents

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

Provisions

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

Pensions and Other Postretirement Benefits

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

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

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

Deferred Taxes

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

Stock-Based Compensation

The cost for the Employee Share Plan, whereby Akzo Nobel N.V. common shares are conditionally granted to the employees, is expensed over the vesting period, effective for the rights granted from 2002 onwards.

Long-Term Borrowings and Short-Term Debt

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

Principles of Determination of Income

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

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

Earnings per Share

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

	2003	2002
Shares for basic earnings per share	**285,691,957**	285,827,092
Effect of dilutive securities	**721,016**	504,113
Shares for diluted earnings per share	**286,412,973**	286,331,205

Consolidated Statement of Income

Millions of euros	NOTE	2003		2002	
Net sales			**13,051**		14,002
Cost of sales			**(6,933)**		(7,301)
Gross margin			**6,118**		6,701
Selling expenses		**(3,317)**		(3,549)	
Research and development expenses		**(887)**		(912)	
General and administrative expenses		**(742)**		(801)	
Other results	1	**175**		53	
			(4,771)		(5,209)
Operating income before nonrecurring items			**1,347**		1,492
Nonrecurring items	2		**(283)**		(130)
Operating income, after nonrecurring items			**1,064**		1,362
Financing charges	3		**(166)**		(204)
Operating income less financing charges			**898**		1,158
Taxes	4		**(254)**		(335)
Earnings of consolidated companies after taxes			**644**		823
Earnings from nonconsolidated companies		**36**		38	
Nonrecurring items nonconsolidated companies		**(29)**		(8)	
	5		**7**		30
Earnings before minority interest			**651**		853
Minority interest			**(49)**		(35)
Net income			**602**		818
Net income excluding nonrecurring items			**811**		892
In EUR:					
Basic net income per share			**2.11**		2.86
Basic net income excluding nonrecurring items per share			**2.84**		3.12
Diluted net income per share			**2.10**		2.86
Diluted net income excluding nonrecurring items per share			**2.83**		3.12

The accompanying notes and the remuneration report on pages 14-21 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

BEFORE ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2003	2003	2002	2002
Assets					
Noncurrent assets					
Intangible assets[1]	7		590		629
Property, plant and equipment	8		3,967		4,402
Financial noncurrent assets:	9				
– nonconsolidated companies		353		491	
– deferred tax assets	10	429		405	
– deferred tax asset for minimum pension liability		361		503	
– other financial noncurrent assets		723		818	
			1,866		2,217
			6,423		7,248
Current assets					
Inventories	11	2,133		2,206	
Receivables	12	2,671		2,815	
Cash and cash equivalents	13	727		520	
			5,531		5,541
Total			11,954		12,789
Equity and liabilities					
Equity	14				
Capital and reserves		3,326		3,216	
Minimum pension liability		(824)		(1,118)	
Akzo Nobel N.V. shareholders' equity		2,502		2,098	
Minority interest		140		137	
			2,642		2,235
Provisions[2]	15		3,923		4,368
Long-term borrowings	16		2,717		2,797
Short-term debt					
Short-term borrowings	17	441		979	
Current liabilities	18	2,231		2,410	
			2,672		3,389
Total			11,954		12,789

The accompanying notes and the remuneration report on pages 14-21 are an integral part of these consolidated financial statements.

1) *Includes capitalized prior service costs related to the minimum pension liability of EUR 165 million at December 31, 2003 (December 31, 2002: EUR 173 million).*

2) *Includes provision for minimum pension liability amounting to EUR 1,342 million at December 31, 2003 (December 31, 2002: EUR 1,794 million).*

Consolidated Statement of Cash Flows

Millions of euros	2003		2002	
Total earnings before minority interest	651		853	
Depreciation and amortization	652		681	
Cash flow		1,303		1,534
Other adjustments to reconcile earnings to cash provided by operations:				
– gain on divestments	(30)		(94)	
– impairments	138		110	
– equity in earnings of nonconsolidated companies	(14)		(40)	
– dividends from nonconsolidated companies	17		82	
– changes in provisions	115		(189)	
– changes in deferred tax assets	(64)		(20)	
– change in accrued prepaid pension costs	65		37	
– other changes	(14)		11	
		213		(103)
Change in working capital		(119)		117
Net cash provided by operations		1,397		1,548
Investments in intangible assets	(27)		(19)	
Capital expenditures	(581)		(689)	
Investments in nonconsolidated companies			(16)	
Repayment/redemption loans nonconsolidated companies	78		5	
Acquisition of consolidated companies[1]	(101)		(257)	
Proceeds from sale of interests[1]	203		208	
Other changes in noncurrent assets[2]	(23)		(11)	
Net cash used for investments		(451)		(779)
		946		769
Purchase of shares – net	–		(6)	
Issuance of shares			4	
New long-term borrowings	782		1,044	
Repayment of long-term borrowings	(635)		(213)	
Changes in short-term borrowings	(489)		(1,121)	
Net cash used for financing activities		(342)		(292)
		604		477
Dividends paid		(370)		(363)
		234		114
Effect of exchange rate changes on cash and cash equivalents		(27)		(49)
Change in cash and cash equivalents		207		65
Cash and cash equivalents at beginning of year		520		455
Cash and cash equivalents at end of year		727		520

See note 21.

The accompanying notes and the remuneration report on pages 14-21 are an integral part of these consolidated financial statements.

1) *Net of cash of acquired or divested interests.*
2) *Excluding deferred tax assets and accrued prepaid pension costs.*

GENERAL

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

Affiliated Companies

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

Changes in Consolidated Interests

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

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

In April 2002, the Awlgrip® marine and aerospace coatings business was acquired for EUR 27 million, including EUR 19 million goodwill.

At the end of June 2002, the Industrial Specialties business of Crompton Corporation, including operations in the United States, Europe, and Asia, was acquired for EUR 96 million, of which EUR 15 million was paid in 2003. Goodwill was nil.

At the end of September 2002, the liquid pharmaceuticals manufacturing business Rosemont Pharmaceuticals Ltd, United Kingdom, was divested for EUR 102 million. The after-tax gain on this divestiture amounted to EUR 91 million.

Effective September 2002, Ferro's powder coatings businesses in the Americas and Asia Pacific were acquired for EUR 70 million, including goodwill of EUR 45 million.

During 2003 and 2002, Akzo Nobel acquired and divested various other businesses, none of which were significant to the consolidated financial statements.

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

Segment Information

	Net sales to third parties		Group net sales		Operating income before nonrecurring items		Operating income, after nonrecurring items		Earnings from nonconsolidated companies	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Pharma	**3,550**	4,008	**3,550**	4,008	**692**	768	**538**	747	**–**	1
Coatings	**5,217**	5,508	**5,233**	5,521	**431**	465	**386**	446	**(1)**	1
Chemicals	**4,274**	4,466	**4,397**	4,598	**324**	344	**240**	248	**36**	39
Other	**10**	20	**31**	33	**(100)**	(85)	**(100)**	(79)	**1**	(3)
	13,051	14,002	**13,211**	14,160	**1,347**	1,492	**1,064**	1,362	**36**	38
Intergroup revenues			**(160)**	(158)						
			13,051	14,002						

	Total assets		Total liabilities excluding borrowings		Capital expenditures		Investments in intangible assets		Depreciation and amortization	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Pharma	**3,153**	3,195	**792**	841	**210**	297	**8**	15	**176**	180
Coatings	**3,059**	3,338	**1,289**	1,426	**128**	131	**4**		**151**	158
Chemicals	**3,259**	3,557	**1,121**	1,145	**237**	248	**15**	4	**314**	328
Miscellaneous and eliminations, including cash and cash equivalents	**2,130**	2,208	**2,952**	3,366	**6**	13			**11**	15
Nonconsolidated companies	**353**	491								
	11,954	12,789	**6,154**	6,778	**581**	689	**27**	19	**652**	681

	Sales by country of destination 2003	2002	Total assets 2003	2002	Capital expenditures 2003	2002
The Netherlands	**825**	816	**2,942**	2,618	**173**	197
Germany	**1,147**	1,084	**798**	819	**27**	36
Sweden	**510**	517	**773**	798	**55**	36
United Kingdom	**840**	963	**913**	1,134	**26**	25
Other European countries	**3,963**	3,951	**2,074**	2,210	**110**	136
United States and Canada	**2,944**	3,723	**2,014**	2,772	**81**	177
Latin America	**704**	767	**400**	424	**18**	31
Asia	**1,453**	1,513	**848**	838	**81**	41
Other regions	**665**	668	**302**	306	**10**	10
	13,051	14,002	**11,064**	11,919	**581**	689
Eliminations and cash and cash equivalents			**537**	379		
Nonconsolidated companies			**353**	491		
			11,954	12,789		

CONSOLIDATED STATEMENT OF INCOME

Note [1]

Other Results

	2003	2002
Payment from Pfizer	**88**	
Royalties	**55**	57
Results on sale of redundant assets	**5**	5
Currency exchange differences	**16**	(15)
Other items	**11**	6
	175	53

The payment from Pfizer relates to the cooperation agreement for asenapine, which was concluded in the last quarter of 2003.

Note [2]

Nonrecurring Items

The following nonrecurring items were recognized:

	2003	2002
Gains on divestments	**25**	91
Pension premium refund Sweden		15
Asset impairments at:		
– Pharma	**(114)**	(77)
– Coatings	**(5)**	(2)
– Chemicals	**(19)**	(31)
Restructurings at:		
– Pharma	**(40)**	(34)
– Coatings	**(40)**	(24)
– Chemicals	**(90)**	(68)
	(283)	(130)

Note [3]

Financing Charges

	2003	2002
Interest received and similar income	**18**	15
Interest paid and similar expenses	**(184)**	(219)
	(166)	(204)

Interest paid was reduced by EUR 6 million (2002: EUR 7 million) due to the capitalization of financing expenses of capital investment projects under construction.

Note [4] **Taxes**

Pretax income (including earnings from nonconsolidated companies) was EUR 901 million (2002: EUR 1,187 million).

Tax charges/(benefits) are included in the statement of income as follows:

	2003	2002
Operating income less financing charges	254	335
Nonconsolidated companies	(4)	(1)
	250	334

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

	2003	2002
Current tax	213	370
Deferred tax	37	(36)
	250	334

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

Percentage	2003	2002
Corporate tax rate in the Netherlands	35	35
Effect of lower tax rates in certain countries	(3)	(4)
Tax-exempt income	(1)	(1)
Nontaxable income from nonconsolidated companies (excluding partnerships)	(1)	(4)
Change in valuation allowance	(2)	2
	28	28

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

Earnings from nonconsolidated companies were net of a tax charge of EUR 4 million (2002: EUR 3 million). The net nonrecurring loss in 2003 mainly related to restructuring and antitrust charges recognized at Flexsys and includes a tax credit of EUR 8 million. The nonrecurring loss in 2002 mainly related to nonrecurring charges recognized for Acordis and include a tax credit of EUR 4 million.

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

	2003	2002
Salaries and wages	2,535	2,690
Pension and other postretirement costs	471	342
Other social charges	499	520
	3,505	3,552

Employees

Average number of employees	2003	2002
Pharma	21,300	21,700
Coatings	29,400	29,200
Chemicals	14,500	14,900
Other units	1,200	1,200
	66,400	67,000
Number of employees at December 31	64,600	67,900

Note [7]

Intangible Assets

	Total	Goodwill	Licenses, knowhow, and intellectual property rights	Prior service costs for minimum pension liability	Development costs
Balance at December 31, 2002					
Cost of acquisition	758	314	264	173	7
Amortization/impairment	(129)	(36)	(91)		(2)
Book value	629	278	173	173	5
Changes in book value					
Acquisitions	61	61			
Divestitures	(11)	(6)	(5)		
Investments	27		22		5
Amortization	(53)	(25)	(26)		(2)
Impairments	(23)	(2)	(21)		
Change related to minimum pension liability	(8)			(8)	
Changes in exchange rates	(32)	(25)	(7)		
Total changes	(39)	3	(37)	(8)	3
Balance at December 31, 2003					
Cost of acquisition	775	339	260	165	11
Amortization/impairment	(185)	(58)	(124)		(3)
Book value	**590**	**281**	**136**	**165**	**8**

Note [8]

Property, Plant and Equipment

	Total	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process
Balance at December 31, 2002						
Cost of acquisition	10,315	2,864	6,105	906	409	31
Depreciation/impairment	(5,913)	(1,095)	(4,140)	(662)		(16)
Book value	4,402	1,769	1,965	244	409	15
Changes in book value						
Acquisitions	36	18	7	1	10	
Divestitures	(79)	(27)	(49)	(2)	(1)	
Capital expenditures	581	130	294	82	60	15
Disinvestments	(52)	(22)	(15)	(6)	(3)	(6)
Depreciation	(599)	(113)	(402)	(82)		(2)
Impairments	(115)	(81)	(32)			(2)
Changes in exchange rates	(207)	(68)	(103)	(6)	(29)	(1)
Total changes	(435)	(163)	(300)	(13)	37	4
Balance at December 31, 2003						
Cost of acquisition	9,837	2,736	5,692	902	446	61
Depreciation/impairment	(5,870)	(1,130)	(4,027)	(671)		(42)
Book value	**3,967**	**1,606**	**1,665**	**231**	**446**	**19**

The book value of property, plant and equipment financed by installment buying and leasing and not legally owned by the Company was EUR 104 million at December 31, 2003 (at December 31, 2002: EUR 42 million).

Note [9] **Financial Noncurrent Assets**

	Total	Nonconsolidated companies: Share in capital	Nonconsolidated companies: Loans	Deferred tax assets	Deferred tax asset for minimum pension liability	Other
Balance at December 31, 2002	2,217	466	25	405	503	818
Acquisitions/deconsolidations/investments	53	(10)	1	8		54
Divestitures/repayments	(110)	(61)	(18)			(31)
Amounts recognized as income/(expense)	13	14		64		(65)
Dividends received	(17)	(17)				
Change related to minimum pension liability	(150)	(8)			(142)	
Changes in exchange rates	(140)	(39)	–	(48)		(53)
Balance at December 31, 2003	**1,866**	**345**	**8**	**429**	**361**	**723**

Nonconsolidated Companies

Chemicals joint ventures accounted for EUR 244 million of Akzo Nobel's share in the capital of nonconsolidated companies at December 31, 2003 (at December 31, 2002: EUR 296 million).

Some Akzo Nobel companies are general partners in a number of partnerships that are included in the balance sheet under nonconsolidated companies. Akzo Nobel's equity in the capital of these partnerships was EUR 63 million at year-end 2003 (at December 31, 2002: EUR 96 million). Equity in 2003 earnings was a loss of EUR 15 million, against a gain of EUR 4 million in 2002. At year-end 2003, these partnerships accounted for EUR 6 million of short-term receivables from nonconsolidated companies (at December 31, 2002: EUR 1 million).

Other Financial Noncurrent Assets

Other financial noncurrent assets include accrued prepaid pension costs of EUR 477 million (at December 31, 2002: EUR 579 million).

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

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

Asset/(liability)	**2003**	2002
Net operating loss carryforwards	**169**	204
Provisions	**320**	393
Intangible assets	**57**	85
Property, plant and equipment	**(172)**	(255)
Accrued prepaid pension costs	**(119)**	(162)
Other	**(376)**	(308)
	(121)	(43)
Valuation allowance	**(40)**	(65)
Net deferred taxes	**(161)**	(108)

At December 31, 2003, losses carried forward amounted to EUR 535 million, of which EUR 12 million will expire within one year, and EUR 117 million within five years.
For an amount of EUR 202 million of losses, there is no expiration date.

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

Asset/(liability)	**2003**	2002
Deferred tax assets	**429**	405
Deferred tax provisions	**(590)**	(513)
	(161)	(108)

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

For the movement schedule of deferred tax provisions reference is made to note 15.

Note [11]

Inventories

	2003	2002
Raw materials and supplies	**586**	684
Work in process	**474**	441
Finished products and goods for resale	**1,067**	1,065
Inventory prepayments	**6**	16
	2,133	2,206

Provisions for obsolescence deducted from the inventory book values totaled EUR 160 million at December 31, 2003 (at December 31, 2002: EUR 151 million).

Note [12]

Receivables

	2003	2002
Trade receivables	**1,956**	2,064
Taxes	**246**	293
Receivables from nonconsolidated companies	**32**	43
Prepaid expenses	**106**	143
Other receivables	**360**	286
	2,700	2,829
Discounted portion	**(29)**	(14)
	2,671	2,815

Provisions for doubtful accounts deducted from the book values of receivables aggregated EUR 166 million (at December 31, 2002: EUR 182 million).

For details on receivables from nonconsolidated companies reference is made to note 9.

Note [13]

Cash and Cash Equivalents

	2003	2002
Short-term investments	**484**	244
Cash on hand and in banks	**243**	276
	727	520

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

At December 31, 2003, the amount of cash and cash equivalents was freely available.

Note [14]

Equity

	Capital and Reserves	Minimum pension liability	Akzo Nobel N.V. shareholders' equity	Minority interest	Equity
Balance at December 31, 2002	3,216	(1,118)	**2,098**	137	**2,235**
Income for the year	602		**602**	49	**651**
Dividend	(343)		**(343)**	(27)	**(370)**
Changes in minority interest in subsidiaries				(9)	**(9)**
Change related to minimum pension liability		294	**294**		**294**
Changes in exchange rates	(149)		**(149)**	(10)	**(159)**
Balance at December 31, 2003	**3,326**	**(824)**	**2,502**	**140**	**2,642**

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

Note [15] **Provisions**

	Total	Deferred taxes	Pensions and other postretirement benefits	Restructuring of activities	Environmental costs	Other
Balance at December 31, 2002	4,368	513	2,981	332	204	338
Amounts recognized as expense	714	101	339	188	20	66
Divestiture	(6)	(1)	(3)	(2)		–
Utilization	(599)		(282)	(219)	(14)	(84)
Change in minimum pension liability	(452)		(452)			
Changes in exchange rates	(102)	(23)	(54)	(10)	(7)	(8)
Balance at December 31, 2003	**3,923**	**590**	**2,529**	**289**	**203**	**312**

The current portion of provisions amounted to EUR 616 million (at December 31, 2002: EUR 539 million).

Deferred Tax Provisions
For details on the total position for deferred taxes reference is made to note 10.

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

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

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

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

Below a table is provided with a summary of the changes in the pension benefit obligation and plan assets for 2003 and 2002.

	The Netherlands		Foreign		Total	
	2003	2002	**2003**	2002	**2003**	2002
Benefit obligation						
Balance at beginning of year	**(4,023)**	(3,682)	**(4,332)**	(4,268)	**(8,355)**	(7,950)
Acquisitions	**(3)**		**(15)**	(38)	**(18)**	(38)
Divestments/curtailments		10		27		37
Service costs	**(163)**	(139)	**(86)**	(99)	**(249)**	(238)
Interest costs	**(207)**	(198)	**(225)**	(250)	**(432)**	(448)
Plan amendments			**(2)**	3	**(2)**	3
Benefits paid	**193**	180	**270**	256	**463**	436
Actuarial gains and losses	**65**	(194)	**(117)**	(242)	**(52)**	(436)
Changes in exchange rates			**278**	279	**278**	279
Balance at end of year	**(4,138)**	(4,023)	**(4,229)**	(4,332)	**(8,367)**	(8,355)
Plan assets						
Balance at beginning of year	**3,086**	3,233	**2,896**	3,474	**5,982**	6,707
Acquisitions	**3**			31	**3**	31
Divestments/curtailments		(10)				(10)
Contribution by employer	**148**	252	**102**	88	**250**	340
Contribution by employees	**22**	1	**10**	11	**32**	12
Benefits paid	**(187)**	(171)	**(238)**	(222)	**(425)**	(393)
Actual return on plan assets	**311**	(219)	**382**	(258)	**693**	(477)
Changes in exchange rates			**(204)**	(228)	**(204)**	(228)
Balance at end of year	**3,383**	3,086	**2,948**	2,896	**6,331**	5,982
Funded status	**(755)**	(937)	**(1,281)**	(1,436)	**(2,036)**	(2,373)
Unrecognized net loss	**546**	734	**1,176**	1,445	**1,722**	2,179
Unrecognized prior service costs	**145**	160	**17**	10	**162**	170
Unrecognized net transition obligation	**–**	(7)	**–**	7	**–**	–
Net balances	**(64)**	(50)	**(88)**	26	**(152)**	(24)

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

	The Netherlands		Foreign		Total	
	2003	2002	**2003**	2002	**2003**	2002
Prepaid pension costs (under other financial noncurrent assets)			**477**	579	**477**	579
Provisions for pensions and other postretirement benefits (under provisions)	**(319)**	(519)	**(1,652)**	(1,878)	**(1,971)**	(2,397)
Intangible assets	**145**	153	**20**	20	**165**	173
Charged against shareholders' equity	**110**	316	**1,067**	1,305	**1,177**	1,621
	(64)	(50)	**(88)**	26	**(152)**	(24)

For all plans, the accumulated benefit obligation exceeded plan assets both at December 31, 2003, and at December 31, 2002.

Details for the minimum pension liability are as follows:

	The Netherlands		Foreign		Total	
	2003	2002	**2003**	2002	**2003**	2002
Accumulated benefit obligation	**(3,698)**	(3,605)	**(4,117)**	(4,184)	**(7,815)**	(7,789)
Credit/(charge) to shareholders' equity for minimum pension liability						
- before taxes	**206**	(313)	**238**	(1,242)	**444**	(1,555)
- after taxes	**134**	(203)	**168**	(875)	**302**	(1,078)

The 2003 and 2002 net periodic pension costs for the defined benefit pension plans were as follows:

	The Netherlands		Foreign		Total	
	2003	2002	**2003**	2002	**2003**	2002
Service costs for benefits earned during the period	**141**	138	**76**	88	**217**	226
Interest costs on projected benefit obligations	**207**	198	**225**	250	**432**	448
Expected return on plan assets	**(211)**	(225)	**(182)**	(235)	**(393)**	(460)
Amortization of prior service costs	**15**	16	**5**	–	**20**	16
Amortization of net actuarial loss	**23**		**68**	36	**91**	36
Amortization of transition (asset)/obligation	**(7)**	(8)	**7**	8	**–**	–
Settlement/curtailment loss			**5**	1	**5**	1
	168	119	**204**	148	**372**	267

The principal defined benefit pension plans cover approximately 55% of Akzo Nobel's employees. The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 39 million in 2003, and EUR 31 million in 2002.

The weighted average assumptions underlying the computations were:

	The Netherlands		Foreign		Total	
Percent	**2003**	2002	**2003**	2002	**2003**	2002
Pension benefit obligation at December 31,						
- discount rate	**5.3**	5.3	**5.6**	6.0	**5.4**	5.6
- rate of compensation increase	**2.5**	3.0	**3.8**	4.2	**3.2**	3.6
Net periodic pension costs						
- discount rate	**5.3**	5.5	**6.0**	6.4	**5.6**	6.0
- rate of compensation increase	**3.0**	3.0	**4.2**	4.4	**3.6**	3.8
- expected return on plan assets	**6.8**	7.0	**6.7**	7.3	**6.8**	7.2

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

Akzo Nobel's primary objective with regard to the investment of pension plan assets is to ensure that in each individual scheme sufficient funds are available to satisfy future benefit obligations.

For this purpose so-called asset and liability management (ALM) studies are made periodically at each pension fund. For each of the pension plans an appropriate mix is determined on the basis of the outcome of these ALM studies, taking into account the national rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. The pension plan asset allocation at December 31, 2003 and 2002, and the target allocation for 2004 for the pension plan in the Netherlands by asset category are as follows:

		Percentage of plan assets at	
	Target allocation	December 31,	
Percent	2004	2003	2002
Equity securities	30–50	42	35
Long-term interest earning investments	40–60	46	51
Real estate	7.5–12.5	9	11
Other	0–10	3	3
Total		100	100

The weighted pension plan asset allocation at December 31, 2003 and 2002, and the target allocation for 2004, for the foreign pension plans by asset category are as follows:

		Percentage of plan assets at	
	Target allocation	December 31,	
Percent	2004	2003	2002
Equity securities	45–55	51	47
Long-term interest earning investments	35–45	36	39
Real estate	0–10	9	9
Other	0–5	4	5
Total		100	100

Postretirement benefit plans concern healthcare benefits plans in the Netherlands and the United States. Below a table is provided with a summary of the changes in the accumulated postretirement benefit obligations and plan assets for 2003 and 2002.

	The Netherlands		The United States		Total	
	2003	2002	**2003**	2002	**2003**	2002
Benefit obligation						
Balance at beginning of year	**(156)**	(126)	**(368)**	(286)	**(524)**	(412)
Acquisitions				(10)		(10)
Divestments/curtailments				1		1
Service costs	**(7)**	(4)	**(15)**	(11)	**(22)**	(15)
Interest costs	**(8)**	(7)	**(24)**	(21)	**(32)**	(28)
Benefits paid	**7**	6	**17**	17	**24**	23
Actuarial losses	**(29)**	(25)	**(55)**	(117)	**(84)**	(142)
Changes in exchange rates			**70**	59	**70**	59
Balance at end of year	**(193)**	(156)	**(375)**	(368)	**(568)**	(524)
Plan assets						
Balance at beginning of year			**2**	2	**2**	2
Benefits paid			**(1)**	–	**(1)**	–
Actual return on plan assets			**–**	–	**–**	–
Changes in exchange rates			**–**	–	**–**	–
Balance at end of year			**1**	2	**1**	2
Funded status	**(193)**	(156)	**(374)**	(366)	**(567)**	(522)
Unrecognized net loss	**80**	52	**109**	75	**189**	127
Unrecognized prior service costs	**8**	9	**2**	2	**10**	11
Net balances	**(105)**	(95)	**(263)**	(289)	**(368)**	(384)

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

In the United States, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law on December 8, 2003. The Act introduces prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans that will both begin on January 1, 2006. The Act became law subsequent to the measurement date for Akzo Nobel's postretirement medical plans under SFAS 106, being September 30. Akzo Nobel intends to review the implications of the Act during the first quarter of 2004.

Net periodic other postretirement benefit costs are as follows:

	The Netherlands		The United States		Total	
	2003	2002	**2003**	2002	**2003**	2002
Service costs for benefits allocated to the period	**7**	4	**15**	11	**22**	15
Interest costs on accumulated postretirement obligation	**8**	7	**24**	21	**32**	28
Amortization of prior service costs	**–**	1	**–**	(1)	**–**	–
Net actuarial loss recognized	**3**	1	**3**	(1)	**6**	–
Curtailment loss				1		1
	18	13	**42**	31	**60**	44

Weighted average assumptions for postretirement benefits were as follows:

Percent	The Netherlands		The United States	
	2003	2002	**2003**	2002
Discount rate for net periodic benefit cost	**5.3**	5.5	**6.8**	7.5
Discount rate for benefit obligations at December 31	**5.3**	5.3	**6.3**	6.8
Assumed healthcare cost trend rates at December 31:				
- healthcare cost trend rate assumed for next year	**4.0**	4.0	**9.5**	10.0
- rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.0**	4.0	**5.0**	5.0
- year that the rate reaches the ultimate trend rate	**2004**	2003	**2009**	2009

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

	The Netherlands		The United States		Total	
	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest cost	5	4	6	5	11	9
Effect on postretirement benefit obligation	24	21	53	42	77	64

Cash Flows

The Company expects to contribute EUR 315 million to its pension plans in 2004, of which EUR 195 million for the pension plan in the Netherlands and EUR 120 million for the foreign pension plans.

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

	Pensions			Other postretirement benefits		
	The Netherlands	Foreign	Total	The Netherlands	The United States	Total
2004	194	235	429	8	15	23
2005	203	239	442	8	17	25
2006	213	244	457	9	17	26
2007	226	251	477	10	18	28
2008	240	254	494	11	19	30
2009–2013	1,435	1,340	2,775	68	116	184

Provisions for Environmental Costs

For details on environmental exposures reference is made to note 19.

Other Provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases of EUR 75 million. Reference is made to note 19.

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

	2003	2002
Debentures:		
– issued by Akzo Nobel N.V.	**2,340**	1,799
– issued by consolidated companies	**211**	801
Private borrowings	**15**	28
Debt to credit institutions	**77**	87
Other borrowings	**74**	82
	2,717	2,797

In November 2003, the Company entered into a five-year revolving committed credit facility for an amount of EUR 1.5 billion. The USD 1.0 billion credit facilities and EUR 1.0 billion backup facility expired in 2003. None of the aforementioned facilities were used in 2003.

During 2003, the average interest rate was 5.1% (2002: 5.9%).

Aggregate maturities of long-term borrowings are as follows:

	2004	2005/2008	after 2008
Debentures:			
– issued by Akzo Nobel N.V.		738	1,602
– issued by consolidated companies	2	86	123
Private borrowings	11	2	2
Debt to credit institutions	19	48	10
Other borrowings	8	28	38
	40	902	1,775

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

None of the borrowings was secured by means of mortgages, etc. (at December 31, 2002: EUR 7 million).

For details on financial instruments reference is made to note 20.

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

	2003	2002
Commercial paper		396
Debt to credit institutions	**416**	517
Borrowings from nonconsolidated companies	**25**	66
	441	979

Commercial paper relates to Akzo Nobel's commercial paper program in the United States, which at December 31, 2003, as at December 31, 2002, had a maximum of USD 1.0 billion (year-end 2003: EUR 0.8 billion; year-end 2002: EUR 1.0 billion), and to Akzo Nobel's Euro commercial paper program, which at December 31, 2003, as at December 31, 2002, had a maximum of EUR 1.5 billion. At December 31, 2003, there was no commercial paper outstanding.

For details on financial instruments reference is made to note 20.

Note [18] **Current Liabilities**

	2003	2002
Prepayments by customers	**14**	21
Suppliers	**1,091**	1,277
Debt to nonconsolidated companies	**4**	5
Taxes and social security contributions	**361**	350
Amounts payable to employees	**329**	351
Dividends	**3**	2
Pensions	**10**	12
Other liabilities	**419**	392
	2,231	2,410

Note [19] Commitments and Contingent Liabilities

Environmental Matters

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

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

As stated in note 15, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 203 million at December 31, 2003 (at December 31, 2002: EUR 204 million).

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

Antitrust Cases

Akzo Nobel is involved in investigations by the antitrust authorities in the European Union, the United States, and some other countries into alleged violations of the respective antitrust laws for some products in these jurisdictions. In addition, the Company is involved in civil damage claims in relation to some of these alleged antitrust violations. Fines, civil damage settlements, and legal costs incurred in 2003 in connection with these cases amounted to EUR 27 million (2002: EUR 9 million). Based on an estimate of the probable fines, civil damages, and costs to be paid over a number of years to come—taking into account legal advice and the current facts and circumstances—the Company has a provision amounting to EUR 75 million (2002: EUR 102 million); reference is made to note 15.

With regard to Flexsys, a 50/50 joint venture for rubber chemicals with Solutia Inc., authorities in the United States, Canada, and Europe are investigating past commercial practices in this industry. We have been informed by Flexsys management that it is fully cooperating with the authorities and will continue to do so. We are also aware of a number of purported class actions that have been filed against Flexsys in federal court (by direct purchasers) and in various state courts (by alleged indirect purchasers) in the United States. As 50%-owner of Flexsys, the Company has been named as codefendant in the federal actions. Flexsys has recognized certain provisions for these cases.

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

Other Contingent Liabilities (including Remeron® cases)

In December 2002 summary judgment of noninfringement was obtained by certain generic drug manufacturers, sued by the Company under the U.S. Hatch-Waxman Act, alleging inducement of infringement by such manufacturers of the Company's U.S. patent protecting the use of mirtazapine (Remeron®) in combination with one or more SSRIs for the treatment of depression. Three of the generic drug manufacturers sued by the Company have filed antitrust claims against the Company as counterclaims in the infringement actions brought by the Company. In addition, antitrust claims were filed against the Company in the United States on behalf of classes of direct and indirect purchasers of Remeron®. These cases have been consolidated in the Federal District Court of New Jersey. On December 3, 2003, the Court ruled in favor of the Company on two of the grounds asserted by the generic drug manufacturers as the basis for their antitrust counterclaims, but did not rule on other grounds claimed to constitute a basis for antitrust liability. The Company is vigorously defending these claims. In addition to these cases, the State Attorneys General of the States of Texas, Florida, and Oregon have opened civil investigations to determine if the Company's conduct violated the laws of any of these states. The Federal Trade Commission is also conducting an "informal" civil investigation and is working with the State Attorneys General. As of this date, no State Attorney General has joined in the consolidated antitrust litigation.

There are pending against Akzo Nobel N.V. and its subsidiaries a number of other claims, all of which are contested. The Company is also involved in disputes with tax authorities in several jurisdictions.

While the outcome of these claims and disputes cannot be predicted with certainty, the Company believes, based upon legal advice and information received, that the final outcome will not materially affect the consolidated financial position of the Company but could be material to the Company's result of operations or cashflows in any one accounting period.

Commitments

Purchase commitments for property, plant and equipment aggregated EUR 80 million at December 31, 2003. At December 31, 2002, these commitments totaled EUR 127 million. In addition, the Company has purchase commitments for raw materials and supplies incident to the ordinary conduct of business.

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated EUR 504 million at December 31, 2003 (at December 31, 2002: EUR 647 million). Payments due within one year amount to EUR 153 million (2002: EUR 188 million); payments due after more than five years amount to EUR 84 million (2002: EUR 99 million).

Guarantees related to nonconsolidated companies totaled EUR 9 million (at December 31, 2002: EUR 9 million). As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2003, the risk ensuing from these liabilities was EUR 139 million (at December 31, 2002: EUR 159 million).

Note [20] Financial Instruments

Foreign Exchange Risk Management

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

At December 31, 2003, outstanding contracts to buy currencies totaled EUR 1.4 billion (at December 31, 2002: EUR 1.0 billion), while contracts to sell currencies totaled EUR 1.6 billion (at December 31, 2002: EUR 2.1 billion). These contracts mainly relate to U.S. dollars, Canadian dollars, Swedish kronor, pounds sterling, and Japanese yen.

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

Interest Risk Management

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

The Company swapped EUR 500 million fixed rate liabilities with an interest rate of 5.625% with floating rate LIBOR-related liabilities of USD 445 million and a remaining maturity of 5 years.

The Company swapped fixed rate liabilities with an interest rate of 4.25% with floating rate EURIBOR-related liabilities for an amount of EUR 650 million and a remaining maturity of 7 years.

The Company concluded forward rate agreements covering USD 440 million whereby interest percentages are fixed in a range from 1.89% to 2.18% for the period February 7, 2003 through February 9, 2004, and covering EUR 50 million with an interest percentage of 2.4% for the period October 15, 2003 through January 15, 2004

Fixed rate liabilities with an interest rate of 6.3% were swapped with floating rate EURIBOR-related liabilities for an amount of EUR 145 million and a remaining maturity of 2 years. Floating rate EURIBOR-related liabilities were swapped with fixed rate liabilities with an interest rate of 5.3% for an amount of EUR 145 million and a remaining maturity of 2 years.

Credit Risk

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

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

Commodities

In order to hedge the price risk of natural gas, the Company has entered into put and call options for 100,000 barrels of petroleum for each month of January through March 2004, and 50,000 barrels of petroleum for each month of April through December 2004, whereby the price per barrel is fixed within a certain range. The Company also concluded futures contracts for the purchase of 2.5 million m^3 of gas, reasonably spread over 2004, and 40,000 kWh of electricity for each month of 2004.

Fair Value of Financial Instruments

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

Asset/(liability)	**December 31, 2003** Carrying amount	**December 31, 2003** Estimated fair value	December 31, 2002 Carrying amount	December 31, 2002 Estimated fair value
Foreign currency contracts	**93**	**91**	108	113
Interest rate currency swaps	**148**	**202**	76	131
Interest swap contracts	**–**	**4**	–	4
Forward rate agreements	**–**	**–**	–	(1)
Long-term borrowings	**(2,717)**	**(2,834)**	(2,797)	(2,947)
Petroleum options		**2**	–	–
Gas futures		**2**		
Electricity futures		**–**		

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

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

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

The Company has other financial instruments, which are not significant.

Note [21] CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Working capital	Long-term borrowings	Short-term borrowings
Changes in 2003 balance sheet items	(38)	(80)	(538)
Eliminations:			
– changes in exchange rates	131	227	49
– changes in consolidation	26		
Changes in 2003 financial position	119	147	(489)

Akzo Nobel N.V. Statement of Income

Millions of euros	NOTE	2003	2002
Net income from affiliated companies	a	629	828
Other net income		(27)	(10)
Net income		602	818

Akzo Nobel N.V. Balance Sheet

BEFORE ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2003		2002	
Assets					
Noncurrent assets					
Financial noncurrent assets	c		8,351		7,648
Current assets					
Receivables	d	167		170	
Cash and cash equivalents	e	370		167	
			537		337
Total			8,888		7,985
Shareholders' Equity and Liabilities					
Shareholders' equity	f				
Subscribed share capital		572		572	
Additional paid-in capital		1,803		1,803	
Statutory reserves		85		82	
Cumulative currency translation differences		(1,045)		(896)	
Other reserves		1,911		1,655	
Capital and reserves		3,326		3,216	
Minimum pension liability		(824)		(1,118)	
			2,502		2,098
Long-term borrowings	g		6,274		5,533
Short-term debt	h		112		354
Total			8,888		7,985

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

Notes to Akzo Nobel N.V. Statement of Income and Balance Sheet

GENERAL

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

Foreign currency has been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income given on pages 78 through 81. Thus net income and shareholders' equity are equal to net income and shareholders' equity as shown in the consolidated financial statements on pages 82 and 83. As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code.

STATEMENT OF INCOME

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

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

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

The disclosure required pursuant to the Dutch "Disclosure of Remuneration of Board Members Act" on the total remuneration and shares held by members of the Supervisory Board and the Board of Management are stated on pages 14 through 21 of this Annual Report.

BALANCE SHEET

Note [c] **Financial Noncurrent Assets**

	Total	Consolidated companies: Share in capital	Consolidated companies: Loans[1]	Other financial noncurrent assets
Balance at December 31, 2002	7,648	1,479	6,157	12
Investments/disinvestments	100	88		12
Equity in earnings	629	629		
Dividends received	(467)	(467)		
Loans granted	1,278		1,278	
Repayment of loans	(982)		(978)	(4)
Change related to minimum pension liability	294	294		
Changes in exchange rates	(149)	(61)	(88)	
Balance at December 31, 2003	**8,351**	**1,962**	**6,369**	**20**

Note [d] **Receivables**

	2003	2002
Receivables from consolidated companies	**19**	29
Receivables from nonconsolidated companies	**6**	25
Taxes	**–**	21
Other receivables	**142**	95
	167	170

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

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

	2003	2002
Short-term investments	**357**	152
Cash on hand and in banks	**13**	15
	370	167

At December 31, 2003, the amount of cash and cash equivalents was freely available.

Note [f] **Shareholders' Equity**

	Subscribed share capital	Additional paid-in capital	Statutory reserves	Cumulative translation differences	Other reserves	Capital and reserves	Minimum pension liability	Share-holders' equity
Balance at December 31, 2001	572	1,799	83	(721)	1,185	**2,918**	(40)	**2,878**
Issue of common shares		4				**4**		**4**
Purchase of common shares – net					(6)	**(6)**		**(6)**
Net income					818	**818**		**818**
Dividend					(343)	**(343)**		**(343)**
Capitalized development cost			(1)		1	–		–
Changes related to minimum pension liability							(1,078)	**(1,078)**
Changes in exchange rates in respect of affiliated companies				(175)		**(175)**		**(175)**
Balance at December 31, 2002	572	1,803	82	(896)	1,655	**3,216**	(1,118)	**2,098**
Purchase of common shares – net					–	**–**		**–**
Net income					602	**602**		**602**
Dividend					(343)	**(343)**		**(343)**
Capitalized development cost			3		(3)	–		**–**
Changes related to minimum pension liability							294 [1)]	**294**
Changes in exchange rates in respect of affiliated companies				(149)		**(149)**		**(149)**
Balance at December 31, 2003	**572**	**1,803**	**85**	**(1,045)**	**1,911**	**3,326**	**(824)** [1)]	**2,502**

Subscribed Share Capital

Authorized capital stock of Akzo Nobel N.V. is EUR 1,600,019,200 and consists of 48 priority shares of EUR 400, 600 million common shares of EUR 2, and 200 million cumulative preferred shares of EUR 2. Subscribed share capital consists of 48 priority shares, 286,147,260 common shares, and no preferred shares. In 2003, no common shares were issued.

In connection with Akzo Nobel's Employee Share Plan and stock option plan, the Company held 455,303 common shares both at December 31, 2003 and December 31, 2002.

Stock Options

Options are granted to all members of the Board of Management, Senior Vice Presidents, and Executives. The number of participants was 762 in 2003 (2002: 775). The options for Senior Vice Presidents and Executives expire after five years; Options granted from 2002 onwards expire after seven years. Options (conditional) granted to members of the Board of Management as from 2000 expire after ten years; Options granted from 2003 onwards expire after seven years. The options issued under the plan in 1998, which were excercisible immediately upon grant, lapsed in 2003. Options issued as from 1999 cannot be excercised during the first three years.

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

1) *Includes minimum pension liability for nonconsolidated companies of EUR 8 million.*

Outstanding Option Rights (including Board of Management)

Year of issue	Exercise price in EUR	Outstanding at December 31, 2002	Granted in 2003	Lapsed in 2003	Outstanding at December 31, 2003	Expiry date
Unconditional options						
1998	47.40	411,500		411,500		
1999	42.50	1,047,200		22,200	1,025,000	April 25, 2004
2000	44.82	876,580		13,420	863,160	April 27, 2005
2000	44.82	148,500			148,500	April 27, 2010
		2,483,780		447,120	2,036,660	
Conditional options						
2001	46.75	878,460		15,180	863,280	April 30, 2006
2001	46.75	148,500			148,500	April 30, 2011
2002	46.53	887,420		14,740	872,680	April 25, 2009
2002	46.53	176,550			176,550	April 25, 2012
2003	19.51		998,030	9,900	988,130	April 22, 2010
		2,090,930	998,030	39,820	3,049,140	
	in USD					
American Depositary Shares						
2001	41.69	146,410		4,400	142,010	April 30, 2006
2002	42.05	152,570		4,840	147,730	April 25, 2009
2003	21.21		199,760	4,400	195,360	April 22, 2010
		298,980	199,760	13,640	485,100	
Total		4,873,690	1,197,790	500,580	5,570,900	

In 2003 no stock options were exercised.

Employee Share Plan

Under the Akzo Nobel Employee Share Plan, Akzo Nobel N.V. common shares are conditionally granted to the employees. Generally, these rights vest if the employee has remained in the Company's service for a period of three years. The number of shares granted varies from country to country. During 2003, rights for 200,000 common shares were granted.

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

At December 31, 2003, conditional rights for 591,000 shares were outstanding, which will now all vest on May 1, 2004.

Statutory Reserves

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

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

	2003	2002
Debentures	2,340	1,799
Debt to consolidated companies	3,934	3,733
Other borrowings	–	1
	6,274	5,533

Debentures

	2003	2002
6⅜% 1993/03		136
7% 1995/05	227	227
5⅜% 1998/08	512	512
5⅝% 2002/09	851	924
4¼% 2003/11	750	
	2,340	1,799

Debt to Consolidated Companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 2.6% in 2003 (2002: 3.2%).

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

	2003	2002
Debt to credit institutions		40
Commercial paper		240
Debt to consolidated companies	4	4
Borrowings from nonconsolidated companies	15	9
Other liabilities	93	61
	112	354

Commercial paper relates to Akzo Nobel's Euro commercial paper program, which at December 31, 2003, had a maximum of EUR 1.5 billion (at December 31, 2002: EUR 1.5 billion). At December 31, 2003, there was no commercial paper outstanding.

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

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Netherlands consolidated companies. These debts, at December 31, 2003, aggregating EUR 0.9 billion (at December 31, 2002: EUR 1.3 billion), are included in the consolidated balance sheet.

Additionally, at December 31, 2003, guarantees were issued in behalf of consolidated companies in the amount of EUR 1.4 billion (at December 31, 2002: EUR 2.4 billion), including guarantees issued by Akzo Nobel N.V. in relation to the exemption of certain Irish companies[1], under section 5(c) of the

[1] *These companies are Organon Teknika Limited, Organon Ireland Limited, Organon Research and Development Limited, Nourypharma Ireland Limited, Intervet Ireland Limited, Intervet Laboratories Limited, Akzo Nobel Car Refinishes (Ireland) Limited, Akzo Nobel Decorative Coatings Ireland Limited, Akzo Nobel Decorative Coatings Ireland (Sutton) Limited, Crown Berger Ireland Limited, and Crown Berger Distribution Limited.*

Companies (Amendment) Act 1986 Ireland. The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated Balance Sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., as disclosed in Commitments in Note 19 of the Notes to the Consolidated Financial Statements.

Guarantees relating to nonconsolidated companies amounted to EUR 9 million (2002: EUR 9 million).

Arnhem, February 2, 2004

The Board of Management
G.J. (Hans) Wijers
Fritz W. Fröhlich
Rudy M.J. van der Meer
Dag Strömqvist
A.T.M (Toon) Wilderbeek

The Supervisory Board
Aarnout A. Loudon
Frits H. Fentener van Vlissingen
Virginia Bottomley
Uwe-Ernst Bufe
Abraham E. Cohen
Cees J.A. van Lede
Alain Mérieux
Lars H. Thunell
Maarten C. van Veen
Karel Vuursteen

AUDITORS' REPORT

Introduction
We have audited the 2003 financial statements of Akzo Nobel N.V., Arnhem, as included in this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2003, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Arnhem, February 2, 2004

KPMG Accountants N.V.

PROFIT ALLOCATION AND DISTRIBUTIONS IN ACCORDANCE WITH THE ARTICLES OF ASSOCIATION

Article 43

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

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

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

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

Article 44 *44.7*

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

PROPOSAL FOR PROFIT ALLOCATION

With due observance of article 43, paragraph 6, of the Articles of Association, EUR 259 million of net income is carried to other reserves.

Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of EUR 1,152 and on common shares of EUR 343 million will be distributed.

Following the acceptance of this proposal, the holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 will be made available from May 10, 2004.

SPECIAL RIGHTS TO HOLDERS OF PRIORITY SHARES

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

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

FINANCIAL SUMMARY

Consolidated Statement of Income

Millions of euros	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994
Net sales	**13,051**	14,002	14,110	14,003	14,432	12,482	10,914	10,182	9,751	10,078
Operating income before nonrecurring items	**1,347**	1,492	1,571	1,641	1,238	1,147	1,041	846	850	838
Financing charges	**(166)**	(204)	(257)	(245)	(245)	(179)	(93)	(88)	(87)	(99)
Taxes	**(366)**	(399)	(417)	(462)	(323)	(336)	(316)	(251)	(266)	(220)
Earnings from nonconsolidated companies	**36**	38	69	65	52	45	54	41	62	46
Earnings from normal operations, after taxes	**851**	927	966	999	722	677	686	548	559	565
Minority interest	**(40)**	(35)	(36)	(43)	(25)	(16)	(17)	(16)	(20)	(17)
Net income excluding extraordinary and nonrecurring items	**811**	892	930	956	697	661	669	532	539	548
Extraordinary and nonrecurring items, after taxes	**(209)**	(74)	(259)	(9)	(508)	(129)	15		(16)	(36)
Net income	**602**	818	671	947	189	532	684	532	523	512
EBITDA	**1,999**	2,173	2,245	2,305	2,009	1,825	1,638	1,392	1,345	1,359
Common shares, in millions at December 31	**285.7**	285.7	285.9	285.9	285.9	285.3	285.2	284.7	284.3	284.3
Dividend	**343**	343	343	343	286	278	275	242	226	226
Dividend in % of net income excluding extraordinary and nonrecurring items	**42**	38	37	36	41	42	41	45	42	41
Per common share, in EUR										
Net income	**2.11**	2.86	2.35	3.31	0.66	1.86	2.40	1.87	1.83	1.80
Net income excluding extraordinary and nonrecurring items	**2.84**	3.12	3.25	3.34	2.44	2.32	2.35	1.87	1.89	1.93
Dividend	**1.20**	1.20	1.20	1.20	1.00	0.98	0.97	0.85	0.79	0.79
Shareholders' equity	**8.76**	7.34	10.07	9.42	7.28	7.36	14.58	12.54	10.85	10.46
Number of employees at December 31	**64,600**	67,900	66,300	68,400	68,000	85,900	68,900	70,700	69,800	70,400
Salaries, wages, and social charges	**3,505**	3,552	3,416	3,285	3,777	3,368	2,969	2,820	2,725	2,772
Ditto, as % of net sales	**26.9**	25.4	24.2	23.5	26.2	27.0	27.2	27.7	27.9	27.5
Ratios										
Operating income before nonrecurring items as percentage of net sales	**10.3**	10.7	11.1	11.7	8.6	9.2	9.5	8.3	8.7	8.3
Operating income before nonrecurring items as percentage of invested capital	**16.0**	16.5	16.8	18.4	12.8	14.1	15.2	13.2	14.2	14.1
Net income excluding extraordinary and nonrecurring items as percentage of shareholders' equity	**35.3**	35.9	33.4	40.0	33.3	21.1	17.3	16.0	17.8	18.6
Interest coverage	**8.1**	7.3	6.1	6.7	5.1	6.4	11.2	9.6	9.8	8.5
EBITDA coverage	**12.0**	10.7	8.7	9.4	8.2	10.2	17.6	15.8	15.5	13.7
Share price										
Highest	**32.44**	54.50	57.85	59.15	52.40	58.58	42.84	26.99	23.79	25.98
Lowest	**16.00**	27.25	33.73	37.30	30.00	25.87	26.29	19.97	18.60	21.28
Year-end	**30.60**	30.23	50.15	57.20	49.80	38.80	39.66	26.77	21.06	22.73

Consolidated Balance Sheet

Millions of euros, December 31	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994
Intangible assets	**590**	629	508	388	326	166	133	134	168	137
Property, plant and equipment	**3,967**	4,402	4,568	4,501	4,435	5,311	4,420	4,304	3,848	3,808
Financial noncurrent assets	**1,866**	2,217	1,895	2,000	1,878	1,401	880	846	752	749
Noncurrent assets	**6,423**	7,248	6,971	6,889	6,639	6,878	5,433	5,284	4,768	4,694
Inventories	**2,133**	2,206	2,270	2,267	2,091	2,291	1,835	1,760	1,648	1,541
Receivables	**2,671**	2,815	3,229	3,135	2,981	2,823	2,267	1,981	1,907	1,865
Cash and cash equivalents	**727**	520	455	416	932	536	317	404	317	330
Current assets	**5,531**	5,541	5,954	5,818	6,004	5,650	4,419	4,145	3,872	3,736
Total assets	**11,954**	12,789	12,925	12,707	12,643	12,528	9,852	9,429	8,640	8,430
Capital and reserves	**3,326**	3,216	2,918	2,702	2,086	2,112	4,163	3,575	3,091	2,974
Minimum pension liability	**(824)**	(1,118)	(40)	(8)	(4)	(11)	(5)	(6)	(6)	
Shareholders' equity	**2,502**	2,098	2,878	2,694	2,082	2,101	4,158	3,569	3,085	2,974
Minority interest	**140**	137	138	159	154	190	118	108	88	83
Equity	**2,642**	2,235	3,016	2,853	2,236	2,291	4,276	3,677	3,173	3,057
Provisions	**3,923**	4,368	2,960	2,797	2,432	2,582	1,963	1,891	1,834	1,712
Long-term borrowings	**2,717**	2,797	2,235	2,729	2,678	2,672	914	975	1,233	1,424
Short-term borrowings	**441**	979	2,267	1,967	2,803	2,663	778	1,128	735	500
Current liabilities	**2,231**	2,410	2,447	2,361	2,494	2,320	1,921	1,758	1,665	1,737
Short-term debt	**2,672**	3,389	4,714	4,328	5,297	4,983	2,699	2,886	2,400	2,237
Total equity and liabilities	**11,954**	12,789	12,925	12,707	12,643	12,528	9,852	9,429	8,640	8,430
Invested capital										
Of consolidated companies	**8,117**	8,692	9,395	9,257	8,573	9,206	7,035	6,706	6,133	5,867
In nonconsolidated companies	**353**	491	575	673	644	466	579	561	525	496
Total	**8,470**	9,183	9,970	9,930	9,217	9,672	7,614	7,267	6,658	6,363
Property, plant and equipment										
Capital expenditures	**581**	689	822	725	797	819	641	836	750	741
Depreciation	**599**	622	635	631	740	661	587	537	488	516
Ratios										
Net sales/invested capital	**1.55**	1.55	1.51	1.57	1.50	1.54	1.59	1.59	1.63	1.69
Gearing	**0.92**	1.46	1.34	1.50	2.03	2.09	0.32	0.46	0.52	0.52
Equity/noncurrent assets	**0.41**	0.31	0.43	0.41	0.34	0.33	0.79	0.70	0.67	0.65
Inventories and receivables/current liabilities	**2.15**	2.08	2.25	2.29	2.03	2.20	2.14	2.13	2.14	1.96

For definitions of certain financial ratios and concepts see page 114.

Business Segment Statistics

Millions of euros	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994
Pharma										
Net sales	**3,550**	4,008	4,044	3,839	2,865	2,323	2,094	1,793	1,713	1,665
Operating income[1]	**692**	768	831	765	577	461	409	348	336	293
Invested capital[2]	**2,506**	2,475	2,558	2,367	2,081	1,399	1,243	1,083	894	818
Operating income[1]										
– as percentage of net sales	**19.5**	19.2	20.5	19.9	20.1	19.8	19.5	19.4	19.6	17.6
– as percentage of invested capital	**27.8**	30.5	33.7	34.4	35.4	34.9	35.2	35.2	39.3	36.0
EBITDA	**868**	948	995	932	717	566	499	428	404	357
Capital expenditures	**210**	297	317	214	199	173	107	107	124	108
Average number of employees	**21,300**	21,700	21,000	21,200	18,300	16,200	15,500	15,100	14,300	14,100
Coatings										
Net sales	**5,233**	5,521	5,591	5,568	5,266	4,570	3,618	3,218	2,960	2,989
Operating income[1]	**431**	465	426	447	425	369	319	252	203	221
Invested capital[2]	**2,087**	2,264	2,395	2,323	2,196	2,167	1,436	1,324	1,254	1,191
Operating income[1]										
– as percentage of net sales	**8.2**	8.4	7.6	8.0	8.0	8.1	8.8	7.8	6.9	7.4
– as percentage of invested capital	**19.8**	20.0	18.1	19.8	19.5	20.5	23.1	19.6	16.6	17.9
EBITDA	**582**	623	588	598	573	492	419	343	286	308
Capital expenditures	**128**	131	181	170	155	181	120	106	101	95
Average number of employees	**29,400**	29,200	30,100	30,100	30,400	27,500	21,900	20,800	20,600	21,000
Chemicals										
Net sales	**4,397**	4,598	4,604	4,740	4,154	3,670	3,706	3,726	3,559	3,804
Operating income[1]	**324**	344	340	445	368	318	334	261	278	330
Invested capital[2]	**2,560**	2,850	3,132	3,064	2,803	2,669	2,749	2,678	2,413	2,429
Operating income[1]										
– as percentage of net sales	**7.4**	7.5	7.4	9.4	8.9	8.7	9.0	7.0	7.8	8.7
– as percentage of invested capital	**12.0**	11.5	11.0	15.2	13.5	11.7	12.3	10.3	11.5	13.6
EBITDA	**638**	672	676	778	665	590	592	498	489	565
Capital expenditures	**237**	248	310	329	311	291	273	432	356	344
Average number of employees	**14,500**	14,900	15,400	15,600	15,000	14,400	14,700	15,900	16,200	16,900
Acordis/Fibers										
Net sales					2,242	1,947	1,606	1,540	1,626	1,645
Operating income[1]					(110)	20	(2)	(2)	45	12
Invested capital[2]						1,682	1,144	1,155	1,156	960
Operating income[1]										
– as percentage of net sales					(4.9)	1.0	(0.1)	(0.1)	2.8	0.7
– as percentage of invested capital					(6.4)	1.4	(0.2)	(0.2)	4.3	1.1
EBITDA					48	152	108	98	146	118
Capital expenditures					107	135	83	144	140	146
Average number of employees					17,400	16,100	13,700	14,500	15,200	16,700

[1] *Before nonrecurring items.*

[2] *At December 31.*

Regional Statistics

Millions of euros	**2003**	2002	2001	2000	1999
The Netherlands					
Net sales by destination	**825**	816	720	787	862
Net sales by origin	**2,546**	2,662	2,533	2,214	2,583
Operating income[1]	**212**	191	219	360	264
Capital expenditures	**173**	197	235	156	214
Invested capital[2]	**2,354**	2,062	1,821	2,231	2,114
Number of employees[2]	**12,700**	13,000	12,700	12,800	12,900
Germany					
Net sales by destination	**1,147**	1,084	1,052	1,064	1,436
Net sales by origin	**1,088**	1,051	1,070	1,134	1,944
Operating income[1]	**89**	78	82	83	24
Capital expenditures	**27**	36	52	51	68
Invested capital[2]	**619**	642	687	570	151
Number of employees[2]	**4,100**	4,700	4,200	4,700	5,100
Sweden					
Net sales by destination	**510**	517	512	538	524
Net sales by origin	**1,102**	1,184	1,088	1,268	1,003
Operating income[1]	**80**	89	67	79	63
Capital expenditures	**55**	36	71	74	70
Invested capital[2]	**555**	585	716	734	863
Number of employees[2]	**4,300**	4,500	4,500	4,700	4,700
United Kingdom					
Net sales by destination	**840**	963	1,036	1,052	1,164
Net sales by origin	**798**	911	924	966	1,406
Operating income[1]	**(78)**	13	38	55	7
Capital expenditures	**26**	25	36	56	69
Invested capital[2]	**760**	947	1,232	1,194	1,255
Number of employees[2]	**4,600**	4,900	5,200	5,600	5,700
Other European countries					
Net sales by destination	**3,963**	3,951	3,964	3,879	4,327
Net sales by origin	**3,100**	3,016	3,266	3,025	2,814
Operating income[1]	**562**	654	712	558	498
Capital expenditures	**110**	136	104	96	121
Invested capital[2]	**1,152**	1,220	1,178	1,316	1,649
Number of employees[2]	**13,500**	14,400	14,800	15,300	15,400

Millions of euros	**2003**	2002	2001	2000	1999
USA and Canada					
Net sales by destination	**2,944**	3,723	3,802	3,596	3,382
Net sales by origin	**2,604**	3,318	3,263	3,198	3,162
Operating income[1]	**190**	149	190	237	248
Capital expenditures	**81**	177	220	193	144
Invested capital[2]	**1,627**	2,158	2,542	2,034	1,516
Number of employees[2]	**9,500**	10,600	10,300	10,600	10,100
Latin America					
Net sales by destination	**704**	767	917	944	841
Net sales by origin	**470**	506	660	704	566
Operating income[1]	**60**	99	104	91	53
Capital expenditures	**18**	31	33	35	36
Invested capital[2]	**259**	265	429	419	415
Number of employees[2]	**4,600**	4,700	4,500	4,700	4,500
Asia					
Net sales by destination	**1,453**	1,513	1,429	1,466	1,223
Net sales by origin	**1,022**	1,064	1,039	1,132	687
Operating income[1]	**173**	161	113	122	54
Capital expenditures	**81**	41	54	35	35
Invested capital[2]	**567**	598	560	553	448
Number of employees[2]	**9,000**	8,800	7,900	7,600	7,700
Other regions					
Net sales by destination	**665**	668	678	677	673
Net sales by origin	**321**	290	267	362	267
Operating income[1]	**59**	58	46	56	27
Capital expenditures	**10**	10	17	29	40
Invested capital[2]	**224**	215	230	206	162
Number of employees[2]	**2,300**	2,300	2,200	2,400	1,900

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

For definitions of certain financial ratios and concepts see page 114.

DEFINITIONS

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

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

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

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

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

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

Gearing
Net interest-bearing borrowings divided by equity

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

Interest coverage
EBIT divided by financing charges

EBITDA coverage
EBITDA divided by financing charges

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FINANCIAL CALENDAR

- Report for the 1st quarter 2004
  April 20, 2004

- Annual Meeting of Shareholders
  April 22, 2004

- Quotation ex 2003 final dividend
  April 26, 2004

- Payment of 2003 final dividend
  May 10, 2004

- Report for the 2nd quarter 2004
  July 19, 2004

- Report for the 3rd quarter 2004
  October 19, 2004

- Quotation ex 2004 interim dividend
  October 20, 2004

- Payment of 2004 interim dividend
  November 1, 2004

- Report for the year 2004
  February 4, 2005 (target)

- Annual Meeting of Shareholders
  April 21, 2005

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