Delivering Tomorrow's Answers Today

AkzoNobel 2008 Report

AkzoNobel
Tomorrow's Answers Today

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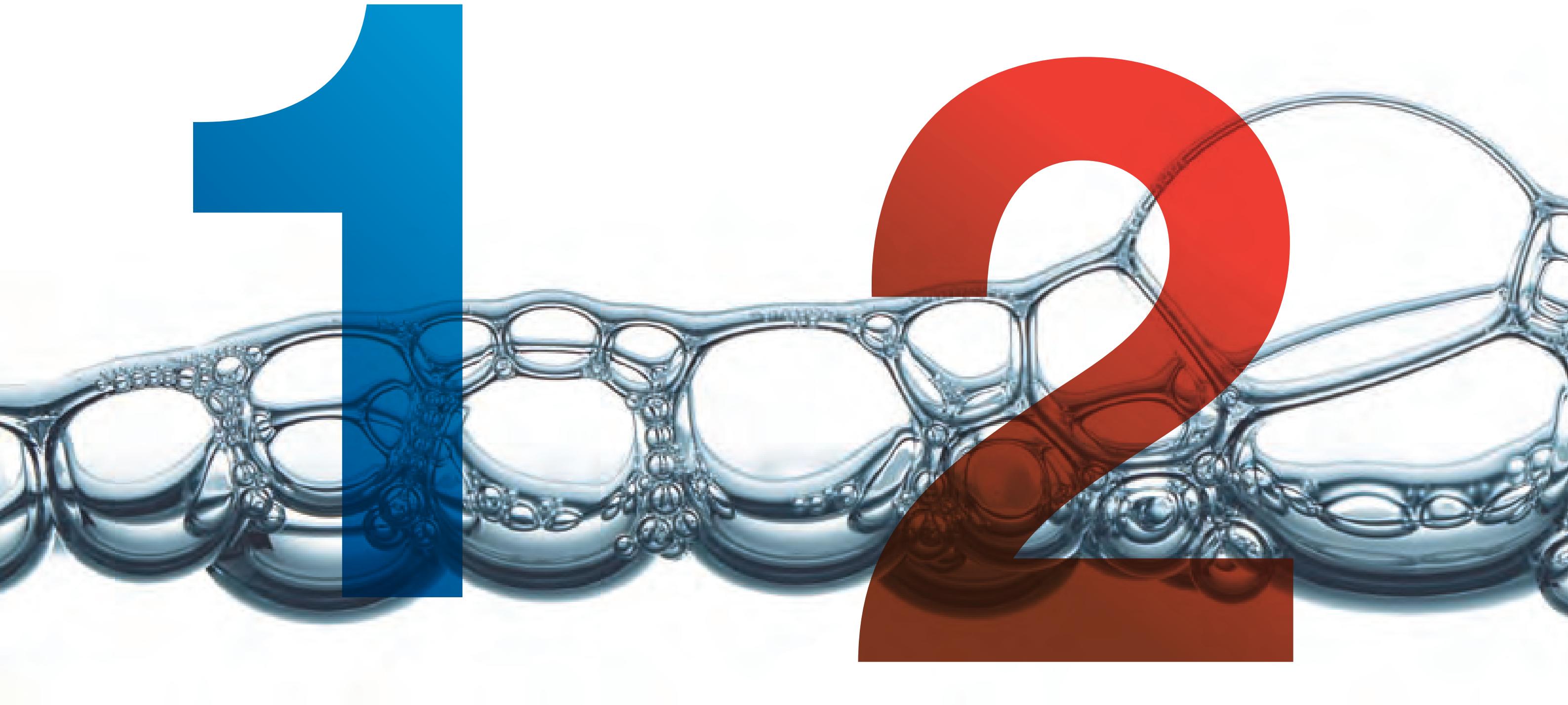

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Overview

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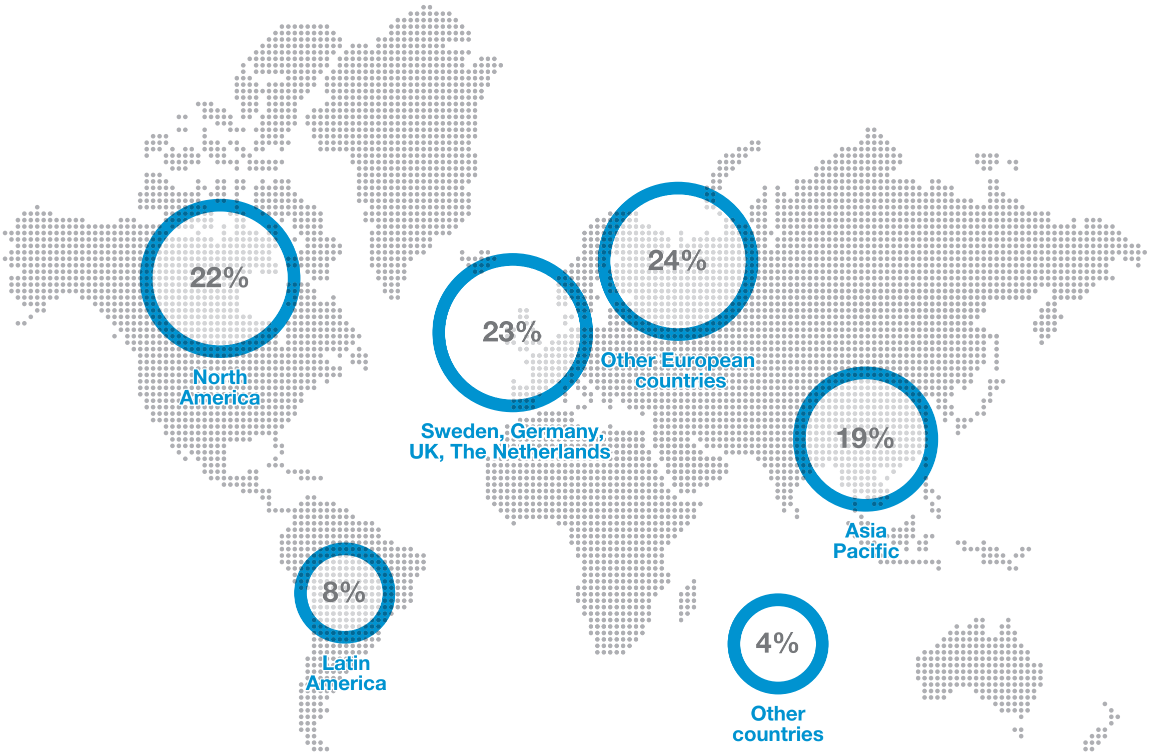
AkzoNobel at a glance

- Revenue up 1 percent to €15.4 billion
- EBITDA before incidentals totaled €1,878 million
- Net income from continuing operations before incidentals down 14 percent to €742 million
- Dividend maintained at €1.80 per share
- Severity of the deteriorating economy became apparent in Q4

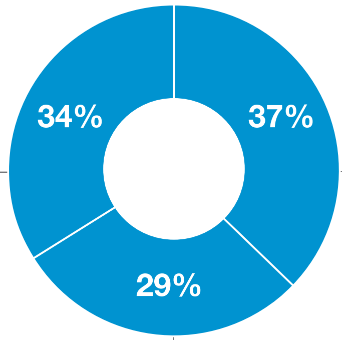
AkzoNobel is proud to be one of the world's leading industrial companies. Based in Amsterdam, the Netherlands, we make and supply a wide range of paints, coatings and specialty chemicals – 2008 revenue totaled €15.4 billion. In fact, we are the largest global paints and coatings company. As a major producer of specialty chemicals we supply industries worldwide with quality ingredients for life's essentials. We think about the future, but act in the present. We're passionate about introducing new ideas and developing sustainable answers for our customers. That's why our 60,000 employees – who are based in more than 80 countries – are committed to excellence and delivering Tomorrow's Answers Today.

Geo-mix revenue by destination



AkzoNobel

Total revenue €15.4 billion



Decorative Paints

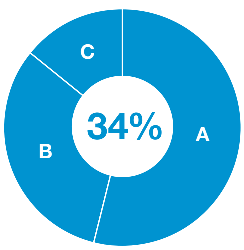
- Revenue €5.1 billion
- EBITDA[1] €593 million
- 24,000 employees

Performance Coatings

- Revenue €4.5 billion
- EBITDA[1] €546 million
- 21,000 employees

Specialty Chemicals

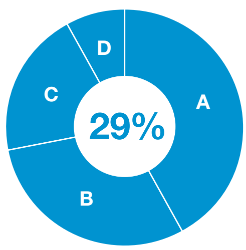
- Revenue €5.7 billion
- EBITDA[1] €891 million
- 13,300 employees



Decorative Paints

IN %

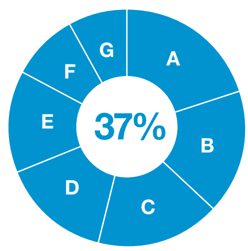
A	Europe	54
B	Americas	32
C	Asia	14
		100



Performance Coatings

IN %

A	Industrial Activities	42
B	Marine and Protective Coatings	30
C	Car Refinishes	20
D	Packaging Coatings	8
		100



Specialty Chemicals

IN %

A	Functional Chemicals	20
B	Pulp and Paper Chemicals	17
C	Industrial Chemicals	17
D	National Starch	15
E	Surface Chemistry	14
F	Polymer Chemicals	9
G	Chemicals Pakistan	8
		100

[1] Before incidentals.

Key figures

These pages give an overview of our financial performance during 2008. The data provided includes revenue by destination and origin, key economic figures and information related to health, safety and environmental data.

Employees by region

NUMBER OF EMPLOYEES YEAR-END

	2008
US and Canada	12,000
Latin America	4,800
China	6,300
Other Asian countries	7,800
The Netherlands	5,000
Germany	3,600
Sweden	3,800
UK	4,200
Other European countries	10,100
Other regions	2,400
Total	**60,000**

Revenue by destination

IN € MILLIONS

	2008
US and Canada	3,330
Latin America	1,306
China	1,054
Other Asian countries	1,866
The Netherlands	867
Germany	1,141
Sweden	478
UK	1,093
Other European countries	3,666
Other regions	614
Total	**15,415**

Revenue by origin

IN € MILLIONS

	2008
US and Canada	3,463
Latin America	1,103
China	968
Other Asian countries	1,682
The Netherlands	1,423
Germany	1,179
Sweden	1,457
UK	1,206
Other European countries	2,582
Other regions	352
Total	**15,415**

Economic data

IN € MILLIONS

	2008	2007 PF[1]	%
Information on the statement of income before incidentals			
Revenue	15,415	15,255	1
EBITDA	1,878	2,011	(7)
EBIT before fair value adjustments	1,416	1,520	(7)
EBIT after fair value adjustments	1,266	1,344	(6)
Net income from continuing operations before fair value adjustments	842	985	(15)
Net income from continuing operations	742	859	(14)
Earnings per share from continuing operations (in €)	3.00	3.11	(4)
After incidentals			
Operating income/(loss)	(626)	979	
Impairment ICI intangibles, before taxes	1,275	–	
Net income/(loss) attributable to shareholders	(1,086)	595	
Cash flows and research and development			
Net cash from operating activities	91	643[3]	
Capital expenditures	534	543	(2)
Research and development expenses	353	359	(2)
Ratios in percent			
EBITDA margin (before incidentals)	12.2	13.2	
Research and development expenses as percentage of revenue	2.3	2.4	
Interest coverage (after incidentals)	–[2]	11.1	
People, health, safety and environment			
Average number of employees during the year	61,300	61,700[4]	
Average revenue per employee (in thousands of €)	251	247	
Volatile organic compound (VOC) emission to air (in metric kilotons)	4.0	4.9	
Number of serious incidents	3	3	
Total reportable rate of injuries (per million hours)	4.6	5.3	
Total illness absence rate (in %)	2.2	2.2	

[1] Pro forma and unaudited.
[2] Not meaningful as EBIT is a loss.
[3] Not a pro forma number.
[4] At year-end.

Key developments

Q1

January

Acquisition
AkzoNobel officially completed the €11.6 billion acquisition of Imperial Chemical Industries (ICI) and became the world's largest decorative paints company.

Q2

April

On-sale
Following the ICI acquisition, the on-sale of part of the National Starch business to Henkel was completed. The £2.7 billion deal involved the divestment of the former ICI's Adhesives and Electronic Materials activities.

New brand
We launched our new corporate brand, which included a brand new set of company values, a powerful new logo and a commitment to delivering Tomorrow's Answers Today.

Synergies upgrade
The estimated annual synergies target resulting from the ICI acquisition was upgraded to €340 million, a 20 percent increase on the previously announced figure of €280 million.

May

Portfolio strengthened
The company strengthened its Specialty Chemicals portfolio with two acquisitions. Pulp and Paper Chemicals business, Eka Chemicals, acquired Levasil, the silica sol business of Germany's H.C. Starck Group. AkzoNobel Polymer Chemicals agreed to purchase two organic peroxides product lines from China's Jiangsu QiangSheng.

June

Divestments
In line with the commitment package agreed in connection with the acquisition of ICI, we announced the sale of our Para and Crown Diamond decorative paints brands in Canada to General Paint Corp. In August, the sale of our Crown Paints decorative paints business in the UK and Ireland to Endless LLP was also agreed, along with the divestment of two Belgian brands to Rieu Investissements S.A.

Q3

August

China expansion

We expanded our presence in China with the opening of a new €23 million facility for the manufacture and sale of protective coatings in Suzhou, close to Shanghai.

September

New targets

The company announced new financial targets, which included an EBITDA margin of at least 14 percent by the end of 2011 and delivering 100 percent of the ICI synergies by 2010.

Coatings investments

We revealed an investment of almost €50 million in our Performance Coatings activities after agreeing two acquisitions to boost the company's Car Refinishes and Industrial Finishes businesses. The two deals involved the purchase of durable paint and bright films manufacturer Soliant LLC and the global floor coatings business of Lord Corporation, both of which are based in the United States.

Q4

October

Portfolio strengthened

We strengthened our world-leading Marine and Protective Coatings portfolio with the acquisition of the Enviroline business from Florida-based Industrial Environmental Coatings Corporation. Enviroline is a specialist supplier of high performance, corrosion-resistant linings, predominantly for the oil and gas industries, specializing in both new construction and maintenance projects.

November

New Indian plant

AkzoNobel Industrial Finishes broke ground on a new coatings manufacturing plant in India, signaling the company's ambition to become one of the country's leading industrial players. The new facility, being built near Bangalore, will produce coil and specialty plastic coatings.

AkzoNobel on the capital market

- Proposed dividend of €1.80 per share
- Attractive dividend yield of 4.2 percent
- Share buyback totaling €1,437 million in 2008
- €1 billion bond issued

Proposed dividend of €1.80 per share

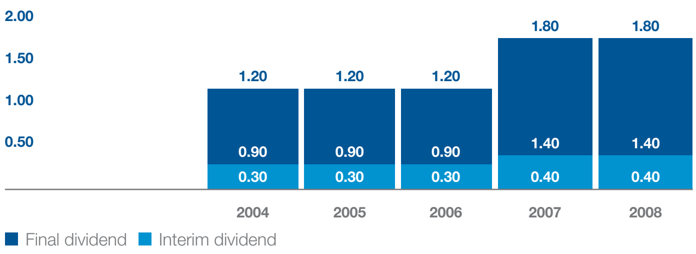
The Board of Management proposes a dividend of €1.80 per common share, similar to last year. AkzoNobel's shares will be traded ex-dividend as of April 29, 2009. In compliance with the listing requirements of Euronext Amsterdam, the record date will be May 4, 2009.

The dividend as proposed to the 2009 Annual General Meeting of shareholders will be payable as of May 7, 2009. The dividend payment to holders of ADRs will be made in US $ at the $/€ rate fixed by the European Central Bank on May 7, 2009.

The dividend paid over the last five years is shown in the graph below:

Dividend paid

IN € PER SHARE



Dividend policy

AkzoNobel's present dividend policy is based on an annual pay-out ratio of at least 45 percent of net income before incidentals and fair value adjustments for the ICI acquisition.

Share buyback totaling €1,437 million in 2008

In 2008, AkzoNobel bought back 31,746,972 shares totaling €1,437 million at an average price of €45.26 per share, corresponding to 12.1 percent of its share capital. The total number of outstanding shares on December 31, 2008, following the deduction of 31,746,972 shares that were bought back and canceled, was 231,664,187. Based on a year-end share price of €29.44, the market capitalization was €6.8 billion.

Close dialog with the capital markets

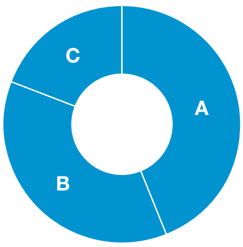
The company attaches great value to maintaining an open dialog with the financial community in order to promote transparency. Management gave presentations at a number of industry conferences, as well as in meetings with investors and analysts. In September 2008, new targets were presented to the financial community at our well attended Investor & Analyst Day in London.

At year-end 2008, AkzoNobel was covered by 27 equity brokers and the following analyst recommendations were applicable:

Analyst recommendations

IN %

A	Buy	44
B	Hold	37
C	Sell	19
		100



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

Listings

AkzoNobel's common shares are listed on the stock exhange of Euronext Amsterdam. AkzoNobel is included in the AEX Index, which normally consists of the top 25 listed companies in the Netherlands, ranked on the basis of their turnover in the stock market and free float. In 2008, 567 million AkzoNobel shares were traded on Euronext Amsterdam (2007: 626 million).

In 2007, the company decided to delist from the NASDAQ stock exchange and deregister from the SEC. AkzoNobel has a sponsored level 1 ADR program and ADRs can be traded on the international OTCQX platform in the United States.

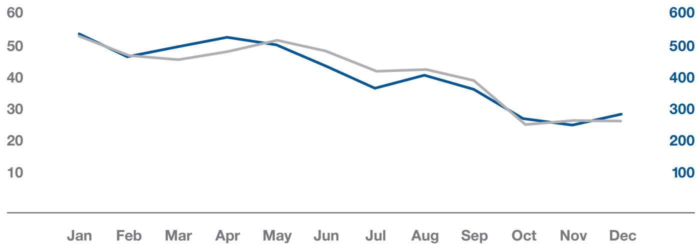
Codes

Euronext ticker symbol	AKZA
ISIN common share	NL0000009132
OTC ticker symbol	AKZOY
ISIN ADR	US0101993055

The share price performance relative to the AEX Index for a one-year and a five-year period is shown in the graphs below:

AkzoNobel share price vs AEX Index 2008

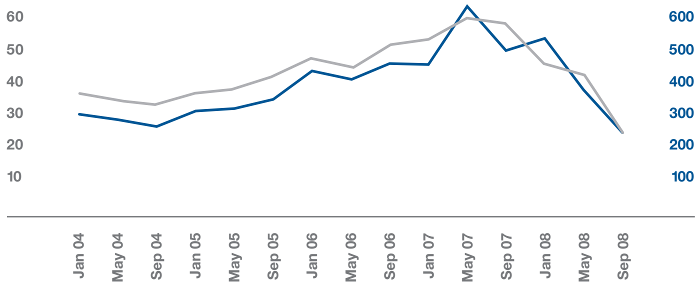
AKZONOBEL SHARE PRICE IN € AEX INDEX



AkzoNobel share price ■ AEX Index

AkzoNobel share price vs AEX Index 2004 – 2008

AKZONOBEL SHARE PRICE IN € AEX INDEX



AkzoNobel share price ■ AEX Index

Key share data

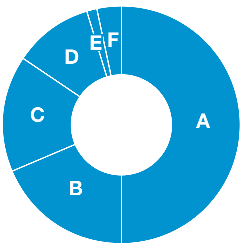
	2008	2007	2006
Year-end (share price in €)	29.44	54.79	46.18
Year-high (share price in €)	57.11	65.56	49.41
Year-low (share price in €)	22.85	44.41	38.30
Year-average (share price in €)	42.57	55.48	43.92
Average daily trade in shares:			
In millions of €	94.0	151.8	79.20
In millions of shares	2.2	2.7	1.8
Number of shares outstanding at year-end (in millions)	232	262	287
Market capitalization at year-end (in billions of €)	6.8	14.4	13.30
Net income per share (in €)	(4.38) [1]	33.82 [2]	4.02
Dividend per share (in €)	1.80	1.80	1.20
Dividend yield (in %)	4.2	3.2	2.7
Pay-out ratio	48.2	45.5	39.4
Price-earnings ratio (P/E ratio)	(6.7) [1]	1.6	11.5

[1] The 2008 net income per share includes the non-cash impairment of ICI intangibles of €1.2 billion after tax and incidental charges of €0.6 billion.
[2] The 2007 net income per share includes the profit on the sale of OBS, but is before the acquisition of ICI.

Distribution of shares 2007

AT YEAR-END IN %

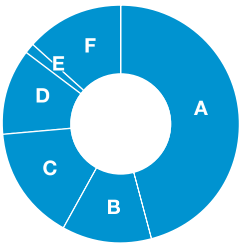
A	North America	50.2
B	The Netherlands	18.6
C	UK/Ireland	15.8
D	Rest of Europe	10.9
E	Rest of world	1.2
F	Undisclosed	3.3
		100



Distribution of shares 2008

AT YEAR-END IN %

A	North America	46.1
B	The Netherlands	12.1
C	UK/Ireland	15.5
D	Rest of Europe	11.7
E	Rest of world	1.3
F	Undisclosed	13.3
		100



Broad base of international shareholders

AkzoNobel, which has a 100 percent free float, has a broad base of international shareholders. An analysis of the shareholder structure carried out in January 2009 showed that at 46.1 percent, the US and Canada make up the largest regional group of institutional investors, followed by investors from the UK and Ireland, with 15.5 percent. Shareholders from the Netherlands hold 12.1 percent of AkzoNobel shares, while a further 11.7 percent are held by institutional investors from the rest of Europe. Around 7 percent of the company's share capital is held by private investors, most of whom are resident in the Netherlands.

Major shareholders

Capital Research and Management Company and Paulson & Co. notified the Netherlands Authority for the Financial Markets (AFM) that they each held more than 5 percent of the issued shares in Akzo Nobel N.V. by December 31, 2008. This information was provided in line with the Netherlands Financial Markets Supervision Act ("Wet op het financieel toezicht"). More information can be found on the website of the AFM under notifications substantial holdings.

The Financial Markets Supervision Act imposes a duty to disclose percentage holdings in the capital and/or voting rights in the company when such holding reaches, exceeds or falls below 5, 10, 15, 20, 25, 30, 40, 50, 60, 75 and 95 percent. Such disclosure must be made to the AFM without delay, who then notify the company.

AkzoNobel on the capital market

Credit rating and outlook

AkzoNobel considers a strong investment grade rating important and wants to maintain its current credit rating. Regular review meetings are held between rating agencies and AkzoNobel senior management.

Bond issued

As part of its long-term financing strategy, AkzoNobel issued a €1 billion bond in December 2008. The proceeds of this transaction allowed AkzoNobel to extend its debt maturity profile. This €1 billion bond issue, which offers a 7.75 percent coupon, has a maturity of five years. The bonds are issued by Akzo Nobel Sweden Finance AB, guaranteed by Akzo Nobel N.V., and they are listed on the Luxembourg Stock Exchange.

Shareholder services

The Investor Relations department organizes presentations for analysts and institutional and retail investors, which can be viewed on the company's corporate website. AkzoNobel provides shareholders and other parties in the financial markets with equal and simultaneous information about matters that may influence the share price.

The contacts between the Board of Management on the one hand and press and analysts on the other are carefully handled and structured, and the company will not engage in any acts that compromise the independence of analysts in relation to the company and vice versa. Briefings on quarterly results are given either via group meetings or teleconference and are both accessible by telephone or via the corporate website. Briefings are similarly given to update the market after each quarterly announcement.

Briefing meetings with institutional shareholders may be held to ensure that the investment community receives a balanced and complete view of the company's performance and the issues faced by the business.

In addition, AkzoNobel communicates with all of its shareholders and investors through the publication of an annual report, General Meetings of shareholders, the Investor & Analyst Days, roadshows, one-on-one meetings, group meetings, broker conferences, quarterly reports, the AkzoNobel Fact File, press releases and the company's corporate website.

Analyst meetings can be reviewed by shareholders via webcasts. The corporate website provides all relevant information with regard to dates of analyst meetings and procedures concerning webcasting.

Analysts' reports and valuations are not assessed, commented upon or corrected, other than factually, by the company. AkzoNobel does not pay any fee(s) to parties for carrying out research for analysts' reports or for the production or publication of analysts' reports with the exception of credit rating agencies.

Contacts with the capital markets are dealt with by the members of the Board of Management, AkzoNobel's investor relations professionals, and from time to time, other AkzoNobel personnel specially mandated by the Board of Management.

Contact information

The corporate website www.akzonobel.com provides all information which is required to be published.

If you have questions or comments about investor relations matters, please contact us:
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E investor.relations@akzonobel.com

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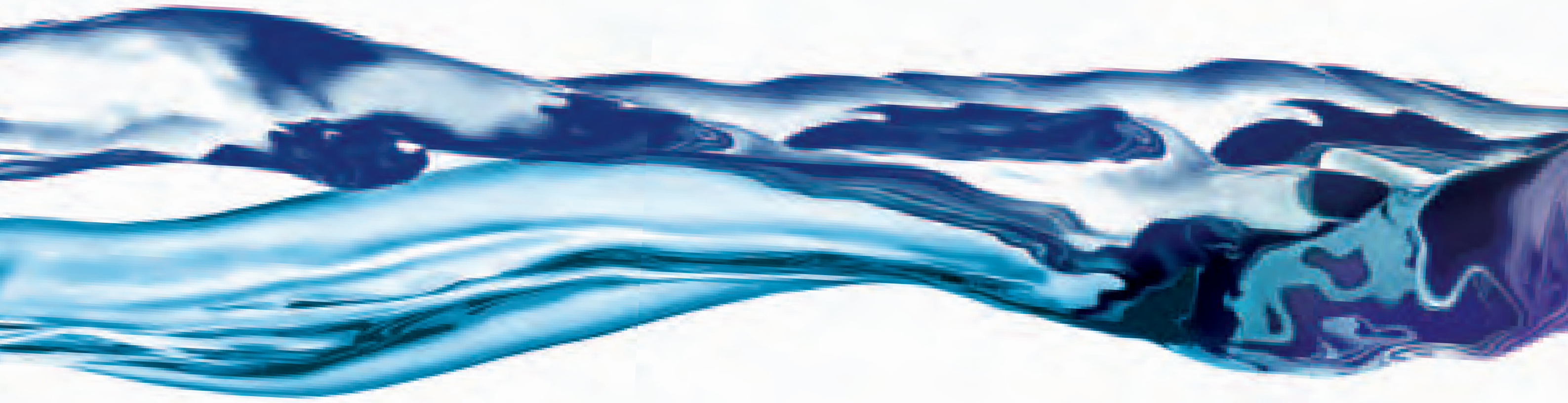
Holders of ADRs in the US can contact our Transfer and Register Agent:
Deutsche Bank Trust Company Americas
c/o American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
New York, NY 10272-2050
DB@amstock.com
www.adr.db.com

Financial calendar

- Report for the 1st quarter 2009: April 23, 2009
- Annual General Meeting 2009: April 27, 2009
- Ex-dividend date of 2008 final dividend: April 29, 2009
- Record date of 2008 final dividend: May 4, 2009
- Payment date of 2008 final dividend: May 7, 2009
- Report for the 2nd quarter 2009: July 29, 2009
- Report for the 3rd quarter 2009: October 28, 2009
- Report for the 4th quarter and the year 2009: February 18, 2010.

Year of integration



Swift and effective integration was always the intention when AkzoNobel acquired ICI at the beginning of 2008. A clear strategy had been defined and there was a strong commitment to building one of the world's leading and most respected industrial companies.

January
First key supplier savings realized.

March
One software platform chosen for all Decorative Paints tinting machines worldwide.

During the first 12 months, the complex process not only went smoothly, but it also developed ahead of schedule, due mainly to precise management of the entire integration program. This rapid success meant that new, more ambitious targets could be set and the company could take greater strides towards delivering on the full potential offered by the enlarged organization.

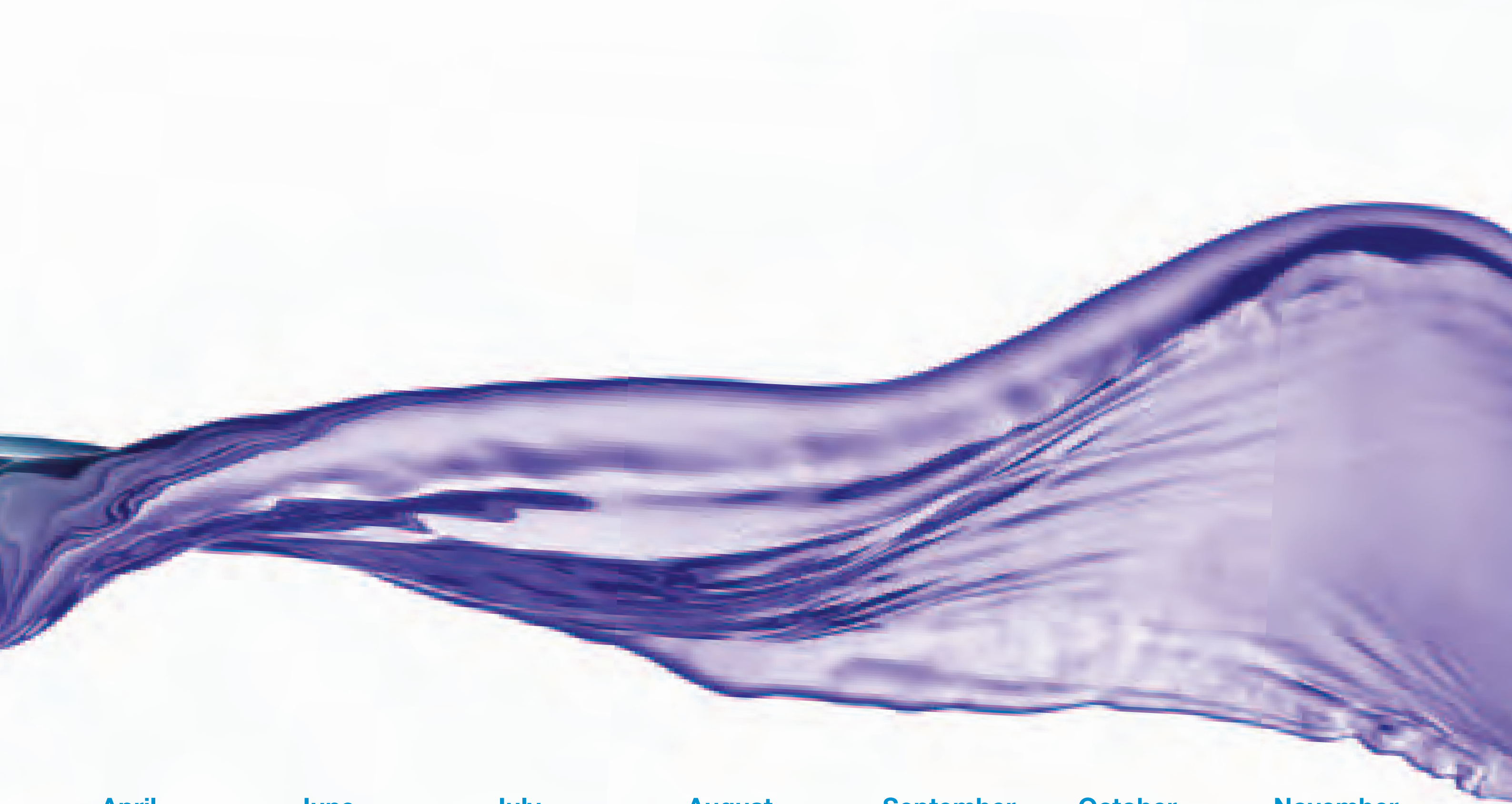
Within four months, after reviewing the available synergies from the transaction, AkzoNobel announced a revised target – estimated annual pre-tax cost synergies of €340 million per annum (an increase of €60 million, or 20 percent, on the initial estimate). By September 2008, the company had committed to delivering 100 percent of these synergies by 2010.

The scale and nature of the deal also meant that several businesses and product brands had to be either integrated or divested. Again, this was handled quickly and efficiently. The previously agreed on-sale of the former ICI's Adhesives and Electronic Materials businesses to Henkel was completed by April, while in Q3 it was announced that the intended sale of National Starch would not be taking place in 2008.

In June, AkzoNobel agreed to sell its Para and Crown Diamond decorative paints brands in Canada to General Paint Corp., while in August, an agreement was reached to divest the Crown Paints business in the UK and Ireland and the DeKeyn and Linitop brands in Belgium. These transactions resulted from commitment packages agreed in connection with the ICI acquisition.

By the middle of the year, the former ICI's Alco and Personal Care activities were well on their way to being integrated into AkzoNobel's Surface Chemistry business. Meanwhile, the Elotex and Sulfur Products Argentina businesses were successfully integrated into Functional Chemicals, again within the space of a few months.

Effective implementation of dedicated global integration projects has ensured that all aspects of the process have progressed smoothly. For example, the former ICI HQ at Manchester Square in London was vacated by July (with the remaining staff moving to Portland House), while site restructuring programs were underway before the end of Q4. Concerted efforts to maintain the high speed implementation of the integration process will be continued in 2009.



April
New AkzoNobel identity and branding launched.

On sale of former ICI's Adhesives and Electronic Materials businesses to Henkel completed.

Annual synergies target upgraded to €340 million.

Elotex business to be integrated into AkzoNobel Functional Chemicals; Alco and Personal Care activities to be integrated into AkzoNobel Surface Chemistry.

June
All top 500 Decorative Paints management appointments finalized.

July
ICI HQ at Manchester Square closed and staff moved to Portland House.

First combined Decorative Paints HSE report published.

August
First common brand segmentation plans for combined Decorative Paints business started.

September
Commitment to delivering synergies of €340 million faster, with 100 percent to be realized by 2010.

Tex Gunning joined the company as Managing Director of AkzoNobel Decorative Paints, succeeding David Hamill.

October
First new combined key account agreement secured.

November
Site restructuring program in Europe commenced.

Our new values were rolled-out globally

Dulux paint shop in Galle, Sri Lanka

Chairman's statement

Hans Wijers
Chief Executive Officer and
Chairman of the Board of Management

Dear Stakeholder,

There can be no doubt that for AkzoNobel, 2008 was an historic yet challenging year. It began and ended in such stark contrast – the completion of the acquisition of ICI in January being followed by the acceleration of a global recession in the fourth quarter. During the months in between, we remained ahead of schedule with the major integration process, continued to launch innovative products, announced our new strategic targets, made further investments in our businesses and launched our new corporate identity.

"Our company is positioned to meet the challenges we face and, as a result, will be in good shape for the long term"

So while the downturn had to be addressed – by taking measures such as reducing our cost base and tackling escalating margin pressure – we never lost focus and were able to demonstrate the strong fundamentals of our organization.

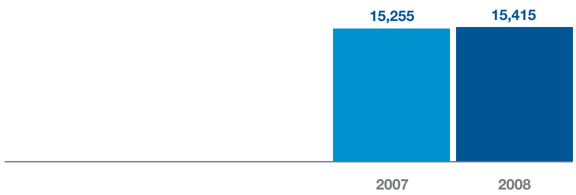
Significantly, the confidence we have in the enlarged AkzoNobel never wavered. Having welcomed 20,000 new colleagues from the former ICI, we quickly began the complex job of integrating the two companies and the process remains ahead of schedule. We have clearly benefited from the strength of both organizations. In terms of synergies, we were able to upgrade our annual target to €340 million a year (from €280 million) within four months of the acquisition. We then committed to delivering these synergies faster than originally planned, with 100 percent to be realized by 2010. There were also many other aspects of the transaction which had to be finalized, such as the on-sale to Henkel of the former ICI's Adhesives and Electronic Materials businesses, and the divestment of several decorative paints brands resulting from various commitment packages.

Inevitably, an integration on this scale involves a huge amount of work, most of which is being handled behind the scenes by a truly dedicated team of people who deserve enormous credit for their ongoing efforts. Everything has been carried out quickly and efficiently, which in turn has enabled us to concentrate on our operational performance.

While the conclusion of the ICI deal was obviously one of the year's major events, we also completed several other important bolt-on acquisitions. Other notable milestones included the launch of innovative products such as our Ecosure decorative paint range and the Compozil Fx system developed by our Pulp and Paper Chemicals business. The receipt of all relevant approvals for the first facilities being built at our Ningbo multi-site in China was also an important landmark as we continue to increase our presence in emerging markets. This was emphasized by the opening in August of a new €23 million facility in Suzhou, China, for the manufacture and sale of protective coatings, and the November groundbreaking for a new AkzoNobel Industrial Finishes plant in India.

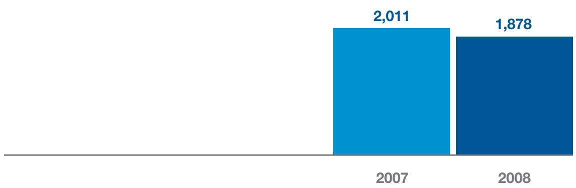
Revenue

IN € MILLIONS



EBITDA before incidentals

IN € MILLIONS



Clearly, the volatile economy has had an impact. The early months of 2008 were dominated by a combination of volume declines in US markets and unprecedented global increases in raw material prices. In addition, we experienced volatility in many key currencies. As the effects of the credit crunch started to have a stronger impact on the real economy, we experienced volume pressure in an increasing number of markets across the world. Operating in such difficult circumstances proved challenging, but we benefited from the stronger coordination we have between our businesses, notably with regard to the procurement of raw materials.

My colleagues on the Board of Management and I are therefore pleased that we were able to deliver full-year results in line with our guidance, despite a particularly difficult fourth quarter. The significant level of restructuring charges we have reported clearly indicate that we are taking forceful action to mitigate the effects of the downturn and quickly deliver the synergies of the ICI integration. This was underlined in September, when we announced actions to accelerate the synergies of the enlarged company and improve operational effectiveness, leading to additional cost savings of at least €100 million.

In response to reduced demand in Q4 and poor visibility, we also undertook further action to reduce costs and protect margins, with a particular focus on Decorative Paints in Continental Europe. This has led to incidental charges of €205 million, bringing the 2008 total to €275 million. At year-end, the ongoing businesses employed approximately 1,660 employees less than last year and the cost measures we have taken so far include reducing third party spend, as well as a 2009 salary freeze for the Board of Management, more than 500 executives and, where possible, for most other employees.

It is now clear that most of our markets are being significantly impacted by the economic crisis. In light of these market conditions and the continuing lack of visibility regarding future global demand, the company assessed the fair value of its assets against lower growth rates, which resulted in a non-cash impairment charge of €1.2 billion after tax in Q4, adjusting the value of ICI intangibles related to the Decorative Paints businesses and of National Starch.

Chairman's statement

As you read through this report, it will become apparent that we have, for the first time, combined the Annual Report and the Sustainability Report into one single publication. With sustainability very much embedded in our organization – and an inherent part of the way we operate and develop our growing portfolio of eco-premium products – it seemed only natural to report on our sustainability performance and on our financial performance in an integrated way. Combining the two reports into one publication also underlines how seriously we take our commitment to sustainable operations, highlighted by the company again being ranked as one of the leading performers on the Dow Jones Sustainability Indexes for 2008.

Remaining in the top three of this influential ranking is another one of our strategic targets, as is realizing a step change in people development. Developing and retaining a diverse talent pool is critical to our ongoing success, and although financial discipline demanded much of our attention during 2008, we were not distracted from continuing to nurture and inspire the new leaders who will guide our company in the years to come.

The vital contribution our employees make to the success of the organization has rarely been more evident than in 2008. The unprecedented volatility of the economy made huge demands on our workforce across the world. Everybody involved should be complimented for the dedication and hard work they put into delivering for our customers and maintaining our operational performance.

We are acutely aware that global market conditions and lack of visibility do not allow for any certainty as we look ahead. The harsh trading conditions experienced towards the end of 2008 continued beyond the fourth quarter and, as a result, we expect 2009 to develop into a very challenging year.

Nevertheless, we remain focused on working towards our medium-term target of an EBITDA margin of 14 percent by the end of 2011, on continuing to deliver the €340 million ICI synergies, on driving margin management programs across the company and on rigorous cost management. The fact that we have strong positions in diverse, highly attractive sectors, with a wide geographical spread – combined with the actions we are taking – mean that our company is positioned to meet the challenges we face and, as a result, will be in good shape for the long term.

Hans Wijers
CEO and Chairman of the Board of Management

Keith Nichols (1960, British)
Chief Financial Officer

Former AkzoNobel senior Vice-President of Finance, former Group Treasurer of Corus Group plc.

Keith Nichols joined AkzoNobel in December 2005 from Corus Group plc, where he held the position of Group Treasurer. Prior to joining Corus in 2004, he held a number of senior finance positions within TNT NV, bringing extensive international finance experience.

Mr. Nichols played a key senior role in the sale of Organon BioSciences to Schering Plough and in the structuring, financing and completion of the acquisition of ICI. He is well placed to lead the finance team in successfully integrating ICI in a disciplined fashion and to help deliver against AkzoNobel's future targets. He is a member of the Association of Corporate Treasurers and holds the MCT Advanced Diploma.

Leif Darner (1952, Swedish)
Board member responsible for Performance Coatings

Former Board member responsible for Chemicals, former business unit Manager of Marine and Protective Coatings.

After graduating from Gothenburg University, Leif Darner held several management positions before being appointed General Manager of Powder Coatings Scandinavia at Courtaulds in 1985.

In 1993, Mr. Darner was appointed Chief Executive of Coatings Northern Europe. Then in 1997 he served as Worldwide Director of Yacht Paint and Protective Coatings.

In 1998, Courtaulds became part of AkzoNobel and Mr. Darner was appointed Manager of AkzoNobel Marine and Protective Coatings, a post he held from 1999 until 2004, when he was appointed to the Board of Management of AkzoNobel as the member responsible for Chemicals, a position he held until April 2008.

Our Board of Management

Hans Wijers (1951, Dutch)

Chief Executive Officer and Chairman of the Board of Management

Former Senior Partner and Chairman of the Dutch office of The Boston Consulting Group and former Minister for Economic Affairs in the Dutch Government.

A graduate of the University of Groningen and Assistant Professor of Economics at the Erasmus University of Rotterdam in the Netherlands (where he received his PhD in economics), Hans Wijers has participated in two think-tanks for Dutch Ministers and he was senior consultant/partner with various Dutch consulting firms.

Mr. Wijers also holds a number of prominent positions outside AkzoNobel. As well as being a non-executive director at Royal Dutch Shell, he is also Chairman of the Oranje Fonds and Chairman of the Ubbo Emmius Fund Foundation at the University of Groningen. In addition, Mr. Wijers is a member of the Board of Directors of the Concertgebouw and a member of the European Roundtable of Industrialists.

Rob Frohn (1960, Dutch)

Board member responsible for Specialty Chemicals

Former CFO of AkzoNobel, former Manager of AkzoNobel's Surface Chemistry business.

Having graduated from the University of Groningen, Rob Frohn joined AkzoNobel as a business analyst in 1984. After several jobs in control and finance in the Netherlands and the US, he made the switch to a management position in 1994.

Following several General Manager positions within Surface Chemistry, part of the company's chemicals operations, he was appointed in 2000 to lead the business unit, based in Sweden. He returned to the Netherlands in 2004 when he was appointed CFO and member of the Board of Management of AkzoNobel.

Mr. Frohn assumed responsibility within the Board of Management for Specialty Chemicals as of May 1, 2008.

Tex Gunning (1950, Dutch)

Managing Director of AkzoNobel Decorative Paints and nominated to join the Board of Management in May 2009

Former CEO of Vedior N.V., former President Unilever Foods Asia.

Tex Gunning holds a degree in economics from the Erasmus University Rotterdam. He is a passionate lecturer, writer and speaker about the role of business in society and about the need for collective leadership to tackle the world's biggest challenges.

Mr. Gunning's business career has included more than 25 years at Unilever, where his final position was as Business Group President Asia Foods. In September 2007, he was appointed CEO of Vedior, a global company in HRM services. After a successful merger with Randstad, he joined AkzoNobel as Managing Director of Decorative Paints. His long experience in Asia has made him a strong advocate and social entrepreneur in helping to find answers to some of the world's largest social environmental challenges.

Strategy

Following the Organon BioSciences divestment and the acquisition of ICI, AkzoNobel became the world's largest Coatings and Specialty Chemicals company. We have now entered a phase in which we will focus on improving our performance levels, reflecting the benefits of our scale.

The fact that we have strong positions in diverse, highly attractive sectors, with a wide geographical spread, will enable us to meet the short-term challenges – particularly those arising from the impact of the ongoing economic recession – as well as helping to position the company for the long-term.

We have set ambitious targets for sustainable value creation to support our overall goals. They are:

Value creation

- Outgrow our markets
- Improve our EBITDA margin to a minimum of 14 percent by the end of 2011
- Improve our EVA®[1] performance year-on-year, with a focus on reducing operating working capital as a percentage of sales.

Sustainability

- Remain in the top three in the Dow Jones Sustainability Indexes
- Reduce our total recordable injury rate
- Deliver a step change in people development, in part through substantively improving the diversity of our company.

Strategic agenda

To achieve these ambitions and thereby deliver Tomorrow's Answers Today, we have set a corporate strategic agenda which focuses on incremental improvement. This agenda consists of:

1. Successfully integrating ICI
2. Delivering profitable growth by leveraging our strong emerging markets and technology positions, augmented by bolt-on acquisitions
3. Improving margins through enhanced pricing and procurement processes
4. Increasing operational effectiveness, partly through restructuring, particularly in mature markets
5. Embedding the AkzoNobel values
6. Creating an industry-leading Talent Factory
7. Striving for world class levels of sustainability and safety.

This agenda is explained in more detail as follows:

1 Successfully integrating ICI

At the beginning of 2008, AkzoNobel acquired ICI. We have provided regular updates regarding the associated synergies and when we expect the related savings to be achieved. A summary of the situation and the timeframe involved is shown on the next page.

Capturing these synergies has the highest priority and the Board of Management regularly reviews progress against plans.

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

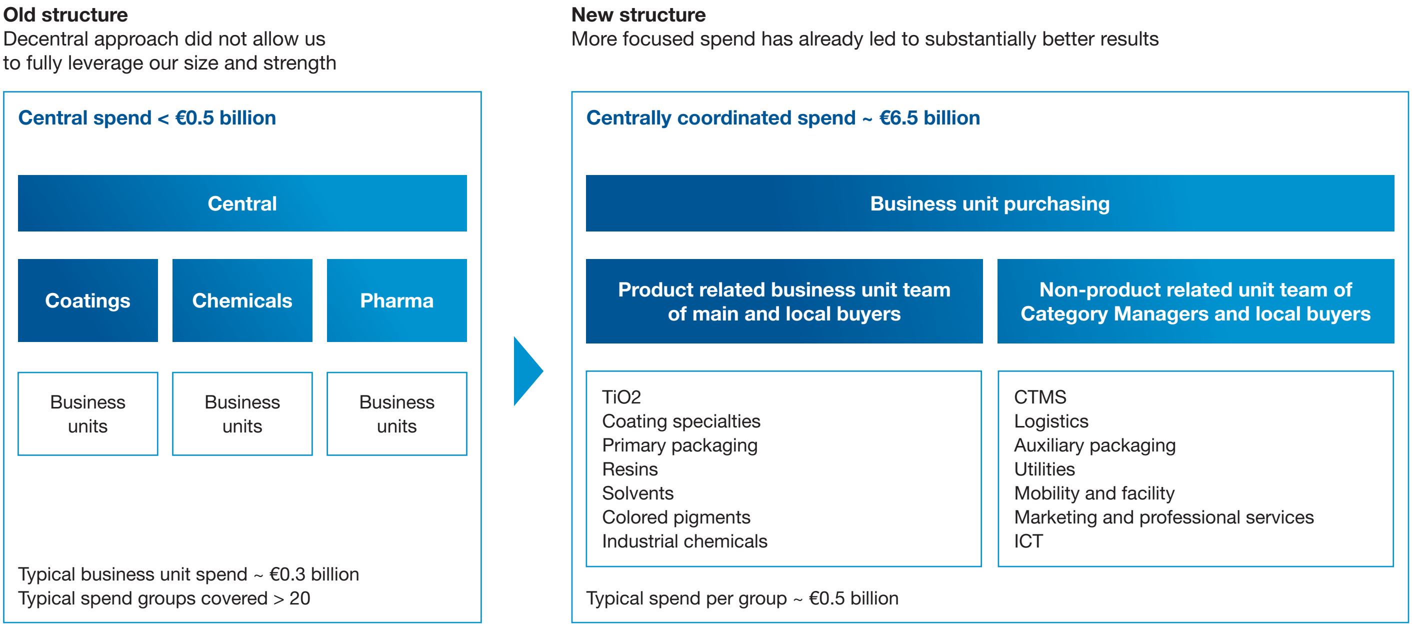
	What we said in August 2007	What we said in April 2008	What we said in September 2008
Savings		20% more	
Total	**€280 million**	**€340 million**	**€340 million**
Decorative Paints		€180 millon	€180 millon
Corporate		€85 millon	€85 millon
Procurement		€75 millon	€75 millon
Timeframe			20% faster
2008		15%	>15%
2009		55%	70%
2010	85%	85%	100%
Integration	Outside in	Detailed plans	All corporate departments redesigned All Decorative Paints regional and functional teams in place
Cultural fit	Avoid conflict and negative synergies	Combining and learning	Building new company 95 percent of targeted management retained

2 Delivering profitable growth

AkzoNobel is relying on three sources of growth – growth based on our strong positions, growth based on new technology and growth through bolt-on acquisitions. We will allocate investment capital in a disciplined manner. We will prioritize investments in attractive markets and/or where we believe our competitive position warrants it. A particular area of emphasis for investment will be on developing markets.

We are continuing to invest in emerging markets, including significant investment in Ningbo, China, for a multi-site development, while major funds have also been allocated in Bahia and Três Lagoas, Brazil, for new Specialty Chemicals facilities.

Procurement organization changes



With regard to new technology, given our scale in paints and coatings, we are able to outspend our competitors on an absolute basis, while still protecting our bottom line profitability. Going forward, we will be working hard to increase the efficiency of our investments in small-scale technology fine-tuning, and utilize the extra capital generated on bigger, bolder technology improvements. These investments will be oriented towards the science that underlies the four functionalities that AkzoNobel provides – beautify, protect, stabilize and transform. For more details about AkzoNobel's vision for R&D and innovation please see pages 108 to 115.

In terms of acquisitions, in 2008, in addition to the ICI transaction, we made a number of other small, bolt-on acquisitions to enhance our positions in both coatings and specialty chemicals. These included Soliant, the floor coatings business of Lord Corporation, and Enviroline. Looking ahead, our plan is to continue to pursue bolt-on acquisitions.

3 Improving margins

Recent conditions in the raw material market proved to be particularly difficult and volatile. However, we have worked hard – and will continue to do so – to protect our margins through better pricing and procurement processes. We continue to move forward with implementation of these improved processes, which are described above.

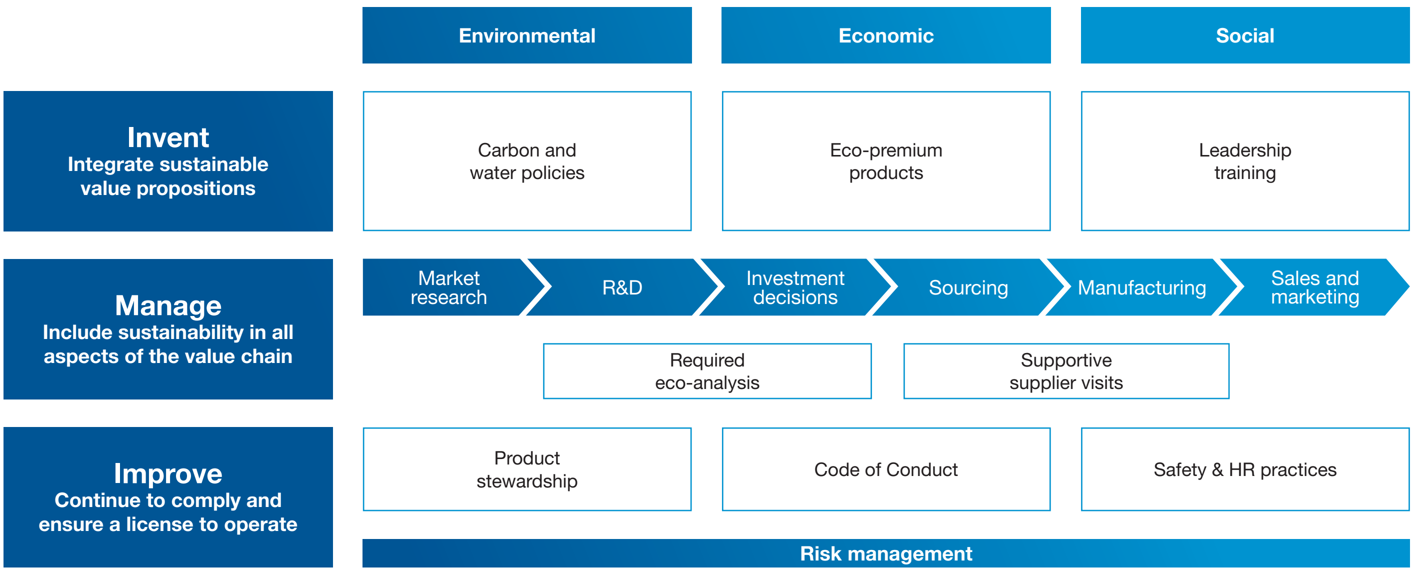
4 Increasing operational effectiveness

In the current difficult economic environment, it is more important than ever to ensure that we maximize efficiency based on our scale. We are, of course, committed to delivering on this and in September 2008 we announced a considerable (€100 million) restructuring program, beyond the previously announced €340 million ICI synergy savings. Savings have been identified across all business areas, shared service centers and the corporate center.

Improvements in operational effectiveness also extend beyond restructuring. For example, we continue to focus on disciplined capital management and, in particular, on improvements in working capital.

Strategy

AkzoNobel sustainability framework



5 Embedding AkzoNobel values

As identified elsewhere in this report, in 2008, AkzoNobel adopted a clear set of new company values. To embed these values, we have pursued two main courses of action:

- Using the new identity as a brand platform, ensure that the global reputation of AkzoNobel supports the strategic agenda of the Board of Management, and that the new AkzoNobel corporate identity and brand architecture are fully deployed.
- Embed Tomorrow's Answers Today into the fabric of our company by creating competencies that properly express our culture and expected behaviors, integrating competencies into core HR programs, such as the annual P&D Dialog performance appraisal and training.

6 Creating a Talent Factory

We aspire to create a Talent Factory which produces high potential talent at all levels of the organization. Our first steps included instituting best practice tools around incentive and development systems. The next areas of focus will be on diversity and talent management.

7 Striving for world class sustainability and safety

We are proud of our record in terms of sustainability, which has been recognized externally by the Dow Jones Sustainability Indexes, where we have been in the top three in our sector since 2007. We are now concentrating on continuous improvement in all aspects of sustainability. Our sustainability framework is shown on this page, and is further explained on page 103, while KPI data relating to our 2008 sustainability performance starts on page 187.

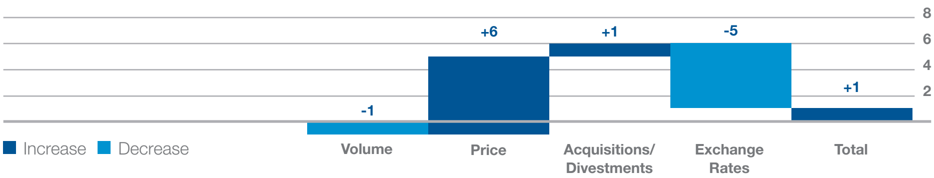
Report of the Board of Management

- 2008 revenue up 1 percent at €15,415 million
- 2008 EBITDA before incidentals totaled €1,878 million (2007: €2,011 million)
- Slowdown evident in all three business areas, in all geographies
- Impairment of ICI intangibles of €1.2 billion after tax and higher incidental charges of €0.6 billion led to a full-year loss of €1.1 billion
- Restructuring and cash protection measures at an advanced stage
- €1 billion bond issue in December
- Balance sheet is strong, but prudence dictates share buyback program will not be completed
- 2007 dividend level of €1.80 maintained

Financial highlights

Full-year revenue amounted to €15,415 million, 1 percent ahead of last year. Although we posted revenue growth for 2008, the severity of the deteriorating economy became apparent towards the end of Q4. Due to the integration of ICI and restructuring measures in response to the economic slowdown, we incurred significant additional incidental costs. We also recorded an impairment of intangibles acquired from ICI (mainly goodwill) of €1.2 billion after tax relating to the Decorative Paints and National Starch businesses. This resulted in a loss for 2008 of €1.1 billion.

Total revenue growth year 2008



IN % VERSUS 2007 PRO FORMA	VOLUME	PRICE	ACQUISITIONS/ DIVESTMENTS	EXCHANGE RATES	TOTAL
Decorative Paints	(3)	4	1	(5)	(3)
Performance Coatings	(1)	4	1	(5)	(1)
Specialty Chemicals	(1)	10	1	(5)	5
AkzoNobel	**(1)**	**6**	**1**	**(5)**	**1**

Revenue growth

In 2008, autonomous growth of five percent (volume and price) compensated for foreign currency translation effects. The volatile US dollar and the fall of the pound sterling limited revenue growth to 1 percent. In Decorative Paints, demand has been weaker across the mature economies of the US and UK in particular, but in the fourth quarter this weakness extended to the emerging markets, notably China. It proved to be a mixed year for our Performance Coatings business, which had to contend with volatile raw material pricing and currencies. Marine and Protective Coatings had a strong year, while Industrial Finishes was affected by soft demand throughout the year. The broad geographic spread and the range of industries served gave us some protection against the effects of individual market fluctuations. In Specialty Chemicals, revenue from Chemicals Pakistan was adversely impacted by the Pakistani rupee, as well as by tariff changes effective July 1, 2008. In other businesses within Specialty Chemicals, we counterbalanced increased raw material prices with higher sales prices, resulting in revenue being 5 percent higher.

Acquisitions and divestments

Revenue increased 1 percent due to acquisitions. In Performance Coatings we acquired Enviroline, a specialist supplier of corrosion-resistant linings, predominantly for the oil and gas industries. We expanded our floor coatings portfolio through an acquisition from Lord Corporation. In Specialty Chemicals we acquired Levasil, a silica sol business. Some acquisitions were completed at the end of 2007, which positively affected 2008 revenue (such as an acquisition in South Africa in Decorative Paints). Furthermore, in early 2009, we acquired LII Europe, which we will consolidate as from January 2009 in Specialty Chemicals. In 2008, LII's revenue amounted to €150 million. LII Europe is located near Frankfurt and is active in the chlorine and caustic market.

Financial highlights

IN € MILLIONS

	2008	2007 PF[1]	Δ%
Continuing operations before incidentals			
Revenue	15,415	15,255	1
EBITDA	1,878	2,011	(7)
EBITDA margin (in %)	12.2	13.2	
EBIT before fair value adjustments	1,416	1,520	(7)
EBIT after fair value adjustments	1,266	1,344	(6)
Net income from continuing operations before fair value adjustments	842	985	(15)
Net income from continuing operations	742	859	(14)
Earnings per share from continuing operations (in €)	3.00	3.11	(4)
After incidentals			
Operating income/(loss)	(626)	979	
Net income/(loss) from continuing operations	(1,109)	595	
Net income/(loss) from discontinued operations	23	–	
Net income/(loss) total operations	(1,086)	595	
Earnings per share from total operations (in €)	(4.38)	2.16	
Capital expenditures	534	543	
Interest coverage	–[2]	11.1	
Invested capital	13,424	15,480	
Net cash from operating activities	91	643[3]	
Net interest-bearing borrowings	2,084	2,910	
Number of employees	60,040	61,700	

[1] Pro forma and unaudited.
[2] Not meaningful as operating income is a loss.
[3] Not a pro forma number.

“The fundamentals of AkzoNobel remain sound”

Keith Nichols
Chief Financial Officer

EBITDA
Including National Starch, EBITDA before incidentals totaled €1,878 million representing a decline of 7 percent. The EBITDA margin was also 1 percent lower at 12.2 percent compared with 2007.

EBITDA before incidentals in Decorative Paints was 6 percent lower than last year at €593 million and the EBITDA margin decreased by 0.3 percent to 11.6 percent. Pressure on margins, due to lower volumes and increased raw material costs, was mitigated by margin management across all regions. Higher than expected synergy benefits offset cost inflation, while respectable growth was booked in Asia.

EBITDA before incidentals in Performance Coatings was €546 milliion, 4 percent lower than the previous year. The EBITDA margin decreased to 12.2 percent (2007: 12.6 percent), a stable performance given the economic circumstances with volatile raw material prices and currencies.

In Specialty Chemicals, EBITDA before incidentals amounted to €891 million, 4 percent lower than in 2007, with EBITDA margin at 15.7 percent (2007: 17.2 percent), despite weakening demand, volatile feedstock costs and an increasingly nervous economic climate.

The “other” category
Activities not allocated to a particular business area are reported in the “other” category. The Decorative Paints businesses which were divested according to the commitment packages agreed with European and Canadian authorities were also reported here.

The 2008 results in “other” were in line with expectations. Corporate costs are unallocated costs of the headquarters and shared service center in Amsterdam and Arnhem respectively. Pension cost for retired employees, among others in the UK and Germany, amounted to €30 million. The full-year results were impacted by €16 million from fair value changes from energy derivatives, which we use for hedging our energy costs and for which we do not apply hedge accounting. In addition, we incurred a €13 million charge due to the results in our captive insurance companies.

Impairment of ICI intangibles
As a consequence of the current market conditions and the continuing lack of visibility of future global demand, we have assessed the recoverable amount of our assets against lower growth rates which we now expect. This has resulted in a non-cash impairment charge of €1.2 billion after tax, covering the value of ICI intangibles related to the Decorative Paints and National Starch businesses.

Restructuring costs
Restructuring costs related to the ICI integration and synergy realization program and profit protection measures in Performance Coatings and Specialty Chemicals. In Decorative Paints, the charges include termination benefits for employees in Europe and impairments for European logistic and manufacturing activities, mainly in Germany. We have assessed strengths and opportunities of all sites in the region in order to increase production efficiency and realize cost savings. Non-integration restructuring projects were implemented in the US, such as a closure of a manufacturing site to reduce capacity given the current market conditions. In addition, our US store business went through a broad based redesign of store locations, resources and associated overhead structure in order to improve the overall profitability. As the slowdown became more apparent, activity to realign the cost base accelerated in Performance Coatings and Specialty Chemicals. The majority of the restructuring is in the mature markets of Western Europe and North America, but there have also been cost reductions in other regions, including China. At year-end, the continuing businesses employed 1,660 employees less than last year. In September 2008, we announced that further cost savings and delivering ICI synergies will result in a total reduction of 3,500 jobs by 2011. We have a strong restructuring track record and, as always, we will work closely with our social partners in this process.

Report of the Board of Management

Other incidental items

Transformation costs include the closure of the London-based ICI headquarters (€59 million) and an impairment loss of €65 million for Decorative Paints businesses which were sold due to the commitment packages agreed with European and Canadian authorities. In addition, transformation costs include costs of external advisors related to the ICI acquisition and costs to establish our new corporate identity.

Other incidental charges came from the fair value step-up for inventories acquired from ICI (€54 million, non-cash) and additional costs for the settlement of a claim related to postretirement healthcare benefits for retired employees. Furthermore, we incurred a charge of €29 million due to foreign currency results on a provision in the UK. The mandatory divestment of the Decorative Paints businesses in Canada, the UK, Ireland and Belgium resulted in a loss of €23 million.

Income tax

Due to the current economic conditions, we have assessed the deferred tax positions. We derecognized an amount of €133 million as we considered it not probable that these deferred tax assets can be utilized against future taxable income.

Many incidentals, such as the goodwill impairment and the transaction loss of the businesses that we divested, are tax-exempt. Excluding incidentals, the tax rate was 27 percent (2007: 27 percent).

Costs in "Other"

IN € MILLIONS

	2008
Corporate costs	(62)
Pension costs	(30)
Technology costs not allocated to the businesses	(29)
Share-based payments	(20)
Energy derivatives	(16)
Insurances	(13)
Other	6
Total costs in "Other"	**(164)**

Incidental charges included in operating income

IN € MILLIONS

	2008	2007 PF[1]
Impairment of ICI intangibles	(1,275)	–
Restructuring costs	(275)	(172)
Transformation costs	(190)	–
Fair value adjustments	(54)	(60)
Special benefits/(charges)	(43)	(91)
Charges related to major legal, antitrust and environmental cases	(32)	(29)
Results on divestments	(23)	(13)
Total incidentals included in operating income	**(1,892)**	(365)

[1] Pro forma and unaudited.

Restructuring costs

IN € MILLIONS

	2008	2007 PF[1]
Decorative Paints	(189)	(96)
Performance Coatings	(20)	(27)
Specialty Chemicals	(29)	(25)
Other	(37)	(24)
Total restructuring costs	**(275)**	(172)

[1] Pro forma and unaudited.

Composition of net income for the year 2008

IN € MILLIONS	NET INCOME BEFORE INCIDENTALS			NET INCOME		
	2008	2007 PF [1]	Δ%	2008	2007 PF [1]	Δ%
Continuing operations	742	859	(14)	(1,109)	595	–
Discontinued operations	23	–	–	23	–	–
Total	**765**	859	(11)	**(1,086)**	595	–

[1] Pro forma and unaudited.

Earnings per share for the year 2008

IN € MILLIONS	EARNINGS PER SHARE BEFORE INCIDENTALS			EARNINGS PER SHARE		
	2008	2007 PF [1]	Δ%	2008	2007 PF [1]	Δ%
Continuing operations	3.00	3.11	(4)	(4.47)	2.16	–
Discontinued operations	0.09	–	–	0.09	–	–
Total operations	**3.09**	3.11	(1)	**(4.38)**	2.16	

[1] Pro forma and unaudited.

Discontinued operations
Discontinued operations reflects the results related to the on-sale to Henkel of the former ICI Adhesives and Electronic Material businesses. We received an amount of €3.6 billion before final settlement adjustments. At year-end 2008, we recognized a receivable of €123 million for the settlement of the transaction. The gain on discontinued operations was mainly due to deferred results from the divestment of Organon BioSciences in November 2007.

During 2008, we classified National Starch as a discontinued operation. However, the intended sale did not take place in 2008 and, in accordance with IFRS, we have re-classified National Starch within continuing operations.

Economic Value Added (EVA)
EVA is calculated by deducting from net operating profit after tax (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 financial statements, as it takes into account certain adjustments such as the amortization of incidentals to capital and inclusion of service costs for pensions. Due to the incidental impairment charges, EVA for 2008 totaled a negative amount of €1,723 million (excluding impairments: €431 million negative; 2007: €315 million positive).

Earnings per share and dividend
Net income from continuing operations before incidentals declined by 14 percent to €742 million. The effect on earnings per share from continuing operations before incidentals was mitigated to a decline by 4 percent due to the share buyback program in 2008 and 2007.

An interim 2008 dividend of €0.40 per common share was paid on November 10, 2008. We propose to maintain a final dividend of €1.40, resulting in a total dividend for 2008 of €1.80 (2007: €1.80).

Impact of the ICI acquisition
A pro forma balance sheet for year-end 2007, reflecting the impact of the ICI acquisition on January 2, 2008, on our balance sheet as of December 31, 2007, is set out on the next page.

The allocation of the purchase price of ICI to assets and liabilities was extended to include National Starch and was completed at year-end 2008. In total, we recognized an amount of €4.4 billion of goodwill at acquisition date, of which €1.2 billion has been impaired. The major intangibles recognized are acquired brands, the most significant being Dulux.

Several brands are expected to have an indefinite life. As a result, they will not be amortized but tested for impairment. Measuring ICI's assets and liabilities at fair value increased amortization and depreciation for the assets with a definite useful life by €150 million in 2008 (in 2007: €176 million on a pro forma basis).

Report of the Board of Management

Condensed balance sheet

IN € MILLIONS

	2008		2007 PF[1]		2007	
Intangible assets	7,172		8,897		669	
Property, plant and equipment	3,357		3,585		2,203	
Other financial non-current assets	1,848		1,915		1,402	
Total non-current assets		**12,377**		**14,397**		**4,274**
Inventories	1,781		1,799		1,177	
Trade and other receivables	2,924		3,108		2,139	
Cash and cash equivalents	1,595		1,454		11,628	
Other current assets	57		4,448		25	
Total current assets		**6,357**		**10,809**		**14,969**
Total assets		**18,734**		25,206		19,243
Total equity		**7,913**		**12,091**		**11,129**
Provisions and deferred tax liabilities	2,787		3,749		1,731	
Long-term borrowings	2,341		2,326		1,954	
Total non-current liabilities		**5,128**		**6,075**		**3,685**
Short-term borrowings	1,338		2,038		1,635	
Trade and other payables	2,985		3,132		1,998	
Other current liabilities	1,370		1,870		796	
Total current liabilities		**5,693**		**7,040**		**4,429**
Total equity and liabilities		**18,734**		25,206		19,243

[1] Pro forma and unaudited.

Invested capital

Invested capital at December 31, 2008, totaled €13.4 billion, €2.1 billion below the previous year (on a pro forma basis). The impairment of ICI intangibles and weakened foreign currencies – mainly the pound sterling – caused this decrease. Capital expenditure of €0.5 billion was at the same level as last year (on a pro forma basis) and is not expected to be higher in 2009.

Pension funding status improved – €115 million higher costs in 2009

The funded status of the pension plans at year-end 2008 was a deficit of €988 million, compared with €1,126 million at year-end 2007. The impact of the financial crisis on plan asset valuations, and the acquisition of ICI, was more than offset by additional contributions (mainly in the UK) and the effect of increased discount rates on the pension obligations.

However, a non-cash increase in pension costs of approximately €115 million is to be expected in 2009, as we have to take into account lower returns on plan assets due to their decrease in value in 2008.

Pension premiums to be paid by the company are based on local regulations and arrangements with AkzoNobel's pension funds. For the defined contribution plans, premiums to be paid do not change as a consequence of the aforementioned developments. For the pension plans in the UK, additional payments of £197 million (€202 million) have already been agreed. Such contributions may change due to funding negotiations with the trustees of the plans involved.

Shareholders' equity

Shareholders' equity at year-end 2008 amounted to €7.5 billion. Foreign currencies adversely affected equity by €1,079 million, mainly due to the loss of the pound sterling, by 24 percent. A deferred loss of €551 million from hedging activities related to the ICI acquisition was transferred to goodwill. During 2008, shareholders received an amount of €1,895 million, consisting of a €1,437 million share buyback and €458 million dividend.

Share buyback program

In 2007, we embarked on share buyback programs totaling €4.6 billion. By the end of 2008, €3.0 billion had been completed, of which €1.4 billion was during 2008. Given the unprecedented volatility in the credit markets and the wider global economic uncertainty, we will not complete this share buyback program.

Condensed cash flow statement

IN € MILLIONS

		2008		2007
Profit for the period	(1,021)		9,361	
Income from discontinued operations	(23)		(8,920)	
Amortization, depreciation and impairments	2,096		366	
Changes in working capital and provisions	(867)		(183)	
Other changes	(94)		19	
Net cash from operating activities		**91**		**643**
Capital expenditures	(534)		(359)	
Acquisition and divestments	(6,601)		(337)	
Other changes	106		(147)	
Net cash from investing activities		**(7,029)**		**(843)**
Dividends and buyback of shares	(2,018)		(1,998)	
Changes from borrowings	(433)		422	
Other changes	(42)		141	
Net cash from financing activities		**(2,493)**		**(1,435)**
Net cash used for continuing operations		**(9,431)**		(1,635)
Cash flows from discontinued operations		7		11,083
Net change in cash and cash equivalents of continued and discontinued operations		**(9,424)**		9,448
Cash and cash equivalents at January 1		11,067		1,631
Effect of exchange rate changes on cash and cash equivalents		(194)		(12)
Cash and cash equivalents at December 31		**1,449**		11,067

Cash and debt management
Cash from operating activities totaled €91 million (2007: €643 million). Cash from operating activities was mainly impacted by higher payments from provisions and increased working capital. Working capital expenditures mainly concerned the payment of other current liabilities included in the ICI acquisition balance sheet. The changes in provisions were caused by a pension settlement of €115 million in Sweden and €245 million in additional payments to the UK pension funds.

We used our 2007 cash balance to acquire ICI (€11.6 billion). In 2008, we received an amount of €3.6 billion for the on-sale of certain former ICI businesses to Henkel and paid back €1.9 billion to shareholders. In Q4, 2008, bonds totaling €0.9 billion matured. We refinanced by means of a bond issue of €1 billion. This bond was placed in the market in December, maturing in five years, with an interest rate of 7.75 percent. Our balance sheet is strong, as the acquisition of ICI was financed by the proceeds from the Organon BioSciences divestment in 2007. In May 2009, bonds of an amount of €1 billion will mature. We expect to pay off with available cash, and if necessary with our revolving credit facilities or further refinancing in the capital markets.

Report of the Board of Management

We are confident that we will complete our 2009 refinancing needs and remain committed to defending our A-minus credit rating.

To reduce our counterparty risk, our policy is that cash can only be placed at counterparties with a defensive long-term credit rating. Secondly, all new placed deposits have a duration appropriate to the present market circumstances.

Board of Management's statement on the financial statements, the management report and on internal controls

We have prepared the 2008 Report of AkzoNobel and the undertakings included in the consolidation taken as a whole in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Dutch disclosure requirements for annual reports.

To the best of our knowledge:

1 The financial statements in this 2008 Report give a true and fair view of our assets and liabilities, financial position at December 31, 2008, and of the result of our consolidated operations for the financial year 2008.

2 The management report in this 2008 Report includes a fair review of the development and performance of the businesses and the position of AkzoNobel and the undertakings included in the consolidation taken as a whole, and describes the principal risks and uncertainties that we face.

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

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

The corporate director Internal Audit is responsible for ensuring that these measures are assessed for adequacy and effectiveness. With respect to support to, and monitoring of, compliance with laws and regulations including our Business Principles, a compliance committee has been established. Internal Audit provides assurance to the Board whether our internal control processes, as designed and represented by management, are adequate and functioning correctly.

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

- Provide a reasonable level of assurance that this 2008 Report does not contain any material misstatements
- Have operated properly in the year 2008
- Will also operate properly in 2009.

For a detailed description of the risk management system with regard to the strategic, operational and compliance risks and the principal risks identified, reference is made to the Risk Management chapter (see page 116 onwards). We have discussed the above opinions and conclusions with the Audit Committee, the Supervisory Board and the external auditor.

Outlook and medium-term targets

We have strong market positions in a number of highly attractive sectors with a wide geographical spread. We have a robust balance sheet with manageable 2009 refinancing needs. The actions we are taking mean that our company is well positioned to meet the current challenges and, as a result, will be in good shape to take advantage of the recovery when it comes. We are acutely aware that global market conditions and lack of visibility do not allow for any certainty. The harsh trading conditions experienced towards the end of the fourth quarter have continued into 2009 and, as a result, we expect this year to be very challenging. Nevertheless, we remain focused on achieving our medium-term target of an EBITDA margin of 14 percent by the end of 2011, on continuing to deliver the €340 million ICI synergies, on driving margin management programs across the company and on rigorous cost management.

Amsterdam, February 23, 2009
The Board of Management

Hans Wijers
Chief Executive Officer and Board member responsible for Decorative Paints

Keith Nichols
Chief Financial Officer

Leif Darner
Board member responsible for Performance Coatings

Rob Frohn
Board member responsible for Specialty Chemicals

Report of the Supervisory Board

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 2008, as prepared by the Board of Management and approved by the Supervisory Board in its meeting of February 23, 2009.

The 2008 financial statements were audited by KPMG Accountants N.V. The Auditor's Report appears on page 180. 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 2008 financial statements were a topic of discussion for the full Supervisory Board with the full Board of Management, in the presence of the auditors. Based on these discussions, the Supervisory Board is of the opinion that the 2008 financial statements of Akzo Nobel N.V. meet all requirements for correctness and transparency and that they form a good basis to account for the supervision provided.

We recommend that the Annual General Meeting of shareholders adopts the 2008 financial statements as presented in this 2008 Report. We propose that the Annual General Meeting of shareholders resolves that the total dividend for 2008 on each of the common shares outstanding will be €1.80 and that this amount, less the interim dividend of €0.40, which was payable in November 2008, will be payable on May 7, 2009. As the financial year 2008 has ended in a loss, the dividend will be distributed from the free reserves of the company.

Additionally, we request that shareholders discharge the members of the Board of Management of their responsibility for the conduct of business in 2008 and the members of the Supervisory Board for their supervision of management.

Supervisory Board activities

The Supervisory Board met five times during the course of 2008, which included a meeting with a special focus on the integration of ICI, as well as one meeting with a whole day fully dedicated to the company's strategy. All meetings were plenary sessions with the full Board of Management present and were well attended by the Supervisory Board members. The Supervisory Board also held a separate meeting, which was attended in part by the CEO, during which the Supervisory Board conducted a self-assessment and appraised its committees, working methods, procedures and performance, as well as evaluating the functioning of the Board of Management and its individual members. The Supervisory Board also assessed its relationship with the Board of Management and discussed the composition of the Supervisory Board and its committees. The Chairman of the Supervisory Board prepared the meetings with the assistance of the CEO.

In 2008, the Supervisory Board again devoted considerable time to discussions on the company's strategy. The Supervisory Board reviewed and discussed in-depth the overall company strategy and strategic options with the Board of Management, including objectives, associated risks and the mechanisms for controlling financial risks. Other discussion topics included the integration of ICI, the return of value to the shareholders, corporate governance, debt placement, risk management, scenario planning, remuneration and the approval of major investments, acquisitions and divestments. Regular agenda items included financial and operational performance, share price development, operational planning, course of business and the annual financing and investment plan.

The Supervisory Board met with the Managing Directors of the business units and the staff directors on at least two occasions.

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

Composition of the Supervisory Board
At the 2008 Annual General Meeting of shareholders, Mr. Ellwood, Chairman of Rexam plc, former Chairman of ICI plc and former Group Chief Executive of Lloyds TSB Group, was appointed to the Supervisory Board for a four-year term. On February 23, 2009, Mr. Van den Bergh resigned as Chairman and member of the Supervisory Board and its committees. The Supervisory Board has appointed Mr. Vuursteen as Chairman of the Supervisory Board. With effect from March 5, 2009, Mr. Bufe will be appointed Deputy Chairman of the Supervisory Board.

Board of Management changes
It will be proposed at the 2009 Annual General Meeting of shareholders to appoint Mr. Tex Gunning as a member of the Board of Management of AkzoNobel for a four-year term commencing May 1, 2009. For this purpose it will be proposed at the 2009 Annual General Meeting of shareholders to increase the number of Board of Management members to five.

Audit Committee
The Audit Committee consists of three members and is chaired by Mr. Van den Brink. With effect from March 5, 2009, Mr. Bufe will resign from the Audit Committee. With effect from the same date, Mrs. Bruzelius will be appointed as a member of the Audit Commitee. The Audit Committee had six regular meetings in 2008. As a rule, the CEO, the CFO, the director of corporate control, the internal auditor and the lead partner of the external auditor, KPMG, attend all regular meetings. After every Audit Committee meeting, the Audit Committee holds a separate meeting with only the internal auditor present and one with only the external auditor present. In addition, the Audit Committee met once without the presence of members of the Board of Management to conduct self-evaluation and appraise performance. The Audit Committee regularly discussed financial statements, internal and external control procedures, risk management, internal auditing reports, planning, tax, pensions and the external auditor's performance and independence. Before each announcement of quarterly results, the Audit Committee was informed of the figures and consulted on the reports and press releases to be published. The Audit Committee also discussed items including:

- Annual Compliance Report
- KPMG's approach to auditing the company, engagement letter, fees and audit plan
- Internal Audit Plan
- Operating Working Capital management
- Scenario planning.

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

Remuneration Committee
The Remuneration Committee consists of four members and is chaired by Mr. Burgmans. Mr. Burgmans was appointed as a member of the Remuneration Committee with effect from July 1, 2008. Mr. Ellwood will be appointed a member of the Remuneration Committee with effect from March 5, 2009. The Committee met five times in 2008. In 2008, the Remuneration Committee made recommendations on the remuneration and remuneration policy for the members of the Board of Management, including personal targets. Information on remuneration of the Board of Management and of the Supervisory Board can be found on page 167 in the Supervisory Board's remuneration report.

Nomination Committee
The Nomination Committee consists of four members and is chaired by Mr. Vuursteen. Messrs. Burgmans and Ellwood will be appointed as members of the Nomination Committee with effect from March 5, 2009. The Committee met twice in 2008. The Nomination Committee made proposals for an increase in the number of members of the Board of Management, as well as the appointment of Mr. Gunning to the Board of Management in 2009.

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 2008.

Amsterdam, February 23, 2009
The Supervisory Board

Our Supervisory Board

Karel Vuursteen (1941, Dutch)
Chairman
Initial appointment 2002
Current term of office 2006 – 2010

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

Uwe-Ernst Bufe (1944, German)
Deputy Chairman
Initial appointment 2003
Current term of office 2007 – 2011

Former CEO of Degussa AG, Vice-Chairman Investment Banking and Deputy Chairman of the Supervisory Board of UBS Deutschland AG, member of the Supervisory Boards of Solvay SA, Umicore SA, Kali + Salz AG and non-executive Director of SunPower Inc.

Virginia Bottomley (1948, British)
Initial appointment 2000
Current term of office 2008 – 2012

Former Secretary of State for Health and member of the British Cabinet, former Secretary of State for National Heritage, member of the House of Lords, Chancellor of the University of Hull, Governor of the London School of Economics, Governor of the Ditchley Foundation, non-executive Director of BUPA, Executive Director of Odgers Ray & Berndtson and Trustee of the Economist newspaper.

Dolf van den Brink (1948, Dutch)
Initial appointment 2004
Current term of office 2008 – 2012

Former member of the Managing Board of ABN AMRO Bank, Professor Financial Institutions University of Amsterdam and Chairman of the Supervisory Board of Nyenrode University.

Peggy Bruzelius (1949, Swedish)
Initial appointment 2007
Current term of office 2007 – 2011

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

Antony Burgmans (1947, Dutch)
Initial appointment 2006
Current term of office 2006 – 2010

Former Chairman of Unilever N.V. and plc, non-executive Director of BP plc, member of the Supervisory Boards of SHV Holdings N.V. and AEGON N.V.

Peter Ellwood (1943, British)
Initial appointment 2008
Current term of office 2008 – 2012

Former Chairman of ICI plc, former Group Chief Executive of Lloyds TSB Group and Chairman of Rexam plc.

Louis Hughes (1949, American)
Initial appointment 2006
Current term of office 2006 – 2010

Former President and COO of Lockheed Martin, former Executive Vice-President of General Motors, Chairman and CEO of GBS Laboratories LLC, member of the Boards of Directors of Sulzer AG, ABB AG and Alcatel-Lucent SA and Executive Advisor of Wind Point Partners.

Maarten van den Bergh (1942, Dutch)
Resigned as Chairman and member of the Supervisory Board on February 23, 2009
Initial appointment 2005

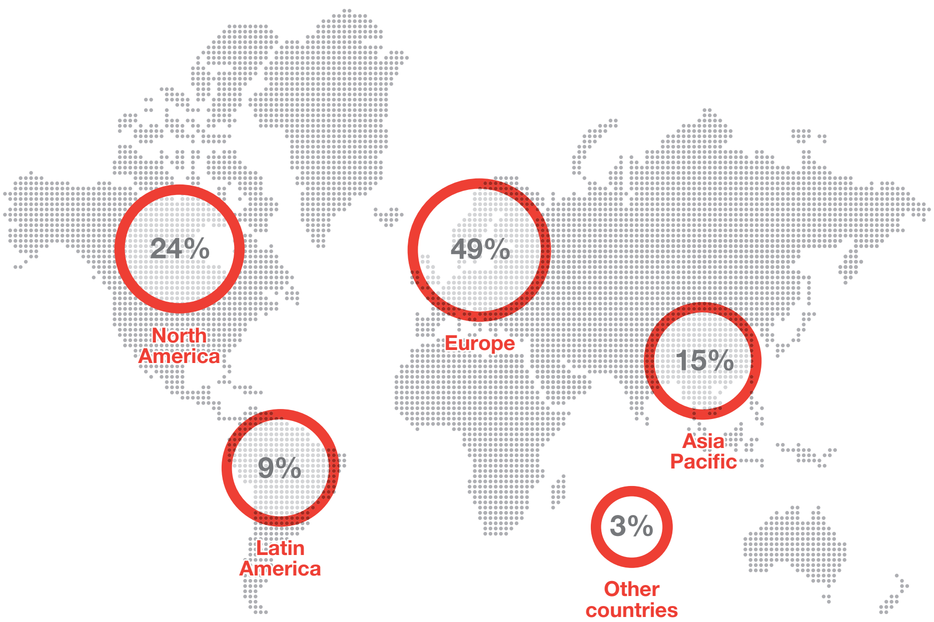
Former President of Royal Dutch Petroleum Company, former Vice-Chairman Committee of Managing Directors of Royal Dutch/Shell Group plc, non-executive Director of Royal Dutch Shell plc, British Airways plc and BT Group plc.

Europe, Americas, Asia

AkzoNobel Decorative Paints

- 2008 revenue down 3 percent
- 2008 EBITDA margin close to last year
- Revenue in Europe stable in 2008
- US revenue declined by 9 percent as a result of recessionary market conditions
- Asia delivered 7 percent revenue growth in 2008
- For the year, margins protected at a healthy level driven by price increases
- Significant cost reduction in Europe and the US
- A year marked by restructuring, integration and margin management

Geo-mix revenue by destination



"We have started a program of leadership and internal community development to provide stability, meaning and inspiration"

Tex Gunning
Managing Director Decorative Paints

For AkzoNobel Decorative Paints, 2008 was an historic and exciting year. Following the completion of the ICI acquisition, we embarked on a complex yet exciting journey. This journey involves integrating the deco organizations of both companies and becoming the world's biggest supplier of decorative paints with winning businesses in all regions.

Within three months we had established a new organizational model, appointed the key management and developed a comprehensive plan for the total integration of the business. We followed a "best-of-both" approach, looking for best talent/management, the best processes and the best products and brands.

The restructuring of the business according to this integration plan is now in full swing. It is much easier for our employees to become mobilized and cope with change when they are part of a cohesive community, which is why we have started a program of leadership and internal community development to provide stability, meaning and inspiration, and to create the right high performance culture.

Employees by region

NUMBER OF EMPLOYEES AT YEAR-END 2008

US and Canada	5,700
Latin America	1,900
China	1,200
Other Asian countries	2,600
The Netherlands	1,100
Germany	1,700
Sweden	600
UK	2,300
Other European countries	5,700
Other regions	1,200
Total	**24,000**

Key figures

IN € MILLIONS

	2008	2007 PF[1]	Δ%
Revenue	5,118	5,303	(3)
Before incidentals:			
EBITDA	593	630	(6)
EBITDA margin (in %)	11.6	11.9	
EBIT before fair value adjustments	477	510	(6)
EBIT after fair value adjustments	396	413	(4)
After incidentals:			
Operating income/(loss)	(674)	308	
EBIT margin (in %)	–[2]	5.8	
Capital expenditures	120	131	
Invested capital	6,589	7,865	

[1] Pro forma and unaudited.
[2] Not meaningful as operating income is a loss.

AkzoNobel Decorative Paints

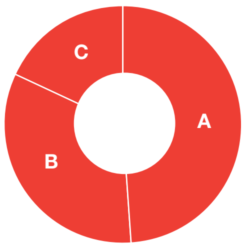
Revenue

IN € MILLIONS

Revenue breakdown

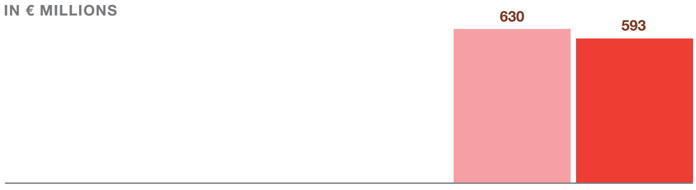
IN %

A	Europe	49
B	Americas	33
C	Asia Pacific	18
		100



EBITDA before incidentals

IN € MILLIONS



¹ Pro forma and unaudited.

A selection of leading brands from our portfolio

We also carried out a review of our operations in all three regions (Europe, Asia and the Americas) to identify opportunities for future growth and to set our priorities. As a result of this process, we have started to significantly reduce the complexity of our operations, including the number of brands, formulations and stock keeping units. In addition, we have started to adapt our manufacturing footprint to the necessary size for the integrated business.

The expected savings within Decorative Paints resulting from the synergies associated with the ICI acquisition were announced very early on – €180 million by the end of 2010, adding up to total synergies of €340 million, upgraded from the original €280 million. But we are ahead of schedule and have committed to delivering these annual savings by the end of 2010. This reflects how effectively the integration has been handled. The results we were able to achieve in 2008 also clearly show that our teams have managed the process successfully, despite the economic crisis which affected our businesses, particularly during the second half of the year.

We were helped by a continuous stream of innovations, which is an important pillar of our growth strategy. We are targeting an innovation rate of more than 30 percent (products in our portfolio introduced less than three years ago). This innovation process involves focusing on a clearly defined key innovation platform which corresponds to the different customer segments we serve. An important theme throughout our innovation – and our operations in general – is sustainability. One outcome of this theme is our continuous development of eco-premium products, such as Ecosure, The Freshaire Choice and Dulux Anti-Formaldehyde Paint, which were launched during the year. Their introduction confirmed that AkzoNobel is the first major paint manufacturer to make a significant move towards creating credible environmentally sustainable paint products for both the professional and the consumer markets.

We were also supported by the balanced structure of our new global Decorative Paints organization. There's a good split between consumer and professional business, reflecting the market segmentation within the professional/trade segment. There's also a good balance of new build and maintenance activities, along with rapidly growing revenue share in emerging markets, where we are achieving good profitability at the same time. However, despite the quality of our business, we also started to feel the impact of the global economic crisis, which particularly affected the US and the UK markets during the second half of 2008.

We expect challenging times, but at the same time we are confident that we can turn this crisis into an opportunity by using it as an additional driver for change and reinvention. We will continue to invest in our people, brands and markets to come out of the crisis stronger, and we will be ready to capture growth opportunities in the emerging markets of Asia, Latin America and Central Europe and to win in the mature markets in Western Europe and North America.

AkzoNobel Decorative Paints Europe

Our activities in Europe performed well during 2008, even though economic conditions were challenging. We increased market share and profitability in Continental Europe, while in Northern and Eastern Europe, good organic growth was achieved and margins held. In the UK, Ireland and South Africa region, we continued to invest in innovation and put particular emphasis on further establishing sustainability as a core element of our strategy.

Operational performance

Market conditions were difficult but margins held up well, notably in Northern and Eastern Europe. The Continental Europe business had to contend with the collapse of various construction companies in the south of the continent, yet still achieved strong profitability. Building Adhesives managed to grow moderately and improve its market position in the most important markets. A key priority across all businesses was concentrated on integration activities and benefiting from the synergies of AkzoNobel's acquisition of ICI. Cost savings were identified and an operational excellence program designed to increase EBIT was introduced. Brand portfolio rationalization was another focus of attention. In Northern and Eastern Europe for example, the portfolio will be revised to just 12 strategic brands in order to reduce complexity and enhance market leadership. Positioning all activities for future profitability remains paramount.

Product innovation

It was a very successful year in terms of introducing exciting new paints to the market, with innovation and sustainability being hallmarks of our latest products. The biggest success was in the UK, Ireland and South Africa region, where the award-winning Dulux PaintPod easy roller system enjoyed one of the most successful launches in the history of do-it-yourself (DIY) in the UK. It surpassed forecasted sales targets within six months. The launch of Dulux Ecosure for the trade sector also proved to be particularly successful in this region. Ecosure reduces environmental impact without compromising performance and was used to coat the UK's first carbon-neutral house. Other major launches included Hammerite Metalmaster – the first ever product which can paint both sides of railings and intricate metal surfaces at once – and Dulux Trade Light & Space, which uses Lumitec, the latest in paint technology to reflect substantially more light back into a room by reducing the amount of light the painted surfaces absorb.

The relaunch of Dulux Valentine wall paints in France proved to be very successful for our Central Europe organization. The business also introduced the VOC [1] compliant Sikkens Rubbol Plus range and is poised to launch a number of innovative products during early 2009, including the Dulux Ecosure paint range and the Dulux PaintPod system.

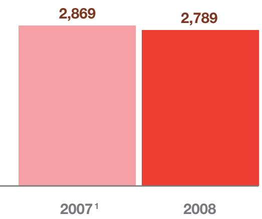
[1] Volatile Organic Compound.

Antoine Fady
Managing Director
Continental Europe

Ruud Joosten
Managing Director
Northern and Eastern Europe

Richard Stuckes
Managing Director UK, Ireland and South Africa

Revenue
IN € MILLIONS



[1] Pro forma and unaudited.

In Northern and Eastern Europe, new equipment was installed at the Rapla facility in Estonia for the manufacture of next generation resins for low VOC woodcare products. A number of special effect coatings are also being prepared for launch. All our major products will meet the planned 2012 VOC legislative requirements at least two years before required. In Building Adhesives, the development of dust-reduced cement products played a major role in innovation. With the tile adhesives Schönox PFK-Plus and Schönox SLK, and the floor leveling compound Schönox SP-X, we launched three products based on the new technology.

Other developments

The Dulux Trade Environmental Wash System was successfully introduced in the UK. It helps decorators and contractors to achieve best practice in their waste management by converting paint into inert solid waste and the clear water can then be recycled. The UK business has also started using so-called "teardrop" trailers for deliveries. Their aerodynamic design helps to save fuel and reduce CO2 emissions on long haul runs. In addition, we had further awards success in this region, with the Polycell Polyfilla Stick product – designed to provide a simple, mess-free way to fill hairline cracks and nail holes – winning the Gold Award for Best New Product in the DIY category at the UK's 2008 DIY Industry Awards.

A new solvent-borne plant was opened in Pilawa, Poland, in November 2008. This is a hi-tech, innovative plant with movable vessels. The whole production process is fully automated and assures the high precision of materials dosage. The marketing success in Poland was Dulux, which was named Superbrand Poland 2008 for being one of the strongest Polish brands. It also received the Product of the Year 2008 honor, which was awarded by Polish consumers in the Paints and Varnishes category.

No compromise

A lot of paints claim to be eco-friendly, but how do you guarantee the environmental credentials of your latest product? By joining forces with a team of leading independent sustainability experts. That's exactly what AkzoNobel's Dulux Trade business did when developing its Ecosure range, which was launched during 2008 to widespread acclaim after being developed in conjunction with Forum For the Future.

Proven to have a lower environmental impact without compromising on performance, the introduction of the Ecosure paint range confirmed AkzoNobel as the first major paint manufacturer to make a significant move towards creating a credible environmentally sustainable paint product for the professional market. Available in matt, gloss and undercoat formulations, the product was selected as a finalist at the UK's 2008 Green Business Awards in the Best Industrial/Resources Company or Manufacturer category and was also included in the 2008 edition of showcase publication Construction Products Innovation and Achievement.

Endorsed by Marks & Spencer and used in the UK's first carbon-neutral home, the Ecosure range was specifically developed to deliver all the advantages of water-based systems and achieve a top class professional finish, while satisfying the growing need and increasing demand for greater sustainability.

Its green credentials are further boosted by the fact that the packaging for the entire range is made from at least 25 percent recycled materials.

AkzoNobel Decorative Paints Europe

AkzoNobel Decorative Paints Americas

The year was largely dominated by accelerated transformation and consolidation following AkzoNobel's acquisition of ICI in January 2008. The integration progressed according to plan and ensured that significant synergies were quickly identified throughout the Americas region. The challenging economic climate created a difficult marketplace, but careful management of costs continued to drive the business forward.

Operational overview

Protecting margins against the negative effects of the steep and sudden devaluation of the local currency was a priority in Latin America, where reduction of operational working capital was also high on the agenda. An additional focus was placed on creating a leaner organization more capable of capturing the synergies of the ICI acquisition.

In the United States, a restructuring program was introduced to improve productivity and manage costs. This included creating a leaner customer service-focused sales organization structure to more effectively support The Home Depot, our key distributor of the Glidden brand in the US. The supply chain was optimized by increasing output at underutilized modern manufacturing facilities, while outdated and inefficient facilities were closed. Much of the attention in Canada was on brand and asset rationalization, reorganization and establishing a new sales and marketing structure.

Main developments

In Canada, the company's Para and Crown Diamond businesses were sold to General Paint Corp. (Comex) in line with the commitment package agreed with the authorities in connection with AkzoNobel's acquisition of ICI. Two redundant production facilities in Toronto and Vancouver were shut down, while the Sico Expert direct trade sales business in the Greater Toronto area ceased activities. The Mills Paint and ICI Paints businesses were merged into one strong entity in Western Canada, and an agreement was reached for the sale of the manufacturing and commercial activities of Sico General Industry Coatings. New facilities included a centralized distribution center for Quebec which was opened in the Montreal area.

The launch of The Freshaire Choice paint range was a major highlight in the US. Rolled out in 1,900 branches of The Home Depot, the product is VOC-free and its powdered colorant system proved to be a technological breakthrough for the paint industry. It had an immediate impact on consumers in a depressed market and reached its targeted shipment volume for the first year.

One of the main launches in Latin America involved the introduction of Coralit Zero. This is a water-based enamel which can be used as an alternative to the solvent-borne version, the advantage being that it has the same quality attributes yet produces no VOCs.

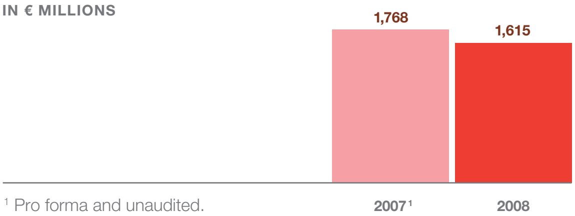
Pierre Dufresne
Managing Director Canada

Erik Bouts
Managing Director United States

Marcos Saaveda
Managing Director Latin America

Revenue

IN € MILLIONS



[1] Pro forma and unaudited.

Product highlights

Dulux Diamond, the high-end product offer, reported substantial growth in Canada's trade sector for a second consecutive year, running more than 50 percent ahead of the previous year. In addition, Dulux Lifemaster, a VOC-free product range targeted at commercial construction and maintenance, particularly where "green" building standards have to be taken into account, continued to report solid growth exceeding 10 percent. Dulux Lifemaster meets LEED requirements, which means that it has been put through stringent evaluations to ensure its reduced impact on the environment and on human health. Also in Canada, the CIL brand was advertised on TV for the first time in more than ten years, as well as launching a premium exterior paint. Another television advertising campaign, for Sico paint, resulted in the brand's recognition in Ontario increasing by 46 percent. In Latin America, more than 30 percent of sales now come from products launched in the last three years, while work is continuing in the US to develop sustainable products to support The Freshaire Choice range.

AkzoNobel Decorative Paints Americas

Pure and simple

According to the US Environmental Protection Agency (EPA), the air inside a home is, on average, two-to-five times more polluted than the air outside. One of the potential contributing factors to this poor indoor air quality is paint, which can emit chemicals such as VOCs. Some paint does claim to contain low or even zero VOC, because once the low or no-VOC paints are tinted, the colorant usually adds VOC back into the paint.

AkzoNobel Decorative Paints' The Freshaire Choice is different, however, because in 2008 it became the first comprehensive residential, tinted paint product to be Greenguard Indoor Air Quality Certified®. (The Greenguard Environmental Institute is one of the most stringent independent test laboratories in the United States). Featuring a custom palette of more than 60 colors, The Freshaire Choice's no-VOC formulation uses innovative technology to mix a new VOC-free paint with a new VOC-free tinting system – without compromising on product quality and without producing any odors.

The launch of The Freshaire Choice in the US came shortly after AkzoNobel's Sico brand in Canada completely eliminated VOCs from its popular Sico Design range. The top-of-the-range brand line for interiors is renowned for its quality and the decision to reformulate to make it VOC-free came well in advance of the introduction of Canadian legislation calling for paint companies to lower VOC levels in their products.

Our new Sico Design range has also been endorsed by Green Seal – a leading US-based environmental excellence organization which covers the whole of North America.

AkzoNobel Decorative Paints Asia

Asia Pacific is a key growth area for AkzoNobel and, despite a slowdown in the fourth quarter, our results for 2008 exceeded our plan and quarterly forecasts. We continued to grow our volumes at double-digit rates and increased market share in all our target countries, including China, India and Indonesia. Our growth in the important premium segments – for both interior and exterior coatings – far exceeded the market growth rates.

Operational performance

We undertook various steps to meet the challenges of the changing economic environment. We had to carefully balance our growth expectations with maintaining margins during the period of rapid raw material price increases. We did this by promoting and driving sales in the premium segments, implementing price increases across the board in all countries and, most importantly, improving our internal efficiencies by running an active and aggressive value engineering and creation program. This program involves people from R&D, procurement and marketing to ensure we optimize formulations that meet our customer needs at the lowest possible cost.

We also benefited from the integration of ICI's businesses. This allowed us to rationalize our manufacturing facilities in China, Vietnam and Indonesia into the larger, more productive sites. In China, a new latex factory was commissioned early in the year, which increased the benefits we derive from in-house technologies.

Product innovation

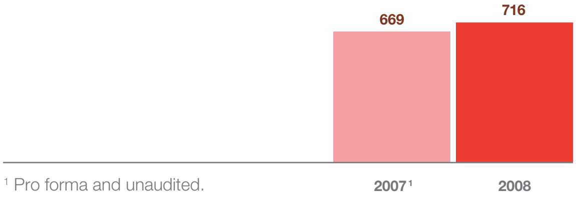
In China we launched Dulux Anti-Formaldehyde interior emulsion, which absorbs and decomposes harmful formaldehyde from the air to create a safer home environment for the consumer. The product has not only been a significant commercial success, but it also highlights our continued commitment to sustainability. It demonstrates that we can deliver growth and provide a positive contribution to society at the same time. Its introduction was supported by a multimedia promotional and awareness campaign, which helped to accelerate the adoption of the product. We also introduced a number of low VOC, low odor and odorless products across the region. In addition, we launched our EcoGuard range in Singapore, which is targeted at high-end property developers looking for greener products for their projects.

Collaborative product innovation programs involving customers and in-house specialists were implemented in both China and India during the year. The outcome of these projects was a number of customer-oriented innovations which will be introduced to the market over the next two years. By understanding the key unmet needs of consumers, painters and developers in areas such as durability, longevity, ease and convenience, we have been able to build a strong pipeline of innovative products and services that will contribute to future growth.

Tony Britt
Managing Director Asia

Revenue

IN € MILLIONS



[1] Pro forma and unaudited.

Other developments
We opened the China Technology Center in Shanghai, which houses both corporate research staff and the business' Research & Development teams. We also accelerated the expansion of Design Studios across India and China. These facilities provide dedicated space for consumer interaction and color and product advice, helping customers find the products and colors that exactly meet their needs. A deserved mention must also go to our Thane manufacturing facility in India, which won the AkzoNobel Decorative Paints Asia sustainability award in the Environment category for rainwater harvesting.

Community focus
Our employees are actively involved in numerous community initiatives across the region through AkzoNobel's Community Fund. We have projects running in all the countries where we have operations. These projects help to foster engagement within local communities and have proven to be very popular with our employees. Projects ongoing during 2008 ranged from giving sustainable support to young children and the disabled, to providing better conditions for homeless people and victims of disasters.

Clearing the air

Over the years, AkzoNobel has developed decorative paints with an array of innovative functionalities. These have included pioneering products that produce a textile effect with the feel of suede or leather, coatings with light-enhancing qualities and paint that repels dirt.

Innovation continues unabated, but there's now added emphasis on eco-efficiency and developing new formulations which are more sustainable, without compromising on performance. This is partly due to legislation, but most of the demand is coming from consumers. There's also a strong commitment from companies such as AkzoNobel to reduce the environmental impact of their products.

China is one country where eco-friendliness and creating a healthier living environment is becoming increasingly important. This has been underlined by the huge success of the company's Dulux Anti-Formaldehyde all-in-one paint. As well as having fewer VOCs, it also contains air purification technology capable of cleaning the air of your home and ensuring long-lasting freshness.

Designed for interior use, the breakthrough product contains natural mineral extracts with exceptional absorption properties. When applied to a wall, the mineral extracts in the emulsion absorb and eliminate any traces of harmful formaldehyde which can be given off by the furniture and upholstery found in many homes. Hence the air is cleaner and a healthier living environment has been created.

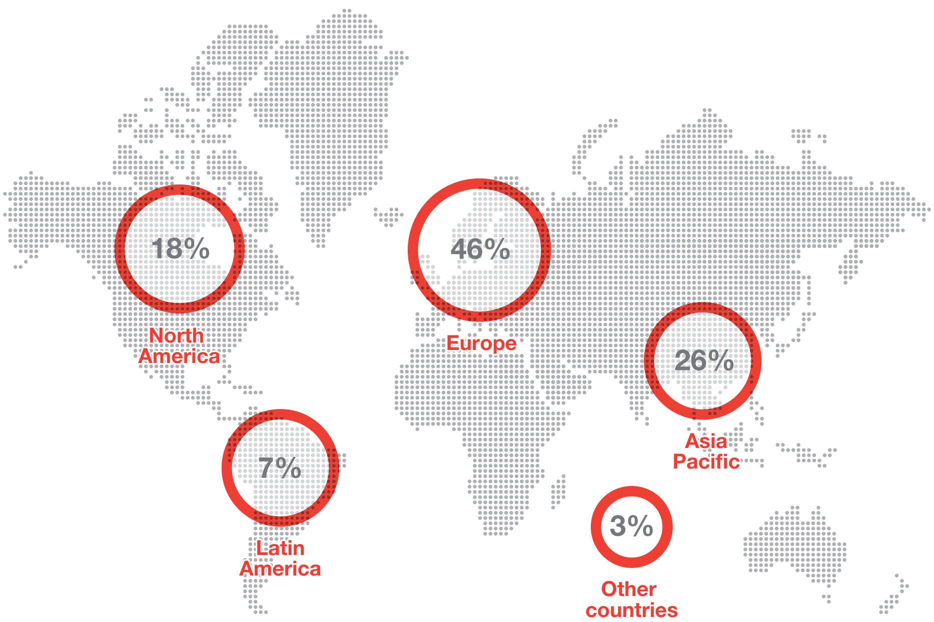
AkzoNobel Decorative Paints Asia

Industrial Finishes, Powder Coatings, Marine and Protective Coatings, Car Refinishes, Packaging Coatings

AkzoNobel Performance Coatings

- Revenue for 2008 in line with 2007
- The well-balanced portfolio maintained EBITDA margin for 2008 at 12.2 percent
- Continued strong performance at Marine and Protective Coatings
- The global economic downturn had a greater impact on trading levels in Industrial Activities as the year developed
- Multiple cost saving projects are aligning our cost structure to the changed market environment

Geo-mix revenue by destination



"We see an increasingly strong business case for embedding enhanced sustainability into our products and services"

Leif Darner
Board member responsible for Performance Coatings

It proved to be a mixed year for our portfolio, as 2008 was particularly volatile. However, the profitability level for the year remained close to 2007. Raw material pressure, volatile currencies, shifts in demand and setbacks in mature markets did not offset growth in the emerging markets.

The strength of our performance was mainly due to the wide spread of our activities. We are not overly dependent on any particular industry segment, we have a diverse customer base and a truly global distribution of activities. Close to 50 percent of our sales are in emerging markets, and those markets are still growing, so we closed 2008 confident and proud of what we have achieved as a portfolio.

Of course there were challenges and we did feel the impact of the downturn, notably in the wood furniture industry – which is related to a large extent to the US housing market – and in the coil and specialty plastic coatings markets. Escalating raw material prices were a major issue in the first three quarters, with suppliers requesting significant increases. Much of our attention, therefore, was concentrated on managing margins. This was mainly handled in two ways. As a company, we established a far more stringent and professional procurement organization.

Employees by region

NUMBER OF EMPLOYEES AT YEAR-END 2008

US and Canada	3,300
Latin America	1,800
China	4,100
Other Asian countries	2,900
The Netherlands	1,000
Germany	900
Sweden	1,000
UK	1,700
Other European countries	3,100
Other regions	1,200
Total	**21,000**

Key figures

IN € MILLIONS

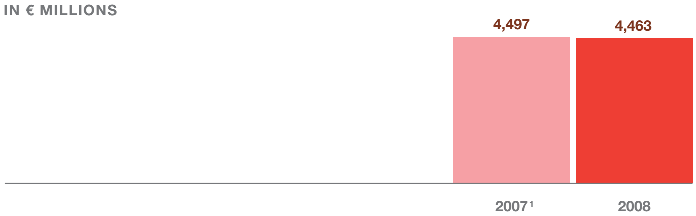
	2008	2007 PF[1]	Δ%
Revenue	4,463	4,497	(1)
Before incidentals:			
EBITDA	546	566	(4)
EBITDA margin (in %)	12.2	12.6	
EBIT before fair value adjustments	462	481	(4)
EBIT after fair value adjustments	447	464	(4)
After incidentals:			
Operating income	424	429	(1)
EBIT margin (in %)	9.5	9.5	
Capital expenditures	89	113	
Invested capital	2,207	2,131	

[1] Pro forma and unaudited.

AkzoNobel Performance Coatings

Revenue

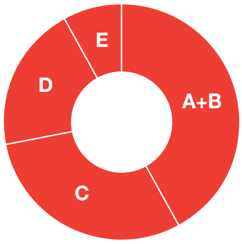
IN € MILLIONS



Revenue breakdown

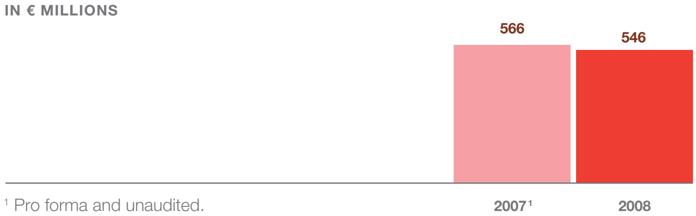
IN %

A	Industrial Finishes	42
B	Powder Coatings	
C	Marine and Protective Coatings	30
D	Car Refinishes	20
E	Packaging Coatings	8
		100



EBITDA before incidentals

IN € MILLIONS



[1] Pro forma and unaudited.

A selection of leading brands from our portfolio

For example, spend area managers were appointed who are responsible for key raw material groups. It means we present one face to the supplier and can maximize the scale of AkzoNobel being the biggest coatings company in the world. We have also been working hard to establish longer term key supplier agreements. So as we succeed and our businesses grow, our suppliers grow with us. These focused efforts – along with a continued drive towards better operational efficiency – meant that we were able to maintain margins, despite the tough environment that we are operating in.

A major event during the year was obviously the acquisition of ICI in January. This added the Packaging Coatings business to our portfolio, which has a particularly strong position in the beverage can market. We also added the strong Devoe high performance coatings brand. But in acquiring ICI we gained more than just a business. The transaction resulted in many additional benefits. Our new colleagues brought with them a very efficient working capital program for example, as well as a strong health and safety track record and major investment in research and development in Asia. All of this can be used to our advantage throughout the organization.

Aside from ICI, we did conclude a handful of other deals in 2008, which included acquiring the Enviroline protective coatings business, decorative films company Soliant LLC and the global floor coatings business of Lord Corporation. It was otherwise a relatively quiet year in terms of acquisitions, with our main focus now turning to identifying where we can step up our growth organically. Eastern Europe is certainly one area we are looking at. In 2008, we achieved growth in all areas and we're also looking to expand our manufacturing footprint in the region.

But it was our continued success in growing our business in Asia, notably China, which proved particularly pleasing. Not just within Performance Coatings, but across the company. Having established ourselves in China in the early 1980s, we are now leaders in marine, protective, industrial and powder coatings. Growth there is still very high, there is more focus on environmental issues and several of our state-of-the-art facilities have been recognized for their HSE performance. Our latest plant, a protective coatings production site, was opened in Suzhou in August and by the end of the year was already running at planned capacity due to the high demand.

This heightened awareness in China for all aspects of sustainable operations is something that can be said of the chemical and coatings industry in general. The focus on our sector is high and we have to work harder than many other industries when it comes to sustainability targets because of this increased attention. It's partly driven by legislation, but in a world where people are looking at what could happen if we don't manage our resources well, there's also an increasingly strong business case for embedding enhanced sustainability into the products and services we offer. For example: using less hazardous materials, reducing emissions to air and water in manufacturing and the application of our products, using less energy. All of them are part of the business plans we are developing and 2008 was full of great examples of our achievements in all these areas.

AkzoNobel Industrial Finishes

Our focus during the year was on cost control, maintaining strong margin performance and improving operational efficiency in order to contend with falling demand in most of our key markets. We continued to position ourselves for long-term growth and realized general market share gains, while our efforts to develop sustainable technologies resulted in several important innovations.

Business performance

Overall demand was down in most of our key markets – particularly wood coatings – stemming primarily from the US housing recession, which was the catalyst for a global industrial downturn. The situation in the US also impacted our Asia business because a lot of outsourced manufacturing related to North American residential construction takes place there. By the third quarter we started to see this slowdown shift to our Wood Coatings business throughout Europe, where a dip in commercial construction also affected our Coil activities. However, Wood Adhesives achieved good market share gains.

Operational efficiency

We were fully focused on managing our business within the demands of the challenging new global economic environment. Due to tight cost control, capacity rationalization and a strong focus on margin management, we achieved a respectable financial performance under severe economic constraints. Our people deserve a lot of credit. They stepped up to the plate under adverse conditions and have done an excellent job of managing cost and margins. In addition, general market share gains were realized and we secured a number of significant contracts in many of our businesses for 2009. Our businesses are structurally sound and we are well positioned for the long-term and any global economic rebound.

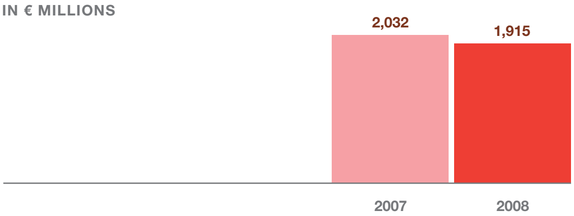
Product innovation

During 2008, we made solid progress in the development and marketing of sustainable technologies. We launched our Verde range of eco-efficient wood coatings in the US and Canada, while in Europe we introduced new bio-renewable adhesives for fabricated wood products. We also launched a range of high durability coil coating systems for use in equatorial climates, where higher UV degradation can be a particular problem. Another important development was the introduction of our nano-based, highly scratch-resistant coatings for plastics. Everything we do is focused on helping our customers achieve success, so innovation is crucial. With the marketplace now being driven by major customers who realize the inherent value of being more environmentally responsible, we are fully committed to developing the sustainable technologies they need.

Bob Taylor
Managing Director Industrial Finishes

Revenue Industrial Activities [1]

IN € MILLIONS



[1] Industrial Activities is comprised of AkzoNobel Industrial Finishes and AkzoNobel Powder Coatings.

Strategic growth
In September, we announced the acquisition of the global floor coatings business of Lord Corporation in the US. We also worked on a number of strategic projects during the year to enhance our position in emerging markets. Even though we had to control spending, we continued to position ourselves for sustainable long-term growth. We are busy with projects in India, Vietnam and Russia, while in China, we finalized the expansion of a dedicated Specialty Plastics production facility in Tianjin to satisfy the explosive growth in the consumer electronics market.

Other developments
We took over a number of activities from other AkzoNobel businesses during the year that fit better within our operations. The wood joinery business from Decorative Paints in Europe was transferred to Wood Coatings Europe to provide greater focus on an important growth market. Another transfer brought Car Refinishes' interior automotive plastics activities to our Specialty Plastics business. Our unique design and technology capabilities will be a big asset to this niche segment. We are also integrating the Pictaflex activities from the former ICI. This is an exciting business involved in decorative 3-D film transfer technology which can be used to help personalize consumer electronics.

Fertile ground

AkzoNobel Industrial Finishes

Can you make glue from corn or potatoes? It might sound far-fetched, but the ongoing search for adhesives with a greener environmental profile has led to the development of systems based on renewable resources, including starch. The need for an alternative solution has largely been brought about by health and safety concerns over certain compounds contained in adhesives. This has prompted the introduction of tougher legislation – notably in countries such as Japan and the US – which in turn has created market demand for products with, for example, less formaldehyde and VOCs.

As a major supplier of wood adhesives to laminated beam producers and the furniture and flooring industries, Casco Adhesives (part of AkzoNobel Industrial Finishes) has been working hard to harness the known adhesive potential of renewable resources such as starches and soya beans and combine them with innovative but safe chemistry to create a system which meets customer needs.

During development of these so-called bio-adhesives, AkzoNobel has focused heavily on ensuring that the eco profile holds all the way from the raw material source, to the production of the adhesives themselves, to the workers' environment and finally to the ultimate application, be that on furniture or cupboards.

Various adhesives have already been extensively tested in different applications – including furniture and particle board – with very encouraging results. A number of large-scale trials are also planned for 2009.

AkzoNobel Powder Coatings

It was a good year, despite the economic recession and sharp decline in demand. All our businesses improved their margins and we had record earnings in the second and third quarters of 2008, followed by a weaker Q4. We continued to build on the strategic plan introduced in 2005 and through a combination of segment focus, margin management and working capital control we significantly improved most financial parameters. It was a particularly important year in terms of geographical expansion in emerging markets and we introduced a number of major innovations, which emphasized our strong focus on developing sustainable technologies and processes.

Business performance

Our most important performance achievement in 2008 was the improvement of our margins. This was partly due to us successfully moving the balance of our business towards higher margin segments. It was also the result of re-engineering efforts by our laboratories worldwide, creating a better balance between the demands of our customers and selling prices. This gave us improved flexibility and negotiating power with suppliers.

We are well positioned to meet a downturn in the global economy. Our sales are not only spread evenly across a large number of industries, but they are also well balanced across all major geographical regions of the world. Functional Powders (Resicoat) was our fastest growing activity. The dedicated focus of the business' management team in Reutlingen, Germany – together with excellent products and know-how – produced record growth in sales and income.

Geographical expansion

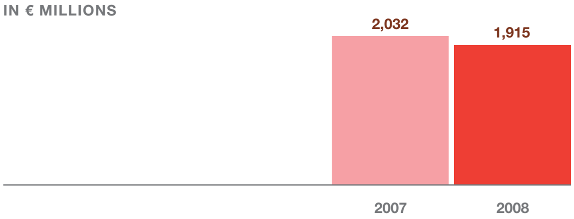
We expanded our manufacturing capacity during the year, especially in the emerging markets. The most significant developments were in Dubai in the Middle East and Chengdu in China, where we opened new production facilities. The new sites in Russia and the Czech Republic – which we announced in 2007 – also started full operations. With the mature economies of Western Europe and North America experiencing a downturn in 2008, we benefited from the continued growth in the emerging regions of Asia, Eastern Europe and South America, where we have made major investments.

To address the shift in the character of customer demand, we have redesigned our infrastructure in Western Europe to enable rapid delivery. We are now capable of delivering almost any product, in any color, in any order size, anywhere in Western Europe within five days. We also expanded Cromadex, our distribution organization, with ten new centers opening across Europe.

Rob Molenaar
Managing Director Powder Coatings

Revenue Industrial Activities[1]

IN € MILLIONS



[1] Industrial Activities is comprised of AkzoNobel Industrial Finishes and AkzoNobel Powder Coatings.

New technology
Our biggest innovation was the development of a unique dry-on-dry coating process which means we can now apply a powder topcoat directly over a previously applied, non-cured, powder primer. Only one baking process is therefore required to cure both layers, removing a complete baking cycle from the painting process. This can save customers significant amounts of energy and money. Up until now, this innovation has been mainly targeted at the automotive industry, but we plan to eventually extend it across additional market segments.

In addition we launched new chrome-look and anodized-look finishes in powder. These products mean our customers can avoid using energy intensive chemical processes while producing very similar aesthetic results.

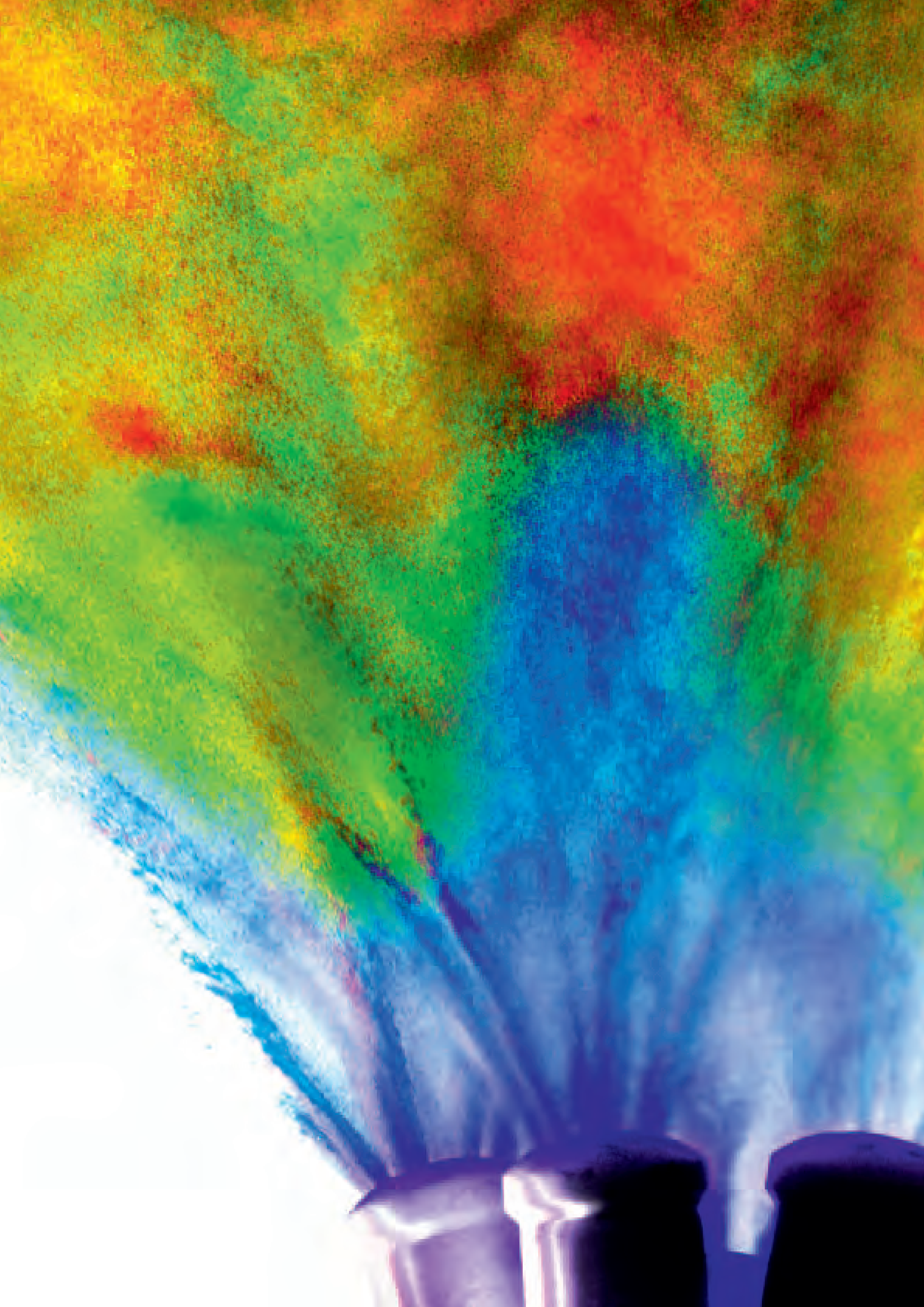
Recognizing that energy efficiency is a key component towards sustainability, we also introduced a low temperature cure acrylic powder for plastic components and a smooth, thermally cured powder coating for MDF, where the smoothness is achieved without additional sanding. And we launched Interpon F – the first ever range of powder coatings developed specifically to meet the needs of the furniture industry.

Another major success has been a new powder coating we've developed for pipes which enables exploration companies to drill more deeply in the search for oil and gas. Deep exploration puts extreme demands on coatings systems in terms of acidity and heat, but we now produce a Resicoat system which can withstand these conditions. Wind energy is also proving to be an interesting market segment and is another area where we'll be looking to grow.

Other developments
To highlight the fact that our powder activities produce no VOCs, and that we generate very little waste, we introduced a new slogan towards the end of the year – "Every Color is Green". Our customers are looking for sustainable solutions and more environmentally-friendly options, which we can provide. So our new slogan and a special logo now appear on all our packaging and business literature.

With labor costs increasing in the mature market of Western Europe, we have also commissioned our first ever fully automated powder production line. Normally powder production is a batch process, but we now have continuous process capability which means that efficiencies have greatly improved.

In terms of projects, seven of the venues used for the Beijing Olympics in 2008 were painted with our powder coatings. We also supplied coatings for the biggest casino in the world, which was opened in Macau. Looking to the future, our products have been specified for use on part of the new Freedom Tower in New York.



AkzoNobel Powder Coatings

Let us spray

Anyone who has tried to apply one layer of paint on top of another before the first coat is dry will know that there's no point in even trying. Or at least, that used to be the case – until now.

AkzoNobel has developed new powder coatings technology which allows a powder basecoat to be applied directly onto a powder primer before the primer has been baked. So both coats are baked together, effectively removing a complete step from the painting process.

This so-called dry-on-dry system is already being used by a major automotive OEM (original equipment manufacturer), offering the customer considerable savings in energy, operational costs and time. It means that for the first time ever, a powder basecoat has been used to paint a regular production passenger vehicle.

The fact that powder clearcoats are also available means that new car bodies can now be coated with complete powder systems, bringing with them all the additional benefits of no VOCs and virtually no waste.

So history has been made, and the first new passenger vehicles to be coated with a powder primer/basecoat dry-on-dry system are already on the road. The challenge for AkzoNobel now is to further penetrate the major market for automotive OEM body coatings with our exciting powder coatings technology.

AkzoNobel Marine and Protective Coatings

We had an excellent 2008 and made substantial progress, despite facing severe currency headwinds and steep rises in raw material prices. Double-digit sales volume growth was achieved for the fourth year in a row, and although the business climate became more challenging, we continued to grow throughout the year. Our enhanced capability to bring new products to the market also resulted in a number of important, eco-friendly technologies being introduced.

Main challenges

Currency headwinds and raw material price escalation were key factors in the first half of the year. An additional issue was that we buy a lot of copper and zinc, which we use in our formulations. Not only have they both increased in price considerably over the last few years, but the price was also very volatile during 2008, which presented particular challenges. However, by concentrating on our growth strategy and maintaining our focused approach to operational excellence, we were able to expand the business and grow EVA. We have reduced the amount of cash required to fund our business, improved productivity at almost every manufacturing location, especially in the advanced economies, and enhanced our service levels in every geographical region in each of the last three years.

Business performance

We grew in all regions – the highest rate coming in the BRIC[1] countries – and even achieved growth success in the US and the UK, where the economies experienced difficulties. Our highest rate of growth was in Protective Coatings, where sales grew by around 20 percent globally during the year. The oil and gas market remained important for us, but we also made good progress in the power market, in petrochemicals, in mining and minerals and in high value infrastructure projects.

The Marine business grew strongly and we continue to be the global market leader, not only in volume, but also in value. Our Yacht activities continued to perform well, and we benefited from a strong superyacht market, despite ever-tightening environmental legislation.

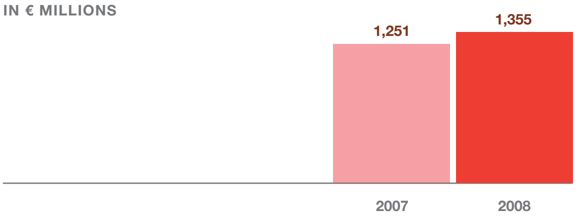
During the first eight months of the year our Aerospace business pushed ahead strongly, but was then tested by the deteriorating market conditions for aircraft maintenance and repair as airlines reduced their spend and mothballed planes. We responded with a mixture of improvements in internal efficiencies and a number of high value product introductions, which ultimately resulted in a satisfactory performance.

All businesses also contributed to our HSE achievements. We reduced our VOC emissions and our waste across the organization and we are continuing to invest in a behavioral based safety program, which has already been implemented at some of our major sites.

[1] Brazil, Russia, India and China.

Bill McPherson
Managing Director Marine and Protective Coatings

Revenue
IN € MILLIONS



Product innovation
Over the last five years we have increased expenditure in our technology and innovation, our people, our processes and our facilities. The reward for that has been an improved flow of new product launches. During 2008 we introduced a number of customer-focused products in every market sector. One example was Intercure 99, a high performance protective coating product which offers better eco-efficient characteristics. We also launched lower VOC coatings Intersmooth 7460 and 7465 for our marine customers. We believe that our product pipeline for marine, protective, yacht and aerospace customers is as well stocked now as at any time in our long history.

Other developments
In October we acquired Enviroline from Florida-based Industrial Environmental Coatings Corporation. The business has a number of interesting market positions and technologies for the protective coatings sector and we will be able to expand our sales of these products and technologies through our global network. Also, following the acquisition of ICI, our team has been working to determine a strategy for the Devoe brand, which has an important position in the US and Canadian markets and smaller positions elsewhere in the world.

In August we officially opened our new Protective Coatings site in Suzhou, China – with the next two phases of expansion already being planned – and we are investing in infrastructure in Bangalore, India, in advance of our next capacity expansion for that market.

Another significant development involved our next generation Intersleek 900 foul release coating. Following its launch in early 2007, the product was used on its 100th vessel – K Line's Corona Emblem – in May 2008. We expect to pass the 200-ship landmark in early 2009. This eco-efficient product was introduced so that our marine customers could reduce fuel consumption at speeds of eight knots and above. We have heard of some spectacular successes and it shows how committed our most progressive customers are to taking strong action against climate change.

An additional achievement we were particularly proud of was winning a supplier award from one of our aerospace customers. We were recognized for our excellent service and received a rating of more than 99 percent.

During the year our products were also used on a number of venues at the Beijing Olympics, in particular the Water Cube, while we have supplied coatings for all but one of the soccer stadiums for the 2010 World Cup in South Africa. In addition, we have a number of major projects in the pipeline and hope to announce details during the course of 2009. So despite the challenging economic climate, these are exciting times.

AkzoNobel Marine and Protective Coatings

Prevention and cure

Increasing demands on performance and the growing relevance of environmental concerns mean that sustainability and innovation form two central pillars of coatings research and development. The challenge for manufacturers, therefore, is to ensure that their new products not only meet stringent technical specifications, but are also eco-efficient and – where possible – offer potential financial benefits.

One new product which ticks all the boxes is Intercure 99, which was developed by AkzoNobel Marine and Protective Coatings. Based on polyaspartic binding agents from Bayer MaterialScience's Desmophen® NH range, Intercure 99 offers major ecological and economic benefits when compared with conventional coatings systems.

Essentially it makes customers think differently about productivity because it requires fewer layers. This reduction – which is aided by the use of polyaspartics – means that labor costs fall, while the product also dries quicker, enabling work on adjacent areas to start much quicker when buildings are being renovated. There are important environmental benefits to consider as well. For example, a two-layer system with an Intercure 99 coating contains about 40 percent fewer VOCs than a comparable three-layer system.

Designed for use in corrosive environments, Intercure 99 was given a "live" launch to herald its market introduction in 2008 when it was used to protect 30,000 square meters of steel on Bayer's former corporate HQ in Leverkusen, Germany. The product helped to transform the 122-meter high structure into the world's biggest digital billboard, featuring more than five million LEDs. Intercure 99 is also being used in the major modernization of Bayer Leverkusen's soccer stadium.

Offering long-term cosmetic performance as well as fast dry and rapid handling, it can also be used as a one-coat primer finish, with typical applications for original equipment manufacturers including transformers, pumps, gas storage vessels and wind turbine tower sections.

AkzoNobel Car Refinishes

It was a solid year in turbulent times. Careful attention to performance excellence ensured strong cost control and reduced working capital, which enabled us to outpace the market in North America and Europe, as well as the emerging markets. Margins held up well given the considerable raw material price pressure we experienced in the second half of the year, while we also had to contend with swings in currency valuations in numerous countries.

Business overview

Our vehicle refinishes activities performed well in what started as a strong year. Demand fell off in the second half of 2008, especially in the mature markets, due to high petrol prices and an overall decline in the economy. In EMEA [1], we enjoyed a solid year due to our ability to deliver a mix of product and support solutions that drove market share gains. Despite Eastern Europe's slow move to eco-efficient premium products, and the difficult US dollar-based export conditions, results for EMEA were solid, partly helped by ongoing cost reductions. Even with a 20-year low in miles driven and a stagnant US economy, overall we grew volume and share in the Americas, particularly in Mexico and Brazil. Asia achieved another strong year in terms of revenue growth, mainly in the emerging markets of China, India and Indonesia. Central to our growth in Asia was the increased power from our brands and distribution footprint.

Our two businesses which are closest to the pressurized automotive OEM sector – Automotive Plastic Coatings and Commercial Vehicles – were significantly affected by the downturn in unit builds. In fact, the second half of the year proved especially difficult, but due to strong leadership positions – notably in Europe and Latin America – and our flexible costs, we were able to compensate to a certain extent. There's no doubt that within the industry it was a very difficult year, with new car builds falling to an all-time low. But our biggest activity – vehicle refinish – is not directly connected to the manufacture of new cars. So we benefited from the strength of our commercial offer and segment approach. We are differentiated by our product portfolio, our marketing package, our distribution and connection to the insurer networks, OEM automobile aftermarket and our key account management program. All of this gave us power in a difficult market.

Product innovation

It was another productive year which saw us further improve our customer-driven solutions and introduce a number of exciting innovations with a strong focus on sustainability. For example, we are now able to produce a key raw material used in our Sikkens Autoclear Superior family of clearcoats based on 40 percent renewable materials. We also designed a new spray gun with an integrated UV-LED curing device. This step-change in the application process enables customers to cure the coating almost instantly, therefore saving a lot of time and money. In addition we continued to roll out our pioneering Sikkens Autoclear UV clearcoat, as well as our state-of-the-art waterborne basecoat, Sikkens Autowave, which had an outstanding year. The product has been very well accepted in Europe and we are rolling it out in Asia, while its success in North America – where it's legislated in California and Canada – has been so strong that the rest of the country is picking up on it, even though the relevant legislation banning solvents won't be introduced for a number of years.

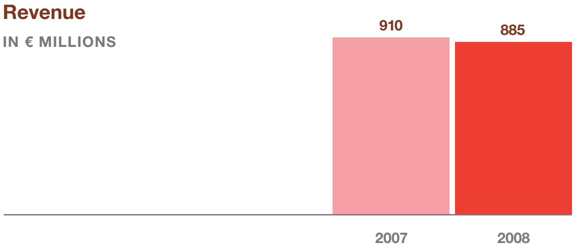
[1] Europe, Middle East and Africa.

Jim Rees

Managing Director Car Refinishes

Revenue

IN € MILLIONS



Customer focus

One of the main pillars of our strategy is based on color technology and a commitment to getting it "right first time" for our customers. In 2008 we saw the benefits from some significant investments, which included the launch of Sikkens Mixit Pro. This is our innovative software for the retrieval of color data and we believe it to be the best color software package in the market. We also introduced a tool for our customers and service staff called Sikkens Automatchic 3, the latest generation of our customer-focused color matching device. This works by "reading" the color and automatically searching for the best formula. But perhaps the most exciting development involved the Automatchic 6i. This device was jointly developed and contains patented technology "inside". It allows for simultaneous measurement of the color and texture of special effect coatings. Until now, this has proved to be elusive. It means color matches involving the exotic pigments used in metallic and pearlescent paints can be perfectly matched first time, dramatically cutting the time and cost of formulating and spraying. The prospects of launching it for our customers worldwide look extremely promising.

Other developments

We acquired the decorative films company Soliant LLC, which is now part of our automotive plastic coatings (APC) activities. It was a significant transaction because it expanded our product offering and means we can offer customers both normal liquid paints and coated films. Soliant's expertise in formulating and processing coatings on films is industry leading. Their Bright Film technology offers a unique and sustainable way to create chrome effect components for the automotive market without the hazards of traditional chrome plating. Our primary application is on plastic automotive parts, such as bumpers. We also transferred the automotive interiors segment of APC to AkzoNobel Industrial Finishes and took over the vehicle refinish business of the former ICI, which operates in Pakistan, India and Sri Lanka.

Trigger happy

AkzoNobel Car Refinishes

When AkzoNobel Car Refinishes introduced its pioneering new Sikkens Autoclear UV clearcoat in 2006, the automotive industry was quick to recognize its revolutionary impact on bodyshop productivity and profitability. Capable of harnessing the power of UV to dry in just six minutes, not only can the award-winning product radically improve bodyshop capacity, but it's also low in VOCs and relies on low intensity UV-A light.

Now Car Refinishes has launched another industry first – the innovative UV LED spray gun. A patented device which applies and cures at the same time, when combined with Autoclear UV, it offers bodyshops a unique opportunity to become both more sustainable and more profitable.

Taking full advantage of the quick drying technology of Autoclear UV, the new spray gun offers added flexibility and profitability because more repairs can be carried out during the course of a working week. It also drastically reduces the energy costs (up to 25 percent) involved in heating the ovens used in more traditional vehicle refinish bodyshop operations. So there's no need to keep the gas burners on all day long, because curing can now start by simply pulling a trigger.

Employing the latest LED technology, the device requires no warm-up time, turns on and off instantly and is a shining example of AkzoNobel's commitment to delivering Tomorrow's Answers Today.

AkzoNobel Packaging Coatings

We had a good year and ended 2008 on plan. We increased revenue and earnings, despite negative exchange rate effects, and achieved a robust performance largely due to cost management and sustained conditions in the markets we supply. We also saw the benefit of a number of synergies as a result of integrating the two companies, primarily in the areas of purchasing and sharing technology within Performance Coatings. Our continued focus on product and service innovation had an additional positive impact, enabling us to offer increased benefits for our customers and further improving sustainability throughout the whole supply chain.

Business overview

The year was characterized by strong underlying growth in the beer and beverage market, primarily in Europe and South America, and to a lesser extent in Asia. Some of the strongest growth in beer and beverage in recent years has been in Western Europe, underlined by the fact that our customers have aggressive investment plans for the EMEA region, where they are installing new beverage lines. However, 25 percent of our business is in the emerging markets and it's here where many of the big growth opportunities lie. Food can use was relatively stable in 2008, with growth again coming in the emerging markets. Most of the pressure we faced came from the weak US dollar and some sales slowdown in the US, but our businesses remained as profitable in terms of ratios.

Operational performance

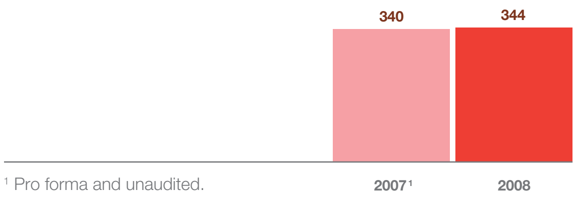
We continued to maintain a strong focus on operational performance through our business excellence process. Externally we concentrate on customer service leadership, while internally the emphasis is on product quality and cost management. The success of our efforts is reflected in the continued confidence that our customers show in us and the number of supplier awards we received during 2008.

Product innovation

The key focus of our innovation is to lower environmental impact and improve the cost-effectiveness of our customers' processes. Not only are organic solvent emissions being lowered through our development of water-based and UV technologies, but energy use and CO_2 emissions are also being reduced with the help of our low-bake eco-premium solutions. In addition we are making an important contribution to our customers' efforts to produce thinner cans. Making cans thinner obviously puts less strain on demand for virgin metal, but it does mean that interior coatings have to be more flexible. We now supply products which are significantly below ten microns thick. One such product was launched in 2008 – Aqualure 915 – the latest offering in our high performance, waterborne inside liner range for beverage cans. However, innovation can also be very basic. For example, during the year we developed a blue interior coating which makes the beverage look cooler. The can producer was looking for the technology and we provided it.

Conrad Keijzer
Managing Director Packaging Coatings

Revenue
IN € MILLIONS



[1] Pro forma and unaudited.

Other developments
We opened a new Chinese plant in Shanghai early in the year to manufacture internal coatings for beverage cans. A new technical center was also opened in Warsaw in Poland to support our Central and Eastern European expansion, while we increased capacity in Sao Paolo, Brazil, to respond to demand. One achievement we were particularly proud of was receiving the South American Supplier of the Year Award for 2008 from Rexam.

Customer focus
Packaging Coatings by its very nature is an extremely customer oriented business. We supply products for highly demanding and regimented applications. For example, customers need to apply our coatings as an integral film just a few microns thick to millions of cans every day. To ensure that we continue to offer them world class service and the latest sustainable technologies, we are investing in Production and Technical Service Centers close to our customers in developing regions. We want to make sure that we are giving them the best possible service and we spend a lot of time with them, as well as regularly carrying out third party customer surveys. Not surprisingly, these studies confirm that all our customers know they can rely on AkzoNobel and have confidence in our products and services.

AkzoNobel Packaging Coatings

Food and drink. Two things we can't live without. And with the world's population growing all the time, it's no surprise that the food and beverage can market has grown 57 percent in the last 20 years. What might raise an eyebrow is the fact that over the same period of time, the use of virgin metal has decreased 20 percent and the packaging industry's net CO_2 emissions have fallen 50 percent. Lowering your environmental footprint on this scale calls for the sort of pioneering research and groundbreaking innovation which has propelled AkzoNobel Packaging Coatings to the forefront of the metal packaging industry.

One of our latest products to be introduced to the market was Aqualure™ 915, which is helping the beverage can industry to become even more sustainable. Around 50 billion steel and aluminum cans are produced every year in Europe alone and most are 100 percent recyclable. In fact, recycled can metal can be converted into new cans, refilled and be back on supermarket shelves within 60 days.

That's environmentally-friendly by anyone's standards. But these cans are now becoming thinner and in turn are using less metal (known as light-weighting). This poses an extra challenge because it puts new demands on the coatings used inside the cans. These coatings perform a dual role – they protect the beverage from the metal and the metal from the beverage.

The launch of Aqualure™ 915 was significant because it's an ultra-flexible lacquer which flexes with the new lightweight steel cans, yet still retains a perfect barrier to protect the liquid inside. This high level of protection is becoming increasingly important, especially as more aggressive and flavor-sensitive products – such as iced teas and isotonic drinks – are being introduced to the market.

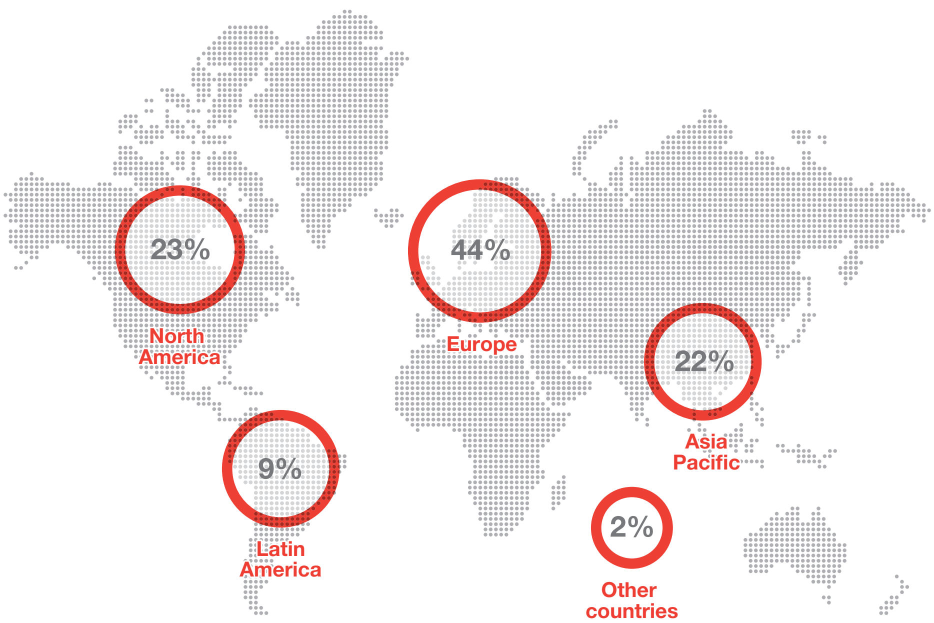
A thirst for innovation

Functional Chemicals, Pulp and Paper Chemicals, Industrial Chemicals, Surface Chemistry, Polymer Chemicals, Chemicals Pakistan, National Starch

AkzoNobel Specialty Chemicals

- Revenue growth of 5 percent
- EBITDA margin of 15.7 percent
- Demand weakness in Polymer Chemicals and a significant decline in results of the Pakistan PTA business
- Functional Chemicals finished behind 2007 as demand softened and sulfur prices declined sharply
- Industrial Chemicals and National Starch repeated their strong performance of 2007
- Diverse markets and effective margin management led to improved performance at Surface Chemistry

Geo-mix revenue by destination



"We made good progress in areas such as energy efficiency, product innovation, lowering emissions and safety performance"

Rob Frohn
Board member responsible for Specialty Chemicals

It was a challenging year for AkzoNobel's Specialty Chemicals businesses. We faced incredible fluctuations in energy and raw material prices, while demand swings and the unstable economic climate made conditions even more testing. However, we coped well with the ever-changing circumstances. This was partly due to the fact that the portfolio showed resilience.

Because not only are we active in a wide range of industries, but we are also spread out across the globe, so that gave us stability. In addition, our margin management program played an important role in helping to offset the energy price hikes, which reached a record high in the first half of the year. Overall, our operational performance ended slightly below 2007. We are, however, well placed to progress with our growth strategy, which is focused on the emerging markets, especially Asia.

A particular area of attention involved our efforts to improve our safety culture – therefore improving our safety performance and making AkzoNobel an even safer place to work. All of our Specialty Chemicals sites have now gone through a BBS (Behavioral Based Safety) process. Safety remains the number one priority throughout the company and while we are improving, we have not yet achieved our targets.

Specialty Chemicals also benefited from the acquisition of ICI. We integrated Elotex, Alco and Personal Care, part of the Specialty Polymers activities from the former ICI, into our organization. These businesses are now part of our Surface Chemistry and Functional Chemicals organizations and the integration process has gone smoothly, creating the right conditions for growth opportunities. The Chemicals Pakistan business and National Starch were also added to our portfolio.

Employees by region

NUMBER OF EMPLOYEES AT YEAR-END 2008

US and Canada	2,800
Latin America	1,100
China	900
Other Asian countries	2,300
The Netherlands	1,900
Germany	900
Sweden	2,100
UK	100
Other European countries	1,100
Other regions	100
Total	**13,300**

Key figures

IN € MILLIONS

	2008	2007 PF[1]	Δ%
Revenues	5,687	5,400	5
Before incidentals:			
EBITDA	891	927	(4)
EBITDA margin (in %)	15.7	17.2	
EBIT before fair value adjustments	651	665	(2)
EBIT after fair value adjustments	587	603	(3)
After incidentals:			
Operating income	112	557	
EBIT margin (in %)	2.0	10.3	
Capital expenditures	305	245	
Invested capital	4,055	4,750	

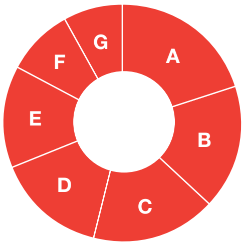
[1] Pro forma and unaudited.

AkzoNobel Specialty Chemicals

Revenue breakdown

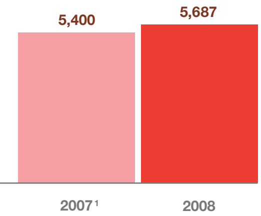
IN %

A	Functional Chemicals	20
B	Pulp and Paper Chemicals	17
C	Industrial Chemicals	17
D	National Starch	15
E	Surface Chemistry	14
F	Polymer Chemicals	9
G	Chemicals Pakistan	8
		100



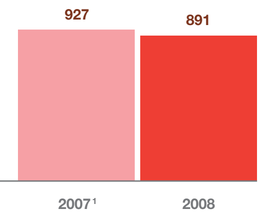
Revenue

IN € MILLIONS



EBITDA before incidentals

IN € MILLIONS



[1] Pro forma and unaudited.

A selection of leading brands from our portfolio

AKUCELL® Dissolvine® JOZO SALT eka BERMOCOLL National Starch ELOTEX® AkzoNobel

Our plant utilization across the portfolio continued to be high during most of 2008, so in order to meet growing demand for many of our products, a number of capacity expansion plans were approved, many of them in the emerging markets. The most prominent of these were our major projects in China and Brazil, which are making good progress. Construction of the company's new multi-site in Ningbo began during the year. The Chelates facility is expected to start up in late 2009, followed by the new Ethylene Amines plant in late 2010. Our Pulp and Paper Chemicals facility in Três Lagoas – which will supply the Votorantim Celulose e Papel pulp mill – is expected to start up in early 2009.

We will actively manage our capacity in view of the decline in demand linked to the world economy. Opportunities will also arise, such as the acquisition of German-based chemicals company LII, which was announced in December (and was finalized in early 2009). In addition, during 2008 we made a handful of focused acquisitions in the areas of fatty amines, agro-chemicals, silica sols and organic peroxides.

Hurricane Ike in the US impacted a number of our sites in the south of the country in September 2008, forcing them to be out of action for a number of weeks. Thankfully, none of our employees were hurt, but we had to declare force majeure for a short time. By October, operations were back to normal.

Given the increasing importance of sustainability to all our operations, it was pleasing to remain one of the top performers on the Dow Jones Sustainability Indexes. All our businesses made good progress in areas such as energy efficiency, product innovation, lowering emissions and safety performance. Our commitment to delivering Tomorrow's Answers Today was also emphasized by the introduction of several exciting new products, such as the Dissolvine MP chelate for the motion picture industry (which was used to process Indian prints of the latest James Bond film), and the Eka Compozil Fx silica sol, which helped one of our customers in China to set a world papermaking speed record.

Cleaner processes and lowering emissions are additional high priorities for us and we are continuing to increase our improvement efforts. A particular area of attention is carbon abatement and carbon capture. But we also have many other examples of how we endeavored to make our operations more sustainable during 2008, such as the installation of a vapor recovery unit at a Surface Chemistry site in Itupeva, Brazil, which is expected to dramatically reduce VOC emissions. Even the unit itself was recycled, having come from a former AkzoNobel site in the UK.

European legislation became more prevalent during the year and was an area which demanded particular attention. Not only did we have to meet the December 1 deadline for registering products under the REACH guidelines, but we also had to consider the implications of the EU's proposed Emission Trading Scheme. This is a major issue for energy intensive industries and while we fully support the promotion and introduction of greener energy, we also have to ensure that we can provide competitive energy, otherwise European companies will struggle to be successful in the marketplace.

Having coped well with the demanding business environment in 2008, we will continue to look for opportunities to invest and outgrow our markets. The mature markets may offer some possibilities, but here cost efficiency is key. The developing markets, Asia in particular, remain the priority area for growth.

AkzoNobel Functional Chemicals

We had another good year financially. This was partly because many of our businesses have relatively low cyclicality and were somewhat resistant to the economic downturn, while we were also successful in passing on significant raw material price increases. Our results overall were just below the 2007 performance, despite major headwinds from currency, raw materials and several force majeure situations brought about by supply shortages.

Strict cost control and margin management were essential and helped to offset the largest year-on-year increase in raw material costs for any business in AkzoNobel. We welcomed the Elotex and Sulfur Products Argentina businesses from the former ICI, which added a total of around €250 million to our top line.

Business performance

We fall predominantly on the positive side of the supply/demand balance, so we were able to cope with the economic situation quite successfully. We're less volatile because we're involved in so many applications – such as the fertilizer, detergent, health and food industries – which simply have to continue manufacturing and producing. Our Ethylene Amines and Chelates activities therefore had particularly good years, due to growing markets and increasing demand and the fact that we were able to raise our prices. Sulfur Derivatives also improved year-on-year, while the weaker US dollar impacted results for Cellulosic Specialties, which supplies the construction and paint industries.

Main challenges

Raw material costs for the whole of Functional Chemicals were €100 million higher than in 2007. We were hit with the biggest year-on-year increase than any other business in the company. The largest impact was felt by our Sulfur Products colleagues, who saw the price of sulfur increase by 1,000 percent within the space of 12 months. They had no choice but to raise the selling price of their products quite dramatically and the business did a very good job in a dynamic market. They used our margin management tools quickly and effectively and were able to offset the increase. At the end of the year, sharply declining sulfur prices led to a significant negative inventory result.

Elotex experienced a difficult year. This business exclusively serves the construction industry and had to cope with lower demand and some loss of market share. There are some synergies with Cellulosic Specialties, however, so we will be able to benefit from sharing distributors and technology platforms and we're looking into optimizing the sales force.

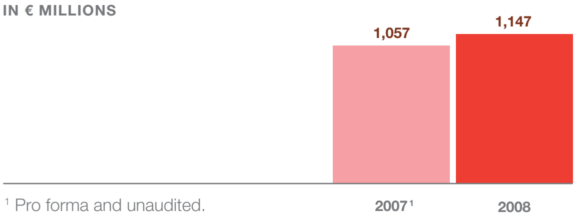
Geographic overview

The economy slowed down across the globe. Our business was down in the US and we saw a downturn in China following the Olympic Games due to the fact that the rate of construction fell dramatically. There was also less building activity in Europe, notably the UK, Turkey and Spain. Yet China, and Asia in general, remain key regions for us.

Bob Margevich
Managing Director Functional Chemicals

Revenue

IN € MILLIONS



[1] Pro forma and unaudited.

We lead the market in Asia in Ethylene Amines and Chelates and are currently building facilities in China for both of those businesses at AkzoNobel's major new €250 million multi-site in Ningbo. Functional Chemicals will be the primary user of that site and the need for these facilities is underlined by the fact that worldwide market demand is growing at a rate whereby every 18 months the market needs extra capacity equal to the size we are investing in at Ningbo. We also opened our newest Elotex plant near Shanghai towards the end of the year.

Long-term sustainability
The new Ningbo site has undergone a complete eco-efficiency analysis and is a prime example of how we approach our activities. For example, as well as committing to eco-efficient product development and improving our processes, we've also put a clear emphasis on safety and the long-term sustainability of our sites. We're one of the frontrunners in the company for carrying out sustainability checks for all our current products and processes. In the past we only looked at our own process, but now we want to look at the entire chain. So we'll be looking at our suppliers and customers and comparing our total environmental impact with competing products. This should tell us where we are strong and where we need to improve in order to be more sustainable longer term.

One particular achievement during the year was winning the internal AkzoNobel Sustainability Award in recognition of our eco-efficient operations. Three of our main product areas were highlighted – Dissolvine GL, a chelate which produces no phosphate in effluent; Peridur, a cellulosic material which can be used to reduce energy consumption in the production of steel; and Ferrazone, a chelating agent which adds minerals to food.

AkzoNobel Functional Chemicals

Clean and green

Key players in the detergent industry are having to contend with a changing market. The challenge facing formulators and manufacturers is to develop sustainable innovations which will help demonstrate that detergent ingredients present no risk to people or the environment.

Ingredients such as chelates and phosphates are widely used in detergent manufacture, but tighter legislation and a general “greening” of the industry are creating opportunities for new products with more eco-friendly profiles. All of which is great news for AkzoNobel Functional Chemicals and its new Dissolvine GL green chelate. Combining excellent performance with a superior ecological profile, the readily biodegradable chelating agent offers a viable alternative to more traditional products such as phosphates.

A product which meets the highest OECD standards on biodegradability, Dissolvine GL can be used in a wide range of applications including domestic and industrial dishwashing, as well as hard surface cleaning agents found in food processing and kitchen cleaning products. Based on natural, replaceable and sustainable raw materials, Dissolvine GL reduces the dependency on hydrocarbons, while its unique characteristics help to improve the environmental profile and performance of our customers’ own products.

An important breakthrough in terms of the industry’s attempts to replace traditional chelating agents with more sustainable alternatives, Dissolvine GL is a prime example of how AkzoNobel is endeavoring to develop a greener portfolio across all its businesses.

AkzoNobel Pulp and Paper Chemicals

The year began with a continuation of our good performance in 2007, which was a record year for our business. The first quarter of 2008 was actually our best ever quarter. We achieved volume and revenue growth and enhanced our position in the market, both in bleaching and paper chemicals. However, our markets came under pressure and demand declined during the second half of the year.

We had to contend with extended shutdowns at customer mills, as well as customer consolidation. We therefore ended the year with a lower result than in 2007. One area where we made significant advances was in our efforts to become more sustainable, with a growing percentage of our turnover now coming from eco-premium products.

Geographic overview

We achieved strong growth in South America, building on the success of 2007. By the end of the year we successfully completed construction of a new chlorate line in Jundiai, Brazil, which will supply our new chemicals island at the Três Lagoas mill. Operations at the mill are scheduled to commence in the second quarter of 2009. The total investment in these projects amounts to €50 million.

Our business also grew in North America, although conditions were tough in Europe, where the market gradually slowed down due to decreasing demand. We were also burdened with energy price hikes and increased fiber costs. An important development in Europe was our acquisition of Levasil, the silica sol business of the German H.C. Starck Group. This also enabled us to make substantial in-roads into non-pulp and paper markets such as electronics and other specialty products. In addition, the transaction will further improve our business as a strong producer of silica sols and help us to become more competitive by enhancing our production and application technology.

Main challenges

Raw materials proved increasingly costly during the first few months of the year. We also faced a considerable increase in energy costs, notably in the Nordic countries and the US. But due to a more balanced chlorate market, we managed to restore eroded margins by introducing certain price increases. We have also been working hard to generate our own energy cost savings. For example, our Permascand business has been contributing to enhanced productivity in our chlorate production by getting more capacity out of the cells and effectively reducing the consumption of electricity. In Canada, we have invested in an energy saving project in cooperation with our electricity supplier, and we're engaged in research projects and a state/industry energy saving program in Sweden.

Other developments

It was a notable year for two of our product lines. Sales of our Purate process technology for water treatment as a biocide in the paper-making process more than doubled, while our Expancel line of expandable microspheres began to find more applications in paper manufacturing. For example, the product is being used in insulating paper which is laid under wooden flooring, where it acts as a dampener to reduce noise.

Innovation success

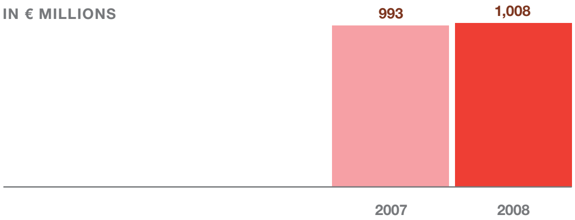
There were two important achievements within paper chemicals. We launched our next generation retention systems and further improved our unique technology specifically for large paper machines. We developed two revolutionary silica sol concepts, one of which helped to create a new world record in China. Our customer runs a fine paper machine – with a paper width of 9.8 meters – which reached the fastest-ever production speed of 1,770 meters per minute.

Jan Svärd

Managing Director Pulp and Paper Chemicals

Revenue

IN € MILLIONS



This was achieved using the new Eka Compozil Fx system, which essentially makes the record-breaking machine speed possible. We have also developed a new silica sol (Eka NP2180) which improves efficiency, especially on large paper machines. This means we are ideally positioned to supply the huge machines which are now being installed.

Customer focus

One of our main strengths is that we understand our customers' businesses and recognize their problems. We know that most of them have issues with energy consumption, fiber costs and water management. These all fall under the category of sustainability and increasing our focus here is absolutely essential to all our operations. In our research and product development, as well as in cooperation agreements and partnerships with our customers, we concentrate on these key areas. We're putting huge efforts into helping customers optimize energy use and chemical handling on site, highlighted by our chemical island concept. We strive for better utilization of fiber and more efficient use – and less consumption of – water. We are convinced that sustainability in all operations is necessary to ensure our own success and that of our customers.

A need for speed

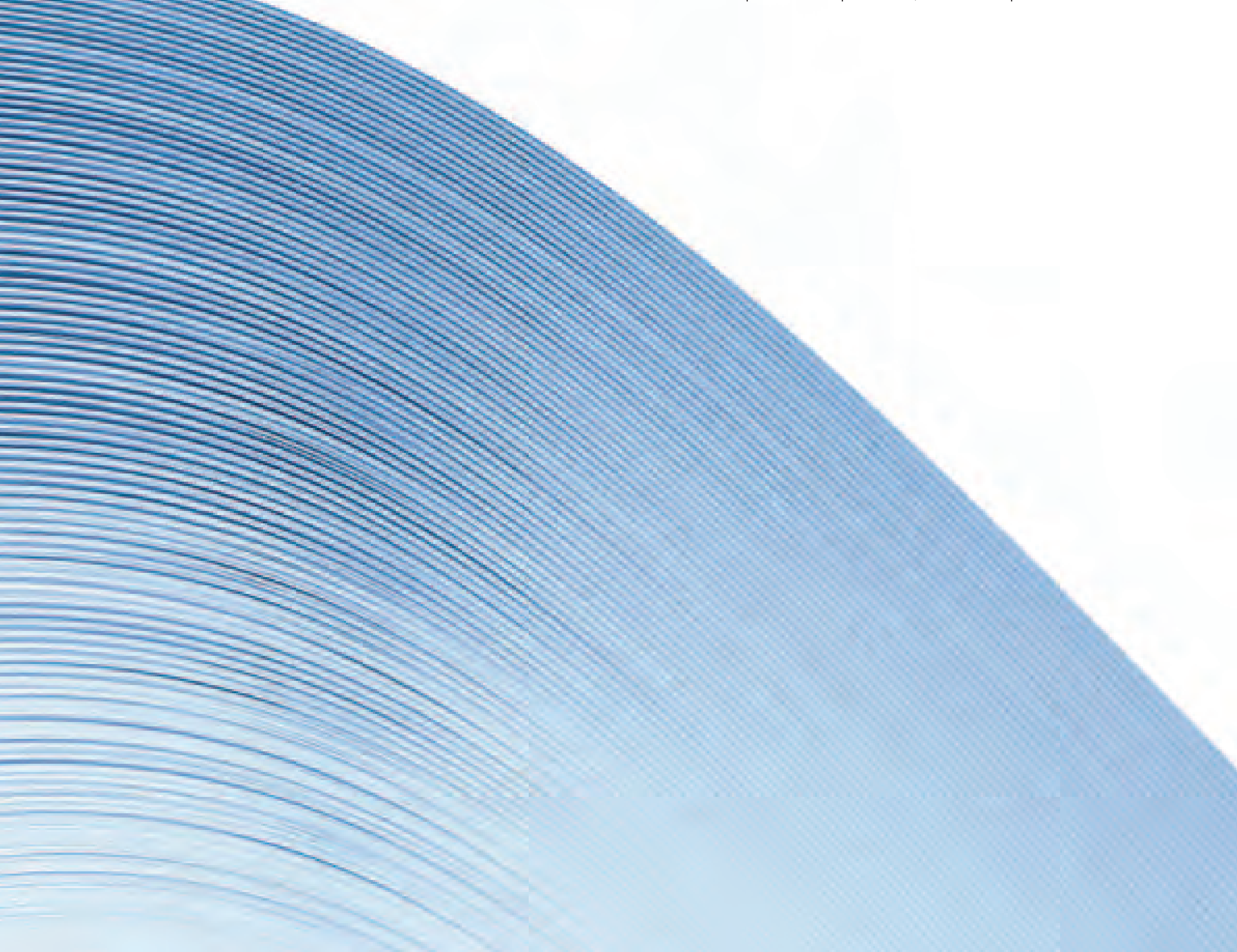
AkzoNobel Pulp and Paper Chemicals

Paper has been around for centuries. Over the years, the various things we use it for have remained fairly constant, but the way we make it has changed dramatically.

Manufacturing paper in the 21st century is a hi-tech, large-scale process which involves sophisticated machinery and equally complex chemistry. Environmental considerations are also now very much to the fore, both in terms of promoting more sustainable forestry and making the actual production more eco-efficient.

AkzoNobel's Pulp and Paper Chemicals business, Eka Chemicals, has been developing products with a superior ecological profile for many years. One of the latest is the Compozil Fx concept, which uses the latest Eka nanoparticle silica and polymer innovations. The key benefits of this retention technology – designed for fine paper machines – include improved machine stability and drainage control, while more filler can be used to reduce both raw material costs and energy usage because of faster drying.

Another major advantage is increased machine speed and productivity. This was highlighted during 2008 when Compozil Fx helped to create a new world record in China. A customer who operates a coated fine paper machine – running at a paper width of 9.8 meters – reached the fastest-ever production speed of 1,770 meters per minute.



AkzoNobel Industrial Chemicals

It was another successful year, with results being driven by good demand in all business areas. Our continuous focus on operational excellence has been evidenced by an extremely high availability and on-stream factor at virtually all our plants, while volumes were good across the board. We did experience an adverse impact from rising energy prices, but this was largely compensated for in other areas.

During the year we also made significant progress in reducing our dependency on expensive gas, further improved the energy efficiency of our operations and stepped up our efforts in carbon abatement and carbon capture. We also changed the name of the business from Base Chemicals to Industrial Chemicals. We believe that the new name better reflects our expanded scope of activities.

Business performance

Energy is the lifeline of our business and our Salt and Energy activities faced significant headwind conditions due to the turbulence in the markets, notably the steeply rising gas and oil prices and tighter rules for CO_2. However, this impact was offset in other areas, particularly Chlor-Alkali, which benefited from the tight worldwide situation in caustic lye brought about by the downturn in the construction industry. Our MCA business, meanwhile, benefited from strong demand, particularly in agro-chemicals.

Organic growth

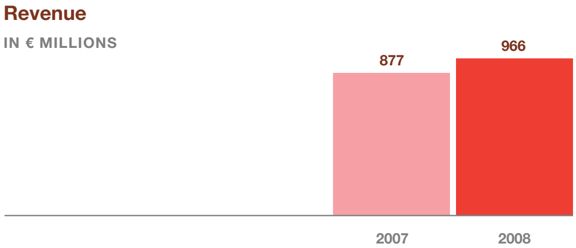
It was quite an eventful year in terms of organic growth. Within Chlor-Alkali, we initiated several pre-investment projects to support customer growth and launched our remote control chlorine concept, which drew great interest from the industry. Investment in expansion was also approved for the Salt business to meet demand for chemical transformation salt for the chlor-alkali industry. This will lead to extra salt manufacturing capacity of about 400,000 tons by 2010.

In addition, we announced a doubling of capacity at our MCA facility in Taixing, China, and brought additional flaker capacity on stream at our Delfzijl plant in the Netherlands, which will increase our flexibility in export markets for MCA. Delamine – a Delfzijl-based 50/50 joint venture with Tosoh for higher ethylene amines – also announced a significant capacity increase, while AkzoNobel's acquisition of the remaining shares in Salinco (a 50/50 energy joint venture with Essent) will enhance the flexibility in operations for our Salt and Energy businesses at the Dutch Hengelo site.

Energy challenge

The majority of our business is energy intensive and the extreme volatility in energy markets resulted in a number of challenges during 2008. In the short term, we protect margins through forward contracts on both the selling and purchasing side. In the long-term, we are pursuing the goal of improving the fuel mix of our energy requirements. One area of attention is to reduce our dependency on gas for process steam requirements. We already have alternative steam supply or steam supply contracts in place at several locations that use woodchips or waste as the fuel of choice.

Werner Fuhrmann
Managing Director Industrial Chemicals



Industrial Chemicals is also participating in the Dutch consortium for purchasing energy to reduce the dependency on high-priced gas-fired generation of base load power.

At all of our own sites and joint venture operations that utilize gas-fired power plants, we are mitigating the impact of high gas prices by employing more flexible operations. This essentially helps to reduce the minimum load of our installations. But it's not just the consistently high gas price which poses a significant challenge to our business. The proposed post-Kyoto European Union greenhouse gas Emission Trading Scheme (ETS) regulations for carbon dioxide is also a major issue. AkzoNobel fully supports the CEFIC position of introducing benchmarks for energy intensive industries, rather than burdening them will the full impact of auctioning the CO_2 rights, which is what the EC proposes. The Commission's proposal would not only create unfair competition with other regions – so impacting Western European economies – but it would also unavoidably lead to carbon leakage. This would be counter productive in terms of achieving climate goals, because carbon leakage actually results in an overall higher amount of greenhouse gases.

Carbon capture
AkzoNobel is deeply committed to helping to tackle the climate issue. Together with a number of partners, we're engaged in projects for CO_2 capture at our Delfzijl site. We have stepped up our technology efforts in this area and have developed a general purpose carbon measurement system which also serves as a reference for CO_2 mitigation measures. We have identified a long list of abatement opportunities and will prioritize actions to save energy to make our operations even more efficient.

Other developments
Several sites celebrated anniversaries during the year, notably Skoghall in Sweden (90 years), Hengelo (75 years) and Delfzijl (50 years). Supported by a professional partner, another development saw us successfully conclude a fully-fledged implementation of a behavior based safety system to further enhance the long-term sustainability of our operations.

Treading carefully

AkzoNobel Industrial Chemicals

Carbon footprints, climate change and renewable energy. It's almost impossible to read a newspaper without at least one of them being mentioned. For good reason. The planet is in danger and it can only be saved if mankind embraces sustainability and everyone starts taking decisive action. At AkzoNobel Industrial Chemicals, the work has already begun.

The final touches are being put on an integral Carbon Policy which was developed during 2008 and is due to be introduced in 2009. Designed to meet established international standards (including ISO 14064 and the Greenhouse Gas Protocol) it underlines the business' ongoing commitment to both reducing its impact on the environment and supplying products that make a positive contribution to society.

Drawing up the Carbon Policy has included defining a carbon footprint from cradle to gate for all the business' products, information which may feature in future product data sheets. A list of potential mitigation options was also compiled which identified around 50 possible projects targeting carbon abatement. These were analyzed for their abatement potential and required investment and have subsequently been prioritized.

Operating an effective Carbon Policy will also prove valuable when setting priorities in the research, development and innovation portfolio and it can be used as an additional tool in supporting investment decisions. With carbon likely to be priced along the value chain once some form of carbon pricing is introduced, AkzoNobel Industrial Chemicals is keen to ensure that CO_2 emissions are considered all the way from suppliers through to the handover to their customers.

AkzoNobel Surface Chemistry

We had a very good year and improved on our 2007 performance. Following several years of restructuring, the business is now meeting the company's profitability targets. This has been accomplished during a period of unprecedented raw material and energy cost escalation and negative currency exchange rate impact.

Much of our attention in 2008 was focused on integrating the former ICI's Alco and Personal Care activities with our Surfactants business. We believe that taking advantage of both our improved operating structure and the broader, more sustainable product portfolio will enable us to grow in this challenging business environment.

Operational performance

Raw material and energy costs rose by more than ten percent in 2008. However, a structured approach to strategic purchasing, margin management and value selling enabled us to improve margins. Our fixed cost structure also benefited from our operational excellence program and the consolidation of our manufacturing plants carried out over recent years, which included an overall 30 percent reduction in headcount.

Markets and regions

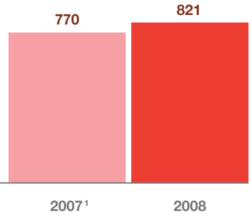
The US recession which spread to other parts of the world during the second half of the year resulted in a slowdown in some of our key markets. Our sales volume to the BRIC, CIS and the Middle East countries continued to grow quite well, while shipments in North America and Western Europe were essentially flat. In Asia, our sales growth slowed as we focused on improving margins in a very competitive climate. But we actually benefit from the diversity of the markets we serve, some of which are counter-cyclical. For example, there was strong underlying growth in agro-chemicals, driven by bio-fuels, while sales to oilfield applications continued to grow based on high oil and gas prices. The mining market also continued to expand to meet global fertilizer demand and infrastructure investment. On the other hand, the cleaning, asphalt and personal care markets weakened somewhat due to the economic slowdown. In addition, the hurricanes that hit the southern US in September affected our Houston site, forcing us to declare force majeure for a short time.

Sustainability progress

Increasing environmental regulations and consumer preference for more sustainable products are driving forces in nearly every market we serve. During 2008, we started to systematically measure the renewable raw material content of our products. We found that 50 percent of our sales are based on renewable feedstocks. We are developing greener products with greener profiles including biodegradation, VOC-free and biopolymers. In addition, we've reduced VOC emissions from our manufacturing operations beyond the regulatory requirements with enhanced vapor recovery systems and high efficiency thermal oxidizers. Waste generation at our plants has been reduced as we find uses for filter cake. Diligent implementation of behavior based safety processes resulted in a significant improvement in our safety performance, while our Responsible Care® management systems have now been certified by third parties at all of our surfactants facilities and will be certified at our polymer plants in 2009.

Frank Sherman
Managing Director Surface Chemistry

Revenue
IN € MILLIONS



[1] Pro forma and unaudited.

Major developments
The decision to integrate the former ICI's Alco and Personal Care businesses with Surfactants was based on the significant overlap of markets and customers. We are also able to share a common infrastructure and back office operations for fixed cost savings. We subsequently changed the name of the business unit from Surfactants to Surface Chemistry to reflect our expanded product offering. During 2008 we also strengthened our European surfactants business by acquiring part of Kao Chemicals' European fatty amine business and the agro-chemical tank mix adjuvant business from IAAS B.V.

Product innovation
We continued to introduce new products throughout the year, including the Naviance certified organic biopolymer product range for the personal care market. These aesthetic modifiers add a smooth and elegant feel to skin creams and lotions. We launched a new asphalt additive, Rediset WMX, which enables hot mix road paving at lower temperatures, thereby reducing VOC emissions and energy consumption. Another exciting development was the establishment of a partnership with Integrated Botanical Technologies on their proprietary technology to isolate plant fractions for use as ingredients in cosmetics. This process avoids drying and solvent treatment, yielding higher purity extracts. We have created a lot of interest in the marketplace in what we hope will become a whole new product line.

Growth strategy
Surface Chemistry's employees are passionate about growing our customers' businesses with innovative and sustainable solutions. So as we move from restructuring and integration to growth, we have outlined four major initiatives for 2009. We will start with a strategic renewal process to realize synergies from our broader product portfolio. We will concurrently review our innovation processes to make them faster and more targeted to our customers' needs. We have already started this effort by appointing Innovation Managers to each business team. We will also look outside the company to introduce new technologies to our customers via licenses, alliances or bolt-on acquisitions. Finally, we intend to better capture the value we create by introducing a global sales excellence program. We believe these strategic initiatives, along with a continued focus on operational excellence, will enable us to weather the uncertain economic climate we are now facing.

Easy rider

AkzoNobel Surface Chemistry

What would we do without roads? It's virtually impossible to imagine a world without them, such is their importance to the globe's transport infrastructure and our everyday existence. Millions of miles of roads criss-cross our planet in every conceivable direction and hardly a day goes by when a new one isn't being laid or an existing one isn't being upgraded.

Most roads are built using asphalt cement/bitumen as one of the main ingredients. These asphalt pavements are mostly composed of crushed stone, sand and gravel, with a small amount (5 percent) of asphalt cement, which acts as a kind of glue to hold everything together. More than 90 percent of the world's paved road network has an asphalt surface and the product is 100 percent recyclable.

Anyone who has driven by roadworks will have noticed that most of the asphalt pavements are constructed using the hot process known as hot-mix. This requires a significant amount of fuel to keep everything hot during production and paving. Apart from the CO_2 emissions from the burning fuel, these high temperatures also generate fumes.

In an effort to improve the environmental impact and working conditions of hot-mix paving, AkzoNobel's Asphalt Applications business (part of Surface Chemistry) has introduced Rediset WMX. These additives significantly reduce the mixing and paving temperatures, which results in lower asphalt fumes, providing better working conditions for the paving crew. The temperature reduction also results in significant fuel savings and reduces operational costs due to ease of mixing and compaction. Rediset WMX additionally increases moisture resistance, which can prolong the life of the asphalt pavement.

AkzoNobel Polymer Chemicals

Polymer Chemicals was unable to equal the 2007 performance level due to an unprecedented decline in volume during the last quarter. This was due to an increased weakness in key markets such as construction, automotive and durable goods. Currency translation was also a major hurdle, along with unprecedented hikes in raw material costs resulting from the high oil prices. Extreme weather events had a further significant impact on our US operations. Despite all of this, we kept a tight control on costs throughout the year and continued to focus on developing sustainable technologies for our customers.

Business performance

Top line was slightly down, but we increased market share in the BRIC countries and grew with the market growth in South America. Results in Western Europe were also strong until the economy slowed down towards the end of the year. In North America – which is an important market for us – our High Polymer Specialties (HPS) business was affected by the housing and economic downturns. HPS mainly supplies initiators to the PVC industry, which in turn serves the housing and construction markets, which felt the impact of the slowdown. The performance of our Cross-Linking Peroxides, Thermoset Chemicals and Polymer Additives business, and our Organometallic Specialties activities, more than compensated for the difficult year in HPS. Both of these businesses are less sensitive to any single segment of the economy, while the strong demand for our products also helped to offset some of the pressure we faced.

Major challenges

Hurricane Ike had a major impact on our US operations. We lost production at our two plants in the Houston area for several weeks and a number of customers and suppliers were also affected. Fortunately, none of our employees were hurt. However, the hurricane did have a significant effect on our results. The Beijing Olympics also caused major logistics disruption in China. Transportation and operation restrictions were put in place which froze the transportation, import and export of certain goods – including many of our own products and key raw materials – which was obviously a hindrance to our operations. Overall, the restrictions were in place for about a month.

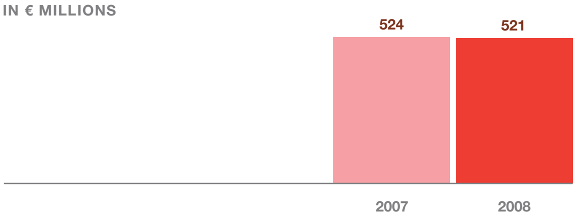
Product development

Demand for our products resulted in a number of capacity expansions being carried out at locations around the world. Developing innovative new technologies for our customers is a key part of our operations and in this respect 2008 was a good year. For example, we successfully launched a new continuous peroxide dosing technology to several key polyvinyl chloride (PVC) customers which can lower the cost of manufacturing resin for PVC pipes. Four process licenses were signed with customers by the end of the year. It's a significant product development because not only does it help the PVC production process become much safer, but it also makes PVC resin less expensive, while helping to produce a better quality end product. In addition, the PVC resin is whiter than found with classically produced PVC, so customers need to add fewer additives, such as titanium dioxide. The customer ends up benefiting in three ways and we subsequently strengthen our relationship with them.

Alan Kwek
Managing Director Polymer Chemicals

Revenue

IN € MILLIONS



Other developments
We have a very strong culture of sustainability throughout the business and one relatively small, but nonetheless important, step we took this year was to introduce a new packaging concept. Traditionally, we've supplied some of our products in plastic jerry cans, which were then disposed of as waste. We're now using new reusable stainless steel bulk carriers, which reduces the amount of waste our customers generate. It's a simple idea, but it's an effective one and will ultimately save money.

Another important development was receiving approval to construct two new production facilities at the AkzoNobel multi-site being built in Ningbo, China. Asia is an important market and these plants – which are due to open in 2010 – will enable us to meet our growing customer needs.

Customer focus
We have a strong belief that we don't simply sell our customers products, we provide them with sustainable answers to their needs. Very often, these are needs they don't even realize that they have. So understanding our customers' requirements is absolutely vital. Because the more you understand what they need, the better you are able to help them. We have many examples of how we've been able to develop technology for our customers because we have understood them and have been able to improve their processes, help make them more environmentally-friendly and save them money. You just have to be that little bit more curious and want to understand them better.

Going solar

AkzoNobel Polymer Chemicals

As the search for alternative and more renewable energy resources intensifies, exploiting what nature gives us in abundance is becoming increasingly important and financially attractive.

The sun is a classic example. Harnessing its power through the use of solar cells and panels is seen by many as being one of the most realistic options for the future. In fact, entire solar power plants directly connected to electricity grids are expected to be built in increasing numbers over the next few years.

What makes these plants more financially viable is the emergence of a new breed of solar cell. Based on glass panels, these so-called thin film cells are coated with a thin conductive layer of zinc oxide (the TCO layer), allowing for mass production of solar panels, which in turn drives down the cost per watt of electricity generated. The amount of (fossil) energy required for production of the panels is also reduced.

AkzoNobel Polymer Chemicals is playing a key role in this fast-growing solar cell market. The business has successfully developed new technology for the production of high purity diethyl zinc, which is used by thin film solar cell manufacturers to create the all-important TCO layer. This new product grade – known as DEZn TCO – is specific to the solar cell industry (which has strict quality standards) and is already being supplied to a growing list of customers worldwide. The company has commercial production capacity at two locations, Rotterdam in the Netherlands, and Texas in the United States – where AkzoNobel's LaPorte facility is rated with an OSHA VPP Star (in recognition of excellence in occupational safety and health).

Chemicals Pakistan

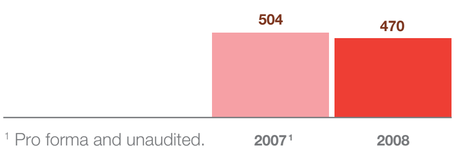
Chemicals Pakistan comprises a 75 percent stake in ICI Pakistan Limited and Pakistan PTA Limited, both listed companies in Pakistan. The companies focus almost exclusively on Pakistan. The main areas of expertise include soda ash, polyester fiber, pure terephthalic acid (PTA), pharmaceutical and agriculture products, and a host of specialty chemicals. With a diversified product range, practically every key industry in Pakistan is serviced, prominent among which are textile, construction, pharmaceuticals, personal care, food and beverage, agriculture and household appliances.

Performance overview

The global economic slowdown fueled a decrease in Pakistan's GDP growth, as well as a contraction in demand. A severe energy crisis and rising interest rates had a further negative effect on the volume growth of our businesses. PTA operations incurred an extended plant overhaul shutdown due to the market conditions. The reduced PTA tariff and the depreciation of the Pakistani rupee also resulted in a significantly lower profit level in the fourth quarter for this business when compared with 2007. In spite of the turmoil, the Pakistan business reported an increase in operating profits in local currency over 2007.

Revenue

IN € MILLIONS



[1] Pro forma and unaudited.

In addition to the principle business of Soda Ash, Polyester and PTA, we provide a range of industrial and consumer products in the life sciences and general chemical markets. For the first three quarters of the year, these businesses performed well in local currency, despite the domestic political and economic challenges in Pakistan. However, volume sharply declined across all businesses in the fourth quarter as a result of weak downstream demand brought on by the global economic crisis.

On an encouraging note, the revenue in our Soda Ash business reached a record level in 2008. Furthermore, despite the turbulent crude oil prices, the performance of our Polyester business essentially equaled that of 2007 and in the general chemicals area we are expanding the revenue stream of the business by commercializing the broader range of AkzoNobel Specialty Chemicals products.

National Starch

National Starch is the leading supplier globally of specialty starches with a principal focus on supplying the food industry. We also serve niche papermaking markets and supply high value industrial starch applications for a variety of other consumer and industrial products and processes.

Performance overview

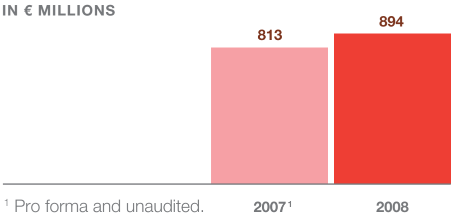
Although 2007 results were equaled, we have booked a non-cash impairment loss on goodwill allocated to this business, mainly due to the changed economic outlook and a reclassification to continuing operations. Margin management and volume growth, due to sustained strength in food sales, offset the sharply higher cost for corn and synthetic chemicals. In this business, profitability depends on the corn price. During 2008, we hedged the corn price into 2009. At year-end 2008, the corn price had fallen to a level lower than the hedged price, which will have an adverse impact in the first half of 2009.

Throughout most of 2008, our National Starch business was held for sale. During this time, the business functions were engaged with a program to work through the separation from the former infrastructure. Good progress was made in this regard and will further this agenda in 2009.

In parallel, the business continued to drive its innovation and sustainability agenda. National Starch traditionally has a strong HSE focus and continued to deliver good results on its safety statistics. It also made very good progress with its environmental endeavors, namely a very successful recycling program resulting in much reduced non-hazardous waste, as well as continued engagement with community activities throughout its global operations.

Revenue

IN € MILLIONS



[1] Pro forma and unaudited.

Sustainability framework

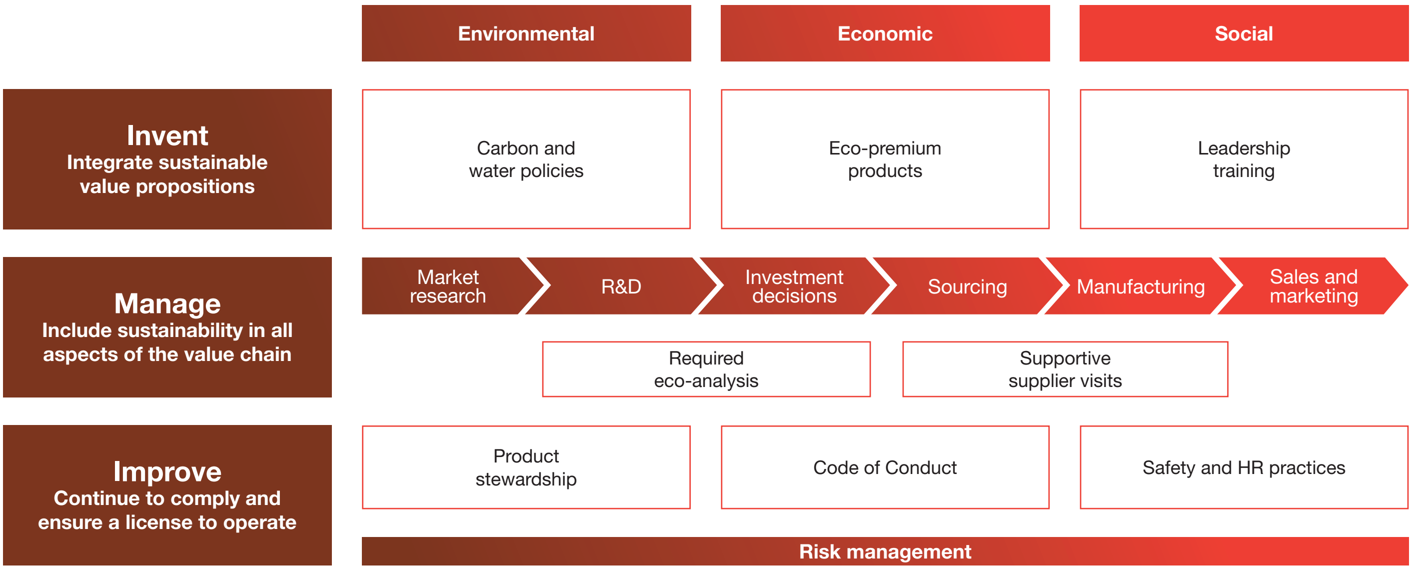
During 2008 we put in place a strategy built around the twin pillars of value creation and a proactive sustainability agenda. The specific sustainability objectives are:

- Remain in the top three in the Dow Jones Sustainability Indexes
- Reduce our Total Reportable Rate of injuries to 2.0 per million working hours by 2015, equivalent to the best five of our peer sector
- Deliver a step change in people development, in part through substantively improving the diversity in our company

AkzoNobel sustainability framework

Our performance will be managed in an integrated way across our business and will be reviewed on the basis of a balanced "scorecard" taking into consideration both criteria. We believe this dual approach will create greater transparency and, ultimately, more value for our stakeholders.

Our sustainability strategy and development can be depicted as a three-level framework. Each level includes environmental, economic and social aspects, which together map out the journey towards sustainability.



Sustainability framework

Invent – Creating long-term strategic value

With the growing global emphasis on better management of natural resources and a lower ecological footprint in all areas of industry, our focus increasingly is on identifying and managing areas which will provide long-term and sustainable opportunities for the business. We are working on a number of fronts to build relationships and find new ways of working with partners that will help us to create value for the future, for example projects with suppliers and customers together to deliver eco-premium solutions. We are also developing our people to lead and deliver innovative solutions, and are increasingly working in partnership with a range of stakeholders (NGOs such as World Resources Institute and Forum For the Future). In our drive to ease the burden on finite natural resources, we continue to push hard to put in place sustainable water management systems, to reduce our carbon footprint and to investigate renewables to replace fossil fuel and oil-based raw materials.

Management responsibilities and processes

AkzoNobel strives to empower all employees to contribute and be accountable for the company's sustainability performance. To this end, this responsibility is increasingly anchored in the personal targets and remuneration packages of managers and employees. At corporate level, the Board of Management has charged a Sustainability Council with responsibility to assure oversight of the company's sustainability targets and overall performance. Furthermore, for the first time, the ranking in the DJSI is to be part of the performance share plan of the Board of Management. At the same time, business managers define their non-financial targets and report on progress on a quarterly basis. All business units have appointed focal points who support embedding sustainability throughout their business.

Key sustainability issues are included in the corporate and business unit planning processes, risk management and compliance processes, the non-financial Letter of Representation and in the corporate audit process. Each element of the value chain has identified focus areas for sustainability, with targets where appropriate. These include personal targets, product development processes, the vendor policy, HSE&S performance monitoring and reporting, Code of Conduct training and global complaints procedure.

Our sustainability journey in 2009

Over the last few years our sustainability focus has made a shift from the establishment of the basic building blocks and infrastructure – integrity, governance and compliance tools – to value creation and operational excellence based on sustainable innovation and talent development. This has opened up the way to greater business opportunity and potentially higher shareholder returns.

We are setting ambitious targets against each of the strategic objectives, measuring progress using the company-wide strategic dashboard. Our focus will be on:

- Improving our safety performance
- Increasing turnover from eco-premium products which are both eco-efficient and attract a premium
- Developing sustainable water management at all sites
- Reducing our carbon emissions from cradle to gate
- Adherence to and training in our Code of Conduct
- Strengthening the diversity of our workforce
- Implementing leading people development programs.

As in the past, we will continue to benchmark our performance though respected global indices such as the Dow Jones Sustainability Indexes and FTSE4Good. Our objective is to retain a leadership position in these indices as well as in tangible business benefits from the sustainability agenda.

Manage – Integration in the value chain

Building on the foundations which we have been anchoring in our business operations, we continue to focus on incorporating a strong sustainability component throughout the entire value chain. This starts with market research and continues right through to sales and marketing. By applying innovative chemistry, our R&D teams seek to develop solutions which deliver the performance required by customers while improving the eco-efficiency when it comes to product design, manufacture and ultimate disposal. This would not be possible without a progressive sourcing and procurement policy in which we work in partnership with suppliers to ensure business integrity and help us to deliver sustainable value to our customers. On the manufacturing side, we continue to optimize our manufacturing processes, thereby improving yields and energy efficiency. In sales and marketing, we also work closely with customers to develop long-term sustainable solutions. We use eco-efficiency as a measure of our products, in other words, that is greater value for lower environmental impact. Currently, close to a fifth of our revenue comes from products which are more eco-efficient than rival products. By 2015, we aspire to increasing this figure to 30 percent of our revenue. In our ongoing effort to reduce our ecological footprint and drive the creation of a truly sustainable company, we have taken the strategic decision to pursue a dual approach based around the twin pillars of value creation and sustainability.

Improve – The foundations

Structured management approach
AkzoNobel's way of doing business is based on the rules and principles as set out in our Code of Conduct – which are anchored in our business processes – governing our commitments and responsibilities to shareholders, employees and customers, as well as to suppliers and other business partners, the communities in which we operate and the environment. Each of these compliance areas includes mandatory standards, management systems and objectives to drive improvement, as well as training and auditing commitments.

Risk management
Effective risk management is a fundamental business foundation. The integrated AkzoNobel risk management process considers all relevant environmental, social and governance issues. For specific risks of public concern, AkzoNobel develops position papers and where necessary draws up improvement plans which are made accountable to a corporate staff member.

Code of Conduct (economic/governance)
Compliance and integrity management are the backbone of AkzoNobel's governance process and form the basis for our license to operate. At its core is our Code of Conduct, which lays out rules and principles governing issues such as business integrity, labor relations, health, safety and the environment, and community involvement.

To ensure effective compliance, integrated procedures and management processes are in place, overseen by a corporate compliance committee and business unit compliance officers. These include a global complaints procedure which provides employees with an alternative route to report any violations of the Code.

Health, Safety, Environment and Security management (social)
A strong culture of health and safety is, and will remain, an essential basis for the success and enduring competitiveness of this company. We have put in place a strong and progressive Health, Safety, Environment and Security (HSE&S) policy, with global standards. Our HSE management systems are based on international standards and legislation and include stretched targets and objectives with regular internal and external audits. The Board is fully committed to achieving continuous performance improvement and the ongoing training of all our employees in good HSE practice.

Employment practices (social)
Attracting and retaining a talented and innovative workforce and honing the skills of our employees in response to new market challenges remains a core component of our overall business strategy. This naturally means having systems to allow us to identify, secure and retain the services of the talented individuals. Creating a Talent Factory is only possible when employees are given the opportunity to excel and grow, are able to work in an open and supportive working environment and are rewarded with competitive packages.

Product stewardship (environmental)
To fulfill our quality and sustainability performance requirements regarding the lifecycle management of our products and processes, we continue to seek to upgrade our product stewardship systems. This product-centered approach calls on all stakeholders involved in the product lifecycle – from our suppliers, to us as manufacturer, through to retailers, users and disposers – to take and share responsibility for reducing the environmental impact of our products and their components throughout the supply chain. Our product stewardship systems allow us to manage and guarantee the safety of our products and ensure compliance to all international and local regulation, such as REACH, the new European Community regulation on chemicals and their safe use, and the European VOC legislation.

AkzoNobel Art Foundation

AkzoNobel's forward-looking business attitude is well-defined by the title of this 2008 Report: Delivering Tomorrow's Answers Today. This anticipating attitude has been visualized in our contemporary art collection ever since the AkzoNobel Art Foundation was founded in 1995.

During the past year, several noteworthy, promising artists have also been discovered, with some of their work now part of the collection. Our Art Foundation activities also encompass several art-related events, such as public exhibitions, guided tours of the collection, art offers for employees and educational visits to contemporary art fairs.

Art researches the development of society and indicates societal change. This has long been recognized and can be seen in the work of, for example, Vincent van Gogh and Pablo Picasso. Their search for new ways of seeing, as well as their critical approach towards society, has delivered revolutionary answers for developments in modern history.

In AkzoNobel's art collection, one keeps finding proof of art's potential for delivering Tomorrow's Answers Today. So when the Art Foundation acquired his life-size sculpture Victoria Regia in 1998, Keith Edmier was still a young talent. Museum directors immediately considered the piece (pictured) an intriguing sculpture, appealing to the fairy tale fantasy world.

Keith Edmier; Victoria Regia; collection AkzoNobel Art Foundation.

More importantly though, they foretold that sculpture would be irrevocably influenced by this art work, completely made of innovative synthetic material. Since then, the gigantic water lily has figured in major exhibitions at the Tate Gallery in London and the Museum of Modern Art in New York. Victoria Regia has become a valued and popular sculpture and Keith Edmier is now a renowned artist and artistic forerunner in delivering innovation.

Looking at art from this perspective, it clearly contributes to the anticipating and innovating spirit of a multinational corporation, not only offering numerous opportunities to question, but also creating an open spirit helping to find and deliver Tomorrow's Answers Today.

Because art is also recognized as preceding science when it comes to innovation, a healthy bond between AkzoNobel and its art collection is only logical. Furthermore, because artists are not tied to boundaries, researching and creating in complete, independent freedom, they have the unique opportunity to discover new techniques and material. Cooperation with leading-edge product developers is common practice, as they share the same inspiration and creative thinking.

One of the goals for the art collection is to visualize the shared interest between AkzoNobel's businesses and art at large, stimulating the unity in creative thinking while relentlessly anticipating social developments.

Research, Development & Innovation

If there's one thing that's going to help AkzoNobel deliver Tomorrow's Answers Today it's innovation. But not just innovation focused on small, gradual improvements. We want to achieve bigger and bolder innovation and deliver it faster – assisted by partners from industry and academia – in order to drive the future growth of our company.

We signaled our intent when, just a month after acquiring ICI at the start of 2008, we merged and started to integrate the R&D organizations of both companies. The rapid formation of a dedicated Research, Development & Innovation (RD&I) unit – which includes expert capability groups and knowledge communities – underlines the importance of innovation to the new AkzoNobel.

Innovation-led growth is an integral part of our strategy. The vast majority of our researchers are based in dedicated customer-facing business teams. They perform research, product and process development and technical support in order to translate market and consumer needs into new products. Armed with these capabilities, we can provide the critical functionality that customers are looking for in our products.

In 2008, 2.3 percent of revenue was spent on RD&I, which equals €353 million

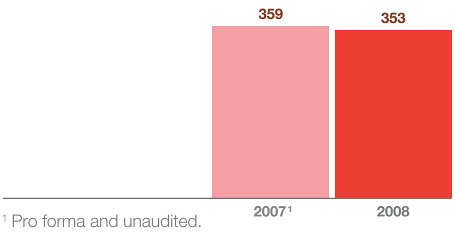
But how do we develop this functionality? How do we ensure that our products help to beautify, protect, stabilize or transform?

It's all about innovation. By harnessing our expertise in science and technology, we can stay one step ahead and gain a competitive advantage in supplying our customers with the innovations both they and the 21st century are demanding. Products that offer increased performance and convenience, that have smarter functionality and improved eco-efficiency. A key driver of this accelerated push for bigger technological breakthroughs is our commitment to reducing our ecological footprint.

So we're restless in our pursuit of new advances in the fields of complex fluids and colloid science, materials physics, materials synthesis, polymer chemistry, process technology, and analysis and measurement. It's this passion for discovery, this unquenchable thirst for knowledge that fuels our ambition to provide customers with major innovations. Not only the ones they want now, but also the ones they don't even realize they need yet.

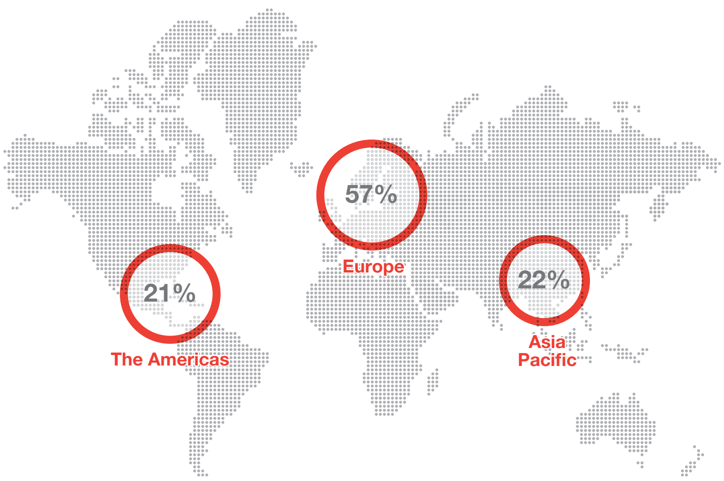
RD&I spend

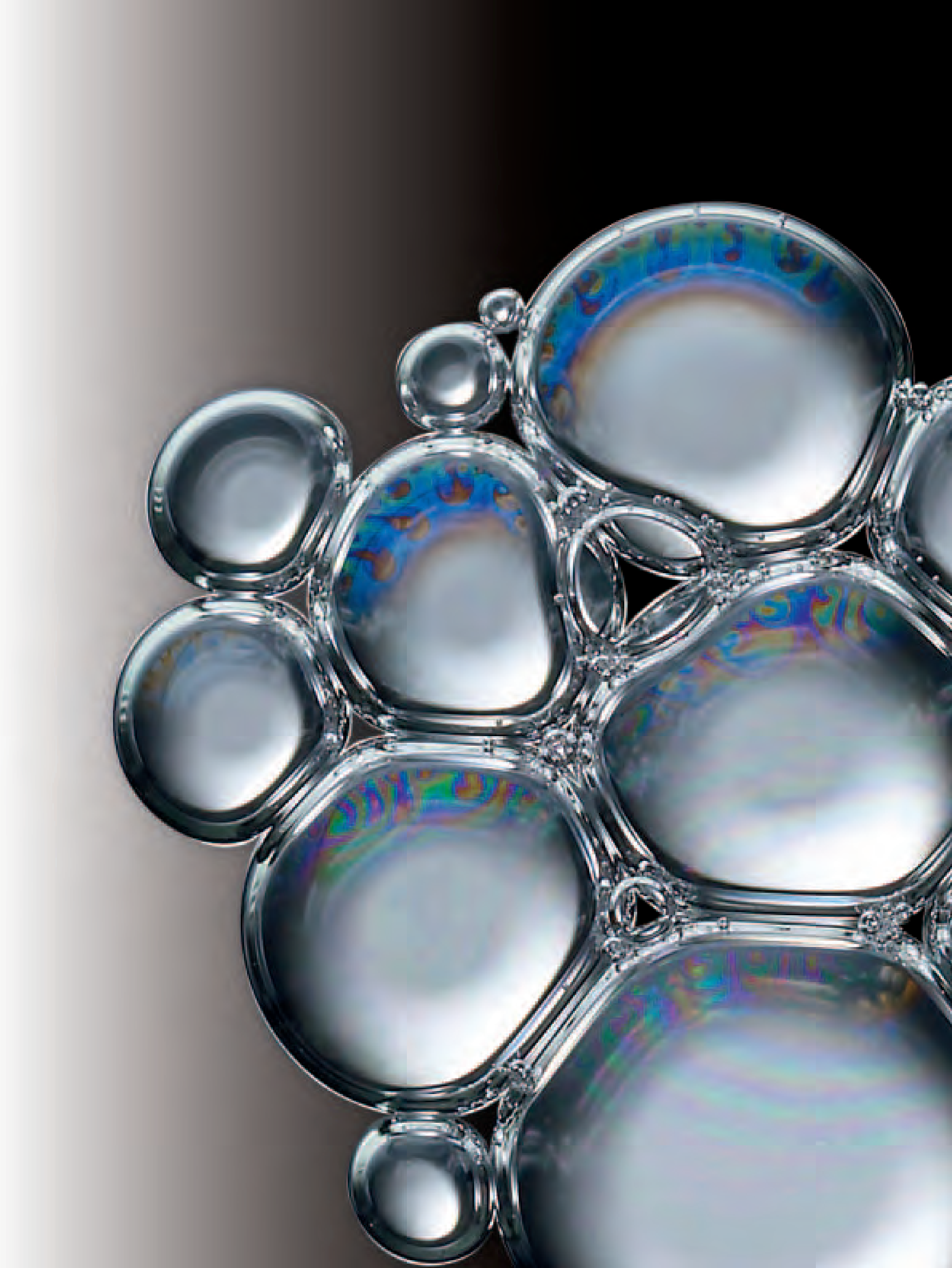
IN € MILLIONS



[1] Pro forma and unaudited.

Distribution of RD&I

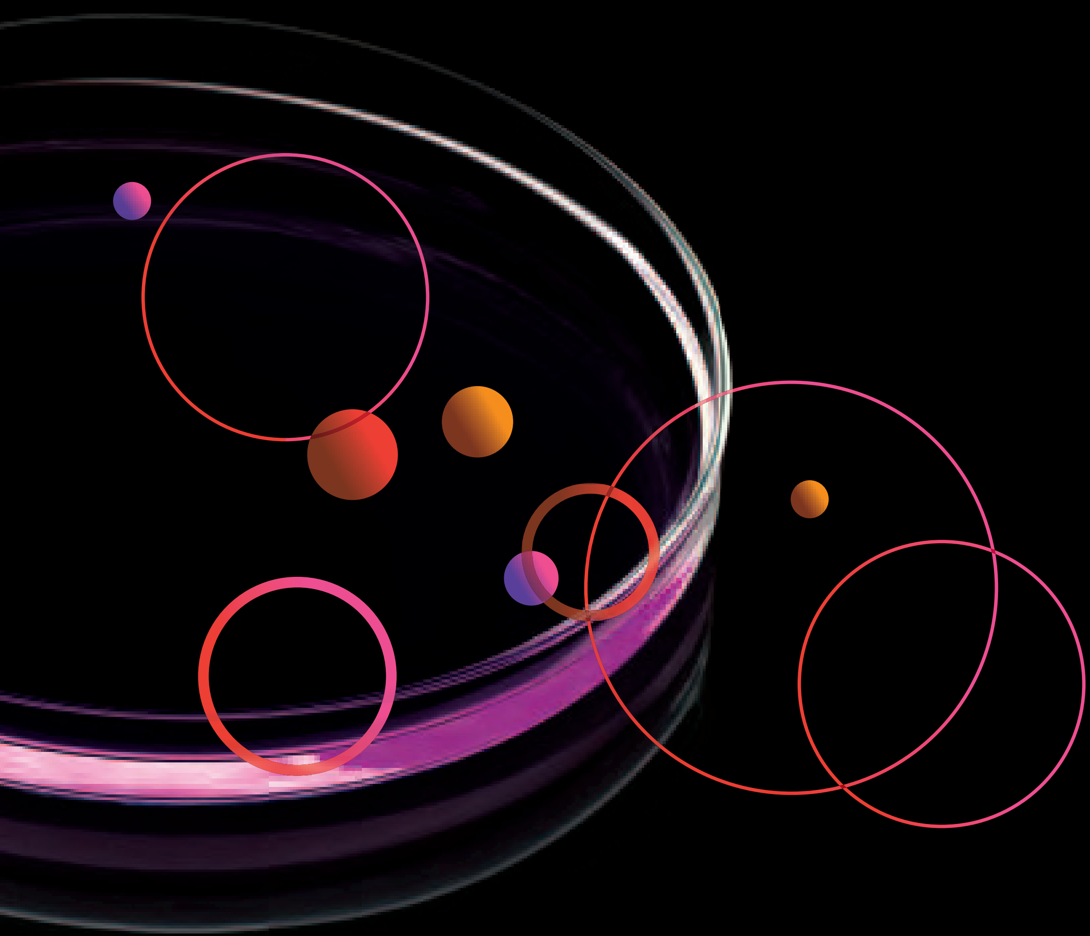


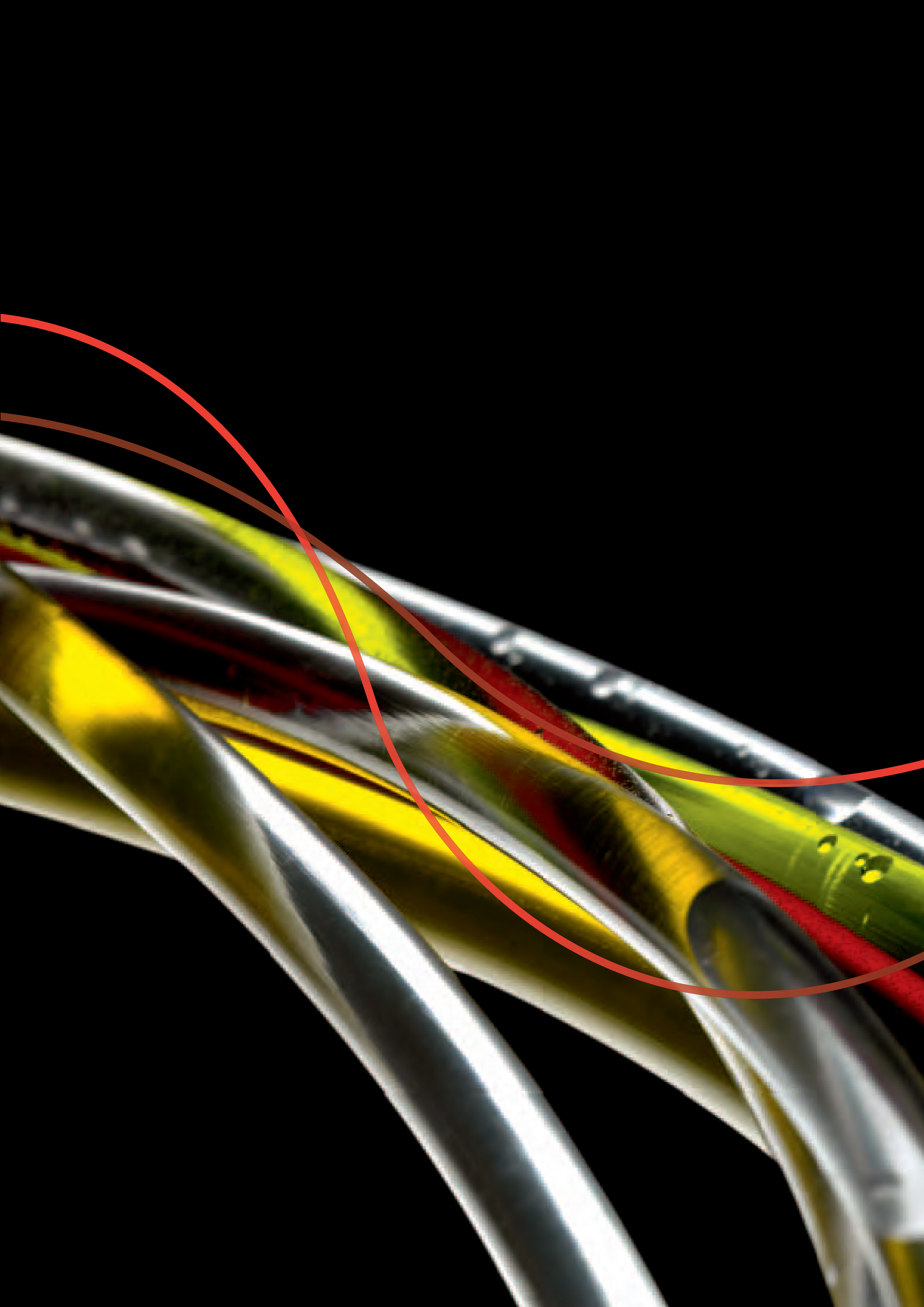


Researching a kaleidoscope of brilliant ideas

At first glance it would appear that tarmac and beauty creams have little in common. One involves asphalt emulsions and is applied in great quantities to create hard-wearing new roads, while the other is soft and delicate and is used far more sparingly on human skin.

Yet despite their apparent differences, their functionalities have something in common. Both protect, and in doing so employ the principles of **colloid science**. Expertise in this field is applied by a number of our businesses during product development to ensure physical stability in formulated complex fluids and soft solids. So while tarmac and cream may seem like chalk and cheese, the science behind them suggests otherwise.

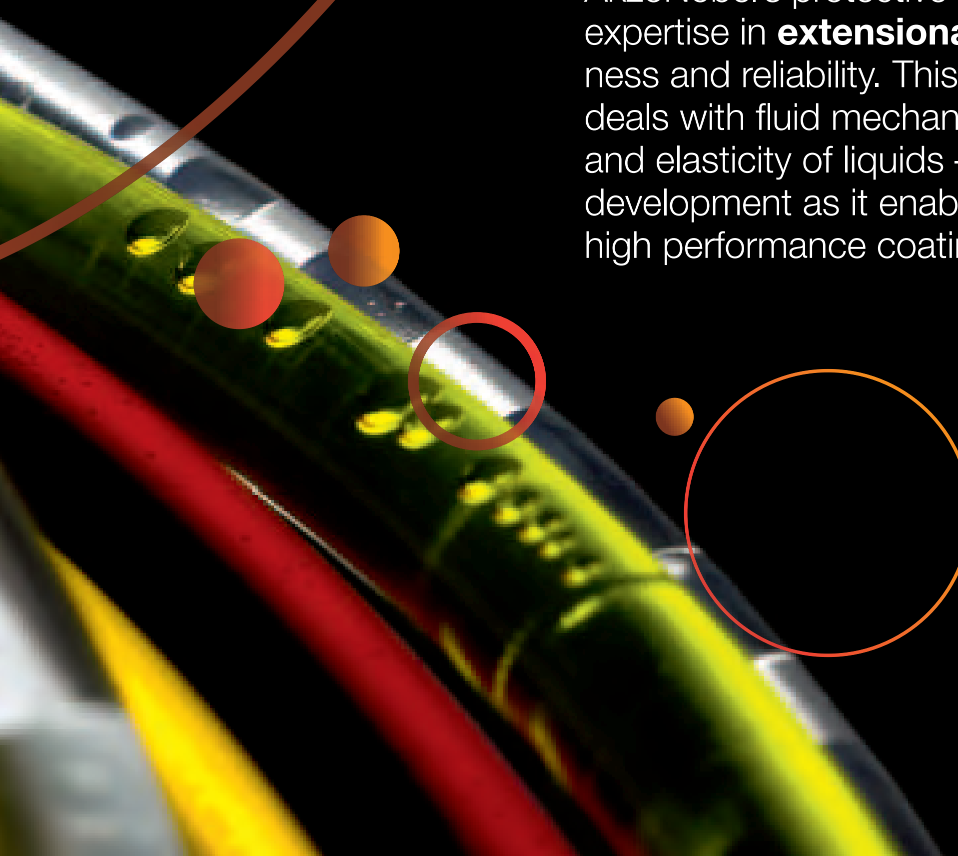




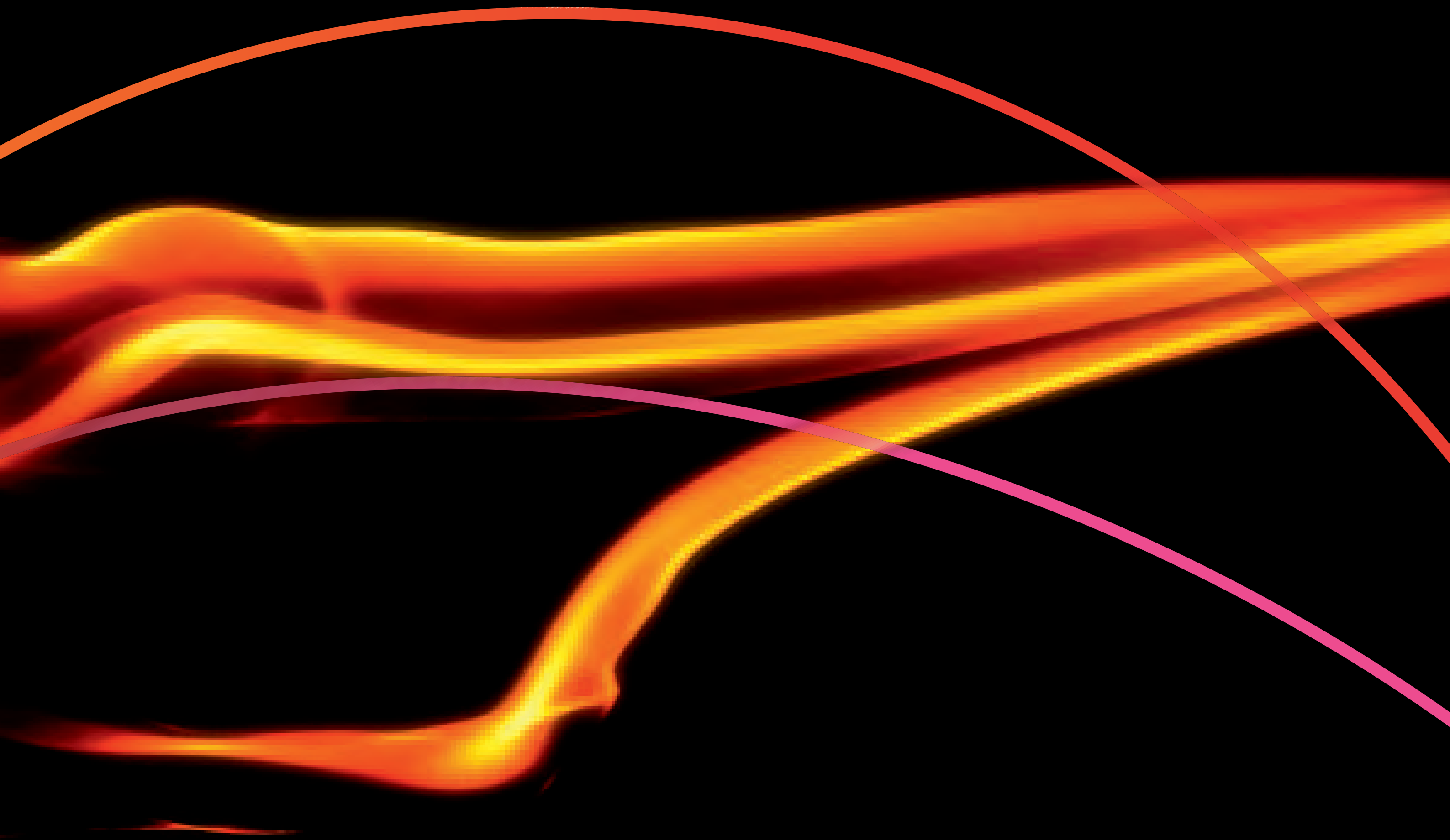
Developing new technology that goes with the flow

Whether it's a supertanker sailing through stormy seas, or an aircraft enduring the extreme temperature fluctuations between ground level and around 15,000 meters, the products used to coat and protect them owe everything to the marvels of science and innovation.

The advanced spraying technologies used to apply AkzoNobel's protective coatings rely on the company's expertise in **extensional rheology** for their effectiveness and reliability. This particular scientific discipline deals with fluid mechanics – such as the viscosity and elasticity of liquids – which is crucial in product development as it enables proper application of the high performance coatings systems involved.



A scientific hotbed of creativity and invention



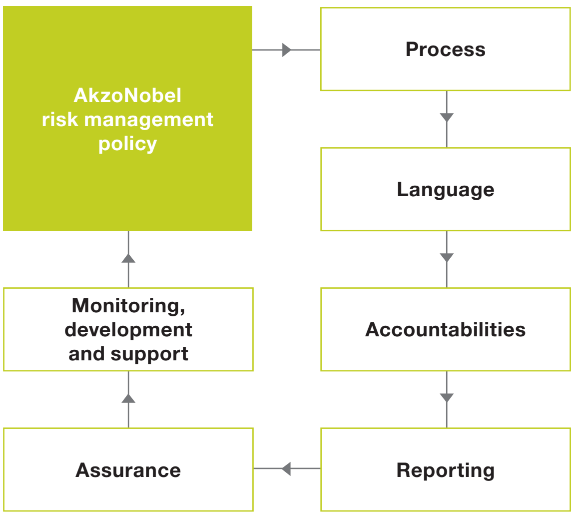
The ability of our products to beautify, protect, stabilize and transform owes much to **materials science**. It's the design and modification of polymers, together with technologies which control the way they cure, that provide the key to unlocking the functionality of many of our coatings and chemicals.

Materials science is all about the properties of matter and it is advances in this field which drives the creation of new products with new functionalities. These can range from decorative paints that produce no odors or reflect more light, to chemicals that help to speed up production processes or make products more eco-efficiently.

Risk management

Doing business inherently involves taking risks, and by taking measured risks we strive to be a sustainable company. Risk management is one of the essential elements of our company's corporate governance. This calls for creating a proper balance between entrepreneurial attitude and risk levels associated with business opportunities. We foster a high awareness of business risks and internal control procedures, geared to safeguarding our risk appetite and providing transparency in our operations.

AkzoNobel risk management framework



AkzoNobel risk management framework

Through our risk management framework we want to provide reasonable assurance that our business objectives can be achieved and our obligations to customers, shareholders, employees and society can be met. The AkzoNobel risk management framework encompasses the elements in the framework as shown.

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

Risk management in 2008

Scoping of the 2008 risk management activities for AkzoNobel was performed by the Board of Management, business unit Managing Directors and Corporate Directors in association with the risk management function. The emphasis has been on the integration of the former ICI in the AkzoNobel risk management framework and the introduction of risk management as an integral part of project management excellence. More than 100 facilitated Enterprise Risk Management workshops and a multitude of self-assessments have been carried out with management and project teams.

In facilitated Enterprise Risk Management workshops, more than 5,000 risk scenarios were identified and prioritized by the responsible managers and functional experts. All major risks were responded to by the unit that identified them. The outcome of all risk assessments was reported to the next higher management level, as part of our Business Planning and Review cycle. At all levels, risk profiles were shared by managers. In the bottom-up consolidation process, about 20 percent of the risks were taken to the next management level, where they were re-assessed, either because of the materiality of the risk exposure and/or because of the accumulated effect. The major risk factors for our company, resulting from risk consolidation and the subsequent risk assessment by the Board of Management, are presented in the next paragraph. For 2009, the emphasis will be on further organizational alignment of risk management, compliance, internal control systems and processes.

Major risk factors

Under the explicit understanding that this is not an exhaustive enumeration, our major risk factors that may prevent full achievement of our objectives are listed in detail from the next page onwards. There may be current risks that the company has not fully assessed and are currently identified as not having a significant impact on the business, but which could at a later stage develop a material impact on the company's business. The company's risk management systems endeavor the timely discovery of such incidents.

An overview of our major risk factors is provided in the table below, where the five risks that we currently assess as the most significant for the next five years are indicated.

Major risk factors assesed by AkzoNobel

Objectives	Cause: Internal	Cause: External
Strategic	**Risk** • Strategy implementation • Identification of major transforming technologies • Integration of acquisitions	**Risk** • Adaptation to economic downturn • International operations • Stakeholder support
Operational	**Risk** • People attraction and retention • Change project management • Production risks	**Risk** • Customer — **Top five risk** • Raw material sourcing — **Top five risk** • Energy price differences — **Top five risk** • Environmental liabilities • Product liabilities
Financial		**Risk** • Pensions — **Top five risk** • Impairment — **Top five risk** • Tax payments • Exchange rate fluctuations • Credit rating • Access to funding
Compliance		**Risk** • Laws and regulations

Strategic risks

Internal

Strategy implementation
A failure to implement our strategic agenda effectively could adversely affect our company and its businesses.

The appropriateness of our strategic agenda is continuously monitored by the Board of Management and the Supervisory Board. Specific attention is paid to areas such as macro-economic developments, general and financial market developments, competitive situation, performance improvement potential, sustainability, geographical spread, emerging markets, political risks, acquisition and divestment opportunities. Risks are minimized as we operate in attractive industries, have global leading positions and have the right management team in place to deliver on our ambitious targets.

Identification of major transforming technologies
We may not be able to identify major transforming technologies.

We continuously aim for sustainable growth of our businesses through research and development, production and sale of new products and regularly add new businesses and technologies through selective alliances, ventures, or acquisitions. We have a global approach to innovation and are committed to sustainability at all levels. On a percentage basis, our R&D spend – 2.3 percent of revenue – is consistent with industry practices. This, given our large size, in general means that we have more to work with on an absolute basis than our peers.

Integration of acquisitions
We may not be successful in integrating acquired businesses and not reach the full synergy effects.

Our company continues to participate in industry consolidation. We place a strong focus on integration of acquisitions as this is critical to achieve the expected results. AkzoNobel's policies and directives are implemented without delay in newly acquired businesses. We are committed to delivering €340 million on ICI synergies faster, with 100 percent realized by 2010. In 2008 we redesigned all corporate departments and all Deco regional and functional teams are in place – 95 percent of targeted management has been retained.

External

Adaptation to economic downturn
Not adapting our company timely and adequately to deepening of the global economic downturn could have a harmful impact on our business and results of operations.

One of the principal uncertainties facing our company is the extent of the economic downturn currently being experienced in many markets around the world and how this will affect our businesses and results of operations and timing of that impact. We are closely monitoring general and financial market developments and keep in close touch with our partners in the value chain. We have started a rigorous drive to further reduce our cost base at both corporate and business level. We are driving margin management programs across our company, improving pricing and procurement. For planning and budgeting we apply various scenarios to be best prepared for further changes in economic conditions.

International operations
Because AkzoNobel conducts international operations, we are exposed to a variety of risks, many of them beyond our control, which could adversely affect the business.

We spread our activities geographically and serve many sectors to benefit from opportunities and reduce the risk of instability. Unfavorable political, social or economic developments and developments in laws, regulations and standards could adversely affect our company's businesses and results of operations. Political, economic and legislative conditions are carefully monitored. The Board of Management decides on the countries where AkzoNobel conducts its business.

Stakeholder support
Failure to get support of our stakeholders for our strategy and its execution could adversely affect our company and its businesses.

We endeavor to define and implement a clear strategy and continuously seek dialog with stakeholders. As an organization we are committed to helping our customers make their business a success, providing competitive returns to our shareholders, creating an attractive working environment for our people and conducting all our activities in the most socially responsible manner.

Risk management

Operational risks

Internal

People attraction and retention
Our ambitious growth plans may not be achieved if we fail to attract and retain the right people.

Without our people we would not have a business and growing our business means having to develop our people. AkzoNobel therefore puts emphasis on attracting, retaining, motivating and educating staff, using Human Resources instruments such as performance appraisals, employee survey, leadership identification and review, as well as leadership development and many more. We provide clarity in the working environment through information and communication programs. Special focus is dedicated to the emerging markets.

Change project management
If our management of change projects is not adequate, this may possibly lead to loss of key staff or knowledge or other business disruption, which could have a negative effect on productivity and customer focus.

Our company undertakes various change and investment projects that require significant project management. In 2008, our project management experience was complemented by introducing risk management as an integral part of project management excellence. Senior management is involved in the management of critical projects which are prioritized and supervised by the Board of Management.

Production risks
Risks in production processes can adversely affect our results of operations.

It is AkzoNobel's policy to mitigate production risks by spreading of production and an adequate inventory policy combined with contingency planning and appropriate risk transfer arrangements (for example insurances).

External

Customer – Top five risk
Loss of major customers could adversely affect our businesses and results of operations.

Focusing on our customers' future first is a core value in our company. We keep in close touch with our customers and markets and focus efforts on constant delivery of high quality, cost effective, sustainable and innovative solutions. In our Performance Coatings and Specialty Chemicals businesses, customer concentration is low and it is reasonably low in our Decorative Paints businesses. We have strict credit management and are watching critical customer accounts closely.

Raw material sourcing – Top five risk
Inability to access raw materials, growth in cost and expenses for raw materials, energy and changes in product mix may adversely influence the future results of our company.

We are sensitive to price movements that may lead to erosion of margins and allow product substitution. Our company may also be impacted by business interruption at one of our key suppliers. We aim to use our purchasing power and long-term relationships with suppliers to acquire raw materials and safeguard their constant delivery at the best conditions. We have inventoried single and sole sourced raw materials. We have diversified contract length and supplier base. Our strengthened global sourcing strategy enables us to bundle the purchasing power both in product related and non-product related requirements. Our businesses continuously monitor the markets in which we operate for developments and opportunities.

Operational risks, continued

Energy price differences – Top five risk
Differences in energy prices pose a risk to the competitiveness of several of our company's chemical businesses.

We operate some energy intensive businesses. A non-level playing field for energy and emission trading rights can affect the competitive position of these businesses. We are pro-actively managing energy costs. We operate several cogeneration units which enable us to make efficient use of combined heat and power. We are implementing our carbon policy, working on energy efficiency programs and investing in energy from waste and biomass. We have hedging policies for energy contracts and have long-term purchase contracts in place.

Environmental liabilities
Our businesses will continue to expose us to risks of environmental liabilities.

We use hazardous materials, chemicals and biological and toxic compounds in several product development programs and manufacturing processes. We have been, and can be, exposed to risks of accidental contamination. We could be exposed to events of non-compliance with environmental laws, regulatory enforcement, property damage, and possible personal injury and property damage claims resulting from these. Regulations and standards are becoming increasingly stringent. We are committed to conducting all our activities in the most socially responsible manner and contingency plans and assignment arrangements are in place to seek to mitigate these risks. In addition, our policy is to accrue and charge against earnings environmental clean-up costs when it is probable that a liability has materialized and an amount is reasonably estimated (see also note 22 on page 165).

Product liabilities
Product liability claims could adversely affect our company's business and results of operations.

Presently, our company is involved in a number of product liability cases. However, we believe that any unaccrued costs and liabilities will not have a material adverse effect on our company's consolidated financial position. We have a central policy to optimize insurance coverage.

Risk management

Financial risks

External

Pensions – Top five risk
Various external developments may affect assets and liabilities of pension schemes, causing higher pension charges and pension premiums payable.

We practice pro-active pension risk management. Our pension policy is to offer a defined contribution scheme where appropriate. We are committed to further de-risk over time. Our defined benefit schemes are closed to new entrants, major plans closed in 2001 (ICI) and 2004 (AkzoNobel). We are ring fencing other post-retirement obligations (see note 18 on page 160).

Impairment – Top five risk
Impairments and book losses could adversely affect our financial results.

In view of the current financial market conditions, asset value decline offers both opportunities and threats to our company. We are actively participating in industry consolidation. As such we may perform selective acquisitions and may hold assets for sale. Acquisition and divestment opportunities and the management of assets held for sale are continuously monitored by the Board of Management. We perform impairment tests for intangibles with indefinite lives (goodwill, some brands) every year and whenever an impairment trigger exists. For tangibles and other fixed assets, we do impairment tests whenever an impairment trigger exists (see note 1 on page 139).

Tax payments
The outcome of tax disputes, litigation, indemnification and guarantees, and regulatory action could adversely affect our company's business and results of operations.

A number of claims are pending, all of which are contested. AkzoNobel 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 our company's consolidated financial position, but could affect the timing of tax payments.

Exchange rate fluctuations
Exchange rate fluctuations can have a harmful impact on our company's financial results.

We have operations in more than 80 countries and report in euros. We are particularly sensitive to the relation between the euro and US dollar, pound sterling, Swedish krona and Latin American and Asian currencies. We have centralized treasury and a hedging policy is in place for certain currency exchange rate risks (see note 25 on page 171).

Credit rating
A downgrading by credit rating agencies could result in higher financing costs or reduced availability of credit.

Ratings at year-end were Standard & Poor's A- (A-minus) negative outlook and Moody's A3 negative outlook.

Access to funding
Inability to have access, control and visibility of liquidity by AkzoNobel and/or its partners in the value chain may have an adverse effect on our business and results.

Our debt profile is strong. We are watching financial markets, critical suppliers and customers closely. We have a prudent financing strategy and a strict cash management policy, which are managed by our centralized treasury function (see note 25 on page 171).

Compliance risks

External

Laws and regulations
We may be held responsible for any liabilities arising out of non-compliance with laws and regulations.

We are at risk from significant and rapid changes in the legal systems, regulatory controls and customs and practices in the countries in which we operate. These affect a wide range of areas. For instance, with respect to antitrust laws, we are involved in investigations by the antitrust authorities in the European Union, the US and other countries into alleged violations of the respective antitrust laws in these jurisdictions and we are engaged in civil litigation in this respect. We are dedicated to minimizing such risks with special emphasis on the practical application of the Business Principles laid down in our Code of Conduct. We operate under a comprehensive competition law compliance program including training, monitoring and assessment tools.

Corporate governance

Akzo Nobel N.V. is a public limited liability company ("Naamloze Vennootschap") established under the laws of the Netherlands. Its common shares are listed on Euronext Amsterdam. AkzoNobel's management and supervision structure is organized in a so-called two-tier system, comprising a Board of Management, solely composed of executive directors, and a Supervisory Board, solely composed of non-executive directors. The two Boards are independent of each other and are accountable to the Annual General Meeting of shareholders for the performance of their functions.

AkzoNobel's corporate governance structure is based on the requirements of the Dutch Civil Code, the company's Articles of Association and the rules and regulations applicable to companies listed on the stock exchange of Euronext, Amsterdam, complemented by several internal procedures. These procedures include a risk management and control system, as well as a system of assurance of compliance with laws and regulations.

Over the last decade, AkzoNobel has been consistently enhancing and improving its corporate governance standards in accordance with applicable laws and regulations. Most notable are the Dutch Corporate Governance Code adopted in 2003 (the "Code") and the US Sarbanes-Oxley Act of 2002 and its implementation rules. Even though AkzoNobel has delisted from NASDAQ and deregistered from the SEC, the company will continue to build on the improvements it has made to its corporate governance over the last few years.

The Code contains principles and best practices for Dutch companies with listed shares. AkzoNobel agrees both with the general approach and with the vast majority of its principles and best practice provisions. Corporate governance at AkzoNobel was placed on the agenda of the 2004 and 2005 Annual General Meetings of shareholders as a separate item for discussion. This specifically included a number of aspects where AkzoNobel's corporate governance deviates from the Code, as explained in the 2004 Annual Report. The Board of Management and the Supervisory Board have taken these discussions into account in formulating a position on the company's corporate governance. One of the results was an amendment of the Articles of Association which was approved by the Annual General Meeting of shareholders in 2005.

This chapter describes AkzoNobel's corporate governance. Deviations from the Code are explained, in accordance with the Code's "apply or explain" principle.

The Board of Management and the Supervisory Board believe that the company's corporate governance structure as described here is the most appropriate for AkzoNobel at this point in time. Except for those aspects of the company's governance structure which can only be amended with the approval of the Annual General Meeting of shareholders, the Board of Management and the Supervisory Board may make adjustments to the way the Code is applied as described below, if this is considered to be in the interest of the company. If adjustments are made, they will be published and reported in the annual report for the relevant year.

Board of Management

General

The Board of Management is entrusted with the management of the company which means that, among other responsibilities, it defines the strategic direction, establishes the policies and manages the company's day-to-day operations. The members of the Board of Management collectively manage the company and are responsible for its performance. They are jointly and individually accountable for all decisions made by the Board of Management. In performing its duties, the Board of Management is guided by the interest of the company.

The Chief Executive Officer (CEO) leads the Board of Management in its overall management of the company to achieve its performance goals and ambitions. He is the main point of liaison with the Supervisory Board. The Chief Financial Officer (CFO) is specifically responsible for the company's financial affairs. The Board of Management has members with specific responsibilities for the company's main business areas: Decorative Paints, Performance Coatings and Specialty Chemicals.

The Managing Directors responsible for the performance of the business units, and the Staff Directors responsible for the performance of the different functions, report to the specific Board member responsible for their overall business areas and performance. To safeguard consistency and coherence for the total organization, the Board of Management has established corporate directives.

To effectively steer the strategy and operations of the business units, the Board of Management has constituted Business Area Boards for each of the business areas: Decorative Paints, Performance Coatings and Specialty Chemicals. Furthermore, a Pensions Board Committee oversees the general pension policies (to be) implemented in the various pension plans of the company.

Business Area Boards are chaired by the member of the Board of Management responsible for that business area. The CFO chairs the Board Committee Pensions. The authority of the Business Area Boards and the Board Committee is laid down in an internal authority schedule.

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

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

Appointment, conflicts of interest

The Annual General Meeting of shareholders appoints the members of the Board of Management. As a rule, the members of the Board of Management step down at the Annual General Meeting in the year in which they reach the age of 62. Members of the Board of Management can be removed from office by the Annual General Meeting of shareholders.

As of 2004, members of the Board of Management are appointed for four-year terms, with the possibility of reappointment at the expiry of such term. This is in line with the Code's provision II.1.1. However, the contract of Mr. Wijers, who was appointed before 2004, was not renegotiated as this was not felt to be in the interest of the company.

The Meeting of Holders of Priority Shares has the right to make binding nominations for the appointment of members of the Board of Management and the Supervisory Board. The priority shares are held by the Foundation AkzoNobel. The Board of the Foundation AkzoNobel consists of members of the Supervisory Board who are not members of the Audit Committee.

According to the Code's recommendation (provision IV.1.1), the Annual General Meeting of shareholders should be able to pass a resolution to cancel the binding nature of a nomination for the appointment of the Supervisory Board or the Board of Management. Under the Articles of Association, the binding nature of the nominations by the holders of priority shares cannot be canceled by the Annual General Meeting of shareholders.

The company subscribes to the Code's principle in general and therefore, as described in the 2004 Annual Report and discussed at the Annual General Meeting of shareholders in 2005, it has been decided that in normal circumstances, the members of the Supervisory Board and the Board of Management will be appointed on the basis of a non-binding nomination by the Supervisory Board. The Board of the Foundation AkzoNobel has confirmed its intention to use its binding nomination rights only in the case of exceptional circumstances, such as in the event of a (threatened) hostile takeover (reference is made to the description of anti-takeover provisions and control, see page 127. In normal circumstances, resolutions to appoint a person as a member of the Supervisory Board or the Board of Management will therefore require a simple majority of the votes cast. Of course, shareholders meeting the requirements laid down in the Articles of Association are also entitled to nominate members of the Supervisory Board or the Board of Management. According to the Articles of Association, such appointments will require a two-thirds majority representing at least 50 percent of the outstanding share capital.

Although a deviation from provision IV.1.1. of the Code, the Supervisory Board and the Board of Management hold the view that these provisions will enhance the continuity of the company's management and policies.

Members of the Board of Management are allowed to hold a maximum of two supervisory board memberships or non-executive directorships in other listed companies. This is in line with the Code (provision II.1.7). The exception to this rule is that in the year prior to their retirement, Board of Management members are allowed to hold more than two supervisory board memberships or non-executive directorships in order to allow them to prepare for retirement, as long as this does not interfere with the performance of their tasks as members of the Board of Management. Acceptance of external supervisory board memberships or non-executive directorships is subject to approval by the Supervisory Board, which authority has been delegated to the Chairman of the Supervisory Board.

The handling of (potential) conflicts of interest between the company and members of the Board of Management is governed by the Rules of Procedure for the Board of Management. Decisions to enter into transactions under which Board of Management members have conflicts of interests that are of material significance to the company and/or to the relevant Board of Management member, require the approval of the Supervisory Board and will be mentioned in the annual report for the relevant year. In 2008, no transactions were reported under which a member of the Board of Management has had a conflict of interest that is of material significance to the company.

Remuneration

In line with the remuneration policy adopted by the Annual General Meeting of shareholders in 2005, the remuneration of the members of the Board of Management is determined by the Supervisory Board on the advice of its Remuneration Committee. A description of the composition of the remuneration of the Board of Management members and the remuneration policy is included in the Remuneration Report (see page 128) and the Financial Statements (see pages 167 to 170).

The main elements of the employment contract of members of the Board of Management have been published on the company's corporate website. For appointments starting from 2004, the maximum remuneration in the event of dismissal is in principle one year's base salary. In the event of the dismissal of the Board member appointed before 2004, the Supervisory Board will determine a severance payment upon the advice of the Remuneration Committee. Since it is not believed to be in the interest of the company to renegotiate the existing contracts of the members of the Board of Management, the company has decided not to follow Code provision II.2.7 for the member of the Board of Management appointed before 2004. However, the Supervisory Board intends to take the provisions of the Code as guidance for establishing severance payments.

Risk management and (financial) reporting

The company has internal risk management and control systems. The risk management system is explained in more detail in the Risk Management chapter (see page 116).

AkzoNobel has strict procedures for internal and disclosure controls and auditor independence. The Disclosure Committee monitors the procedures established by the company and advises the Board of Management to ensure adequate and timely disclosure of financial and non-financial information.

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

Reference is made to the Board of Management's report (see page 31) for the statements in respect of the internal risk management and control systems.

Supervisory Board

General

The overall responsibility of the Supervisory Board is to exercise supervision over the policies adopted by the Board of Management and over the general conduct of the business of the company. This specifically includes supervision of the achievement of the company's operational and financial objectives, the corporate strategy designed to achieve the objectives and the main financial parameters and risk factors. The Supervisory Board also provides the Board of Management with advice. In fulfilling its duties, the Supervisory Board and its members are guided by the interests of the company.

Appointment, independence, conflicts of interest and composition

Members of the Supervisory Board are nominated, appointed and dismissed in accordance with procedures which are the same as those outlined above for the members of the Board of Management (see page 123). As a general rule, based on the rotation schedule, a Supervisory Board member's tenure is four years. In principle, members are eligible for re-election twice. However, in deviation from the Code (provision III.3.5), a member can be nominated for re-election more often if, in a specific case, this is considered to be in the company's interest.

The composition of the Supervisory Board is such that the members are able to act with due objectivity and independently of one another and of the Board of Management. All Supervisory Board members meet the independence requirements as stated in Code provisions III.2.1, III.2.2 and III.2.3.

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

Corporate governance

The Supervisory Board is governed by its Rules of Procedure, which include detailed provisions on how to deal with conflicts of interest and potential conflicts of interest between members of the Supervisory Board and the company.

In 2008, no transactions were reported under which a member of the Supervisory Board had a conflict of interest that was of material significance to the company. The Supervisory Board Rules of Procedure, encompassing the Profile and the Charters of the Committees, reflect the tasks and responsibilities of the Supervisory Board and are available on AkzoNobel's corporate website.

The Chairman of the Supervisory Board determines the agenda and chairs the meetings of the Supervisory Board, monitors the proper functioning of the Supervisory Board and its committees, arranges for the adequate provision of information to the members of the Supervisory Board and acts on behalf of the Supervisory Board as the main contact for the Board of Management. He also initiates the evaluation of the functioning of the Supervisory Board and the Board of Management and chairs the Annual General Meeting of shareholders. From May 1, 2006, the Supervisory Board has been chaired by Mr. Van den Bergh. On February 23, 2009, Mr. Van den Bergh resigned as Chairman and member of the Supervisory Board and its committees. The Supervisory Board has appointed Mr. Vuursteen as Chairman of the Supervisory Board.

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

Remuneration
Supervisory Board members receive a fixed annual remuneration and attendance fee which is determined by the Annual General Meeting of shareholders. More information on the Remuneration of the Supervisory Board members can be found on page 167.

Committees
The Supervisory Board has established three Committees: the Audit Committee, the Nomination Committee and the Remuneration Committee. Each committee has a charter describing its role and responsibilities and the manner in which it is to discharge its duties and report to the full Supervisory Board. These charters are included in the Supervisory Board Rules of Procedure, published on the company's corporate website. The committees report on their deliberations and findings to the full Supervisory Board.

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

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

The Nomination Committee, chaired by Mr. Vuursteen, focuses on drawing up selection criteria and appointment procedures for Supervisory Board and Board of Management members, assessing the size and composition of both Boards, assessing the functioning of the individual members, making proposals for appointments and reappointments and supervising the Board of Management on the selection of senior management.

The Remuneration Committee is responsible for drafting proposals to the Supervisory Board on the remuneration policy for the Board of Management, for overseeing the remuneration of individual members of the Board of Management and the remuneration schemes for AkzoNobel executives involving AkzoNobel shares. The Committee also prepares Supervisory Board proposals to the Annual General Meeting of shareholders concerning the remuneration of the members of the Supervisory Board. The Remuneration Committee is chaired by Mr. Burgmans. Baroness Bottomley and Messrs. Vuursteen, Burgmans and Ellwood are all members of both the Nomination Committee and the Remuneration Committee.

Auditors
The external auditor is appointed by the Annual General Meeting of shareholders on the proposal of the Supervisory Board. The appointment is for an indefinite period of time and is reviewed every four years by the Audit Committee. The Audit Committee advises the Supervisory Board, which will communicate the results of this assessment to the Annual General Meeting of shareholders. The Audit Committee and the Board of Management annually report their dealings with the external auditor to the Supervisory Board and discuss the auditor's independence. The lead auditor in charge of the AkzoNobel account will be changed every seven years. KPMG's current lead partner, Mr. Weusten, has held this position since July 2007. The lead auditor is present at the Annual General Meeting of shareholders and may be questioned with regard to his statement on the fairness of the financial statements.

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

Rules on Inside Information, Code of Conduct, Code of Financial Ethics and complaints procedure

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

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

AkzoNobel has chosen not to follow the provisions of the Code (provisions II.2.6 and III.7.3) requiring notification by members of the Board of Management and Supervisory Board of all changes in holdings of shares in Dutch listed companies, as it believes that, in addition to the cited restrictions, this will create an unnecessary administrative burden.

Shares in the company and options of the members of the Board of Management, as well as certain senior executives, are held in an account administered by the "Stichting Executive Management Beheer". This foundation acts as an independent portfolio manager for AkzoNobel participants.

A comprehensive Code of Conduct followed by officers and employees committed to individual and corporate integrity is one of the critical foundations of good corporate governance. AkzoNobel's Code of Conduct, which incorporates the business principles, sets out the company's position. It guides all our employees in their daily work. We have established several procedures to arrange for company-wide dissemination of the Code of Conduct and training. We have also established procedures and a Compliance Committee to monitor compliance with the Code of Conduct in general and certain of its provisions in particular and to provide for its enforcement. The Board of Management has adopted a Financial Code of Ethics for senior financial officers. Certain designated persons, including the CEO and the CFO, have to confirm annually in writing that they have adhered to this Code. The Financial Code of Ethics can be found on the company's corporate website.

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

Relations with shareholders and other investors

AkzoNobel has three classes of shares: common shares, cumulative preferred shares and priority shares. Common shares are traded on the Euronext Amsterdam stock exchange. As a consequence of the delisting from NASDAQ, common shares are also traded over-the-counter on OTCQX (organized by Pink Sheets) in the US in the form of American Depositary Receipts. On December 31, 2008, a total of 231,664,187 common shares had been issued and 48 priority shares had been issued, amounting to 99.996 percent and 0.004 percent respectively of the total issued and outstanding capital.

By December 31, 2008, AkzoNobel had been notified by Capital Research Global, Paulson & Co, ING Investment Management and Brandes Investment Partners that their participation in the company's share capital was more than 5 percent each. No cumulative preferred shares have been issued to date. It has been communicated that the cumulative preferred shares merely have a financing function, which means that, if necessary, they will be issued at or near to the prevailing quoted price for common shares. The priority shares are held by the Foundation AkzoNobel. The Foundation's Board consists of members of AkzoNobel's Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the nomination rights for the appointments of members of the Board of Management and of the Supervisory Board (see page 123) and the right to approve amendments to the Articles of Association of the company.

The Annual General Meeting of shareholders of April 22, 2008, authorized the Board of Management for the period of 18 months after that date, and subject to approval of the Supervisory Board, to issue shares in the capital of the company up to a maximum of 10 percent of the issued share capital, to restrict or exclude the pre-emption rights for existing shareholders for those shares and to purchase shares of the company. In the same Annual General Meeting of shareholders, the Board of Management was given a mandate to acquire up to a maximum of 30 percent of the issued share capital of the company and to cancel these shares, all as part of returning €3 billion in value to AkzoNobel's shareholders. On September 29, 2008, the Board of Management announced that, given the turbulence in the global financial markets, it had decided to suspend the share buyback plan. Until that date, a total of 31,746,972 shares had been bought by the company, for a total amount of €1,437 million.

Corporate governance

General Meetings of shareholders are held at least once a year. The Annual General Meeting of shareholders is convened by public notice. The agenda and the notes to the agenda are published in advance and posted on the company's corporate website. The notes to the agenda contain all relevant information with respect to the proposed resolutions. All resolutions are made on the basis of the "one share, one vote" principle. The Annual General Meeting of shareholders reviews the Annual Report and decides on adoption of the Financial Statements and the dividend proposal, as well as on the discharge of the members of the Supervisory Board and the Board of Management. Holders of common shares in aggregate representing at least 1 percent of the total issued capital may submit proposals in writing for the agenda of the Annual General Meeting to the company's head office in Amsterdam, at least six weeks in advance. Such requests shall be granted unless the Supervisory Board and the Board of Management are of the opinion that they are not in the best interest of the company. The Annual General Meeting of shareholders will be provided with all requested information, unless the Supervisory Board and the Board of Management are of the motivated opinion that this is contrary to an overriding interest of the company.

The company attaches great value to shareholder relations. AkzoNobel 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 the said meeting.

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

We actively communicate our strategy and the developments of our businesses to the financial markets. Members of the Board of Management and business managers regularly attend analysts meetings in Europe and the US. The quarterly results, press conferences and the analysts' conference calls, as well as the presentations at analyst meetings organized by the company, are all announced in advance and are available as webcasts and accessible online. Presentations to (institutional) investors are held at regular intervals and, in principle, are announced on the company's website or by press releases. Other meetings with analysts or investors are not normally announced in advance, nor can they be followed by webcast or any other means. Discussions in such meetings are always limited to information that is already in the public domain. This is in line with the requirement to ensure that all shareholders and other parties in the financial market have equal and simultaneous access to information that may influence the share price. In this respect, the company complies with applicable laws and regulations. In principle, analyst meetings, presentations to (institutional) investors and direct meetings with investors are not held shortly before publication of the quarterly and annual results.

All press releases published by the company pursuant to Dutch insider trading regulations during the period of 12 months prior to publication of this 2008 Report can be found on the company's corporate website in the News & Media section. All financial information that the company was required to publish during the period of 12 months prior to publication of this 2008 Report (including the 2007 Annual Report, the quarterly results and financial press releases) can be found on, and downloaded from, the company's corporate website in the Investor Relations section.

Anti-takeover provisions and control

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

The priority shares may be considered to constitute a form of anti-takeover measure. In relation to the right of the Meeting of Holders of Priority Shares to make binding nominations for appointments to the Board of Management and the Supervisory Board (see page 123), the Foundation AkzoNobel has confirmed that it intends to make use of such rights in exceptional circumstances only. These circumstances include situations where, in the opinion of the Board of the Foundation, the continuity of the company's management and policies is at stake. This may be the case if a public bid for the common shares of the company has been announced or has been made, or the justified expectation exists that such a bid will be made without any agreement having been reached in relation to such a bid with the company.

The same shall apply if one shareholder, or more shareholders acting in a concerted way, hold a substantial percentage of the issued common shares of the company without making an offer or if, in the opinion of the Board of the Foundation AkzoNobel, the exercise of the voting rights by one shareholder or more shareholders, acting in a concerted way, is materially in conflict with the interests of the company. In such cases the Supervisory Board and the Board of Management, in accordance with their statutory responsibility, will evaluate all available options with a view to serving the best interests of the company, its shareholders and other stakeholders. In order to allow for sufficient time to conduct such an evaluation, the Board of the Foundation AkzoNobel reserves the right to make use of its binding nomination rights for the appointment of members of the Supervisory Board and of the Board of Management in such circumstances.

In the event of a hostile takeover bid, in general the Supervisory Board and the Board of Management reserve the right to use all powers available to them in the interest of the company.

Remuneration report

This remuneration report describes the remuneration policy of AkzoNobel – including amendments proposed by the Supervisory Board – and remuneration paid to individual members of the Board of Management in 2008.

The remuneration policy and the individual service contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy as adopted by the Annual General Meeting of shareholders in April 2005 and revised in April 2006 and April 2008.

The company's remuneration policy, including all structures and policies related to the remuneration and employment contracts of the Board of Management, is in line with the Dutch Corporate Governance Code. In valuing its incentive plans, AkzoNobel is assisted by independent external advisors.

Remuneration policy

The objective of the company's remuneration policy is to provide remuneration in a form that will attract, retain and motivate the members of the Board of Management as top managers of a major international company, while protecting and promoting the mid and long-term objectives of the company. The remuneration policy and the checks and balances that are applied in its execution are designed to avoid that members of the Board of Management – as well as senior executives for whom similar incentive plans apply – act in their own interest, take risks that are not in keeping with the company's strategy and risk appetite, or that the remuneration levels cannot be justified in any given circumstance.

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

- Base salary
- Performance-related short-term incentive
- Performance-related shares
- Pension provisions.

It is the company's policy to move gradually toward overall remuneration levels that are at the median level of the external benchmark of a peer group of companies which as of January 1, 2009, consists of:

- Clariant
- Heineken
- Philips (new)
- Randstad (new)
- Reed Elsevier
- Rhodia
- Royal Ahold
- Royal DSM
- Royal KPN
- Solvay
- TNT
- Wolters Kluwer.

Changes in the peer group are made only if companies no longer qualify to serve as a peer group company. ICI, Ciba and Royal Numico have been removed from the peer group as a result of being delisted. The Supervisory Board has decided to add Philips as a replacement for the delisted companies and to replace Aegon with Randstad as of January 1, 2009.

The Remuneration Committee consults professional independent remuneration experts to ensure an appropriate comparison.

To ensure that remuneration is linked to performance, a significant proportion of the remuneration package is variable and dependent on short and long-term performance of the individual Board member and the company.

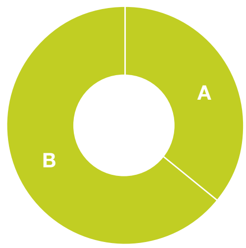
Remuneration elements

For communication purposes, the table below presents a summarizing overview of the remuneration of the current members of the Board of Management. Reference is made to note 24 on page 167 of the financial statements for more details.

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

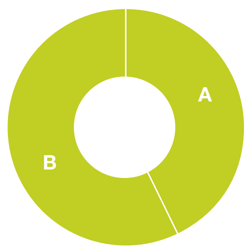
In 2008, the value of fixed and variable cash components at target levels breaks down as follows:

CEO
IN %



A	Base salary	36
B	Variable compensation	64
		100

Board members
IN %



A	Base salary	43
B	Variable compensation	57
		100

	YEAR	BASE SALARY	BONUS [1]	SHARE AWARDS [2]	OPTION AWARDS [3]	PENSION PREMIUM PAID	OTHER EMOLUMENTS	OTHER COMPENSATION	TOTAL REMUNERATION
Hans Wijers Chief Executive Officer	2008	760,000	700,000	570,900	–	565,600	4,500	–	2,601,000
	2007	705,500	1,036,500	500,700	138,000	557,900	4,000	–	2,942,600
	2006	685,000	1,020,500	386,400	128,300	421,300	3,600	–	2,645,100
Leif Darner Board member Performance Coatings	2008	570,000	340,000	394,200	–	291,400	4,600	169,300	1,769,500
	2007	504,000	450,000	328,700	90,600	228,400	4,000	126,700	1,732,400
	2006	489,300	474,500	253,700	84,200	218,800	3,600	123,400	1,647,500
Rob Frohn Board member Specialty Chemicals	2008	570,000	340,000	394,200	–	156,200	7,200	–	1,467,600
	2007	504,000	450,000	328,700	90,600	149,800	6,500	34,600	1,564,200
	2006	489,300	474,500	253,700	84,200	144,900	5,900	34,600	1,487,100
Keith Nichols [4] Chief Financial Officer	2008	380,000	226,700	296,700	–	57,600	45,200	36,900	1,043,100
	2007	–	–	–	–	–	–	–	–
	2006	–	–	–	–	–	–	–	–

[1] Actual bonuses disclosed relate to the performance in the financial year.
[2] The fair value of the share award as per January 1 of the financial year.
[3] The fair value of the option award as per January 1 of the financial year.
[4] Appointed to the Board of Management on May 1, 2008.

The table below summarizes the remuneration package of the members of the Board of Management of AkzoNobel. The elements of the remuneration package are addressed in more detail in the paragraphs on the following pages.

Total remuneration package

	Element	Vehicle	Performance measure	Pay-out at minimum performance	Target pay-out as % of base salary	Maximum pay-out as % of base salary
Fixed	**Base salary**	Cash	Not applicable	100%	100%	100%
Variable	**Short-term incentive**	Cash	EVA: 70% Personal: 30%	0%	CEO: 100% Member: 65%	CEO: 150% Member: 100%
Variable	**Long-term incentive**	Performance-related restricted shares	Relative total shareholder return	0%	CEO: 75% Member: 69%	CEO: 113% Member: 104%

The maximum percentage for shares relates to the performance test and assumes that the share price remains unchanged.

Base salary

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

Base salaries of members of the Board of Management increased by 13 percent in 2008 (but 7.7 percent for the CEO) in order to bring remuneration levels more in line with median market levels of the reference market.

It has been decided not to grant the members of the Board of Management a salary increase for 2009.

Short-term incentive (annual bonus)

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

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

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

The performance measure EVA is used in order to encourage the Board of Management to create long-term value for the company's shareholders and other stakeholders. EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital calculated on the basis of an average return investors expect. Please refer to the Report of the Board of Management section which starts on page 24 for the actual 2008 EVA performance used in the short-term incentive.

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

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

At the 2009 Annual General Meeting of shareholders, the Supervisory Board will propose to amend the remuneration policy such that the performance-related short-term incentive is linked to the EBITDA of the company in addition to EVA and the individual and qualitative personal targets of the members of the Board of Management. More specifically, 35 percent of the bonus opportunity would be linked to EBITDA, 35 percent would be linked to EVA and 30 percent would remain linked to individual and qualitative personal targets. This is meant to ensure that bonus measures are also aligned to achieving the company's stated EBITDA goals. EVA and EBITDA will be based on the financials of the company in constant currencies.

As EVA is seen as a measure for creating long-term value, also after this change to the remuneration policy, the variable remuneration components (including the long-term incentives) will continue to be predominantly of a long-term nature.

Long-term incentives

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

The long-term incentive plan consists of performance-related shares only. The stock option plan was discontinued as of January 1, 2008. Performance-related shares are considered to provide a stronger alignment with shareholders' interests.

Stock option plan 2006 – 2008

With respect to the stock options conditionally granted prior to 2008, which have not yet vested, the following applies. Up to 2008, stock options were conditionally granted for performance upon vesting. The actual number of options which the Board of Management receives depends on the company's performance during a three-year vesting period. The total option term is seven years.

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

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

The exercise price of the stock options is the Euronext Amsterdam opening price on the first day after the Annual General Meeting of shareholders that the AkzoNobel share is quoted ex-dividend in the year in which the options were conditionally granted.

Remuneration report

Based on the EOI performance over the period 2006 to 2008, 100 percent of the stock options (conditionally) granted to the members of the Board of Management in 2006 will become unconditional (19,800 to the CEO and 13,000 to the other Board members, except for Mr. Nichols, who was appointed to the Board of Management on May 1, 2008, and received 3,000 stock options in respect of the conditional grant in 2006).

Performance share plan

Under the performance share plan, shares will conditionally be granted to the members of the Board of Management. Vesting of these shares is conditional of the achievement of certain performance targets during a three-year period and a continuation of the contract of employment. Achievement of the performance targets is determined by the Supervisory Board in the first quarter of the year following the three-year period on the basis of the Total Shareholder Return (TSR) of AkzoNobel compared with that of a peer group of companies. The number of vested shares is increased by the dividend paid over the three-year performance period.

Independent external specialists will conduct this analysis to calculate the number of shares that will vest. The determination of the final ranking (and thus the vesting of shares) will be reviewed by the company's auditors at the end of the performance period. In order to adjust for changes in exchange rates, all local currencies are converted into euros. The retention period for the shares expires five years after the conditional grant.

As of 2007, the relative TSR performance has been compared with the following peer group:

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

In order to reflect both the delisting of Ciba Specialty Chemicals and Hercules, as well as the conclusion that the present peer group does not properly reflect the competitive environment in which the company operates, the Supervisory Board has decided to amend the peer group to be applied from 2009 onwards. Ciba Specialty Chemicals and Hercules have been replaced with Rhodia and Nippon Paint in the peer group from 2007 onwards. Considering the profile of Dow Chemical Company and BASF, the Supervisory Board decided to remove these companies from the peer group as of 2009.

As of 2009 the peer group of the company will therefore be as follows:

- Arkema group
- DuPont
- Kansai Paint
- Kemira OYJ
- Nippon Paint
- PPG Industries
- Rhodia
- RPM Industrial
- Sherwin-Williams
- Valspar Corporation.

Given the company's historical performance, market expectations and strategy, the following performance incentive zones apply for the conditional share grants as of 2006:

RANK	PAY-OUT (AS % OF TARGET PAY-OUT)	RANK	PAY-OUT (AS % OF TARGET PAY-OUT)	RANK	PAY-OUT (AS % OF TARGET PAY-OUT)
2006		As from 2007		2009 onwards	
1	150%	1	150%	1	150%
2	137.5%	2	135%	2	135%
3	125%	3	120%	3	120%
4	112.5%	4	100%	4	100%
5	100%	5	85%	5	75%
6	85%	6	70%	6	50%
7	70%	7	55%	7	25%
8	55%	8	40%	8 - 11	0%
9	40%	9	25%		
10	25%	10 – 13	0%		
11 – 16	0%				

The vesting schedule changed due to the peer group adjustment, ensuring that targets are no more difficult or easier to achieve. The value of the share and the threshold criteria did not change.

AkzoNobel's performance over the period 2006 to 2008 resulted in a seventh position within the ranking of the peer group companies. Consequently, the final vesting percentage of the 2006 grant equaled 70 percent, resulting in a definitive grant of shares (including the compounded dividend yield until December 31, 2008 – 9.09 percent) of 17,564 shares for the CEO and 11,531 shares for the other members of the Board of Management, except for Mr. Nichols, who received a definitive grant of 3,055 shares, it being noted that this conditional grant was made when Mr. Nichols was not yet a member of the Board of Management.

The number of performance-related shares conditionally granted in 2008 amounted to 16,800 for the CEO and 11,600 for the other members of the Board of Management, except for Mr. Nichols, who was granted 8,733 shares for the reason stated above.

For the grants not yet vested, the following intermediate performance can be reported:

- For the two-year period ending 2008 AkzoNobel's position is fifth (indicative)
- For the one-year period ending 2008 AkzoNobel's position is tenth (indicative).

With regard to the number of shares to be conditionally granted to members of the Board of Management, in accordance with the company's Articles of Association, the Dutch Corporate Governance Code and the rules of the performance share plan, such number is determined by the Supervisory Board within the limits of the remuneration policy and the maximum number of shares that can be granted each year to members of the Board of Management as adopted respectively approved by shareholders. In previous years, when determining the number of shares to be conditionally granted, the Supervisory Board took into account the fair value of the shares. At the former ICI, the face value method was used to determine the number of shares to be conditionally granted. The face value method means that the number of conditionally granted shares is set by dividing the policy level of shares by the share price at the beginning of the year of the conditional grant, while the fair value method also incorporates a vesting probability multiplier thereby causing more fluctuation in annual grant levels.

Upon review of both methods, the Supervisory Board concluded that the face value method is far simpler to apply and more transparent towards stakeholders. Therefore, the Supervisory Board has decided to switch from fair value to face value as the basis for calculating the number of shares to be granted conditionally as of 2009. The Supervisory Board will monitor that the value of the conditional grant remains in the same range as the conditional grant under the present method.

As stated in the 2007 Annual Report, the Supervisory Board has considered remuneration criteria which would apply in a change of control situation. It has been decided that where, in the event of a takeover, the pay-out under the performance share plan is between 100 percent and 150 percent, the Supervisory Board will, taking into account the performance of the company prior to the takeover bid, in its discretion decide whether the projected outcome is fair and may decide to adjust the pay upwards or downwards within the bandwidth mentioned.

The Supervisory Board will propose to the 2009 Annual General Meeting of shareholders to link the conditional grant of shares in the context of the long-term incentive program for 50 percent to the ranking of the company in the Dow Jones Sustainability Indexes (DJSI). The remaining 50 percent would remain linked to the relative TSR performance of the company compared with its peer group. Sustainability is considered key to the long-term future of the company. Linking part of the performance share plan to the DJSI is therefore considered a logical next step in positioning sustainability at the core of AkzoNobel's business. It is noted that a takeover would not have an effect on the ranking of the company in the DJSI and therefore dilutes any remuneration to be received by the Board members as a result of a takeover.

Finally, the Supervisory Board will propose to the 2009 Annual General Meeting of shareholders an alignment of the rules which apply to the members of the Board of Management with the rules for executives with respect to the conditional grant in the year of retirement as well as the vesting of shares post-retirement.

Pensions

The pension plan for all the members of the Board of Management is based on an income and age-related defined contribution plan.

The available premium is invested with a pension fund. The pension payment at pension age depends on the premiums received and the investment results during the period. The premium percentages to be paid for the Board member concerned are fixed by the Supervisory Board taking into account pension built up (internally or externally) in the period preceding the appointment as Board member and the rules applicable in the country of origin. External reference data can be used in determining market competitive levels of pension arrangements. If applicable, pension rights built up in the period preceding Board membership will be adjusted in conformity with the relevant rules and regulations. Members of the Board of Management pay a personal contribution. Members of the Board of Management normally retire in the year that they reach the age of 62.

Employment agreements

Employment agreements for members of the Board of Management appointed in 2004 and subsequent years are concluded for a period of four years in conformity with the Dutch Corporate Governance Code. After this initial term, reappointments may take place for consecutive periods of four years each or, if applicable, up until their date of retirement if less than four years from their reappointment.

The notice period by the Board member is subject to a term of three months; notice by the company shall be subject to a six months term.

If reappointment does not take place and the employment agreement between the Board member concerned and Akzo Nobel N.V. is not continued, the Board member will be entitled to a severance payment, established in accordance with the Dutch Corporate Governance Code. The employment agreements for the member of the Board of Management appointed before 2004 have not been adjusted in this respect (see page 124). However, the Supervisory Board has the intention to take the provisions of the Code as guidance for establishing severance payments.

The employment contracts allow the Supervisory Board to request a Board member to resign between the age of 60 and the regular retirement age for effective succession planning within the Board. In such an exceptional situation, the Board member concerned will be entitled to fixed salary payments until the date of retirement.

Loans

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

Financial statements

Consolidated statement of income

for the year ended December 31

IN € MILLIONS	NOTE		2008		2007 PF[1]		2007
Continuing operations							
Revenue			15,415		15,255		10,217
Cost of sales			(9,972)		(9,570)		(6,252)
Gross profit			**5,443**		**5,685**		**3,965**
Selling expenses		(3,294)		(3,177)		(2,230)	
Impairment of ICI intangibles		(1,275)		–		–	
General and administrative expenses		(1,074)		(1,126)		(654)	
Research and development expenses		(353)		(359)		(282)	
Other operating income/(expenses)	4	(73)		(44)		(52)	
			(6,069)		(4,706)		(3,218)
Operating income/(loss)			**(626)**		**979**		**747**
Financing income	5		154		282		157
Financing expenses	5		(337)		(370)		(277)
Results from associates and joint ventures	12		25		37		(20)
Profit/(loss) before tax			**(784)**		**928**		**607**
Income tax	6		(260)		(264)		(166)
Profit/(loss) for the period from continuing operations			**(1,044)**		**664**		**441**
Discontinued operations							
Profit for the period from discontinued operations	7		23		–		8,920
Profit/(loss) for the period			**(1,021)**		664		9,361
Attributable to:							
- Shareholders of the company			(1,086)		595		9,330
- Minority interests			65		69		31
Profit/(loss) for the period			**(1,021)**		664		9,361
Earnings per share, in €	17						
Continuing operations:							
- Basic			(4.47)		2.16		1.49
- Diluted			(4.45)		2.14		1.47
Discontinued operations:							
- Basic			0.09		–		32.33
- Diluted			0.09		–		32.08
Total operations:							
- Basic			(4.38)		2.16		33.82
- Diluted			(4.36)		2.14		33.55

[1] The 2007 pro forma column includes the hypothetical effects of consolidating ICI continuing businesses. The pro forma figures are unaudited.

Consolidated balance sheet

as of December 31, before allocation of profit

IN € MILLIONS	NOTE		2008		2007 PF[1]		2007
Assets							
Non-current assets							
Intangible assets	9	7,172		8,897		669	
Property, plant and equipment	10	3,357		3,585		2,203	
Deferred tax assets	11	890		943		630	
Investment in associates and joint ventures	12	201		224		142	
Other financial non-current assets	13	757		748		630	
Total non-current assets			**12,377**		**14,397**		**4,274**
Current assets							
Inventories	14	1,781		1,799		1,177	
Current tax assets	6	53		35		25	
Trade and other receivables	15	2,924		3,108		2,139	
Cash and cash equivalents	16	1,595		1,454		11,628	
Assets held for sale	7	4		4,413		–	
Total current assets			**6,357**		**10,809**		**14,969**
Total assets			**18,734**		25,206		19,243
Equity and liabilities							
Equity	17						
Shareholders' equity		7,463		11,559		11,032	
Minority interests		450		532		97	
Total equity			**7,913**		**12,091**		**11,129**
Non-current liabilities							
Provisions	18	2,072		2,732		1,598	
Deferred tax liabilities	11	715		1,017		133	
Long-term borrowings	19	2,341		2,326		1,954	
Total non-current liabilities			**5,128**		**6,075**		**3,685**
Current liabilities							
Short-term borrowings	20	1,338		2,038		1,635	
Current tax liabilities	6	525		503		278	
Trade and other payables	21	2,985		3,132		1,998	
Current portion of provisions	18	845		786		518	
Liabilities held for sale	7	–		581		–	
Total current liabilities			**5,693**		**7,040**		**4,429**
Total equity and liabilities			**18,734**		25,206		19,243

[1] The 2007 pro forma column includes the hypothetical effects of the ICI opening balance sheet as at December 31, 2007. The pro forma figures are unaudited.

Consolidated statement of cash flows

for the year ended December 31

IN € MILLIONS

		2008		2007
Profit for the period	(1,021)		9,361	
Income from discontinued operations	(23)		(8,920)	
Adjustments to reconcile earnings to cash generated from operating activities				
Amortization/depreciation	612		355	
Inventory step-up	54		–	
Impairment losses	1,430		11	
Financing income and expenses	183		120	
Results from associates and joint ventures	(25)		(27)	
Pre-tax result on divestments	23		70	
Income tax	260		166	
Changes in working capital [1]	(356)		73	
Changes in provisions	(511)		(256)	
Interest paid	(218)		(212)	
Income tax paid	(317)		(111)	
Other	–		13	
Net cash from operating activities		**91**		**643**
Capital expenditures	(534)		(359)	
Interest received	103		119	
Associates and joint ventures	43		26	
Acquisition of consolidated companies [2]	(10,187)		(159)	
Currency swap for investing purposes	–		(349)	
Proceeds from sale of interests [2]	3,586		171	
Other changes	(40)		(292)	
Net cash from investing activities		**(7,029)**		**(843)**
Proceeds from borrowings	1,000		525	
Borrowings paid off	(1,433)		(103)	
Termination of currency swap	–		68	
Settlement of former ICI net investment hedges	(49)		–	
Issue of shares for stock option plan	7		73	
Buyback of shares	(1,437)		(1,600)	
Dividends [3]	(581)		(398)	
Net cash from financing activities		**(2,493)**		**(1,435)**
Net cash used for continuing operations		**(9,431)**		(1,635)
Cash flows from discontinued operations		**7**		11,083
Net change in cash and cash equivalents of continued and discontinued operations		**(9,424)**		9,448
Cash and cash equivalents at January 1		11,067		1,631
Effect of exchange rate changes on cash and cash equivalents		(194)		(12)
Cash and cash equivalents		**1,449**		11,067

[1] Comprises a decrease of €19 million in trade and other receivables (2007: €62 million), an decrease of €14 million in inventories (2007: €16 million), and a decrease of €389 million in trade and other payables (2007: €151 million).

[2] Net of cash and cash equivalents acquired or disposed of.

[3] Including dividends to ICI shareholders.

Consolidated statement of changes in equity

IN € MILLIONS	ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT							
	SUBSCRIBED SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	CHANGE IN FAIR VALUE OF DERIVATIVES	CUMULATIVE TRANSLATION RESERVES	OTHER (STATUTORY) RESERVES AND UNDISTRIBUTED PROFIT	SHAREHOLDERS' EQUITY	MINORITY INTERESTS	TOTAL EQUITY
Balance at January 1, 2007	**574**	**1,841**	**(2)**	**30**	**1,701**	**4,144**	**119**	**4,263**
Changes in fair value of derivatives	–	–	(508)	–	–	(508)	–	(508)
Changes in exchange rates in respect of foreign operations	–	–	–	(81)	–	(81)	(2)	(83)
Income/(expenses) directly recognized in equity	**–**	**–**	**(508)**	**(81)**	**–**	**(589)**	**(2)**	**(591)**
Profit for the period	–	–	–	–	9,330	9,330	31	9,361
Total income/(expenses)	**–**	**–**	**(508)**	**(81)**	**9,330**	**8,741**	**29**	**8,770**
Dividend paid	–	–	–	–	(364)	(364)	(34)	(398)
Equity-settled transactions	–	–	–	–	38	38	–	38
Issue of common shares	4	69	–	–	–	73	–	73
Buyback of shares	(53)	(1,547)	–	–	–	(1,600)	–	(1,600)
Changes in minority interests in subsidiaries	–	–	–	–	–	–	(17)	(17)
Balance at December 31, 2007	525	363	(510)	(51)	10,705	11,032	97	11,129
Changes in fair value of derivatives	–	–	(90)	–	–	(90)	–	(90)
Transfer to goodwill[1]	–	–	551	–	–	551	–	551
Changes in exchange rates in respect of foreign operations	–	–	–	(1,079)	–	(1,079)	(85)	(1,164)
Income/(expenses) directly recognized in equity	**–**	**–**	**461**	**(1,079)**	**–**	**(618)**	**(85)**	**(703)**
Profit for the period	–	–	–	–	(1,086)	(1,086)	65	(1,021)
Total income/(expenses)	**–**	**–**	**461**	**(1,079)**	**(1,086)**	**(1,704)**	**(20)**	**(1,724)**
Dividend paid	–	–	–	–	(458)	(458)	(44)	(502)
Equity-settled transactions	–	–	–	–	23	23	–	23
Issue of common shares	2	5	–	–	–	7	–	7
Buyback of shares	(64)	(368)	–	–	(1,005)	(1,437)	–	(1,437)
Acquisitions and divestments	–	–	–	–	–	–	419	419
Changes in minority interests in subsidiaries	–	–	–	–	–	–	(2)	(2)
Balance at December 31, 2008	**463**	**–**	**(49)**	**(1,130)**	**8,179**	**7,463**	**450**	**7,913**

[1] See note 17.

Segment information

The segment information is presented according to AkzoNobel's business structure in 2008. Following the acquisition of ICI on January 2, 2008, AkzoNobel redesigned its business structure for 2008 into three operating segments – business areas – as follows: Decorative Paints, Performance Coatings and Specialty Chemicals. The 2007 figures have been restated accordingly. The segment information includes items directly attributable to a business area, as well as those that can be allocated on a reasonable basis.

Revenue per business area

IN € MILLIONS	Revenue from third parties			Group revenue		
	2008	2007 PF[1]	2007	2008	2007 PF[1]	2007
Decorative Paints	5,074	5,257	2,098	5,118	5,303	2,119
Performance Coatings	4,425	4,462	4,123	4,463	4,497	4,157
Specialty Chemicals	5,636	5,368	3,594	5,687	5,400	3,606
Corporate and other	280	168	402	147	55	335
Total	**15,415**	15,255	10,217	**15,415**	15,255	10,217

Operating income/(loss) and amortization and depreciation per business area

IN € MILLIONS	Operating income			Amortization and depreciation		
	2008	2007 PF[1]	2007	2008	2007 PF[1]	2007
Decorative Paints	(674)	308	129	197	217	59
Performance Coatings	424	429	416	99	102	79
Specialty Chemicals	112	557	417	304	293	198
Corporate and other	(488)	(315)	(215)	12	24	19
Total	**(626)**	979	747	**612**	636	355

Other information per business area

IN € MILLIONS	Total assets		Total liabilities		Investments in associates and joint ventures		Results from associates and joint ventures		Capital expenditures	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Decorative Paints	8,569	2,728	2,010	838	3	3	–	–	120	46
Performance Coatings	2,793	1,818	2,480	1,026	47	3	5	–	89	107
Specialty Chemicals	5,252	2,589	1,416	781	113	110	13	15	305	187
Corporate and other[2]	2,120	12,108	4,915	5,469	38	26	7	(35)	20	19
Total	**18,734**	19,243	**10,821**	8,114	**201**	142	**25**	(20)	**534**	359

Regional information

IN € MILLIONS	Revenue by region of destination		Total assets		Capital expenditures	
	2008	2007	2008	2007	2008	2007
The Netherlands	867	777	1,930	1,566	86	83
Germany	1,141	907	1,228	516	25	17
Sweden	478	472	829	859	50	53
UK	1,093	552	1,885	735	31	14
Other European countries	3,666	3,147	3,105	1,463	81	66
US and Canada	3,330	1,855	3,926	1,541	94	56
Latin America	1,306	606	1,105	413	49	15
China	1,054	687	1,221	142	67	38
Other Asian countries	1,866	784	1,452	565	43	10
Other regions	614	430	253	182	8	7
	15,415	10,217	**16,934**	7,982	**534**	359
Corporate and other[2]	–	–	1,800	11,261	–	–
Total	**15,415**	10,217	**18,734**	19,243	**534**	359

[1] Pro forma figures present comparative information for the 2007 operating segments as if we had acquired ICI on January 1, 2007. The pro forma figures are unaudited.
[2] Corporate and other includes investment in associates and joint ventures, cash and cash equivalents, borrowings, and assets and liabilities held for sale. In 2007, these items included the temporarily high net cash position from the proceeds from the Organon BioSciences divestment, which were used to acquire ICI in January 2008.

Notes to the consolidated financial statements

Note 1 Summary of significant accounting policies

General information

Akzo Nobel N.V. is a company headquartered in the Netherlands. The address of our registered office is Strawinskylaan 2555, Amsterdam. We have filed a list of subsidiaries and associated companies, drawn up in conformity with sections 379 and 414 of Book 2 of the Netherlands Civil Code, with the Trade Registry of Amsterdam.

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

On February 23, 2009, the Board of Management authorized the financial statements for issue. The financial statements as presented in this report are subject to the adoption by the Annual General Meeting of shareholders.

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

Consolidation

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

Discontinued operations and assets and liabilities held for sale (note 7)

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

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

Pro forma comparative information

In addition to comparative information as published in our financial statements for 2007, we have included pro forma information where appropriate. The pro forma information for 2007 reflects our results and financial position including the effects of continuing operations from major acquisitions (ICI) and excluding major divestments in 2008 and 2007. Due to its nature, the pro forma information addresses a hypothetical situation and is unaudited and for comparison purposes only.

Valuation and the use of estimates

The accounting principles we use to prepare the consolidated financial statements are based on historical cost, unless stated otherwise. Exceptions to the historical cost basis include derivative financial instruments, share-based compensation and cash and cash equivalents which are based on fair value. In addition, for pensions and other post-retirement benefits, actuarial present value calculations are used. More information on the measurement and use of estimates to determine fair values is presented below or in the notes specific to that asset or liability.

The preparation of the financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, or in the revision period and future periods if the changed estimates affect both current and future periods.

The most critical accounting policies involving a higher degree of judgment and complexity in applying principles of valuation are described below. Changes in the assumptions and estimates as described could result in significantly different results than those recorded in the financial statements.

Business combinations (note 2)

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

The fair value of brands, patents and customer lists acquired in a business combination is estimated on generally accepted valuation methods. These include the relief-from-royalty method, the incremental cash flow method and the multi-period excess earnings method.

The fair value of property, plant and equipment acquired in a business combination is based on estimated market values.

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

Impairment of intangible assets and property, plant and equipment (note 9, 10)

We assess whether the carrying values of intangible assets and of property, plant and equipment are recoverable. In this assessment, we make significant judgments and estimates to determine if the future cash flows expected to be generated by those assets are less than their carrying value. The data necessary for the impairment tests are based on our strategic plans and our estimates of future cash flows, which require estimating revenue growth rates and profit margins. The estimated cash flows are discounted using a net present value technique with business-specific discount rates.

Accounting for income tax (note 6)

As part of the process of preparing consolidated financial statements, we estimate income tax in each of the jurisdictions in which we operate. This process involves estimating actual current tax expense and temporary differences between carrying amounts of assets and liabilities for tax and financial reporting purposes. Temporary differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. We assess the likelihood that deferred tax assets will be recovered from future taxable income.

Provisions (note 18)

By their nature, provisions for contingent liabilities are dependent upon estimates and assessments whether the criteria for recognition have been met, including estimates of the probability of cash outflows. Estimates related to provisions for environmental matters are based on the nature and seriousness of the contamination, as well as on the technology required for clean-up. The provisions for antitrust cases are based on an estimate of the costs, fines, and civil damages, taking into account legal advice and the current facts and circumstances. Provisions for other litigation are also based on an estimate of the costs, taking into account legal advice and information currently available. Provisions for termination benefits and exit costs also involve management's judgment in estimating the expected cash outflows for severance payments and site closure or other exit costs.

Accounting for pensions and other post-retirement benefits (note 18)

Post-retirement benefits represent obligations that will be settled in the future and require assumptions to project obligations and fair values of plan assets. The accounting requires us to make assumptions regarding variables such as discount rate, rate of compensation increase, return on assets, mortality rates and future healthcare costs. Periodically, we consult with external actuaries regarding these assumptions. Changes in key assumptions can have a significant impact on the projected benefit obligations, funding requirements and periodic costs incurred.

Statement of cash flows

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

Earnings per share

We present basic and diluted earnings per share (EPS) for our common shares. Basic EPS is calculated by dividing the profit or loss attributable to holders of our common shares by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to shareholders of common shares by the weighted average number of common shares outstanding, including the effects for potentially dilutive common shares, which comprise stock options and performance shares granted to employees.

Segment reporting

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

Translation of foreign currencies

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate at transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates at the balance sheet date. Resulting foreign currency differences are included in the statement of income. Non-monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at acquisition date.

The assets and liabilities of entities with other functional currencies are translated into the functional currency of the parent entity, using the exchange rates at the balance sheet date. The income and expenses of entities with other functional currencies are translated into the functional currency, using the exchange rates at transaction date. Foreign exchange differences resulting from translation into the functional currency of investments in subsidiaries and of intercompany loans of a permanent nature with other functional currencies are recorded as a separate component (cumulative translation reserves) within shareholders' equity. These cumulative translation adjustments are recognized in the statement of income upon disposal or liquidation of a foreign subsidiary or redemption of an intercompany loan with a permanent nature, for the full amount or proportionally if applicable. Before being consolidated, the financial statements of subsidiaries established in hyperinflationary countries are adjusted for the effects of changing prices of the local currency.

Foreign currency differences arising on the retranslation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized directly in equity, in the cumulative translations reserves, to the extent that the hedge is effective. To the extent that the hedge is ineffective, such differences are recognized in the statement of income. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is transferred to the statement of income as an adjustment to the transaction result.

Exchange rates of key currencies

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

	BALANCE SHEET		STATEMENT OF INCOME	
	2008	2007	2008	2007
US dollar	1.409	1.472	1.471	1.370
Pound sterling	0.974	0.737	0.805	0.688
Swedish krona	10.911	9.421	9.680	9.258

Revenue recognition

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

Pensions and other post-retirement benefits (note 18)

Obligations for contributions to defined contribution plans are recognized in the statement of income as incurred. Most of our defined benefit pension plans are funded with plan assets that have been segregated in a trust or foundation. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets. The discount rate used in determining the present value of the obligations is the yield at reporting date of AA corporate bonds that have maturity dates approximating the terms of our obligations.

In certain countries we also provide post-retirement benefits other than pensions to our employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Actuarial gains and losses that arise in calculating our obligation in respect of a plan, are recognized to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets. That portion is recognized in the statement of income over the expected average remaining working lives of the employees participating in the plan. We have adopted IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", which provides guidance on the amount of the surplus that can be recognized as an asset. This interpretation is applied prospectively as from January 1, 2008, and did not materially affect our financial statements.

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

Other long-term employee benefits (note 18)

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

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

Share-based compensation (note 8)

We have a stock option plan that conditionally allows certain employees to acquire Akzo Nobel N.V. common shares. These options generally vest in three years. As from 2008, no new options are granted under this plan. In addition, we have a performance share plan, under which shares are conditionally granted to certain employees. These performance-related shares vest in three years. The number of shares which the employees will receive depends on our Total Shareholder Return (TSR) performance over a three-year period.

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

Income tax (note 6, 11)

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

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

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

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amount used for taxation purposes. We recognize deferred tax assets, including assets arising from losses carried forward, to the extent that future probable taxable profit will be available against which the deferred tax asset can be utilized. We do not recognize deferred tax for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized. Deferred tax assets are offset only when there is a legally enforceable right to set off tax assets against tax liabilities and when the deferred tax assets and liabilities relate to the same tax authority.

Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed. Non-refundable dividend tax is taken into account in the determination of deferred tax liabilities to the extent of earnings expected to be distributed by subsidiaries in the foreseeable future. If separate tax rates exist for distributed and undistributed profit, the current and deferred taxes are measured at the tax rate applicable to undistributed profit. Deferred tax is not discounted.

Research cost and preparation and start-up expenses

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

Government grants

Government grants related to costs are deducted from the relevant cost to be compensated in the same period. Emission rights granted by the government are recorded at cost. A provision is recorded if the actual emission is higher than the emission rights granted. Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Intangible assets (note 9)

Intangible assets are valued at cost less accumulated amortization and impairment charges. All intangibles assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. In addition, intangible assets with an indefinite useful life, such as goodwill and certain brands, are not amortized, but tested for impairment annually. In cases where the carrying value of the intangibles exceeds the recoverable amount, an impairment charge is recognized in the statement of income.

Goodwill in a business combination represents the excess of the consideration paid over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of income. Goodwill related to an investment in associates and joint ventures is included in the carrying value of that investment.

Intangible assets with a finite useful life, such as certain licenses, know-how and brands, customer relationships and intellectual property rights, are capitalized at historical cost and amortized on a straight-line basis over the estimated useful life, which generally ranges from 10 to 40 years. Development costs are capitalized if the costs can be measured reliably, the product or process is technically and commercially feasible and sufficient future economic benefits will be generated, and we have sufficient resources to complete the development. The expenditures capitalized include the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Capitalized development costs are amortized on a straight-line basis over the estimated useful life, which generally is up to five years. Amortization methods, useful lives and residual values are reassessed annually.

Property, plant and equipment (note 10)

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

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

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

We have identified conditional asset retirement obligations at a number of our facilities that are mainly related to plant decommissioning. We recognize these conditional asset retirement obligations in the periods in which sufficient information becomes available to reasonably estimate the cash outflow.

Impairments of intangible assets and property, plant and equipment (note 9, 10)

We assess the carrying value of intangible assets and property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, for goodwill and other intangible assets with an indefinite useful life, we review the carrying value annually in the fourth quarter.

The recoverable amount of an asset or its cash-generating unit is the greater of its value in use and its fair value less costs to sell, whereby estimated future cash flows are discounted to their present value. The discount rate used reflects current market assessments of the time value of money and, if appropriate, the risks specific to the assets. If the carrying value of an asset or its cash-generating unit exceeds its estimated recoverable amount, an impairment loss is recognized in the statement of income. The assessment for impairment is performed at the lowest level of assets generating largely independent cash inflows which we have determined to be at business unit level (one level below segment). We allocate impairment losses in respect of cash-generating units first to goodwill and then to the carrying amount of the other assets on a pro rata basis.

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

Leases (notes 10, 22)

Lease contracts in which we have substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at the lower of its fair value and the present value of minimal lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between the financing expenses and the reduction of the outstanding liability. The financing expenses are recognized as interest over the lease term.

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

Inventories (note 14)

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

Shareholders' equity (note 17)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable cost, is net of any tax effects, and is recognized as a deduction from equity. Dividends are recognized as a liability in the period in which they are declared.

Provisions (note 18)

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

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

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

In accordance with our environmental policy and applicable legal requirements, we recognize a provision for environmental clean-up cost when it is probable that a liability has materialized and the amount of cash outflow can be reasonably estimated.

Financial instruments

Regular purchases and sales of financial assets and liabilities are recognized on trade date, which is the date we commit to purchase or sell the asset. Below, the accounting policies for financial instruments are explained, relating to the following categories:

- Derivative financial instruments
- Associates and joint ventures
- Other financial non-current assets
- Trade and other receivables
- Cash and cash equivalents
- Long-term and short-term borrowings
- Trade and other payables.

Derivative financial instruments (note 25)

Derivative financial instruments include forward exchange rate contracts, interest rate derivatives and commodity contracts, as well as embedded derivatives included in normal business contracts. All derivative financial instruments are recognized at fair value on the balance sheet.

Fair values are derived from market prices and quotes from dealers and brokers, or are estimated using observable market inputs. Forward exchange and commodity contracts are reported under trade and other receivables, or under trade and other payables.

Changes in the fair value of forward exchange and commodity contracts are recognized in operating income, unless cash flow hedge accounting is applied. In that case, the effective part of the fair value changes is deferred in equity and released to the related specific lines in the statement of income or balance sheet at the same time as the hedged item.

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

Both at the hedge inception and at each reporting date, we assess whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. When a derivative is not highly effective, we discontinue hedge accounting prospectively. In the event a fair value hedge relationship is terminated, amortization of fair value hedge adjustments is included in financing income and expense. When a cash flow hedge relationship is terminated, the fair value changes deferred in equity are released to the statement of income only when the hedged transaction is no longer expected to occur. Otherwise these will be released to the statement of income at the same time as the hedged item.

Associates and joint ventures (note 12)

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

Associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The consolidated financial statements include our share of the income and expenses of the associates and joint ventures for the period that we have significant influence or joint control, whereby the result is determined using our accounting principles. When the share of losses exceeds the interest in the investee, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless we have incurred legal or constructive obligations on behalf of the investee. Loans to associates and joint ventures are carried at amortized cost less impairment losses.

The results from associates and joint ventures consist of our share in the results of these companies, interest on loans granted to them and the transaction results on divestments of associates and joint ventures. Unrealized gains and losses arising from transactions with associates and joint ventures are eliminated to the extent of our interest in the investee and to the extent that there is no evidence of impairment.

Other financial non-current assets (note 13)

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Long-term receivables are discounted to their net present value. Interest receivable is included in financing income.

Trade and other receivables (note 15)

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

Cash and cash equivalents (note 16)
Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into cash. Cash and cash equivalents are measured at fair value.

Long-term and short-term borrowings (notes 19, 20, 25)
Long-term borrowings are measured at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case the carrying amount is adjusted for the fair value changes caused by the hedged risk. Short-term borrowings are measured at amortized cost, using the effective interest method. The interest payable on borrowing is included in financing income and expenses.

The fair value of borrowings, used for disclosure purposes, is determined on the basis of listed market price, if available. If a listed market price is not available, the fair value is calculated based on the present value of principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other payables (note 21)
Trade and other payables are measured at amortized cost, using the effective interest method.

New IFRS accounting standards

Several new accounting pronouncements were issued. We assessed whether our consolidated financial statements for 2008 and beyond may be affected.

- IFRS 3 "Business Combinations" was revised and will be effective for annual periods beginning on or after July 1, 2009. This standard expands its scope and will bring significant changes to the accounting policies related to business combinations. However, we do not expect any impact on presented figures, as the carrying amounts of any assets and liabilities that arose under business combinations prior to the application of the revised standard are not adjusted.

- IFRS 8 "Operating Segments" requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. This standard supersedes IAS 14 "Segment Reporting". We will adopt this standard in 2009 and expect that this might result in changes in presentation.

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

- IAS 23 (Amendment), "Borrowing Costs" removes the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. This amendment becomes effective in 2009 and will not impact our consolidated financial statements, as we already capitalize borrowing cost.

- Amendments to IFRS 1 and IAS 27, "Determining the cost of an investment in the separate financial statements" will be effective for annual periods beginning on or after January 1, 2009. The amendments apply to company financial statements prepared under IFRS. We prepare our company financial statements under Dutch accounting principles. These financial statements are not affected by this amendment.

- Amendment to IAS 39 Financial Instruments: Recognition and Measurement, "Eligible Hedged Items", clarifies two separate hedge accounting issues. It clarifies the requirements when options are used for hedging. It also regulates inflation-linked hedge relationships. The amendment to IAS 39 is effective as from 2010. In addition, an amendment to IAS 39 was made following the difficulties on the credit markets, effective as from July 1, 2008. This amendment allows for re-classification between categories of financial assets in limited situations, provided certain conditions are met. As we commonly use forward contracts for hedges, we do not expect a material impact from adopting this amendment.

- IASB's annual improvements project resulted in 35 smaller amendments to several IFRSs. Most amendments will be effective as from 2009 and they are not expected to materially impact our consolidated financial statements.

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

- IFRIC 12 "Service Concession Arrangements" regulates the accounting of arrangements in which a government or other public sector entity grants contracts for the supply of public services to private sector operators. The interpretation became effective in 2008. As we are not a party to such arrangements, our consolidated financial statements were not affected by this interpretation.

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

- We adopted IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" in 2008. This interpretation clarifies the amount of the surplus that can be recognized as an asset in a pension scheme. We have not incurred a material impact from adopting this interpretation.

- IFRIC 15 "Agreements for the Construction of Real Estate" applies to companies that develop real estate and becomes effective in 2009. As we do not have activities in this area, we do not expect any impact from adopting this interpretation.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" clarifies hedge accounting for an entity which hedges the investment in its subsidiaries. It becomes effective in 2009. As we already account for net investment hedges in line with IFRIC 16, we do not expect any impact from adopting this interpretation.

- IFRIC 17 "Distribution of Non-cash Assets to Owners" applies prospectively as from January 1, 2010. We do not expect impact on our financial statements as we pay out dividends in cash.

Note 2 Acquisitions and divestments

On January 2, 2008, we acquired 100 percent of the share capital of Imperial Chemical Industries plc (ICI). The total cost of the acquisition, paid mostly in cash, was €11.6 billion. ICI was one of the world's leading coatings, adhesives, starches and synthetic polymer businesses, with products and ingredients developed for a wide range of markets. It had operations in more than 50 countries around the world and its customers are spread across a diverse range of product sectors.

Additionally, in Performance Coatings we acquired Enviroline, a specialist supplier of corrosion-resistant linings, predominantly for the oil and gas industries. We acquired our floor coatings portfolio through an acquisition from Lord Corporation. In Specialty Chemicals we acquired Levasil, a silica sol business. These acquisitions in 2008, both individually and in total, were deemed immaterial in respect of the IFRS 3 disclosure requirements.

Acquisition of ICI

IN € MILLIONS	PRE-ACQUISITION CARRYING AMOUNTS	RECOGNIZED VALUES AT ACQUISITION
Goodwill	413	4,465
Other intangible assets	61	3,763
Property, plant and equipment	1,135	1,382
Other non-current assets	545	513
Inventories	568	622
Trade and other receivables	977	979
Assets held for sale	1,200	4,413
Cash and cash equivalents	1,088	1,088
Provisions	(1,271)	(1,402)
Deferred tax liabilities	(21)	(884)
Long-term borrowings	(372)	(372)
Trade and other payables	(1,915)	(1,940)
Liabilities held for sale	(554)	(581)
Net identifiable assets and liabilities	**1,854**	**12,046**
Minority interests		(435)
Consideration paid		**11,611**

Cash flows used for acquisitions

IN € MILLIONS	
Consideration paid for ICI	11,611
Cash and cash equivalents acquired	(1,088)
Paid through loan notes	(142)
Paid in 2007	(349)
Other acquisitions	155
Cash flows used for acquisitions	**10,187**

The goodwill recognized is related to ICI's workforce and the synergies expected to be achieved from integrating ICI into Decorative Paints and Specialty Chemicals. The major intangibles recognized are acquired brands, the most significant being Dulux. Several brands are expected to have an indefinite useful life. As a result, they will not be amortized but tested for impairment annually.

Other intangible assets acquired in ICI at acquisition date

IN € MILLIONS	AMOUNT	AMORTIZATION PERIOD (IN YEARS)
Brands and trade names with indefinite useful life	1,929	–
Brands and trade names with finite useful life	410	31
Customer relationships	1,146	15
Other intangibles	278	13
Intangibles acquired	**3,763**	**–**

As the acquisition of ICI took place on January 2, 2008, our financial outcomes include the full year's results from ICI. Due to the immediate integration, we cannot determine the amount that the acquisition contributed to operating income in 2008 on a stand alone basis. All other acquisitions in 2008 have made a marginal contribution to net income, even if all acquisitions had occurred on January 1, 2008.

In connection with the acquisition of ICI, we sold all assets and liabilities comprising the businesses known within ICI as the Adhesives business and the Electronic Materials business to Henkel, for €3.6 billion in cash after a pension settlement and before final settlement adjustments. The transaction took place in April 2008.

In addition, in granting clearance, the EU and Canadian authorities accepted a commitment package from AkzoNobel involving the divestment of a number of AkzoNobel Decorative Paints businesses in the UK, Ireland, Belgium and Canada. These businesses were sold in the course of 2008.

Note 3 Incidentals

Incidentals included in operating income

IN € MILLIONS	2008	2007
Impairment of ICI intangibles	(1,275)	–
Restructuring charges	(275)	(62)
Transformation costs	(190)	–
Fair value adjustments on ICI inventories	(54)	–
Special benefits/(charges)	(43)	(55)
Charges related to major legal, antitrust and environmental cases	(32)	(29)
Results on divestments	(23)	(23)
Total	**(1,892)**	**(169)**

Impairment of ICI intangibles
Goodwill and other intangibles with an indefinite useful life are tested for impairment in the fourth quarter or whenever an impairment trigger exists. As a consequence of the current market conditions and the continuing lack of visibility of future global demand, we have assessed the recoverable amount of our assets against lower growth rates which we now expect. This has resulted in a non-cash impairment charge of €1.2 billion after tax, covering the value of ICI intangibles related to the Decorative Paints and National Starch businesses.

Restructuring costs

IN € MILLIONS

	2008	2007
Decorative Paints	(189)	(19)
Performance Coatings	(20)	(14)
Specialty Chemicals	(29)	(11)
Other	(37)	(18)
Total	**(275)**	(62)

Restructuring costs related to the ICI integration and synergy realization program and profit protection measures in Performance Coatings and Specialty Chemicals. In Decorative Paints, the charges include termination benefits for employees in Europe and impairments for European logistic and manufacturing activities, mainly in Germany. We have assessed strengths and opportunities of all sites in the region in order to increase production efficiency and realize cost savings. Non-integration restructuring projects were implemented in the US, such as a closure of a manufacturing site to reduce capacity given the current market conditions. In addition, our US store business went through a broad based redesign of store locations, resources and associated overhead structure in order to improve the overall profitability. As the slowdown in demand became more apparent, activity to realign the cost base accelerated in Performance Coatings and Specialty Chemicals. The majority of the restructuring is in the mature markets of Western Europe and North America, but there have also been cost reductions in other regions, including China. At year-end, the continuing businesses employed 1,660 employees less than last year.

Other incidental items

Transformation costs include the closure of the London-based ICI headquarters (€59 million) and an impairment loss of €65 million for the Decorative Paints businesses which were sold due to the commitment packages agreed with European and Canadian authorities. This impairment charge was recorded in cost of sales and was not allocated to an operating segment. In addition, transformation costs include costs of external advisors related to the ICI acquisition and costs to establish our new corporate identity.

Other incidental charges came from the fair value step-up for inventories acquired from ICI (€54 million, non-cash) and additional costs for the settlement of a claim related to postretirement healthcare benefits for retired employees. Furthermore, we incurred a charge of €29 million due to foreign currency results on a provision in the UK. The mandatory divestment of the Decorative Paints businesses in Canada, the UK, Ireland and Belgium resulted in a loss of €23 million.

The incidentals are included in the following cost lines:

Incidentals per cost category

IN € MILLIONS

	2008	2007
Cost of sales	(376)	(71)
Selling expenses	(53)	(26)
Impairment of ICI intangibles	(1,275)	–
General and administrative expenses	(68)	(8)
Research and development expenses	(15)	(7)
Other operating income/(expenses)	(105)	(57)
Total	**(1,892)**	(169)

Note 4 Other operating income/(expenses)

IN € MILLIONS

	2008	2007
Incidentals	(105)	(57)
Results on sale of redundant assets	2	9
Currency exchange differences:		
- Derivatives	(138)	13
- Loans and receivables	185	(5)
- Other financial liabilities	(19)	(12)
Other items	2	–
Total	**(73)**	(52)

The incidental items in other operating income/(expenses) related to costs of external advisors for the integration of ICI, the costs of our new coporate indentity as launched in April 2008 and the foreign currency results on a legal provision in the UK.

Note 5 Financing income and expenses

IN € MILLIONS

	2008	2007
Interest income:		
- Interest rate derivatives	36	28
- Loans and receivables	113	128
- Other	5	1
Interest expenses:		
- Derivatives	(54)	(26)
- Other financial liabilities	(236)	(193)
- ICI financing fees	–	(40)
- Other	(37)	(18)
Fair value changes:		
- Interest rate derivatives	49	(18)
- Other financial liabilities	(46)	21
Other	(13)	(3)
Total	**(183)**	(120)

The interest charges increased due to debt acquired from ICI, for which we paid €36 million interest during 2008. Under the interest expenses from derivatives, a charge of €26 million is included related to foreign currency effects of future interest payments in the UK. These payments are hedged by forward contracts and we do not apply hedge accounting.

Included in the interest expenses was a reduction of €3 million (2007: €1 million) due to the capitalization of financing expenses of capital investment projects under construction. The average interest rate used for capitalization of borrowing cost was 5 percent.

Note 6 Income tax

Pre-tax income (including the share in profit of associates and joint ventures) amounted to a loss of €784 million (2007: profit €607 million). Tax benefits/(charges) are included in the statement of income as follows:

Tax in the statement of income

IN € MILLIONS

	2008	2007
Tax on operating income less financing income and expenses	(259)	(159)
Tax on share in profit of associates and joint ventures	(1)	(7)
Total	**(260)**	**(166)**

Classification of current and deferred tax result

IN € MILLIONS

	2008	2007
Current tax expense for:		
- The year	(459)	(208)
- Adjustments for prior years	(13)	55
	(472)	**(153)**
Deferred tax expense for:		
- Origination and reversal of temporary differences	341	5
- Changes in tax rates	5	(17)
- Tax losses recognized or derecognized	(134)	(1)
	212	**(13)**
Total	**(260)**	**(166)**

Due to the current economic conditions, we have assessed the deferred tax positions. In the tax losses recognized or derecognized of €134 million, we derecognized an amount of €133 million as we considered it not probable that these deferred tax assets can be utilized against future taxable income.

The high level of current tax expense is among others caused by €190 million tax costs that are related to breaking up National Starch into the part that was sold to Henkel and that was kept by AkzoNobel. These costs were included in the ICI opening balance sheet as deferred tax liabilities which reversed into current tax at the moment of the breakup.

The deferred tax gain is partly offset by the €133 million derecognition of deferred tax assets.

Excluding the incidental impairment loss on ICI intangibles, pre-tax income totaled a profit of €491 million. The tax expense excluding the incidental derecognition of €133 million and deferred tax released due to the impairment of ICI intangibles, amounted to €154 million, thus resulting in an effective consolidated tax rate of 31.4 percent.

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

Effective consolidated tax rate

IN %

	2008	2007
Corporate tax rate in the Netherlands	25.5	25.5
Effect of lower tax rates in certain countries	(2.0)	(0.7)
Tax-exempt income/non-deductible expenses	3.9	9.3
Non-taxable income from investment in associates and joint ventures	(1.2)	(1.2)
Changes in enacted tax rates (reduction in tax rate)	(1.1)	2.8
Recognition/derecognition of previously unrecognized tax losses	0.2	(0.6)
Current year losses for which no deferred tax asset was recognized	2.4	0.7
Profits of the year compensated with losses carried forward for which no deferred tax asset was recognized	(2.5)	0.0
Under/(over)provided in prior years	2.7	(9.0)
Non-refundable withholding taxes	4.0	0.8
Other	(0.5)	(0.2)
Effective consolidated tax rate	**31.4**	**27.4**

In 2008, the effective consolidated tax rate was affected by the tax-exempt loss from the divestment of the Decorative business in the UK and from several non-deductible expenses.

In addition, for both years adjustments have been made to previous year positions, based on outcomes of audits and developments in case law.

The worldwide trend of decreasing tax rates has a lowering impact on the long-term tax burden. Decreases in tax rates, however, also have a direct impact on the tax burden, because of a change in the measurement of the deferred tax positions. The relevant changes in this respect include the decrease of the tax rate in several countries as of 2009 and/or later. In addition, changes in the geographical mix of taxable income affected the tax burden.

The increase in non-refundable withholding tax is caused by the fact that the share of AkzoNobel's profit from countries that levy withholding tax on dividends is increasing. Based on the Dutch tax system there is only a limited credit for such taxes.

For comparative reasons, the above table presents for 2007 the effective consolidated tax rate on the results excluding Organon BioSciences. Including the results of Organon BioSciences, the effective consolidated tax rate is 2.4 percent.

Income tax recognized directly in equity

IN € MILLIONS

	2008	2007
Current tax for:		
- Currency exchange differences on intercompany loans of a permanent nature	117	12
	117	**12**
Deferred tax for:		
- Share-based compensation	(13)	27
- Hedge accounting	17	(7)
- Other	(3)	–
	1	**20**
Total	**118**	**32**

Current tax assets of €53 million (2007: €25 million) represent the amount of income taxes recoverable in respect of current and prior periods. Current tax liabilities of €525 million (2007: €278 million) relate to the amount of taxes payable for current and prior periods.

Note 7 Discontinued operations and assets held for sale

In connection with the acquisition of ICI, AkzoNobel had entered into an agreement with Henkel to sell all assets and liabilities comprising the business divisions known within the ICI Group as the Adhesives business and the Electronic Materials business for £2.7 billion (€3.6 billion) in cash. This transaction took place early April 2008. The businesses that were sold to Henkel in April 2008 qualified as discontinued operations during 2008.

During 2008, we classified National Starch as a discontinued operation. However, the intended sale did not take place in 2008 and, in accordance with IFRS, we have re-classified National Starch within continuing operations.

Results from discontinued operations

IN € MILLIONS

	2008	2007
Revenue	–	3,285
Expenses	–	(2,656)
Results from operating activities	–	**629**
Income tax	–	(169)
Interest and other results on Henkel settlement	(4)	–
Results from operating activities, net of income tax	**(4)**	**460**
Gain on the sale of Organon BioSciences	27	8,486
Income tax on the sale	–	(26)
Profit for the period	**23**	**8,920**

On November 19, 2007, AkzoNobel sold Organon BioSciences to Schering-Plough for an amount of €11 billion. During 2007, Organon BioSciences was presented as a discontinued operation.

AkzoNobel and Organon BioSciences will have continuing relationships for a limited period, mainly to complete the divestment and facilitate the transition. Further, AkzoNobel has provided several guarantees and indemnities, that are disclosed in note 22.

Balance Organon BioSciences at divestment date

IN € MILLIONS

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

Deal result Organon BioSciences

IN € MILLIONS

	2007
Net cash inflow	10,697
Net assets and liabilities	(2,080)
Liabilities assumed and cost allocated to the deal	(107)
Realization cumulative translation reserves	(24)
Deal result before tax	**8,486**

In connection with the acquisition of ICI, the European and Canadian authorities had accepted a commitment package from AkzoNobel involving the divestment of a number of AkzoNobel Decorative Paints businesses in the UK, Ireland, Belgium and Canada, which together contributed approximately €300 million to 2007 revenue. These entities were not ready for immediate sale and therefore did not qualify as assets held for sale at December 31, 2007. Starting January 1, 2008, these businesses were transferred from segment Decorative Paints to the "other" category. In 2008, we recorded an impairment charge of €65 million. The result on the sale totaled a loss of €23 million.

The assets held for sale amounted to €4 million at December 31, 2008 and is related to former ICI entities which were sold, but not yet disentangled.

Note 8 Employee benefits

Salaries, wages and other employee benefits

IN € MILLIONS	2008	2007
Salaries and wages	(2,322)	(1,685)
Pension and other post-retirement cost	(242)	(180)
Other social charges	(458)	(350)
Total	**(3,022)**	(2,215)

Employees

AVERAGE NUMBER DURING THE YEAR	2008	2007
Decorative Paints	24,600	11,000
Performance Coatings	21,000	20,000
Specialty Chemicals	12,900	8,800
Corporate and other	2,800	3,200
Total	**61,300**	43,000

Number of employees at year-end 2008 was 60,040 (2007: 43,000). The average number of employees working outside the Netherlands was 56,300 (2007: 38,100). The 2007 figures were reclassified for comparative presentation.

Salaries, wages and other employee benefits per cost category

IN € MILLIONS	2008
Cost of sales	(956)
Selling expenses	(1,030)
General and administrative expenses	(216)
Research and development expenses	(656)
Other operating income/(expenses)	(164)
Total	**(3,022)**

Share-based compensation

Share-based compensation relates to the performance-related share plan as well as the performance-related stock option plan. Charges recognized in the 2008 statement of income for share-based compensation amounted to €20 million and are included in salaries and wages (2007: €21 million).

Performance-related share plan

Under the performance-related share plan, a number of conditional shares are granted to the members of the Board of Management and executives each year. The number of participants of the performance related share plan at year-end 2008 was 548 (2007: 657). The actual number of shares that will vest depends on our Total Shareholder Return (TSR) performance over a three-year period, compared with the TSR performance of a specified peer group. Our TSR performance over the period January 1, 2006, until December 31, 2008, resulted in a seventh position within the ranking of the peer group companies. This resulted in a final vesting percentage of the 2006 grant of 70 percent (series 2005 – 2007: 100 percent), including dividend shares 76.36 percent (series 2005 – 2007: 108.78 percent).

The fair value of the performance-related shares at grant date is amortized as a charge against income over the three-year vesting period. The fair value was calculated by external specialists and amounted to €33.98 per performance-related shares conditionally granted in 2008 (2007: €21.77). The 2008 charge recognized for performance-related shares aggregated €16 million (2007: €14 million).

For further details on our performance-related share plan, see page 131.

Performance-related shares

SERIES	BALANCE AT JANUARY 1, 2008	GRANTED IN 2008	VESTED IN 2008	FORFEITED IN 2008	DIVIDEND IN 2008[1]	BALANCE AT DECEMBER 31, 2008	VESTED ON JANUARY 1, 2009
2005 – 2007	885,239	–	885,239	–	–	–	–
2006 – 2008	565,888	42,663	–	176,534	10,209	442,226	442,226
2007 – 2009	600,890	51,114	–	5,675	26,658	672,987	–
2008 – 2010	–	506,159	–	–	19,993	526,152	–
Total	**2,052,017**	**599,936**	**885,239**	**182,209**	**56,860**	**1,641,365**	442,226

[1] Equivalent in shares related to accumulated dividend, which is included in the balances on balance sheet date.

The shares of the series 2005 – 2007 have vested and were delivered to the participants in 2008. The accumulated dividend percentage of the series 2006 – 2008 amounted to 9.09 percent. The share price of a common AkzoNobel share at December 31, 2008, amounted to €29.44 (2007: €54.79). As a consequence of the acquisition of ICI, performance-related shares were granted to a number of executives of former ICI.

Stock options plan

Prior to 2008, performance-related stock options were granted to members of the Board of Management and all executives. Options cannot be exercised during the first three years. We currently do not purchase own shares in connection with the stock option plan. No financing facilities exist for option rights or tax payable thereon. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share with the nominal value of €2. The exercise price is the Euronext Amsterdam opening price on the first day that the AkzoNobel share was quoted ex-dividend. For American Depositary Receipts (ADRs) a total of 70,220 option rights, to exchange for Akzo Nobel N.V. shares, remain still outstanding at year-end (2007: 91,090).

Outstanding option rights common shares[1]

YEAR OF ISSUE	EXERCISE PRICE IN €	OUTSTANDING PER JANUARY 1, 2008	EXERCISED IN 2008	FORFEITED IN 2008	OUTSTANDING AT DECEMBER 31, 2008	EXPIRY DATE
Unconditional options:						
2001	46.75	51,322	–	–	51,322	April 30, 2011
2002	46.53	225,940	20,220	2,640	203,080	April 25, 2009
2002	46.53	107,250	–	–	107,250	April 25, 2012
2003	19.51	176,991	6,940	2,640	167,411	April 22, 2010
2004	31.45	340,200	29,700	6,900	303,600	April 25, 2011
2005	31.98	570,545	113,145	5,113	452,287	April 24, 2012
		1,472,248	**170,005**	**17,293**	**1,284,950**	
Conditional options:						
2006	46.46	470,536	–	6,576	463,960	April 27, 2013
2007	58.89	514,938	–	4,230	510,708	April 26, 2014
		985,474	–	**10,806**	**974,668**	
Total		**2,457,722**	**170,005**	**28,099**	**2,259,618**	

[1] Including the Board of Management.

Number and weighted average exercise price share options

	Common shares	
	Number of options	Weighted average exercise price in €
Balance at January 1, 2007	**4,116,510**	**37.07**
Granted during the period	517,151	58.89
Forfeited during the period	(43,826)	38.89
Exercised during the period	(2,132,113)	36.99
Balance at December 31, 2007	**2,457,722**	**41.70**
Granted during the period	–	–
Forfeited during the period	(28,099)	39.49
Exercised during the period	(170,005)	33.11
Balance at December 31, 2008	**2,259,618**	**42.37**
Exercisable at December 31, 2008	**1,284,950**	**34.33**

The stock options are equity-settled. The employee receives the shares upon exercise of the options. The fair value is measured at grant date and amortized over the period during which the employees become unconditionally entitled to the options. The total cost in 2008 for stock options was €4 million (2007: €7 million).

For stock options, exercised during 2008, the weighted average of the actual share prices at date of exercise amounted to €51.31.

The expected value of performance-related stock options is based on the binominal option pricing model, using certain assumptions. These assumptions are used for these calculations only and do not necessarily represent an indication of management's expectations of future developments. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. Our employee stock options have characteristics significantly different from those of traded options and changes in the subjective assumptions used for the calculation can materially affect the fair value estimate.

In 2008 no stock options were granted. The fair value and the assumptions used for the options granted in 2007 were as follows:

Key data of the options granted

Common shares, in €	2007
Fair value at measurement date	12.02
Share price	58.89
Exercise price	58.89
Expected share price volatility (in %)	20.80
Expected option life (in years)	5.00
Expected dividend yield (in %)	2.20
Risk-free interest rate (in %)	4.22

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining term of the stock options), adjusted for any expected changes to future volatility. Stock options are granted under a service condition and a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with the stock option grants.

Note 9 Intangible assets

IN € MILLIONS	TOTAL	GOODWILL	OTHER INTANGIBLES
Balance at January 1, 2007			
Cost of acquisitions	930	467	463
Cost of internally developed intangibles	17	–	17
Accumulated amortization/impairment	(265)	(47)	(218)
Carrying value	682	420	262
Changes in carrying value			
Acquisitions through business combinations	158	71	87
Other investments – including internally developed	43	–	43
Divestments[1]	(158)	(17)	(141)
Amortization	(40)	–	(40)
Impairments	(8)	(5)	(3)
Transfer to assets held for sale	–	–	–
Changes in exchange rates	(8)	(6)	(2)
Total changes	**(13)**	**43**	**(56)**
Balance at December 31, 2007			
Cost of acquisition	784	502	282
Cost of internally developed intangibles	12	–	12
Accumulated amortization/impairment	(127)	(39)	(88)
Carrying value	669	463	206

[1] Mainly Organon BioSciences.

IN € MILLIONS	TOTAL	GOODWILL	BRANDS	CUSTOMER LISTS	OTHER INTANGIBLES
Balance at January 1, 2008					
Cost of acquisition	784	502	104	110	68
Cost of internally developed intangibles	12	–	–	–	12
Accumulated amortization/impairment	(127)	(39)	(3)	(40)	(45)
Carrying value	669	463	101	70	35
Changes in carrying value					
Acquisitions through business combinations[1]	8,315	4,485	2,344	1,181	305
Other investments – including internally developed	55	10	–	2	43
Divestments	(12)	(3)	(6)	(3)	–
Amortization	(159)	–	(18)	(101)	(40)
Impairments	(1,296)	(1,215)	(79)	(2)	–
Changes in exchange rates	(400)	(176)	(195)	(33)	4
Total changes	**6,503**	**3,101**	**2,046**	**1,044**	**312**
Balance at December 31, 2008					
Cost of acquisitions	8,667	4,822	2,247	1,253	345
Cost of internally developed intangibles	32	–	–	–	32
Accumulated amortization/impairment	(1,527)	(1,258)	(100)	(139)	(30)
Carrying value	**7,172**	**3,564**	**2,147**	**1,114**	**347**

[1] Mainly ICI. Goodwill included €551 million due to hedge activities for the acquisition of ICI.

Amortization and impairment charges per cost category

IN € MILLIONS	AMORTIZATION	IMPAIRMENT		TOTAL
	2008	2008	2008	2007
Cost of sales	(7)	(21)	(28)	(11)
Selling expenses	(23)	–	(23)	(8)
Impairment of ICI intangibles	–	(1,275)	(1,275)	–
General and administrative expenses	–	–	–	(7)
Research and development expenses	(5)	–	(5)	(2)
Other operating income/(expenses)	(124)	–	(124)	(5)
Discontinued operations	–	–	–	(15)
Total	**(159)**	**(1,296)**	**(1,455)**	(48)

Goodwill and other intangibles per segment

IN € MILLIONS	GOODWILL		BRANDS WITH INDEFINITE USEFUL LIVES[1]		OTHER INTANGIBLES WITH FINITE USEFUL LIVES	
	2008	2007	2008	2007	2008	2007
Decorative Paints	2,368	251	1,643	–	818	98
Performance Coatings	541	140	–	–	249	84
Specialty Chemicals	655	72	56	–	842	24
Total	**3,564**	463	**1,699**	–	**1,909**	206

[1] Mainly Dulux. Dulux is the premier ICI global brand for Decorative Paints. Due to its global presence, high recognition and strategic nature, we have determined that the useful life of the Dulux brand is indefinite.

Other intangibles include licenses, know-how, intellectual property rights and development cost. Both at year-end 2008 and 2007, there were no purchase commitments for individual intangible assets. Neither were there any intangible assets registered as security for bank loans.

Impairment of ICI intangibles

Goodwill and other intangibles with indefinite useful lives are tested, per business unit (one level below segment level), for impairment in the fourth quarter or whenever an impairment trigger exists. As a consequence of the current market conditions and the continuing lack of visibility of future global demand, we have assessed the recoverable amount of our assets against lower growth rates which we now expect. This resulted in a non-cash impairment charge of €1.2 billion after tax, covering the value of ICI intangibles (mainly goodwill) related to the Decorative Paints (€0.8 billion) and National Starch businesses (€0.4 billion).

The impairment test is based on cash flow projections of the five-year operational plan as approved by the Board of Management. The key assumptions used in the projections are:

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

Revenue growth and margin development projections are extrapolated beyond this five-year explicit forecast period for another five years with reduced growth rates, except for the emerging markets. The average of the revenue growth rates used for the explicit forecast period, respectively the subsequent five-year period amount to:

Average revenue growth rates per forecast period per segment

IN %/YEAR	2009 – 2013	2014 – 2018
Decorative Paints	4.1	3.6
Performance Coatings	6.1	3.2
Specialty Chemicals	3.5	2.4

For almost all business units, a terminal value was calculated using a long-term average market growth rate that did not exceed 2 percent.

The estimated post-tax cash flows are discounted to their present value using an adjusted post-tax weighted average cost of capital. The discount rates are determined for each business unit and range from 7.3 percent to 11.2 percent, with an average of 8.1 percent.

The outcome of a sensitivity analysis was that reasonably possible adverse changes in key assumptions of 100 basispoints (lower growth rates and higher discount rates respectively) would not result in significant other conclusions for the impairment test for businesses not affected by the current impairment charge.

Note 10 Property, plant and equipment

IN € MILLIONS	TOTAL	BUILDINGS AND LAND	PLANT EQUIP-MENT AND MACHINERY	OTHER EQUIPMENT	CONSTRUCTION IN PROGRESS AND PREPAY-MENTS ON PROJECTS	ASSETS NOT USED IN THE PRODUCTION PROCESS
Balance at January 1, 2007						
Cost of acquisition	9,179	2,671	5,176	896	276	160
Accumulated depreciation/impairment	(5,833)	(1,292)	(3,763)	(661)	–	(117)
Carrying value	3,346	1,379	1,413	235	276	43
Changes in carrying value						
Acquisitions through business combinations	17	6	10	1	–	–
Divestments [1]	(1,194)	(586)	(297)	(96)	(175)	(40)
Capital expenditures	511	65	258	61	124	3
Transfer between categories	–	24	3	8	(38)	3
Depreciation	(407)	(80)	(264)	(60)	–	(3)
Impairment	(3)	(1)	(1)	(1)	–	–
Reversal of impairments	7	1	2	–	–	4
Changes in exchange rates	(74)	(34)	(30)	(3)	(6)	(1)
Total changes	**(1,143)**	**(605)**	**(319)**	**(90)**	**(95)**	**(34)**
Balance at December 31, 2007						
Cost of acquisition	6,636	1,597	4,194	616	181	48
Accumulated depreciation/impairment	(4,433)	(823)	(3,100)	(471)	–	(39)
Carrying value	2,203	774	1,094	145	181	9
Changes in carrying value						
Acquisitions through business combinations [2]	1,400	569	683	75	72	1
Divestments	(37)	–	(21)	(9)	(6)	(1)
Capital expenditures	534	102	357	58	17	–
Transfer between categories	–	(5)	14	(11)	–	2
Depreciation	(453)	(81)	(320)	(51)	–	(1)
Impairment	(134)	(67)	(56)	(5)	(3)	(3)
Changes in exchange rates	(156)	(55)	(57)	(33)	(11)	–
Total changes	**1,154**	**463**	**600**	**24**	**69**	**(2)**
Balance at December 31, 2008						
Cost of acquisition	7,920	2,146	4,875	627	250	22
Accumulated depreciation/impairment	(4,563)	(909)	(3,181)	(458)	–	(15)
Carrying value	**3,357**	**1,237**	**1,694**	**169**	**250**	**7**

[1] Mainly Organon BioSciences.
[2] Mainly ICI.

In 2008, impairment charges were recognized for an amount of €134 million (2007: €3 million), while no impairment charges have been reversed (2007: €7 million). The impairment charges were recognized in cost of sales. The impairment charges relate to restructuring activities in, among others Germany, and divestment activities in the UK.

The carrying value of property, plant and equipment financed by hire purchase and leasing and not legally owned by the company was €17 million (2007: €15 million) and comprised of €10 million to buildings and land, €3 million to plant equipment and machinery and €4 million to other equipment.

Purchase commitments for property, plant and equipment totaled €92 million (2007: €46 million). At December 2008 and 2007, no items of property, plant and equipment were registrered as security for bank loans.

Depreciation per cost category

IN € MILLIONS	2008
Cost of sales	(307)
Selling expenses	(58)
General and administrative expenses	(50)
Research and development expenses	(14)
Other operating income/(expenses)	(24)
Total	**(453)**

Note 11 Deferred tax assets and liabilities

In assessing the recognition of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carryforward period are revised.

Breakdown of deferred tax assets and liabilities

IN € MILLIONS	ASSETS	LIABILITIES	ASSETS	LIABILITIES
		2008		2007
Intangible assets	85	895	49	38
Property, plant and equipment	53	237	18	86
Inventories	34	5	22	5
Trade and other receivables	32	16	13	19
Share-based compensation	15	–	40	–
Provisions:				
- Pensions and other post-retirement benefits	469	21	153	–
- Restructuring	33	2	9	1
- Other provisions	441	53	169	44
Other items	180	78	83	27
Net operating loss carryforwards	517	–	189	–
Deferred tax assets not recognized	(377)	–	(28)	–
Tax assets/liabilities	**1,482**	**1,307**	**717**	**220**
Set-off of tax	(592)	(592)	(87)	(87)
Net deferred taxes	**890**	**715**	630	133

In the deferred tax asset for other provisions (€441 million), an amount of €194 million is related to interest expense carried forward.

From the total amount of recognized deferred tax assets €186 million (2007: €143 million) is related to entities that have suffered a loss in either 2008 or 2007 in the tax jurisdiction to which a deferred tax asset relates, and where utilization is dependent on future taxable profit in excess of the profit arising from the reversal of existing taxable temporary differences.

Deferred tax assets not recognized on the balance sheet mainly related to capital losses in connection to the on-sale to Henkel, which were already taken into account in the purchase price allocation. These capital losses cannot be offset against operational taxable profits.

Movement in deferred tax in 2007

IN € MILLIONS	NET BALANCE JANUARY 1, 2007	CHANGES IN EXCHANGE RATES	ACQUISITIONS/ DIVESTITURES	RECOGNIZED IN INCOME	RECOGNIZED IN EQUITY	NET BALANCE DECEMBER 31, 2007
Intangible assets	67	(7)	(41)	(8)	–	11
Property, plant and equipment	(60)	3	6	(17)	–	(68)
Inventories	19	(1)	(10)	9	–	17
Trade and other receivables	(27)	(1)	(1)	30	(7)	(6)
Share-based compensation	19	–	–	(6)	27	40
Provisions:						
- Pensions and other post-retirement benefits	290	(2)	(5)	(130)	–	153
- Restructuring	19	(1)	–	(10)	–	8
- Other provisions	288	(16)	(139)	(8)	–	125
Other items	5	(2)	(29)	82	–	56
Net operating loss carryforwards	192	(7)	(16)	20	–	189
Deferred tax assets not recognized	(33)	2	3	–	–	(28)
Tax assets/liabilities	779	(32)	(232)	(38)	20	497

Movement in deferred tax in 2008

IN € MILLIONS	NET BALANCE DECEMBER 31, 2007	CHANGES IN EXCHANGE RATES	ACQUISITIONS/ DIVESTITURES	RECOGNIZED IN INCOME	RECOGNIZED IN EQUITY	NET BALANCE DECEMBER 31, 2008
Intangible assets	11	87	(1,020)	112	–	(810)
Property, plant and equipment	(68)	32	(204)	56	–	(184)
Inventories	17	2	(18)	28	–	29
Trade and other receivables	(6)	–	–	5	17	16
Share-based compensation	40	(1)	–	(11)	(13)	15
Provisions:						
- Pensions and other post-retirement benefits	153	(12)	193	114	–	448
- Restructuring	8	(1)	–	24	–	31
- Other provisions	125	(9)	196	76	–	388
Other items	56	(3)	(103)	155	(3)	102
Net operating loss carryforwards	189	(25)	563	(210)	–	517
Deferred tax assets not recognized	(28)	11	(223)	(137)	–	(377)
Tax assets/liabilities	**497**	**81**	**(616)**	**212**	**1**	**175**

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

Recognized deferred tax assets and liabilities

IN € MILLIONS	2008	2007
Deferred tax assets	890	630
Deferred tax liabilities	(715)	(133)
Total	**175**	497

In 2009, €70 million of the net deferred tax of €175 million is expected to reverse.

At December 31, 2008, the gross amounts of the net operating loss carryforwards of €1,749 million, expire as follows:

Expiration loss carryforwards

IN € MILLIONS

2009	2010	2011	2012	2013	later	unlimited
6	33	28	38	586	340	718

The €377 million deferred tax assets not recognized in the balance sheet of 2008 relate to the following items:

Unrecognized deferred tax assets

IN € MILLIONS

	2008	2007
Capital losses related to Henkel	200	–
Tax losses	175	28
Deductible temporary differences	2	–
Total	**377**	**28**

At December 31, 2008, the gross amounts of the net operating loss carryforwards for which no deferred tax assets have been recognized in the balance sheet, with a total of €1,145 million, expire as follows:

Expiration of loss carryforwards with unrecognized deferred tax assets

IN € MILLIONS

2009	2010	2011	2012	2013	later	unlimited
4	6	10	7	579	66	473

Note 12 Investments in associates and joint ventures

At year-end 2008, the carrying value of investments in associates and joint ventures recognized on the balance sheet amounted to €201 million (2007: €142 million).

Summary of financial information on a 100 percent basis

IN € MILLIONS

	2008	2007
Information on the statement of income:		
- Revenue	972	737
- Income before tax	58	46
- Net income	40	33
Condensed balance sheet:		
- Current assets	303	178
- Non-current assets	303	231
Total assets	**606**	**409**
- Current liabilities	159	82
- Non-current liabilities	111	100
- Shareholders' equity	336	227
Total liabilities and equity	**606**	**409**

In 2008, the results from associates and joint ventures amounted to a profit of €25 million (2007: €20 million loss). The transaction loss in 2007 of €47 million related to the completion of the Chemicals divestment program.

Results from associates and joint ventures

IN € MILLIONS

	2008	2007
Share in the results from associates and joint ventures	25	27
Transaction gains/(losses) related to associates and joint ventures	–	(47)
Results from associates and joint ventures	**25**	**(20)**

Note 13 Other financial non-current assets

IN € MILLIONS

	2008	2007
Loans and receivables	315	497
Interest rate derivatives	40	–
Other than financial instruments	402	133
Total	**757**	**630**

The loans and receivables include the subordinated loan of €89 million granted to the AkzoNobel Pension Fund (APF) in the Netherlands and the non-current part of an escrow account of the AkzoNobel UK pension fund for an amount of €163 million, invested in bonds and cash. Under certain conditions, the minimum annual funding of this pension fund is £25 million (€26 million). The long-term receivable related to the sale of a site near Barcelona (year-end 2007: €64 million) was transferred to short-term receivables.

Other financial non-current assets include an amount of €142 million related to overfunded pension plans.

Note 14 Inventories

IN € MILLIONS

	2008	2007
Raw materials and supplies	522	342
Work in progress	84	85
Finished products and goods for resale	1,172	746
Inventory prepayments	3	4
Total	**1,781**	**1,177**

Of the total carrying value of inventories at December 31, 2008, €73 million is measured at net realizable value (2007: €53 million). In 2008, €22 million was recognized in the statement of income for the write-down of inventories (2007: €18 million), while €9 million of write-downs was reversed (2007: €8 million). There are no inventories subject to retention of title clauses. During 2008, an amount of €8.8 billion including direct employee benefits, depreciation and amortization was recognized as costs of goods sold, out of finished goods.

Note 15 Trade and other receivables

IN € MILLIONS

	2008	2007
Trade receivables	2,097	1,644
Prepaid expenses	133	81
Tax receivables other than income tax	107	86
Receivables from associates and joint ventures	38	31
Receivables from other related parties	–	36
Forward exchange and commodity contracts	29	13
Other receivables	548	257
	2,952	**2,148**
Discounted portion	(28)	(9)
Total	**2,924**	2,139

Trade receivables are presented net of an allowance for impairment of €137 million (2007: €99 million). In 2008, €40 million of impairment losses were recognized in the statement of income (2007: €30 million).

Ageing of trade receivables

IN € MILLIONS

	2008	2007
Performing accounts receivable	1,555	1,251
Past due accounts receivables and not impaired:		
< 3 months	442	295
3 – 6 months	24	29
6 – 9 months	7	4
9 – 12 months	3	3
> 12 months	6	5
Impaired accounts receivables	197	156
Allowance for impairment	(137)	(99)
Total trade receivables	**2,097**	1,644

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

Allowance for impairment of trade receivables

IN € MILLIONS

	2008	2007
Opening balance	99	125
Additions charged to income	40	30
Release of unused amounts	(9)	(15)
Utilization	(18)	(25)
Acquisitions/divestments	33	(12)
Currency exchange differences	(8)	(4)
Closing balance	**137**	99

The additions to and release of the allowance for impairment have been included in the statement of income under selling expenses.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The company does not hold any collateral for impaired trade receivables.

Note 16 Cash and cash equivalents

IN € MILLIONS

	2008	2007
Short-term investments	401	11,272
Cash on hand and in banks	1,194	356
Included under cash and cash equivalents in the balance sheet	**1,595**	**11,628**
Debt to credit institutions	(146)	(561)
Total per cash flow statement	**1,449**	11,067

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings and marketable securities immediately convertible into cash. For more information on credit risk management, see note 25.

At December 31, 2008, an amount of €616 million in cash and cash equivalents was restricted, mainly due to restrictions in certain countries to transfer cash.

Note 17 Equity

Subscribed share capital

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the Annual General Meeting of shareholders. The holders of the priority shares are entitled to 6 percent per share or the statutory interest in the Netherlands, whichever is lower, plus any accrued and unpaid dividends. They are entitled to 200 votes per share (in accordance with the 200 times higher nominal value per share) at the Annual General Meeting of shareholders. In addition, the holders of priority shares have the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management; amendments to the Articles of Association are subject to the approval of the Meeting of Holders of Priority Shares.

Priority shares may only be transferred to a transferee designated by a Meeting of Holders of Priority Shares and against payment of the par value of the shares, plus interest at the rate of six percent per annum or the statutory interest in the Netherlands, whichever is lower. There are no restrictions on voting rights of holders of common or priority shares. The Articles of Association set out procedures for exercising voting rights. The General Meeting of Shareholders has in 2008 resolved to authorize the Board of Management for a period of 18 months (i) to issue shares (or grant rights to shares) in the capital of the company up to a maximum of 10 percent, which in case of mergers or acquisitions can be increased by up to a maximum of 10 percent, of the total number of shares outstanding (and to restrict or exclude the pre-emptive rights to those shares) and (ii) to acquire shares in the capital of the company, provided that the shares that will at any time be held will not exceed 10 percent of the issued share capital. The issue or repurchase of shares requires the approval of the Supervisory Board.

Composition of share capital

IN €	AUTHORIZED SHARE CAPITAL	SUBSCRIBED SHARE CAPITAL
Priority shares (48 with nominal value of €400)	19,200	19,200
Cumulative preferred shares (200 million with nominal value of €2)	400,000,000	–
Common shares (600 million with nominal value of €2)	1,200,000,000	463,328,374
Total	**1,600,019,200**	463,347,574

Outstanding common shares

NUMBER OF SHARES	2008	2007
Outstanding at January 1	262,322,775	287,268,350
Issued in connection to stock options exercised and performance shares granted	1,088,384	1,791,099
Share buyback program	(31,746,972)	(26,736,674)
Balance at year-end	**231,664,187**	262,322,775

In 2008, we completed a share repurchase program of €1.4 billion. Under the program, we repurchased and subsequently canceled 31.7 million shares (12 percent of the issued share capital). We held no common shares at year-end 2008 or 2007. During 2007, we repurchased and canceled 26.7 million common shares at an average price of €59.84 for a total amount of €1.6 billion.

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year.

Weighted average number of shares

NUMBER OF SHARES	2008	2007
Issued common shares at January 1	262,322,775	287,268,350
Effect of:		
- Share buyback	(15,542,100)	(12,751,020)
- Issued common shares during the year	944,435	1,439,602
- Effect of own shares held	–	(45,635)
Shares for basic earnings per share for the year	**247,725,110**	**275,911,297**
Effect of dilutive shares:		
- For stock options	359,618	1,031,997
- For performance-related shares	1,168,391	1,127,034
Shares for diluted earnings per share	**249,253,119**	278,070,328

Of the shareholders' equity of €7.5 billion, an amount of €6.8 billion (2007: €10.3 billion) was unrestricted and available for distribution – subject to the relevant provisions of our Articles of Association and Dutch law.

Unrestricted reserves at year-end

IN € MILLIONS	2008	2007
Shareholders' equity at year-end	7,463	11,032
Subscribed share capital	(463)	(525)
Subsidiaries' restrictions to transfer funds	(156)	(111)
Statutory reserve due to capital reduction	(77)	(77)
Reserve for development costs	(3)	(1)
Unrestricted reserves	**6,764**	10,318

At the General Meeting of Shareholders of April 26, 2001, an amendment to the Articles of Association was approved whereby the par value of the priority shares was decreased to €400 and of the common shares and the cumulative preferred shares to €2. As the revised nominal values are somewhat lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, we recognized a statutory reserve of €77 million for this reduction in subscribed share capital. Statutory reserves also include €3 million for capitalized development costs, as well as the reserves relating to earnings retained by subsidiaries, associates, and joint ventures after 1983. Statutory reserves are non-distributable.

Other components of shareholders' equity

Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. In 2008, an amount of €551 million was transferred to goodwill, which related to hedging activities for the acquisition of ICI.

Cumulative translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of intercompany loans with a permanent nature and liabilities and derivates that hedge the net investments in a foreign subsidiary.

Equity-settled transactions include the stock option program and the performance-related share plan whereby options or shares are granted to the Board of Management and other executives. For details of the performance-related stock option plan and the performance-related share plan for the Board of Management and other executives, see note 8.

Dividend proposal

It is proposed that dividend on priority shares of €1,152 and on common shares of €417 million will be distributed. Following acceptance of this proposal, holders of common shares will receive a dividend of €1.80 per share of €2, of which €0.40 was paid earlier as an interim dividend. The final dividend of €1.40 will be made payable from May 7, 2009.

Note 18 Provisions

Movements in provisions

IN € MILLIONS	TOTAL	PENSIONS AND OTHER POST-RETIREMENT BENEFITS	RESTRUCTURING OF ACTIVITIES	ENVIRONMENTAL COSTS	OTHER
Balance at January 1, 2008	**2,116**	**1,391**	**97**	**228**	**400**
Additions made during the year	521	180	207	37	97
Utilization	(945)	(604)	(162)	(44)	(135)
Amounts reversed during the year	(76)	–	(9)	(25)	(42)
Unwind of discount	40	–	–	22	18
Acquisitions/divestments	1,345	596	51	148	550
Pension plans changing to net asset position	142	142	–	–	–
Changes in exchange rates	(226)	(79)	(19)	(48)	(80)
Balance at December 31, 2008	**2,917**	**1,626**	**165**	**318**	**808**
Non-current portion of provisions	2,072	1,433	34	253	352
Current portion of provisions	845	193	131	65	456
Total	**2,917**	**1,626**	**165**	**318**	**808**

Provisions for pensions and other post-retirement benefits

We have a number of defined benefit pension plans. The largest plans by far are the ICI Pension Fund and the AkzoNobel (CPS) Pension Scheme in the UK. The benefits of these and other 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. Valuations of the obligations under the pension and other post-retirement plans are carried out by independent actuaries.

We also provide certain healthcare and life insurance benefits for most of our retired employees, mainly in the US and the Netherlands. We accrue for the expected costs of providing such post-retirement benefits during the years that the employee renders the necessary services.

The main changes in 2008 related to our pension obligations were:

- The obligations for pensions and other post-retirement benefits have increased substantially due to the acquisition of ICI on January 2, 2008.
- In July 2008, we settled our pension obligations in Sweden with Alecta for an amount of €115 million, which resulted in a net curtailment and settlement loss of €10 million before tax, including wage taxes.
- We settled a dispute on a post-retirement healthcare plan in the Netherlands and incurred additional costs of €28 million. In 2007 we already incurred additional costs of €66 million.

The table below shows a summary of the changes in the pension and the other post-retirement benefit obligations and plan assets for 2008 and 2007.

Movements in provisions for pension and other post-retirement benefit obligations

IN € MILLIONS	PENSIONS		OTHER POST-RETIREMENT BENEFITS	
	2008	2007	2008	2007
Defined benefit obligation				
Balance at beginning of year	(4,628)	(5,760)	(286)	(292)
Acquisitions/divestments	(11,477)	579	(136)	43
Settlements/curtailments	136	22	–	5
Plan amendment	(21)	(6)	(28)	(66)
Service costs	(76)	(76)	(7)	(7)
Contribution by employees	(7)	(8)	(2)	(2)
Interest costs	(827)	(271)	(24)	(16)
Benefits paid	968	306	47	20
Actuarial gains/(losses)	1,477	256	–	3
Changes in exchange rates	2,987	330	(5)	26
Defined benefit obligation at year-end	**(11,468)**	**(4,628)**	**(441)**	**(286)**
Plan assets				
Balance at beginning of year	3,502	3,942	–	–
Acquisitions/divestments	11,093	(441)	–	–
Settlements	(111)	(1)	–	–
Contribution by employer	560	343	45	20
Contribution by employees	7	8	2	–
Benefits paid	(968)	(306)	(47)	(20)
Expected return on plan assets	802	247	–	–
Actuarial gains	(1,445)	(29)	–	–
Changes in exchange rates	(2,960)	(261)	–	–
Plan assets at year-end	**10,480**	**3,502**	**–**	**–**
Funded status	**(988)**	(1,126)	**(441)**	(286)
Unrecognized net loss/(gain)	35	82	(11)	(11)
Unrecognized past service costs	–	–	(13)	(15)
Restriction on asset recognition	(34)	–	–	–
Medicare receivable	–	–	(32)	(35)
Net balance pension provisions	**(987)**	(1,044)	**(497)**	(347)
Recorded under:				
- Provisions for pensions and other post-retirement benefits	(1,129)	(1,044)	(497)	(347)
- Other financial non-current assets	142 [1]	–	–	–
Total	**(987)**	(1,044)	**(497)**	(347)

[1] Pension prepayments for an amount of €34 million are not recognized as they do not meet the recognition criteria of IAS 19 and IFRIC 14.

Funded and unfunded pension plans

IN € MILLIONS	2008	2007
Wholly or partly funded plans	11,145	4,269
Unfunded plans	323	359
Total	**11,468**	4,628

Funded status in earlier years at December 31

IN € MILLIONS			PENSIONS			OTHER POST-RETIREMENT BENEFITS
	2006	2005	2004	2006	2005	2004
Defined benefit obligation	(5,760)	(5,510)	(8,975)	(292)	(508)	(514)
Plan assets	3,942	3,596	6,781	–	–	–
Funded status	(1,818)	(1,914)	(2,194)	(292)	(508)	(514)

The difference between the actual and the expected return on plan assets was a loss of €1,445 million in 2008, a loss of €29 million in 2007, a gain of €214 million in 2006, of €736 million in 2005 and of €228 million in 2004. The 2008, 2007 and 2006 actuarial gains and losses on the defined benefit obligation break down as follows:

Actuarial gains and losses

IN € MILLIONS			PENSIONS			OTHER POST-RETIREMENT BENEFITS
	2008	2007	2006	2008	2007	2006
Due to experience	(147)	90	2	(5)	(3)	74
Due to change in assumptions	1,624	166	(199)	5	6	19
Total	**1,477**	256	(197)	–	3	93

Net periodic pension cost

IN € MILLIONS		PENSIONS		OTHER POST-RETIREMENT BENEFITS
	2008	2007	2008	2007
Service costs for benefits earned during the period	(76)	(76)	(7)	(7)
Interest costs on defined benefit obligations	(827)	(271)	(24)	(16)
Expected return on plan assets	802	247	–	–
Amortization of unrecognized losses/(gains)	(32)	(4)	–	–
Amortization of past service costs	(20)	–	(25)	(63)
Change of restriction of asset recognition	31	–	–	–
Settlement/curtailment gain	(4)	26	–	5
Total	**(126)**	(78)	**(56)**	(81)

The remaining plans primarily represent defined contribution plans. This includes, among others, the AkzoNobel Pension Fund in the Netherlands. Expenses for these plans totaled €112 million in 2008 (2007: €140 million).

Weighted average assumptions for pensions

IN %		PENSIONS		OTHER POST-RETIREMENT BENEFITS
	2008	2007	2008	2007
Pension benefit obligation at December 31:				
- Discount rate	6.3	5.7	6.0	5.8
- Rate of compensation increase	3.5	4.4		
Net periodic pension costs:				
- Discount rate	5.8	4.9	5.8	5.6
- Rate of compensation increase	4.4	4.2		
- Expected return on plan assets	6.0	6.4		

The table below illustrates the weighted average life expectancy of the persons participating in the defined benefit pension plans.

Life expectancy

IN YEARS	AT DECEMBER 31	
	2008	2007
Currently aged 60		
Male	25.4	25.3
Female	27.5	27.9
Currently aged 45, at age 60		
Male	26.8	26.7
Female	28.8	29.4

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.

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

Pension plan assets principally consist of quoted equity securities, long-term interest-earning investments and real estate. On December 31, 2008 and 2007, plan assets did not include financial instruments issued by the company, nor any property occupied or other assets used by it. The weighted average pension plan asset allocation at December 31, 2008 and 2007, and the target allocation for 2009 for the pension plans by asset category are as follows:

Plan asset allocation

IN %	TARGET ALLOCATION	PLAN ASSETS AT DECEMBER 31	
	2009	2008	2007
Equity securities	20 – 25	23	47
Long-term interest earning investments	70 – 75	72	39
Real estate	1 – 5	2	8
Other	0 – 3	3	6
Total	100	**100**	100

At year-end 2008, an amount of £184 million (€189 million; 2007: £198 million or €269 million) has been placed on an escrow account on behalf of the AkzoNobel (CPS) Pension Scheme in the UK. The minimum annual funding of this pension fund from the escrow account is £25 million. The amount on the escrow account does not qualify as plan asset under the definition of IAS 19 and therefore it is not included in the plan asset numbers as disclosed in this note. The current portion is included in other short-term receivables, and the non-current part in other financial non-current assets. For the latter see also note 13.

Weighted average assumptions for the other post-retirement benefit plans were as follows:

Weighted average assumptions

IN %/YEAR	2008	2007
Assumed healthcare cost trend rates at December 31:		
- Healthcare cost trend rate assumed for next year	6.3	8.0
- Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.0	5.0
- Year that the rate reaches the ultimate trend rate	2014 – 2016	2014

Assumed healthcare cost trend rates can 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:

Sensitivity healthcare cost trends

IN € MILLIONS	1% POINT INCREASE	1% POINT DECREASE
(Increase)/decrease on total of service and interest cost	(1)	1
(Increase)/decrease on post-retirement benefit obligations	(17)	16

In the US, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees, as well as a federal subsidy to sponsors of post-retirement healthcare plans, which both began on January 1, 2006. We have recognized this reimbursement right as an asset under other financial non-current assets, measured at fair value. On December 31, 2008, this value was €32 million (December 31, 2007: €35 million).

Cash flows

We expect to contribute €304 million to our defined benefit pension plans in 2009. This includes additional payments of £172 million for the ICI Pension Fund and £25 million for the AkzoNobel (CPS) Pension Scheme paid out of the escrow account, both in the UK. For other post-retirement benefit plans the contribution for 2009 is expected to be €42 million.

Expected benefit payments

IN € MILLIONS	PENSIONS	OTHER POST-RETIREMENT BENEFITS
2009	836	42
2010	825	37
2011	831	36
2012	820	36
2013	827	35
2014 – 2018	4,219	157

Provisions for restructuring of activities

Provisions for restructuring of activities comprise accruals for certain employee benefits and for costs which are directly associated with plans to exit specific activities and closing down of facilities. For all restructurings a detailed formal plan exists and the implementation of the plan has started or the plan has been announced before the balance sheet date. Most restructuring activities relate to relatively smaller restructurings and are expected to be completed within two years from the balance sheet date. However, for certain plans, payments of termination benefits to former employees may take several years longer.

Provisions for environmental costs

For details on environmental exposures, see note 22.

Other provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases, claims, other long-term employee benefits such as long-service leave and jubilee payments. With the acquisition of ICI, we recognized other provisions for an amount of €550 million, mainly related to insurance, antitrust and other litigations, as further explained in note 22. At year-end 2008, the provision for antitrust cases amounted to €289 million on December 31, 2008 (December 31, 2007: €190 million).

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

Note 19 Long-term borrowings

IN € MILLIONS

	2008	2007
Debt issued	2,245	1,901
Debt to credit institutions	12	11
Other borrowings	84	42
Total	**2,341**	1,954

The amounts due within one year are presented under short-term borrowings. For details on the exposure to interest rate and foreign currency risk, see note 25.

In November and December 2008, bonds totaling €0.9 billion matured. We refinanced by means of a bond issue of €1 billion. This bond was placed in the market in December, maturing in five years, with an interest rate of 7.75 percent. The long-term borrowings increased due to debt acquired from ICI. The main item was a bond of $1 billion, of which $500 million was redeemed in December. In addition, a €1 billion is approaching its maturity date in 2009 and was transferred to short-term borrowings.

Debt issued

IN € MILLIONS

	2008	2007
5 5/8 % 2002/09 (€1 billion)	–	1,043
4 1/4 % 2003/11 (€750 million)	756	752
5 5/8 % 2003/13 ($500 million)	395	–
7 3/4 % 2008/14 (€1 billion)	997	–
Other	97	106
Total	**2,245**	1,901

During 2008, the average effective interest rate was 5.13 percent (2007: 4.9 percent).

Aggregate maturities of long-term borrowings

IN € MILLIONS

	2010 – 2013	after 2013
Debt issued	1,248	997
Debt to credit institutions	11	1
Other borrowings	54	30
Total	1,313	1,028

On December 31, 2008 and 2007, the total amount of long-term credit facilities arranged by AkzoNobel was €1.5 billion, maturing in 2013. At December 31, 2008, € nil (2007: €350) of this facility has been drawn. On December 31, 2008 and 2007, none of the borrowings was secured by collateral.

Finance lease liabilities are included in other borrowings and aggregated €21 million. An amount of €4 million will mature within one year and €17 million will mature in the period 2010 through 2013.

Note 20 Short-term borrowings

IN € MILLIONS

	2008	2007
Commercial paper	20	525
Debt to credit institutions	146	561
Borrowings from associates and joint ventures	28	18
Current portion of long-term borrowings	1,144	531
Total	**1,338**	1,635

AkzoNobel has a commercial paper program in the United States, which on December 31, 2008, as on December 31, 2007, had a maximum of $1.0 billion (year-end 2008: €0.7 billion), and a euro commercial paper program, which on December 31, 2008, as on December 31, 2007, had a maximum of €1.5 billion. On December 31, 2008, €20 million of the commercial paper program was used (2007: €525 million). It must be noted that at the end of 2008, under the current market conditions, this program was not accessible. The commercial paper program can only be used to the extent that the equivalent portion of the revolving credit facility is not used. See also note 25.

Note 21 Trade and other payables

IN € MILLIONS

	2008	2007
Suppliers	1,584	1,051
Amounts payable to employees	221	153
Derivatives	213	210
Taxes and social security contributions	183	123
Prepayments by customers	16	6
Dividends	8	6
Payable to related parties	8	34
Other liabilities	752	415
Total	**2,985**	**1,998**

Note 22 Contingent liabilities and commitments

Environmental matters

We are confronted with substantial costs arising out of environmental laws and regulations, which include obligations to eliminate or limit the effects on the environment of the disposal or release of certain wastes or substances at various sites. Proceedings involving environmental matters, such as the alleged discharge of chemicals or waste materials into the air, water, or soil, are pending against us in various countries. In some cases this concerns sites divested in prior years or derelict sites belonging to companies acquired in the past.

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

As stated in note 18, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated €318 million on December 31, 2008 (December 31, 2007: €228 million). The provision has been discounted using an average pre-tax discount rate of 5.5 percent (2007: 4.9 percent).

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

Antitrust cases

AkzoNobel is involved in investigations by the antitrust authorities in the European Union, the US and Canada into alleged violations of the respective antitrust laws for some products in these jurisdictions. We are fully cooperating with the authorities in these investigations. In addition, we are defending civil damage claims in relation to some of these alleged antitrust violations.

In 2008, based on an estimate of probable fines, civil damage claims and costs to be paid over a number of years to come – taking into account legal advice and the current facts and circumstances – we subtracted €16 million, including interest, from the provision for antitrust cases. The provision of €289 million (2007: €190 million) also includes former ICI provisions for antitrust cases. Fines, civil damage settlements and interest incurred in 2008 in connection with these cases amounted to €40 million (2007: €33 million).

Four cases are pending in appeal by the company with the EU Court of First Instance (EU CFI) against decisions by the EU Commission to impose fines on the company for violations of EU competition laws regarding the following products: monochloroacetic acid (€84 million), hydrogen peroxides (€25 million), soda ash (€10 million) and metacrylates (€91 million). Our appeal against the European Commission's decision to fine the company for violation of the European competition laws regarding choline chloride (€21 million) was dismissed by the EU CFI in 2007. We appealed this judgment at the ECJ and that case is now pending.

It should be understood that, in light of possible future developments, such as (a) the outcome of investigations by the various antitrust authorities, (b) potential additional lawsuits by (direct or indirect) purchasers, (c) possible future civil settlements, and (d) rulings or judgments in the pending investigations or in related civil suits, the antitrust cases are likely to result in additional liabilities and related costs. At this point in time, we cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence. The company believes that the aggregate amount of any additional fines and civil damages to be paid will not materially affect the company's financial position. The aggregate amount, however, could be material to our results of operations or cash flows in any one accounting period.

Other investigations and litigation

Akzo Nobel Nederland B.V. has been involved in legal proceedings with certain Dutch labor unions, acting on behalf of retired Dutch AkzoNobel employees, in connection with Akzo Nobel Nederland B.V.'s decision to no longer reimburse part of the health insurance premiums to former employees (after a certain transition period). Pending the appeal of a decision taken by the court in December 2007, the parties negotiated a settlement and reached an agreement at the beginning of 2009. The settlement involves payment of a contribution to the health insurance premiums to certain retired and active employees. In connection with the settlement, Akzo Nobel Nederland B.V. has made a provision in the amount of €28 million.

In 1986, an ICI subsidiary acquired a business that manufactured and sold paint in the US and Canada, and named the company the Glidden Company ("Glidden"). Glidden was renamed as Akzo Nobel Paints LLC and is an indirect subsidiary of the Company. The seller, a predecessor of Millennium Holdings LLC (the "Seller"), now a subsidiary of LyondellBasell Industries, continued to manufacture and sell pigment. An alleged predecessor of Glidden and the Seller manufactured lead pigment until the 1950s and lead pigment-based paint until the 1960s. Beginning in the late 1980s, both Glidden and the Seller were named as defendants along with former producers of lead pigment and lead pigment-based paint in a number of lawsuits in the United States. These lawsuits sought damages for alleged personal injury caused by lead pigment-based paint or the costs of removing lead pigment-based paint. As the suits progressed, the plaintiffs shifted their focus to manufacturers of lead pigment. As a result, Glidden was dismissed from most of the pending cases and is currently a defendant in only two pending lawsuits, The City of New York v Lead Industries Association, Inc, et al and Smith v Lead Industries Association, Inc, et al (filed in 1989 and 1999 respectively). Glidden is indemnified by the Seller against the City of New York lawsuit. Glidden believes that it has strong defenses to the two remaining cases and will continue to defend all such actions. We have determined that the risk of cash outflow is approaching zero and we have not recognized a provision for this case.

Under the sale agreement by which Glidden was acquired, the Seller agreed to indemnify Glidden against claims relating to certain pre-completion liabilities, and Glidden also gave certain indemnities to the Seller. While Glidden did not acquire any assets or liabilities relating to the manufacture or sale of pigments, the Seller has asserted that it is entitled to indemnification under the sale agreement for certain liabilities it may have relating to lead pigment and/or lead pigment-based paint litigation. In its public disclosures, the Seller states that it continues to defend against a number of lead-based lawsuits although it asserts that the claims are without merit. On March 28, 2008, the Seller filed suit against Glidden in New York Supreme Court seeking to establish the alleged indemnification obligation. Glidden, which has assumed all of the purchaser's rights and obligations under the sale agreement, believes that it has no such obligation to indemnify the Seller and is defending against the claim. We are unable to reliably estimate any possible loss.

From the early 1970s until 1999, ICI Americas Inc. ("ICIA") operated and maintained two manufacturing facilities on behalf of the US Army. Employees at each facility were employed by ICIA and were members of ICIA pension plans. The US Army reimbursed to ICIA the cost of contributions to each pension plan until such time as the plans had a surplus. Upon termination of the contract in 1999, each of the schemes continued to carry a surplus. In September 2004, the US Army Contracting Officer issued a final determination holding that termination of the contract triggered a refund to the US Government of an amount equal to the value of the 1999 pension surplus. ICIA filed an appeal of the final determination to the Armed Services Board of Contract Appeals ("Appeals Board") on January 26, 2005. April 22, 2005, the US Army re-issued its final determination, amended to include an additional theory of liability. ICIA filed an appeal of the new final determination on July 14, 2005. In a decision dated May 24, 2007, the Appeals Board ruled in favor of the US Army on liability. The Appeals Board has agreed to stay further proceedings while the parties discuss a settlement. The company has taken a provision with respect to this matter.

A number of other claims are pending, all of which are contested. We are also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, we believe, based upon legal advice and information received, that the final outcome will not materially affect our consolidated financial position but could be material to our result of operations or cashflows in any one accounting period.

Commitments

Purchase commitments for property, plant and equipment aggregated €92 million on December 31, 2008 (2007: €46 million). In addition, we have purchase commitments for raw materials and supplies incident to the ordinary conduct of business, for a total of €1.5 billion (2007: €1.8 billion).

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc. aggregated €566 million on December 31, 2008 (December 31, 2007: €455 million).

Maturity of long-term liabilities

IN € MILLIONS	2008	2007
Payments due within one year	166	124
Payments between one and five years	312	251
Payments due after more than five years	88	80
Total	**566**	455

Guarantees related to investments in associates and joint ventures totaled €16 million (December 31, 2007: €12 million). In addition, we are liable for obligations incurred by certain joint ventures. On December 31, 2008, the risk ensuing from these liabilities was €10 million (December 31, 2007: €9 million).

In connection with the Organon BioSciences divestment to Schering-Plough, AkzoNobel has limited its maximum exposure to claims to €850 million. The provided guarantees and indemnities have varying maturity periods. We have not recognized a provision in relation to this exposure.

Note 23 Related party transactions

We purchased and sold goods and services to various related parties in which we hold a 50 percent or less equity interest (investment in associates and joint ventures). Such transactions were conducted at arm's length with terms comparable to transactions with third parties. In 2008, a significant related party transaction was a €258 million gas supply by the company to Delesto, a joint venture of AkzoNobel and Essent. Delesto transforms gas into steam and electricity. The steam is used in our production processes and the electricity is sold to the market.

We have contracts with several pension funds, for which the financial impact is disclosed in note 18. At year-end 2008, AkzoNobel had a loan to AkzoNobel Pension Fund in the Netherlands of €89 million. In addition, an amount of €189 million paid in escrow is still outstanding at year-end 2008 in relation to the AkzoNobel UK pension fund (2007: €269 million).

We consider the members of the Board of Management to be the key management personnel as defined in IAS 24 "Related parties". For details on their remuneration and that of the Supervisory Board, as well as on shares and options held, see note 24. In the ordinary course of business, we have transactions with various organizations with which certain of its members of the Supervisory Board or Board of Management are associated, but no related party transactions were effected in 2008. Likewise, there have not been any transactions with members of the Supervisory Board or Board of Management, any other senior management personnel or any family member of such persons. Also no loans have been extended to members of the Supervisory Board or Board of Management, any other senior management personnel or any family member of such persons.

Note 24 Remuneration of the Supervisory Board and the Board of Management

IN €	REMUNERATION	ATTENDANCE FEE	COMMITTEE ALLOWANCE FEE			TOTAL REMUNERATION	
			AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	2008	2007
Maarten van den Bergh, Chairman	100,000	15,000	–	–	15,000	130,000	112,500
Karel Vuursteen, Deputy Chairman [1]	60,000	5,000	–	15,000	–	80,000	75,000
Virginia Bottomley [1]	50,000	15,000	–	10,000	–	75,000	77,500
Dolf van den Brink	50,000	5,000	20,000	–	–	75,000	70,000
Peggy Bruzelius	50,000	17,500	–	–	–	67,500	43,334
Uwe-Ernst Bufe	50,000	15,000	15,000	–	–	80,000	90,000
Antony Burgmans	50,000	5,000	–	5,000	–	60,000	50,000
Peter Ellwood [2]	33,334	7,500	–	–	–	40,834	–
Louis Hughes	50,000	25,000	15,000	–	–	90,000	115,000

[1] Mr. Vuursteen and Mrs. Bottomley are also member of the Nomination Committee.
[2] As from May 1, 2008.

Members of the Supervisory Board receive a fixed remuneration: €100,000 for the Chairman, €60,000 for the Deputy Chairman and €50,000 for the other members. Members of committees receive an extra compensation. Members living outside the Netherlands receive an attendance fee dependent on the country of residence. Members who are resident in the Netherlands do not receive an attendance fee except for meetings held outside the Netherlands.

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.

We do not grant share-based compensation to our Supervisory Board members, neither do we extend loans. Travel expenses and facilities for members of the Supervisory Board are borne by the company and reviewed by the Audit Committee.

The shares in the company owned by Supervisory Board members serve as a long-term investment in the company.

Shares held by the members of the Supervisory Board

NUMBER OF SHARES AT YEAR-END	2008	2007
Maarten van den Bergh	3,000	–
Karel Vuursteen	400	400
Virginia Bottomley	1,758	500
Peggy Bruzelius	500	500

Former members of the Supervisory Board did not receive any remuneration. In 2007, Messrs. Cohen, Van Lede and Mérieux received a remuneration of €31,667, €16,667 and €19,167 respectively.

Board of Management

Active members

The individual service contracts of the members of the Board of Management are determined by the Supervisory Board within the framework of the remuneration policy adopted by the Annual General Meeting of shareholders. For more detailed information on the decisions of the Supervisory Board with respect to the service contracts of the Board of Management, see pages 128 through 132.

Overview of remuneration 2008

The members of the Board of Management received the following salaries, performance-related bonuses, emoluments and other compensations.

Board remuneration

IN €	SALARY		BONUS		OTHER EMOLUMENTS	
	2008	2007	2008	2007	2008	2007
Hans Wijers	760,000	705,500	700,000	1,036,500	4,500	4,000
Leif Darner	570,000	504,000	340,000	450,000	4,600	4,000
Rob Frohn	570,000	504,000	340,000	450,000	7,200	6,500
Keith Nichols [1]	380,000	–	226,700	–	45,200	–

[1] As from May 1, 2008.

Other emoluments concerned employer's charges (social contributions and healthcare contributions). The social charges of Mr. Nichols relate to employer's contribution in the UK.

Other compensations

Other compensations for members of the Board of Management borne by the company amounted to €169,300 for Mr. Darner and €36,900 for Mr. Nichols, related to compensation for living expenses and home leave allowances.

Pension charges

We pay the pension contributions to a pension insurance company. Investments are at participant's risk. After deduction of any contributions made by members of the Board of Management, pension expenses borne by the company were as follows:

Pension charges

IN €	2008	2007
Hans Wijers	565,600	557,900
Leif Darner	291,400	228,400
Rob Frohn	156,200	149,800
Keith Nichols [1]	57,600	–

[1] As from May 1, 2008.

Stock options

In 2008, no conditional and performance-related stock options were granted to the members of the Board of Management. The aggregate numbers of (conditional) stock options held by the members of the Board of Management were as follows:

Number of options

	YEAR OF ISSUE	EXERCISE PRICE IN €	OUTSTANDING AT JANUARY 1, 2008	EXERCISED IN 2008	OUTSTANDING AT DECEMBER 31, 2008	EXPIRY DATE
Hans Wijers	2002	46.53	14,850	–	14,850	April 25, 2012
	2003	19.51	29,700	–	29,700	April 22, 2010
	2004	31.45	23,000	–	23,000	April 25, 2011
	2005	31.98	23,000	–	23,000	April 24, 2012
	2006	46.46	19,800	–	19,800	April 27, 2013
	2007	58.89	19,800	–	19,800	April 26, 2014
Value of outstanding options (in €)					**633,700**	
Leif Darner	2002	46.53	4,950	–	4,950	April 25, 2009
	2003	19.51	4,950	–	4,950	April 22, 2010
	2004	31.45	15,000	–	15,000	April 25, 2011
	2005	31.98	15,000	–	15,000	April 24, 2012
	2006	46.46	13,000	–	13,000	April 27, 2013
	2007	58.89	13,000	–	13,000	April 26, 2014
Value of outstanding options (in €)					**251,700**	
Rob Frohn	2002	46.53	4,950	–	4,950	April 25, 2009
	2003	19.51	4,950	–	4,950	April 22, 2010
	2004	31.45	15,000	–	15,000	April 25, 2011
	2005	31.98	15,000	–	15,000	April 24, 2012
	2006	46.46	13,000	–	13,000	April 27, 2013
	2007	58.89	13,000	–	13,000	April 26, 2014
Value of outstanding options (in €)					**251,700**	
Keith Nichols [1]	2006	46.46	3,000	–	3,000	April 27, 2013
	2007	58.89	3,750	–	3,750	April 26, 2014
Value of outstanding options (in €)					**16,200**	

[1] As from May 1, 2008.

Performance-related shares

With regard to the performance-related shares granted to the members of the Board of Management in 2006, the final vesting percentage of the 2006 grant equaled 70 percent (series 2005 – 2007: 100 percent), including dividend shares 76.36 percent (series 2005 – 2007: 108.78 percent). The members of the Board of Management will retain the shares for a minimum period of five years.

Number of performance-related shares

	SERIES	BALANCE AT JANUARY 1, 2008	GRANTED IN 2008	VESTED IN 2008	FORFEITED IN 2008	DIVIDEND IN 2008 [1]	BALANCE AT DECEMBER 31, 2008	VESTED ON JANUARY 1, 2009
Hans Wijers	2005 – 2007	35,898	–	35,898	–	–	–	–
	2006 – 2008	24,136	–	–	6,900	328	17,564	17,564
	2007 – 2009	23,513	–	–	–	931	24,444	–
	2008 – 2010	–	16,800	–	–	664	17,464	–
Leif Darner	2005 – 2007	23,932	–	23,932	–	–	–	–
	2006 – 2008	15,846	–	–	4,530	215	11,531	11,531
	2007 – 2009	15,437	–	–	–	611	16,048	–
	2008 – 2010	–	11,600	–	–	458	12,058	–
Rob Frohn	2005 – 2007	23,932	–	23,932	–	–	–	–
	2006 – 2008	15,846	–	–	4,530	215	11,531	11,531
	2007 – 2009	15,437	–	–	–	611	16,048	–
	2008 – 2010	–	11,600	–	–	458	12,058	–
Keith Nichols [2]								
	2006 – 2008	4,198	–	–	1,200	57	3,055	3,055
	2007 – 2009	4,345	–	–	–	172	4,517	–
	2008 – 2010	–	8,733	–	–	345	9,078	–

[1] Equivalent in shares related to accumulated dividend, which is included in the balances at balance sheet date.
[2] As from May 1, 2008.

The shares of the series 2005 – 2007 have vested in 2008 and were delivered to the individual Board members in 2008.

Shares in the company held by members of the Board of Management at December 31, 2008, were:

Shares held by the Board of Management

NUMBER OF SHARES AT YEAR-END	2008	2007
Hans Wijers	49,578	20,530
Leif Darner	29,003	8,661
Rob Frohn	25,525	12,731
Keith Nichols	1,500	–

Shares in the company and options of the members of the Board of Management are held in an account, administered by the Stichting Executive Management Beheer. This Foundation acts as an independent portfolio manager for AkzoNobel participants. We do not provide loans to members of the Board of Management.

Former members of the Board of Management

In 2008, charges for former members of the Board of Management amounted to €700,000 (2007: €300,000), mainly due to pension expenses and to a bonus paid to Mr. Wilderbeek. In 2007, Mr. Wilderbeek, who resigned effective February 28, 2007, received salary, bonus and other emoluments to the amount of €84,000, €75,000 and €700 respectively.

Note 25 Financial risk management and financial instruments

Our activities expose us to a variety of financial risks: market risk (including: currency risk, fair value interest rate risk and price risk), cash flow interest rate risk, credit risk and liquidity risk. These risks are inherent to the way we operate as a multinational with a large number of locally operating subsidiaries. Our overall risk management program seeks to identify, assess, and – if necessary – mitigate these financial risks in order to minimize potential adverse effects on our financial performance. Our risk mitigating activities include the use of derivative financial instruments to hedge certain risk exposures. The Board of Management is ultimately responsible for risk management. Day-to-day risk management activities are carried out by a central treasury department (Corporate Treasury) in line with clearly identified and formalized corporate policies and in line with the Treasury Statute. Corporate Treasury identifies, evaluates and hedges financial risks at a corporate level, and monitors compliance with the corporate policies approved by the Board of Management, except for commodity risks, which are subject to identification, evaluation and hedging at business unit level rather than at corporate level. We have a Treasury Committee in place that advises the CFO in respect of the financial policy and evaluates the scope of liquidity, interest, credit and currency risk management.

The businesses play an important role in the process of identifying financial risk factors. Within the boundaries set in the corporate policies, the subsidiaries execute the appropriate risk management activities. We have three treasury hubs, which provide treasury services on behalf of Corporate Treasury to subsidiaries in their region. These treasury hubs are located in Brazil (São Paulo), Singapore and the United States (Chicago) and are primarily responsible for local cash management and short-term financing.

The Treasury Statute, as a rule, does not allow for extensive treasury operations to be executed at subsidiary level directly with external parties. It is corporate policy that derivatives are entered into through Corporate Treasury as much as possible.

Corporate Treasury is responsible for reporting to the Board of Management on company-wide exposures to a number of financial risks. This includes information regarding liquidity, foreign exchange, interest rate and credit risk. In addition, Corporate Treasury is responsible for maintaining a robust set of internal controls over treasury operations. We use a well-known treasury management system to support our treasury activities.

Foreign exchange risk management

Trade and financing transactions

Our subsidiaries operate in a large number of countries, and as such have clients and suppliers in many countries. Many of these subsidiaries have clients and suppliers that are outside of their functional currency environment. This exposes us to a large number of different currencies, many exposures of which cancel out on a consolidated basis.

The purpose of our foreign currency hedging activities is to protect us from the risk that the eventual functional currency net cash flows resulting from trade or financing transactions are adversely affected by changes in exchange rates. It is our policy to fully hedge our transactional foreign exchange rate exposures from recognized assets and liabilities. In general, we do not apply hedge accounting to foreign exchange contracts. Occasionally, we apply cash flow hedge accounting if that is necessary to prevent a significant accounting mismatch as a result of hedging exposures not yet included in the balance sheet.

Corporate Treasury enters into derivative transactions with external parties and is bound by overnight limits per currency. Some subsidiaries hedge their foreign exchange risk directly with local counterparties in order to comply with local legislation.

In January 2008, we acquired ICI, which resulted in an integration process with regard to treasury operations. As a consequence, former ICI companies did not yet fully apply above-mentioned policy to hedge the transactional foreign exchange rate exposures throughout the year. It is our objective to realize this in 2009 by incorporating all former ICI units in the current treasury management system.

In general, forward exchange contracts that we enter into have a maturity of less than one year. When necessary, forward exchange contracts are rolled over at maturity. Currency derivatives are not used for speculative purposes. We have defined in our corporate policies that we only use plain vanilla type forward contracts for our transactional hedging.

Translation risk related to investments in foreign subsidiaries associates and joint ventures

We have subsidiaries with a functional currency other than the euro. Therefore our consolidated financial statements are exposed to translation risk related to equity, intercompany loans of a permanent nature and earnings of foreign subsidiaries and investment in associates and joint ventures. In principle, we do not use financial instruments to hedge this risk.

In the following cases, we apply net investment hedge accounting. We have forward contracts to sell \$780 million and buy £405 million, maturing in December 2011. This contract hedges the foreign currency risk on \$780 million of net investments in foreign operations held by a GBP subsidiary. Both the forward contract and the permanent loan are valued through equity. During 2008, this hedge was fully effective. Another case where we apply net investment hedge accounting refers to hedges of US dollar net investments in foreign operations which were hedged by US dollar bonds. Until December 1, 2008, the bonds amounted to \$1 billion. As from December 1, 2008, the US dollar bonds amount to \$500 million with maturity to December 2013. During 2008, this hedge was fully effective.

We hedged the £8.1 billion acquisition of ICI for an amount of £5.3 billion by means of forward contracts. In connection with the acquisition of ICI, we entered into an agreement with Henkel to sell part of ICI's National Starch business for £2.7 billion. The sale of these parts to Henkel was finalized in April 2008, implying that we had a natural hedge for an amount of £2.7 billion. As the payment for ICI was in January and the sale to Henkel in April, we entered into pound sterling swaps amounting to £2.5 billion. On completion of the acquisition of ICI in January 2008, an additional swap was entered into for the remaining amount of £0.2 billion. We applied cash flow hedge accounting to the pound sterling forward contracts. The fair value changes with respect to the pound sterling forward contracts of £8.1 billion in the light of the ICI acquisition amounted to a cumulative deferred loss of €627 million (€590 million during 2007 and €37 million in 2008). An amount of €551 million was transferred to goodwill and €76 million was recycled to discontinued operations. In relation to this transaction, we recorded a profit of €10 million in other operating income/(expenses) in 2008 due to foreign currency changes between January 2, 2008 (date of acquisition) and maturity of the contracts at January 15, 2008.

The fair value changes with respect to the pound sterling forward contracts in light of the on-sale of certain businesses to Henkel amounted to a cumulative deferred gain of €288 million (€63 million in 2007 and €215 million in 2008). During 2008 the hedge was fully effective and hedge accounting was applied.

Finally, for an amount of £106 million, loan notes paid as consideration for ICI will remain outstanding until 2013. This exposure was hedged by means of forward contracts for an amount of £105 million. We apply cash flow hedge accounting to this hedge. The hedge was 100 percent effective.

Foreign currency transaction risk
The table below presents a breakdown of the notional amounts of outstanding foreign currency contracts for entities with other functional currencies than the euro.

Hedged notional amounts at year-end

IN € MILLIONS	BUY	SELL	BUY	SELL
		2008		2007
US dollar	58	1,201	76	932
Pound sterling	747	97	11,500	3,403
Swedish krona	101	36	255	64
Other	138	951	182	156
Total	**1,044**	**2,285**	12,013	4,555

Sensitivity analysis
We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end. For the purpose of this sensitivity analysis, the effect of discounting to the net present value at balance sheet date is not taken into account.

At December 31, 2008, if the euro had weakened/strengthened by 10 percent against the US dollar with all other variables held constant, post-tax profit for the year would have been €9 million (2007: € nil) lower/higher. At December 31, 2008, if the euro had weakened/strengthened by 10 percent against the pound sterling with all other variables held constant, post-tax profit for the year would have been €1 million (2007: € nil) higher/lower. The increased sensitivity to foreign currencies is mainly due to former ICI entities which do not het fully apply our hedge policies.

Price risk management

Commodity price risk management
We use commodities, gas and electricity in our production processes and we are particularly sensitive to energy price movements.

Our Specialty Chemicals companies in the US hedge the price risk on natural gas through buying natural gas futures on the New York Mercantile Exchange. At year-end, the notional amounts of these futures are 1.6 million dekatherms, spread over all 12 months of 2009 (2007: 0.5 million dekatherms, spread over the first thee months of 2008). The total fair value of these futures is €2 million negative at year-end (2007: € nil). No hedge accounting is applied to the changes of the fair value of these contracts.

To hedge the price risks related to energy supply in the Netherlands, we operate two power plants in joint ventures with Essent in Delfzijl and Hengelo of 520 MW and 80 MW respectively. A third plant of 20 MW is located in Rotterdam. These plants transform natural gas into steam and electricity. The steam is used in our production facilities and excess electricity is sold on the market. The price for natural gas in our purchase contracts is a fixed or floating price. In order to hedge the price risk of natural gas in these contracts, we have entered into option contracts for the underlying oil price. At year-end 2008, the notional amount of oil call options is 37,500 barrels per month until September 2009 and 12,500 barrels from October through December 2009 (2008: average monthly volume of 31,250 barrels of oil for the period of January through December 2008). We do not apply hedge accounting to the changes of the fair value of these contracts.

To hedge the price risk of electricity that is used for the Specialty Chemicals plants in Sweden and Finland, we entered into future contracts on the power exchange Nord Pool Spot, based on expected use of electricity over the period 2009 – 2013. We apply cash flow hedge accounting to these contracts in order to mitigate the accounting mismatch that would otherwise occur. The effective part of the fair value changes of these contracts amounted to a €25 million loss net of deferred taxes in equity (2007: €18 million deferred gain). In 2008, a loss of €2 million was recorded in cost of goods sold due to ineffectiveness (2007: €3 million loss). The amounts deferred in equity at year-end are expected to affect operational cost within the next three years.

We hedge our agricultural commodities for our specialty food and industrial starches businesses and purchased futures on the Chicago Board of Trade. We apply cash flow hedge accounting to these contracts and have operated an effective hedging program throughout 2008. The agricultural commodities and cash markets have experienced significant volatility during 2008. Price peaks were particularly seen around the middle of the year; which were mostly influenced by severe flooding in the Mid West region of the US. Our standard practice is to hedge a substantial portion of our 2008/09 crop and at year-end, this amounted to hedges of approximately €94 million. The deferred gain on January 1, 2008 was €2 million. During the year, we deferred a loss of €19 million in equity and recognized a gain of €6 million in inventories. At year-end 2008, we deferred a loss of €24 million.

Sensitivity analysis
We perform our commodity price risk sensitivity analysis by applying an adjustment to the forward rates prevailing at year-end. This adjustment is based on observed changes in commodity prices in the previous year and management expectations for possible future movements. We then apply the expected volatility to revalue all commodity-derivative financial instruments in the applicable commodity in its balance sheet at year-end. For the purpose of this sensitivity analysis, the change of the price of the commodity is not discounted to the net present value at balance sheet date.

On December 31, 2008, if a parallel adjustment of the price curve of natural gas by €17,000 per 9,500 dekatherm up/down as compared with the market prices prevailing at that date had occurred, with all other variables held constant, post-tax profit would have been €2 million (2007: € nil) higher/lower. This is due to the fair value changes of natural gas derivatives.

On December 31, 2008, if the price of oil had weakened/strengthened by €4 per barrel (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, post-tax profit would have been € nil higher/lower (2007: €3 million). This is due to the fair value changes of oil derivatives which are accounted for at fair value through profit or loss.

On December 31, 2008, if the forward price of electricity on the Nord Pool exchange had weakened/strengthened by €4 per MWh (10 percent) as compared with the market prices prevailing at that date, with all other variables held constant, equity would have been €9 million (2007: €28 million) higher/lower. This is due to the fair value changes of electricity futures which have been accounted for under cash flow hedge accounting.

On December 31, 2008, if the forward price of agricultural commodities had weakened/strengthened by 10 percent as compared with the market prices prevailing at that date, with all other variables held constant, equity would have been €2 million higher/lower. This is due to the fair value changes of futures which have been accounted for under cash flow hedge accounting.

Cash flow and fair value interest rate risk management

We are partly financed with debt in order to obtain optimal leverage. Fixed rate debt results in fair value interest rate risk. Floating rate debt results in cash flow interest rate risk. The fixed/floating rate of our outstanding bonds shifted from 78 percent fixed at year-end 2007 to 56 percent fixed at year-end 2008.

In the past, ICI had entered into a number of interest rate swap contracts. The company swapped a total of $500 million fixed rate liabilities with an interest rate of 4.375 percent with a three-month floating rate US dollar Libor plus 0.877 percent related liabilities maturing in 2008. Furthermore, we swapped a total of $500 million fixed rate liabilities with an interest rate of 5.625 percent with a three-month floating rate US dollar Libor plus an average of 1.1056 percent liabilities maturing in 2013. We have classified these interest rate swaps as fair value hedges and record them at fair value.

We apply fair value hedge accounting to the above-mentioned interest rate swaps and fixed rate bonds. During 2008, an amount of €50 million has been accounted for in the statement of income for fair value changes of the interest rate swaps and an amount of €50 million has been accounted for in the statement of income as an adjustment to the carrying amount of the hedged bond for fair value changes attributable to the hedged risk. During 2008, these hedge relationships were fully effective.

The combined effective interest rate (excluding hedge results) was 5.24 percent at year-end 2008 for the total group. Including hedge result (by interest rate swaps), the combined effective interest rate was 5.13 percent for 2008.

Sensitivity analysis

At December 31, 2008, if EURIBOR interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been €6 million lower/higher (2007: €8 million lower/higher).

Due to the acquisition of ICI, we are substantially more sensitive to the development of US and GBP Libor. At December 31, 2008, if US Libor interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been €4 million lower/higher (2007: € nil).

At December 31, 2008, if GBP Libor interest rates had been 100 basis points higher/lower, with all other variables held constant, post-tax profit for the year would have been €2 million higher/lower (2007: € nil).

Credit risk management

Credit risk arises from financial assets such as cash and cash equivalents, derivative financial instruments with a positive fair value, deposits with banks and financial institutions, and trade receivables.

We have a credit risk management policy in place to limit credit losses due to non-performance of financial counterparties and customers. We monitor our exposure to credit risk on an ongoing basis at various levels. We only deal with counterparties that have a sufficiently high credit rating. Generally, we do not require collateral in respect of financial assets.

Investments in cash and cash equivalents and transactions involving derivative financial instruments are entered into with counterparties that have sound credit ratings and good reputation. Derivative transactions are concluded mostly with parties with whom we have contractual netting agreements and ISDA agreements in place. In the Treasury Statute approved by the Board of Management, we have set limits per counterparty for the different types of financial instruments the company is allowed to use. Due to the credit crisis, both the acceptable rating and credit limit have been subject to revision and further restriction. We have no reason to expect non-performance by the counterparties for these financial instruments.

Due to our geographical spread and the diversity of our customers, we were not subject to any significant concentration of credit risks at balance sheet date. Generally, the maximum exposure to credit risk is represented by the carrying value of financial assets, including derivative financial instruments, in the balance sheet. For a total carrying amount of €315 million of long-term borrowings given, the maximum credit risk is best represented by an amount of €326 million being the repayment amount on redemption. At year-end 2008, the credit risk on consolidated level was €1.6 billion (2007: €12 billion). Our credit risk is well spread amongst both global and local counterparties. Our largest counterparty risk amount to €315 million end 2008. The credit risk from trade receivables is measured and analyzed at a local level, mainly by means of ageing analysis. See note 15.

Liquidity risk management

The primary objective of liquidity management is to provide for sufficient cash and cash equivalents at all times and any place in the world to enable us to meet our payment obligations. We aim for a well-spread maturity schedule of our long-term borrowings and a strong liquidity position.

We have a €1.5 billion multi-currency revolving credit facility expiring in 2013. At year-end 2008, € nil (2007: €350 million) of this facility had been drawn. We have a commercial paper program in the US, which at December 31, 2008, as at December 31, 2007, had a maximum of $1.0 billion and a euro commercial paper program, which at December 31, 2008, as at December 31, 2007, had a maximum of €1.5 billion. At December 31, 2008, €20 million of the commercial paper program was used (2007: €525 million). It must be stated that at the end of 2008, under current market conditions, this program was not accessible. The commercial paper program can only be used to the extent that the equivalent portion of the revolving credit facility is not used.

In Q4, 2008, bonds of an amount of €0.9 billion matured. We refinanced by means of a bond issue of €1 billion. This bond was placed in the market in December, maturing in five years, with an interest rate of 7.75 percent. Our balance sheet is strong, as the acquisition of ICI was financed by the proceeds from the Organon BioSciences divestment in 2007.

In May 2009, bonds of an amount of €1 billion will mature. We expect to pay off with available cash, and if necessary with our revolving credit facility or further refinancing in the capital markets.

The table below analyzes our cash outflows per maturity group based on the remaining period at balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity of liabilities and cash outflows

IN € MILLIONS	LESS THAN 1 YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
At December 31, 2007:			
Borrowings	1,632	1,911	35
Interest on borrowings	144	141	–
Finance lease liabilities	3	7	1
Trade and other payables	1,261	–	–
Forward foreign exchange contracts (hedges):			
- Outflow	15,380	706	–
- Inflow	(15,177)	(729)	–
Total	3,243	2,036	36
At December 31, 2008:			
Borrowings	1,338	1,296	1,028
Interest on borrowings	138	490	78
Finance lease liabilities	4	17	–
Trade and other payables	2,985	–	–
Forward foreign exchange contracts (hedges):			
- Outflow	2,147	653	–
- Inflow	(1,328)	(495)	–
Interest rate swaps:			
- Outflow	16	57	–
- Inflow	(20)	(90)	–
Total	**5,280**	**1,928**	**1,106**

Capital risk management

Our objectives when managing capital are to safeguard our ability to satisfy our capital providers and to maintain a capital structure that optimizes our cost of capital. For this we maintain a conservative financial strategy, with the objective to remain a strong investment grade company as rated by the rating agencies Standard & Poor and Moody's. The credit rating at year-end 2008 was A-/A3 with a negative outlook, similar to year-end 2007. The capital structure can be altered, among others, by adjusting the amount of dividends paid to shareholders, return capital to capital providers, or issue new debt or shares.

Consistent with others in the industry, we monitor capital on the basis of funds from operations in relation to our net borrowings level (FFO/NB-ratio). The FFO/NB-ratio for 2008 at year-end amounted to 0.29 (2007: 0.27). Funds from operations are based on net cash from operating activities, which is adjusted, among others, for the elimination of changes in working capital, additional payments for pensions and for the effects of the underfunding of pension and other post-retirement benefit obligations. Net borrowings is calculated as total of long- and short-term borrowings less cash and cash equivalents, adding an after-tax amount for the underfunding of pension and other post-retirement benefit obligations and lease commitments.

Fair value of financial instruments and IAS 39 categories

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

Fair value per financial instruments category

			CARRYING VALUE PER IAS 39 CATEGORY			
IN € MILLIONS	CARRYING AMOUNT	OUT OF SCOPE OF IFRS 7	LOANS AND RECEIVABLES/ OTHER LIABILITIES	AT FAIR VALUE THROUGH PROFIT OR LOSS	TOTAL CARRYING VALUE	FAIR VALUE
2007 year-end:						
Other financial non-current assets	630	133	497	–	497	497
Trade and other receivables	2,139	167	1,959	13	1,972	1,972
Cash and cash equivalents	11,628	–	356	11,272	11,628	11,628
Total financial assets	14,397	300	2,812	11,285	14,097	14,097
Long-term borrowings	1,954	–	1,954	–	1,954	1,910
Short-term borrowings	1,635	–	1,635	–	1,635	1,634
Trade and other payables	1,998	737	1,051	210	1,261	1,261
Total financial liabilities	5,587	737	4,640	210	4,850	4,805
2008 year-end:						
Other financial non-current assets	757	402	315	40	355	355
Trade and other receivables	2,924	240	2,655	29	2,684	2,684
Cash and cash equivalents	1,595	–	1,194	401	1,595	1,595
Total financial assets	**5,276**	**642**	**4,164**	**470**	**4,634**	**4,634**
Long-term borrowings	2,341	–	2,341	–	2,341	2,376
Short-term borrowings	1,338	–	1,338	–	1,338	1,286
Trade and other payables	2,985	1,188	1,584	213	1,797	1,797
Total financial liabilities	**6,664**	**1,188**	**5,263**	**213**	**5,476**	**5,459**

Loans and receivables and other liabilities are recognized at amortized cost, using the effective interest method. We estimated the fair value of our long-term borrowings based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with similar maturities.

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

We have not applied the fair value option allowed under IFRS. In 2008, we did not have financial instruments which were held for trading. However, as from 2009, we will report certain energy purchasing contracts within this category. The only financial instruments accounted for at fair value through profit or loss are derivative financial instruments and the short-term investments included in cash. The fair value of foreign currency contracts, swap contracts, forward rate agreements, oil contracts and gas futures was determined by valuation techniques using market observable input (such as foreign currency interest rates based on Reuters) and by obtaining quotes from dealers and brokers.

Note 26 Subsequent events

In early 2009, we acquired LII Europe, which we will consolidate as from January 2009 in Specialty Chemicals. In 2008, LII's revenue amounted to €150 million. LII Europe is located near Frankfurt and is active in the chlorine and caustic market.

Company financial statements

Statement of income

IN € MILLIONS	NOTE	2008	2007
Net income from subsidiaries, associates and joint ventures	b	(992)	885
Other net income	b	(94)	8,445
Total net income		**(1,086)**	9,330

Balance sheet as of December 31, before allocation of profit

IN € MILLIONS	NOTE		2008		2007[1]
Assets					
Non-current assets					
Financial non-current assets	c	14,076		7,925	
Loans to associates and joint ventures	c	19		20	
Total non-current assets			**14,095**		**7,945**
Current assets					
Trade and other receivables	d	676		85	
Cash and cash equivalents	e	452		11,186	
Total current assets			**1,128**		**11,271**
Total assets			**15,223**		19,216
Equity and liabilities					
Equity					
Subscribed share capital		463		525	
Additional paid-in capital		–		363	
Change in fair value of derivatives		(49)		(510)	
Other statutory reserves		236		189	
Cumulative translation reserves		(1,130)		(51)	
Other reserves		9,122		1,291	
Undistributed profit		(1,179)		9,225	
Shareholders' equity			**7,463**		**11,032**
Non-current liabilities					
Provision for subsidiaries	c	444		745	
Long-term borrowings	f	5,819		5,715	
Total non-current liabilities			**6,263**		**6,460**
Current liabilities					
Other short-term debt	g	1,497		1,724	
Total current liabilities			**1,497**		**1,724**
Total equity and liabilities			**15,223**		19,216

[1] Reclassified for comparitive presentation.

Movements in shareholders' equity

			Statutory reserves					
In € millions	Subscribed share capital	Additional paid-in capital	Change in fair value of derivatives	Other statutory reserves	Cumulative translation reserves	Other reserves	Undistributed result	Shareholders' equity
Balance at January 1, 2007	**574**	**1,841**	**(2)**	**202**	**30**	**432**	**1,067**	**4,144**
Changes in fair value of derivatives	–	–	(508)	–	–	–	–	(508)
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	(81)	–	–	(81)
Income directly recognized in equity	**–**	**–**	**(508)**	**–**	**(81)**	**–**	**–**	**(589)**
Net income	–	–	–	(9)	–	9	9,330	9,330
Total income/(expenses)	**–**	**–**	**(508)**	**(9)**	**(81)**	**9**	**9,330**	**8,741**
Dividend paid	–	–	–	–	–	–	(364)	(364)
Equity settled transactions	–	–	–	–	–	38	–	38
Issue of common shares	4	69	–	–	–	–	–	73
Buyback of shares	(53)	(1,547)	–	–	–	–	–	(1,600)
Addition to other reserves	–	–	–	–	–	808	(808)	–
Changes in statutory reserves	–	–	–	(4)	–	4	–	–
Balance at December 31, 2007	**525**	**363**	**(510)**	**189**	**(51)**	**1,291**	**9,225**	**11,032**
Changes in fair value of derivatives	–	–	(90)	–	–	–	–	(90)
Transferred to goodwill	–	–	551	–	–	–	–	551
Changes in exchange rates in respect of subsidiaries, associates and joint ventures	–	–	–	–	(1,079)	–	–	(1,079)
Income directly recognized in equity	**–**	**–**	**461**	**–**	**(1,079)**	**–**	**–**	**(618)**
Net income/(loss)	–	–	–	–	–	–	(1,086)	(1,086)
Total income/(expenses)	**–**	**–**	**461**	**–**	**(1,079)**	**–**	**(1,086)**	**(1,704)**
Dividend paid	–	–	–	–	–	–	(458)	(458)
Equity settled transactions	–	–	–	–	–	23	–	23
Issue of common shares	2	5	–	–	–	–	–	7
Buyback of shares	(64)	(368)	–	–	–	(1,005)	–	(1,437)
Addition to other reserves	–	–	–	–	–	8,860	(8,860)	–
Changes in statutory reserves	–	–	–	47	–	(47)	–	–
Balance at December 31, 2008	**463**	**–**	**(49)**	**236**	**(1,130)**	**9,122**	**(1,179)**	**7,463**

Note a General information

The financial statements of Akzo Nobel N.V. have been prepared using the option of section 362 of Book 2 of the Netherlands Civil Code, meaning that the accounting principles used are the same as for the consolidated financial statements. Foreign currency amounts have been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income presented in note 1 to the consolidated financial statements.

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

As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code. The remuneration paragraph is included in note 24 of the consolidated financial statements.

Note b Net income from subsidiaries, associates and joint ventures

For further details on net income from subsidiaries, associates and joint ventures, see note c. Other net income in 2007 mainly related to the divestment of Organon BioSciences.

Note c Financial non-current assets and provision for subsidiaries

Movements in financial non-current assets

IN € MILLIONS	TOTAL	SUBSIDIARIES: SHARE IN CAPITAL	SUBSIDIARIES: LOANS [1]	OTHER FINANCIAL NON-CURRENT ASSETS	LOANS TO ASSOCIATES AND JOINT VENTURES
Balance at January 1, 2007	**10,100**	**3,310**	**6,586**	**192**	**12**
Acquisitions and divestments	(1,061)	(1,061)	–	–	–
Net income from subsidiaries, associates and joint ventures	885	885	–	–	–
Other changes, including dividends	(341)	(341)	–	–	–
Equity-settled transactions	38	38	–	–	–
Change in fair value of derivatives	20	20	–	–	–
Sale of interest rate derivatives	(102)	–	–	(102)	–
Loans granted	357	–	349	–	8
Repayment of loans	(2,599)	–	(2,593)	(6)	–
Changes in exchange rates	(97)	(74)	(28)	5	–
Balance at December 31, 2007 [2]	**7,200**	**2,777**	**4,314**	**89**	**20**
Acquisitions and divestments	7,754	7,754	–	–	–
Net income from subsidiaries, associates and joint ventures	(992)	(992)	–	–	–
Other changes, including dividends	(190)	(190)	–	–	–
Equity-settled transactions	23	23	–	–	–
Change in fair value of derivatives	(66)	(66)	–	–	–
Loans granted	2,015	–	2,015	–	–
Repayment of loans	(833)	–	(832)	–	(1)
Changes in exchange rates	(1,261)	(1,246)	(16)	1	–
Financial non-current assets including provision for subsidiaries	13,651	8,061	5,481	90	19
Transfer to provision for subsidiaries	444	444	–	–	–
Balance at December 31, 2008	**14,095**	**8,505**	**5,481**	**90**	**19**

[1] Loans to these companies have no fixed repayment schedule.
[2] After a deduction of provisions for subsidiaries of €745 million.

Note d Trade and other receivables

IN € MILLIONS	2008	2007
Receivables from subsidiaries	625	47
Other receivables	51	38
Total	**676**	85

Note e Cash and cash equivalents

IN € MILLIONS	2008	2007
Short-term investments	136	11,160
Cash on hand and in banks	316	26
Total	**452**	11,186

At December 31, 2007, an amount of €11 billion in cash and cash equivalents was restricted, due to the acquisition of ICI in early 2008.

Note f Long-term borrowings

IN € MILLIONS	2008	2007
Debentures	756	1,795
Debt to subsidiaries	5,063	3,920
Total	**5,819**	5,715

For the fair value of the debenture loans and the related interest-rate derivatives, see note 25 of the notes to the consolidated financial statements.

Debentures

IN € MILLIONS	2008	2007
$5^{5}/_{8}$% 2002/09 (€1 billion)	–	1,043
$4^{1}/_{4}$% 2003/11 (€750 million)	756	752
Total	**756**	1,795

On December 31, 2008 and 2007, the total amount of long-term credit facilities arranged by AkzoNobel was €1.5 billion, maturing in 2013. At December 31, 2008, € nil (2007: €350) of this facility has been drawn. On December 31, 2008 and 2007, none of the borrowings was secured by collateral.

Note g Short-term debt

IN € MILLIONS	2008	2007
Current portion of long-term borrowings	1,114	514
Debt to subsidiaries	47	21
Borrowings from investment in associates and joint ventures	30	18
Commercial paper	20	525
Short-term bank loans	7	371
Other liabilities	279	275
Total	**1,497**	1,724

Borrowings from subsidiaries have no fixed repayment schedule. Interest charged on these borrowings averaged 4.5 percent in 2008 (2007: 4.7 percent). AkzoNobel has a euro commercial paper program, which at year-end 2008 and 2007 had a maximum of €1.5 billion. At December 31, 2008, the amount of commercial paper outstanding was €20 million (2007: €525 million).

Note h Financial instruments

At December 31, 2008, Akzo Nobel N.V. had outstanding foreign exchange contracts to buy currencies for a total of €1.0 billion (December 31, 2007: €12.0 billion), while contracts to sell currencies totaled €2.3 billion (December 31, 2007: €4.5 billion). At year-end 2007, the foreign exchange contracts mainly related to the pound sterling hedge for the acquisition of ICI and the sale of certain ICI businesses to Henkel.

The other contracts mainly related to US dollars, Swedish krona, Norwegian kronor, and Japanese yen, and all have maturities within one year. These contracts offset the foreign exchange contracts concluded by the subsidiaries, and the fair value changes are recognized in the statement of income to offset the fair value changes on these contracts with the subsidiaries. For information on risk exposure and risk management, see note 25 of the notes to the consolidated financial statements.

Note i Contingent liabilities

Akzo Nobel N.V. is parent of the group's fiscal unit in the Netherlands, and is therefore liable for the liabilities of said fiscal unit as a whole.

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Dutch consolidated companies (art. 403 of Book 2 of the Netherlands Civil Code). These debts, at December 31, 2008, aggregating €0.4 billion (2007: €0.5 billion), are included in the consolidated balance sheet. Additionally, at December 31, 2008, guarantees were issued on behalf of consolidated companies for an amount of €1.7 billion (2007: €1.4 billion).

The debts and liabilities of the consolidated companies underlying these guarantees are included in the consolidated balance sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc. as disclosed in note 22 of the notes to the consolidated financial statements. Guarantees relating to investments in associates and joint ventures amounted to €16 million (2007: €12 million).

Note j Auditor's fees

IN € MILLIONS	IN THE NETHERLANDS	NETWERK OUTSIDE THE NETHERLANDS	TOTAL	IN THE NETHERLANDS	NETWERK OUTSIDE THE NETHERLANDS	TOTAL
			2008			2007
Audit	4.8	9.5	14.3	3.2	11.0	14.2
Audit-related	0.1	1.0	1.1	0.2	0.3	0.5
Tax	–	0.6	0.6	–	0.5	0.5
Other services	–	–	–	–	0.2	0.2
Total	**4.9**	**11.1**	**16.0**	3.4	12.0	15.4

Amsterdam, February 23, 2009

THE BOARD OF MANAGEMENT	THE SUPERVISORY BOARD	
Hans Wijers	Maarten van den Bergh	Uwe-Ernst Bufe
Leif Darner	Karel Vuursteen	Antony Burgmans
Rob Frohn	Virginia Bottomley	Peter Ellwood
Keith Nichols	Dolf van den Brink	Louis Hughes
	Peggy Bruzelius	

Other information

Auditor's report

To the Supervisory Board and the Annual General Meeting of shareholders of Akzo Nobel N.V.

Report on the financial statements

We have audited the accompanying financial statements 2008 of Akzo Nobel N.V., Amsterdam as set out on pages 133 to 179. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2008, the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2008, the company statement of net income for the year then ended and the notes.

Management's responsibility

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

Auditor's responsibility

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

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

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

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2008, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Akzo Nobel N.V. as at December 31, 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report as set out on pages 2 to 132 is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, February 23, 2009

KPMG ACCOUNTANTS N.V.

E.H.W. Weusten RA

Result allocation and distributions, and subsequent events

Article 43

43.6

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

43.7

From the remaining profit, the following distributions shall, to the extent possible, be made as follows:

(a) to the holders of priority shares: 6 percent per share or the statutory interest referred to in paragraph 1 of article 13, whichever is lower, plus any accrued and unpaid dividends;

(b) to the holders of common shares: a dividend of such an amount per share as the remaining profit, less the aforesaid dividends and less such amounts as the Annual 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 Annual 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 result allocation

With due observance of Dutch law and the Articles of Association, it is proposed that the loss of €1,086 million is charged against the other reserves. Furthermore, with due observance of article 43, paragraph 7, it is proposed that dividend on priority shares of €1,152 and on common shares of €417 million will be distributed from the other reserves. Following the acceptance of this proposal, the holders of common shares will receive a dividend of €1.80 per share of €2, of which €0.40 was paid earlier as an interim dividend. The final dividend of €1.40 will be made available from May 7, 2009.

Special rights to holders of priority shares

The priority shares are held by “Stichting AkzoNobel” (Foundation AkzoNobel), whose board is composed of the members of the Supervisory Board who are not members of the Audit Committee. They each have one vote on the board of the Foundation.

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

Subsequent events

Early 2009, we acquired LII Europe, which we will consolidate as from January 2009 in Specialty Chemicals. In 2008, LII’s revenue amounted to €150 million. LII Europe is located near Frankfurt and is active in the chlorine and caustic market.

Financial summary

Consolidated statement of income

IN € MILLIONS					IFRS					NL GAAP[1]
	2008	2007	2006	2005[2]	2004	2003	2002	2001	2000	1999
Revenue	15,415	10,217	10,023	13,000	12,833	13,106	14,059	14,158	14,069	14,471
Operating income	(626)	747	859	1,486	1,527	1,064	1,362	1,198	1,487	525
Financing income and expenses	(183)	(120)	(106)	(156)	(144)	(166)	(204)	(257)	(245)	(245)
Income tax	(260)	(166)	(96)	(338)	(412)	(254)	(335)	(294)	(395)	(106)
Results from associates and joint ventures	25	(20)	87	6	10	7	30	55	143	40
Profit for the period from continuing operations	**(1,044)**	**441**	**744**	**998**	**981**	**651**	**853**	**702**	**990**	**214**
Minority interests attributable to minority shareholders	(65)	(31)	(29)	(37)	(36)	(49)	(35)	(31)	(43)	(25)
Discontinued operations	23	8,920	438	–	–	–	–	–	–	–
Net income, attributable to the shareholders	**(1,086)**	**9,330**	**1,153**	**961**	**945**	**602**	**818**	**671**	**947**	**189**
Common shares, in millions at December 31	231.7	262.3	287.0	285.8	285.8	285.7	285.7	285.9	285.9	285.9
Dividend	417	472	344	343	343	343	343	343	343	286
Number of employees at December 31	60,000	42,600	42,700	61,300	61,400	64,600	67,900	66,300	68,400	68,000
Salaries, wages, and other employee benefits	3,022	2,215	2,158	3,221	3,216	3,505	3,552	3,416	3,285	3,777
Salaries, wages, and other employee benefits in percent of revenue	19.6	21.7	21.5	24.8	25.1	26.7	25.3	24.1	23.3	26.1
Ratios										
Operating income in percent of revenue	(4.1)	7.3	8.6	11.4	11.9	8.1	9.7	8.5	10.6	3.6
Operating income in percent of invested capital	–[3]	14.0	15.8	19.3	20.0	12.7	15.1	12.8	16.7	5.9
Net income in percent of shareholders' equity	–[3]	122.9	30.5	32.0	40.6	26.2	32.9	24.1	39.7	9.0
Interest coverage	–[3]	6.2	8.1	9.5	10.6	6.4	6.7	4.7	6.1	2.1
EBITDA coverage	–[3]	9.2	11.6	13.2	14.5	10.3	10.0	7.3	8.8	5.3
Per share information										
Net income	(4.38)	33.82	4.02	3.36	3.31	2.11	2.86	2.35	3.31	0.66
Dividend	1.80	1.80	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.00
Shareholders' equity	32.21	42.06	14.44	11.95	9.12	8.76	7.34	10.07	9.42	7.28
Highest share price during the year	57.11	65.56	49.41	40.18	33.79	32.44	54.50	57.85	59.15	52.40
Lowest share price during the year	22.85	44.41	38.30	30.82	24.87	16.00	27.25	33.73	37.30	30.00
Year-end share price	29.44	54.79	46.18	39.15	31.38	30.60	30.23	50.15	57.20	49.80

[1] The 1999 – 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred taxes on intercompany profit, and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of the assets, liabilities and related results.
[2] The 1999 – 2005 figures have not been restated for the Organon BioSciences divestment.
[3] Not meaningful as operating income is a loss.

Consolidated balance sheet

IN € MILLIONS, DECEMBER 31					IFRS					NL GAAP [1]
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Intangible assets	7,172	669	682	488	448	590	629	508	388	326
Property, plant and equipment	3,357	2,203	3,346	3,432	3,535	3,967	4,402	4,568	4,501	4,435
Financial non-current assets	1,848	1,402	1,706	1,800	1,418	1,866	2,217	1,895	2,000	1,878
Total non-current assets	**12,377**	**4,274**	**5,734**	**5,720**	**5,401**	**6,423**	**7,248**	**6,971**	**6,889**	**6,639**
Inventories	1,781	1,177	2,042	1,987	1,978	2,133	2,206	2,270	2,267	2,091
Receivables	2,977	2,164	2,919	2,910	2,761	2,671	2,815	3,229	3,135	2,981
Cash and cash equivalents	1,595	11,628	1,871	1,486	1,811	727	520	455	416	932
Assets held for sale	4	–	219	322	–	–	–	–	–	–
Total current assets	**6,357**	**14,969**	**7,051**	**6,705**	**6,550**	**5,531**	**5,541**	**5,954**	**5,818**	**6,004**
Shareholders' equity	7,463	11,032	4,144	3,415	2,605	2,502	2,098	2,878	2,694	2,082
Minority interests	450	97	119	161	140	140	137	138	159	154
Total equity	**7,913**	**11,129**	**4,263**	**3,576**	**2,745**	**2,642**	**2,235**	**3,016**	**2,853**	**2,236**
Provisions	2,072	1,598	2,132	2,210	2,877	3,333	3,855	2,400	2,279	2,110
Long-term borrowings	2,341	1,954	2,551	2,702	2,392	2,717	2,797	2,235	2,729	2,678
Other non-current liabilities	715	133	181	183	200	590	513	560	518	322
Total non-current liabilities	**5,128**	**3,685**	**4,864**	**5,095**	**5,469**	**6,640**	**7,165**	**5,195**	**5,526**	**5,110**
Short-term borrowings	1,338	1,635	410	357	560	441	979	2,267	1,967	2,803
Current liabilities	3,510	2,276	2,652	2,571	2,677	2,231	2,410	2,447	2,361	2,494
Current portion of provisions	845	518	571	766	500	–	–	–	–	–
Liabilities held for sale	–	–	25	60	–	–	–	–	–	–
Total current liabilities	**5,693**	**4,429**	**3,658**	**3,754**	**3,737**	**2,672**	**3,389**	**4,714**	**4,328**	**5,297**
Invested capital:										
- Of consolidated companies	13,424	5,197	8,060	8,007	7,145	8,117	8,692	9,395	9,257	8,573
- Of investments in associates and joint ventures	201	142	177	301	318	353	491	575	673	644
Property, plant and equipment:										
- Capital expenditures	534	359	371	514	551	581	689	822	725	797
- Depreciation	453	330	349	528	540	599	622	635	631	740
Ratios:										
- Revenue/invested capital	1.07	1.91	1.85	1.68	1.68	1.56	1.55	1.52	1.58	1.51
- Gearing	0.26	–[2]	0.26	0.44	0.42	0.92	1.46	1.34	1.50	2.03
- Equity/non-current assets	0.64	2.60	0.74	0.62	0.51	0.41	0.31	0.43	0.41	0.34
- Inventories and receivables/current liabilities	1.36	1.47	1.87	1.90	1.77	2.15	2.08	2.25	2.29	2.03

[1] The 1999 – 2003 figures have not been restated to IFRS accounting standards. The differences mainly relate to pensions and other post-retirement benefits, the recognition of deferred taxes on intercompany profit, and the recognition of goodwill.
[2] Not meaningful due to the temporary net cash position.

For definitions of certain financial ratios and concepts see page 206.

Business area statistics

IN € MILLIONS

	2008	2007 PF[1]	2007
Decorative Paints			
Revenue	5,118	5,303	2,119
EBITDA[2]	593	630	n.a.[4]
EBIT[2]	396	413	149
Operating income	(674)	308	129
Invested capital[3]	6,589	7,865	1,645
EBIT margin[2] (in %)	7.7	7.8	n.a.[4]
Capital expenditures	120	131	46
Average number of employees	24,600	25,615[3]	11,000
Performance Coatings			
Revenue	4,463	4,497	4,157
EBITDA[2]	546	566	n.a.[4]
EBIT[2]	447	464	438
Operating income	424	429	416
Invested capital[3]	2,207	2,131	1,111
EBIT margin[2] (in %)	10.0	10.3	n.a.[4]
Capital expenditures	89	113	107
Average number of employees	21,000	20,905[3]	20,000
Specialty Chemicals			
Revenue	5,687	5,400	3,606
EBITDA[2]	891	927	n.a.[4]
EBIT[2]	587	603	429
Operating income	112	557	417
Invested capital[3]	4,055	4,750	1,745
EBIT margin[2] (in %)	10.3	11.2	n.a.[4]
Capital expenditures	305	245	187
Average number of employees	12,900	13,200[3]	8,800

[1] Pro forma and unaudited.
[2] Before incidentals.
[3] At year-end.
[4] Not available.

Regional statistics

IN € MILLIONS

	2008	2007	2006[1]	2008	2007	2006[1]
	The Netherlands			**US and Canada**		
Revenue by destination	867	777	783	3,330	1,855	1,855
Revenue by origin	1,423	1,368	1,325	3,463	1,871	1,898
EBIT[2]	15	100	(28)	140	126	137
Operating income	(48)	(9)	(23)	(622)	108	175
Capital expenditures	86	83	98	94	56	48
Invested capital[3]	2,007	893	1,216	3,250	1,214	1,195
Number of employees[3]	5,000	4,900	5,100	12,000	6,100	5,900
	Germany			**Latin America**		
Revenue by destination	1,141	907	962	1,306	606	566
Revenue by origin	1,179	930	959	1,103	475	431
EBIT[2]	83	47	54	134	58	64
Operating income	(66)	40	28	88	62	64
Capital expenditures	25	17	15	49	15	14
Invested capital[3]	1,086	365	384	776	272	253
Number of employees[3]	3,600	3,100	3,200	4,800	2,700	2,500
	Sweden			**China**		
Revenue by destination	478	472	463	1,054	687	636
Revenue by origin	1,457	1,406	1,243	968	658	636
EBIT[2]	155	152	89	144	110	115
Operating income	124	152	91	(98)	110	115
Capital expenditures	50	53	78	67	38	31
Invested capital[3]	557	564	573	861	142	180
Number of employees[3]	3,800	3,700	3,800	6,300	5,100	4,800
	UK			**Other Asian countries**		
Revenue by destination	1,093	552	567	1,866	784	743
Revenue by origin	1,206	617	633	1,682	567	520
EBIT[2]	160	25	(1)	198	85	79
Operating income	(41)	23	15	(111)	76	84
Capital expenditures	31	14	14	43	10	7
Invested capital[3]	1,324	486	309	1,030	195	227
Number of employees[3]	4,200	3,000	3,100	7,800	3,300	3,100
	Other European countries			**Other regions**		
Revenue by destination	3,666	3,147	3,020	614	430	428
Revenue by origin	2,582	2,068	2,101	352	257	277
EBIT[2]	192	180	193	45	33	31
Operating income	110	157	287	38	28	23
Capital expenditures	81	66	61	8	7	5
Invested capital[3]	2,359	950	1,034	174	116	133
Number of employees[3]	10,100	9,000	9,500	2,400	1,700	1,700

[1] Excluding Organon BioSciences, divested in 2007.
[2] Before incidentals.
[3] At December 31.

For definitions of certain financial ratios and concepts see page 206.

Financial calendar

2009

Q1

Q2

April 23, 2009
Report for the
1st quarter 2009

April 27, 2009
Annual General Meeting 2009

April 29, 2009
Ex-dividend date of 2008
final dividend

May 4, 2009
Record date of 2008
final dividend

May 7, 2009
Payment date of 2008
final dividend

Q3

July 29, 2009
Report for the
2nd quarter 2009

Q4

October 28, 2009
Report for the
3rd quarter 2009

2010

Q1

February 18, 2010
Report for the 4th quarter
and the year 2009

Q2

Q3

Q4

Sustainability facts and figures

The sustainability sections (pages 187 to 202) of the 2008 Report are separate from and do not in any way form part of the company's annual financial report ("jaarlijkse financiële verslaggeving"), as defined in article 5:25c of the Dutch Financial Markets Supervision Act for 2008. These sustainability sections contain summarized Key Performance Indicators (KPIs) about sustainability performance. The full version of the KPIs can be viewed and downloaded from our corporate website www.akzonobel.com.

2008 highlights

- Sustainability integrated into company strategy, business and reporting
- AkzoNobel and ICI good practices integrated
- New Key Performance Indicators and ambitions for 2015
- Eco-premium products 18 percent of revenue (2007:18 percent)
- Employee injuries down 12 percent
- CO_2 emissions down 1 percent per ton of production
- Non-reusable waste up 3 percent per ton of production
- Water use down 1 percent per ton of production
- Code of Conduct training completed by 18,500 employees (31 percent of workforce)
- Management training of 524 employees in 11 countries completed
- Community involvement: more than 800 projects initiated since 2005

All comparisons are with 2007 pro forma data, including former ICI businesses.

Introduction

Sustainability has been mentioned in many sections of this 2008 Report. This short summary focuses on sustainability processes and activities which span the business units. A complete overview of AkzoNobel's sustainability policy and results can be found in the sustainability section of www.akzonobel.com.

Managing our values

Strategic focus

During 2008, the sustainability aspects of running our business were firmly integrated into the new AkzoNobel strategy, which sets out ambitions in the complementary areas of creating value and values to be managed in an integrated way across the business. The focus of managing sustainability has continued to develop from managing risks – working on integrity, governance and compliance – to creating opportunities for value creation in the businesses through process excellence, innovation and talent development.

Sustainability is increasingly being integrated into many aspects of our operations. We have developed a framework to demonstrate the essential relationship between all these elements, drawing on good practices from AkzoNobel and the former ICI. This framework has three levels (see page 104). Each includes environmental, economic and social aspects, which together map out the journey towards sustainability.

1 Improve: continue to comply and ensure a license to operate – the foundations of how we operate as a company
2 Manage: include sustainability in all aspects of the value chain
3 Invent: integrate sustainable value propositions, providing long-term strategic value.

Compliance areas

The AkzoNobel Business Principles, as included in our Code of Conduct, form the foundation of how we operate as a company: our commitments and responsibilities to shareholders, employees and customers, as well as to suppliers and other business partners, the communities in which we operate and the environment.

Each of these areas includes directives and standards, management systems, objectives to drive improvement, training and auditing. They are underpinned by AkzoNobel's risk management process, which integrates environmental, social and governance issues. Where there are specific sustainability risks or issues of concern to stakeholders, we develop position papers and an improvement plan owned by a corporate staff member.

- **Integrity management.** Our Code of Conduct details the requirements on employees and on the company to operate with integrity. There is a compliance procedure, a corporate compliance committee and business compliance officers in place to manage these issues. A global complaints procedure also allows employees to report any violations which they encounter.
- **Health, Safety, Environment and Security management.** HSE&S management systems are based on international and internal company standards. Implementation is carried out by trained, experienced employees, improvement actions are driven by objectives and verification achieved though internal and external audits.
- **Product stewardship.** Management systems and processes are in place to control the safety of our products and to ensure compliance with all international and local regulation, e.g. REACH in Europe.
- **Employment practices.** HR systems are set up to meet business and local needs, within the framework of the global HR policy, which set out principles for development, education and training, and compensation and benefits.

Integration in the value chain

Building on the foundations established since 2006, we have focused on integrating sustainability into all areas of the value chain, from market research through to sales and marketing:

- Research, Development & Innovation groups focusing on product design for eco-efficiency, applying clever chemistry
- Sourcing working in partnership with suppliers to ensure business integrity, and to help us deliver sustainable value to our customers
- Manufacturing optimizing processes, improving yields, improving energy efficiency
- Sales and marketing working with customers to develop eco-premium solutions.

Long-term strategic value

As we move forward we are identifying and managing those issues which provide the long-term opportunities for the business:

- Working in partnership with customers and suppliers to deliver eco-premium solutions
- Managing long-term resource and environmental issues
- Developing our people to lead and deliver innovative solutions
- Increasingly working in partnership with a range of stakeholders to achieve transformational change.

Management processes

AkzoNobel's sustainability strategy is integrated into the overall business strategy and processes. From 2009, the combined financial and sustainability KPI dashboard will be monitored quarterly by Board members. We retain a Sustainability Council to monitor the integration process and advise the Board of Management on strategy developments. The Council includes representatives from the Board of Management, business unit Managing Directors and corporate staff. The Corporate Director of Sustainability reports directly to the CEO.

Each business unit Managing Director defines their own non-financial targets and has appointed a Focal Point to support the embedding of sustainability throughout their business. They bring together an appropriate team to develop and implement the sustainability agenda in their own business environment. Focal Points have regular meetings to exchange best practices and identify opportunities for further development.

Key sustainability issues are included in the corporate and business unit planning processes, risk management and compliance processes, the non-financial Letter of Representation and in the corporate audit process. Each element of the value chain has identified focus areas for sustainability, with targets where appropriate. These include personal targets, product development processes, the vendor policy, Health, Safety, Environment and Security performance monitoring and reporting, Code of Conduct training and a global complaints procedure. These are described in more detail in the following pages. In 2008, our systems to manage sustainability were reviewed by an external auditor in order to attain the highest possible level of assurance.

During 2008, the former ICI businesses were integrated into AkzoNobel processes. Details of the reporting arrangements for 2008 are in the Reporting principles section on page 200.

Key Performance Indicators (KPIs) and target setting

During 2008, the Board of Management, in consultation with the businesses, developed a corporate dashboard under the headings Value and Values which includes those KPIs used to review overall business performance. Many of these have improvement targets for 2015. Each function has reviewed their key metrics to align with this dashboard.

Key focus areas 2008

Creating value from eco-efficient solutions

Eco-premium solutions help to create value for our business and for our customers. They provide top line growth opportunities because of their improved performance in areas such as raw material use, manufacturing processes and product innovation. We have an ambition to increase the share of turnover from eco-premium solutions to at least 30 percent by 2015.

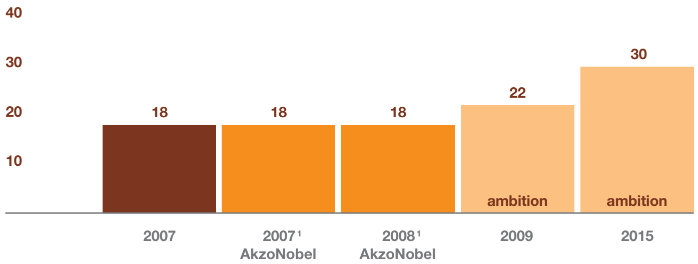
The 2008 assessment indicates that the proportion of eco-premium solutions for the AkzoNobel portfolio remained at 18 percent of revenue (2007: 18 percent), divided as follows: Specialty Chemicals (21 percent), Performance Coatings (19 percent) and Decorative Paints (15 percent). New eco-premium solutions were introduced during the year, while some solutions have been taken off the list as the eco-efficiency of the mainstream product in the market has improved.

The real challenge, however, is not only to expand our eco-premium sales, but also improve the business bottom line. So in 2008 we conducted a pilot in three business units to assess the financial performance of our eco-premium portfolio. This monitoring will be extended to all business units in 2009.

> ***Eco-premium solutions***
> An eco-premium solution provides the same or better functionality for the customer application, but has a clear eco-efficiency benefit over the mainstream products in the marketplace. Eco-efficiency is about creating more value with less environmental impact. We measure eco-efficiency using quantitative analyses or a qualitative assessment focusing on six categories: toxicity, energy efficiency, use of natural resources/raw materials, emissions and waste, land use and risks (e.g. of accidents). The eco-premium solution must be significantly better in at least one criterion with no significant adverse effects in any criteria. The assessment is carried out by an experienced group including R&D, marketing and eco-efficiency experts.

Eco-premium solutions

IN % OF SALES



[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.

Talent Factory development

AkzoNobel's vision to develop a true and lasting Talent Factory is a fundamental cornerstone of the sustainability and growth of our company. Details of 2008 progress are included on pages 194 to 195.

Carbon Policy

In addition to internal activity to reduce energy use and greenhouse gas emissions, we support transparent disclosure and business initiatives calling for urgent inter-governmental action. We are signatories of the UN Global Compact "Caring for Climate" platform, as well as the Prince of Wales' Corporate Leaders Group on Climate Change Bali (2007) and Poznan (2008) Communiqués urging action towards an international UN Climate Change treaty at the 2009 Copenhagen conference. Our carbon management and performance is reported through the Carbon Disclosure Project.

Early in 2008, we embarked on a coordinated program to develop a policy which would be relevant for our diverse business portfolio. The Industrial Chemicals business led the way. They developed a framework for measuring the carbon footprint of products and facilities, based on the international Greenhouse Gas Protocol and lifecycle thinking, along with a rigorous process to identify and quantify improvement opportunities (see case study on page 91). The framework was tested with the World Resources Institute and several Dutch and Swedish NGOs.

In total, six representative business units have tested this framework for their product portfolio. In parallel, the AkzoNobel Sourcing department worked with suppliers to measure the carbon footprint of 18 key raw materials.

The outcome of the projects provides a strong, credible basis for the carbon policy and improvement targets now being developed – which will help to drive carbon costs and emissions from our products.

- Estimated emissions from raw materials are nearly three times greater than the emissions from our production and associated energy
- There could be significant opportunities to reduce customer application emissions, especially in the Coatings businesses.

> ***Setting ambitions and targets***
> Following the pilots, AkzoNobel is developing targets and ambitions in the following areas:
> - Specific reduction target for our cradle-to-gate carbon footprint per ton of product by 2015
> - Longer term ambition level for cradle-to-gate carbon footprint reduction per ton of product by 2020. This will be achieved through a mix of innovation, energy efficiency and fuel mix improvements
> - Ambition level to control absolute scope 1 and 2 greenhouse gas emissions.
>
> Our objective to increase eco-premium solutions to 30 percent of sales will measure carbon-efficient solutions to customers – helping to reduce the downstream footprint.

Integration through the value chain

After setting the compliance level foundations in 2005/6, the task for AkzoNobel was to integrate sustainability tools and processes throughout the functions in the value chain. We are focusing the 2008 report on two areas: sourcing and research, development and innovation. Other projects include:

- A market research workshop to review sustainability metrics, used later in the new AkzoNobel dashboard
- Supply chain optimization studies to review production locations and transport requirements for raw materials and products
- Many examples of eco-efficiency being used to enhance the marketing offer to customers (see eco-premium case studies in business sections of this report).

Sourcing

The AkzoNobel sourcing function was recognized for its wide-ranging, value-focused sustainability program by being awarded the prestigious European ProcureCon Award for Sustainability. Sustainability is about cost reduction, risk reduction, creating new opportunities and building stakeholder support.

Supplier assurance and development

The AkzoNobel Vendor Policy sets out the environmental and social standards expected of our suppliers. This is complemented by support visits for suppliers in emerging countries. The aim is for suppliers to be able to support AkzoNobel to meet the demands of its customers in the future and to outperform competitors.

As a next step, we are moving on to partnership discussions. Our objective is to develop a Key Supplier Management program where we cooperate with suppliers to enhance eco-premium solutions for our customers.

Supplier support visit pilots

We engaged with 152 critical suppliers in emerging countries

- More than 30 percent required improvements, with progress reviews in place
- Several suppliers have achieved rapid improvements including investments in personal protective equipment, fire control systems and measures to reduce water use and waste
- Several suppliers demonstrated they are not sustainable partners for the future, so we have adapted our sourcing strategy.

Supplier engagement

IN % OF SPEND

	Target 2009	2008	2007
Raw material suppliers signed vendor policy	85	82	81
Non-product related suppliers signed vendor policy		80	
Supplier support visits since 2007	200	152	100[1]

[1] Includes the former ICI audits.

Logistics and travel

During 2008, our logistics group has been integrating the former ICI business into the AkzoNobel processes. They achieved efficiency savings, alongside a range of health, safety and environmental improvements, with hauliers in China and plan a similar project in Latin America. During 2009, the focus will include reducing the business travel footprint by smarter use of communication technologies.

Waste management

Waste reduction and disposal is being approached from several angles. Individual sites are identifying ways to reduce waste generation at source and increase beneficial uses or recycling. A range of waste is now supplied as a raw material for the cement industry. At the same time, the sourcing group is approaching the issue on a country-wide basis to identify opportunities for materials and cost savings.

Packaging

Despite some important functional uses, packaging has a bad name in the sustainability community. Our sourcing groups are seeking significant sustainability improvements and savings in primary and auxiliary packaging. Projects in Coatings and Specialty Chemicals businesses are achieving savings though standardization, material reduction and ecological improvements due to recycled material content, end-of-life recycling and carbon-efficient sourcing.

Research, Development & Innovation

Sustainability and the reduction of our ecological footprint has become a key driver and is an integral part of AkzoNobel's new strategy for research, development and innovation.

The sustainability of raw materials, chemical transformation methods, production technologies and end-of-life aspects of our products are reviewed within the stage gate processes applied to our major research and development projects.

Together with Forum For the Future, the leading UK sustainability organization, our Decorative Paints business has developed an environmental impact assessment tool which measures the embedded carbon and VOC reduction of its new Ecosure product range.

VOC reduction in coatings products

Low VOC and solvent-free products, whose performance match and often exceed those of solvent-based predecessors, are being developed by several Coatings businesses.

Powder Coatings has extended the application of solvent-free systems to the protective and aesthetic coating of plastic components, and most recently wood-based products in the furniture industry.

Eco-efficient resource utilization

Bio-renewable materials in general, and saccharides, oils and fats in particular, are providing a rich vein of sustainable raw materials which have the potential to not only serve as alternative building blocks to petrochemical-based feedstocks, but also to help create products with new properties and applications.

About half of the sales of the Surface Chemistry business are already based on renewable feedstocks. This will grow as it extends its investment in the research and development of personal care, agrochemical adjuvants and oilfield chemical products based on vegetable oils, as well as mono- and poly-saccharides.

Stakeholder engagement

AkzoNobel recognizes that in view of the scope of its activities and the public role the company fulfils, proper communication with its various groups of stakeholders is essential. In many cases we go a step further. We work together with stakeholders to develop improved products and/or business concepts.

Our business partners

Partnerships with suppliers and customers are vital to optimize sustainability aspects and unlock business value along the supply chain. A number of the case studies in this report demonstrate how we are building and capitalizing on such cooperative activity.

Employees

Sustainability, responsibility and integrity are core AkzoNobel values. At all AkzoNobel sites, employees are engaged in a broad range of sustainability issues. We measure progress in embedding sustainability throughout the organization using team meetings, employee surveys and the Performance and Development Dialog.

Decorative Paints UK formed a Green Team to initiate and implement activities in line with the business sustainability strategy. Representatives from each department act as champions for communication and to inspire fellow employees to engage with sustainability issues.

Investors and analysts

For some investors a strong record on sustainability is simply seen as an indicator of good management, especially risk management. We believe that the agenda goes beyond this and continue to find ways to quantify how product and people performance add financial value to the organization.

During 2008, we engaged with pension funds, investors and analysts on the contribution of sustainability to our business performance.

Governments and industry associations

AkzoNobel does not employ government advisors or lobbyists. Where there are issues of common interest to discuss or communicate with governments or society, we work through industry associations, including CEPE (the European Council of the Paint, Printing Ink and Artists' Colors Industry), CEFIC (the European Chemical Industry Council) and ACC (American Chemicals Council). We are members and support the activities of the UN Global Compact. We also participate in multi-stakeholder groups such as the Round Table on Palm Oil.

During 2008, we took part in working groups setting ISO standards for carbon footprinting, climate reporting and eco-efficiency standardization.

Non-governmental and sustainability organizations

A number of concerns in society are related to the operations of chemical companies. Non-governmental organizations are positioned to voice these concerns and to lobby for improvement. We continue to actively engage in a dialog with dedicated NGOs.

In 2008, we continued to build our relationships with several sustainability organizations to maintain an external perspective:

- The Director of Sustainability participates in the World Business Council for Sustainable Development, the Dutch Council for Sustainable Trade Initiatives in emerging countries and the Climate Council for the City of Amsterdam
- We have worked with the World Resources Institute on an eco-systems service review and development of the international Greenhouse Gas Protocol
- Decorative Paints has continued to partner with Forum For the Future on sustainability projects; and to benefit from Cambridge Programme for Industry development programs.

General public

In some specific areas we have to deal with dilemmas. Stakeholders are interested in how we deal with these issues so we have clarified our position in policy statements posted on the sustainability section of the website. These include biodiversity, child labor, vendor policy, energy efficiency and climate change.

Neighbors

Maintaining good relationships with our neighbors and communities is integral to corporate responsibility, and vital to our license to operate. Our operating sites have regular contact with their neighbors via local panels, open days or publications. Our Community Program also supports employees in playing an active role in their local society (see page 195). Our direct neighbors are among the most important stakeholders for emergency communications and response.

Media

AkzoNobel actively provides information to media, carefully balancing the need for optimal transparency and fair disclosure with other legal and business considerations, such as corporate reputation and the protection of intellectual property.

External recognition

Investors

We retained our listings on the Dow Jones Sustainability Indexes (second place in the Chemicals sector) and FTSE4Good.

Human rights

AkzoNobel, along with more than 230 other companies, was recognized by Realizing Rights and Business and Human Rights Resource Center for our public commitment to human rights.

Health, safety and environment

Two AkzoNobel sites in India have been honored for their health and safety performance. The Decorative Paints Mohali site won the Punjab State Safety Award for 2007. The Coatings business received second prize in the Best Health and Safety Practices (medium-sized industry category) Karnataka state competition conducted by the Directorate of Factories & Boilers.

The Industrial Chemicals MCA plant in Taixing, China, has been awarded an Environmental Protection Advanced Plant honor by the local government for the fifth year in succession.

Customers

AkzoNobel businesses have won awards or recognition for customer service, quality and innovation from a range of sectors including aircraft: Hawker Beechcraft, Northrop Grumman's Integrated Systems; automotive: PlasanUSA, Ford and International Lease Finance Corporation; agrochemicals: Monsanto Argentina; and packaging: Crown Cork & Seal.

Sustainable sourcing

The corporate Sourcing group gained the European ProcureCon Award for Sustainability in recognition of a range of projects including a cross-functional approach to waste management, supplier support visits, redundant equipment recycling and carbon footprint work on raw materials.

Our social and environmental values

Integrity management

Integrity and responsibility in our actions is one of AkzoNobel's core values, embedded in our Business Principles and the Code of Conduct.

Code of Conduct

Our Code of Conduct, which was updated in 2007, incorporates fundamental principles on issues such as business integrity, labor relations, health, safety and environment, and community involvement. It provides strict rules for doing business in a fair and open way, while forbidding anti-competitive behavior and bribery. During 2008, our Anti-bribery and Competition Law compliance manuals were updated.

These documents are available in the nine corporate languages and have associated online and face-to-face material to support employee training and future induction training in each business. Around 18,500 employees have already completed the online Code of Conduct training. Our target is to train all employees by mid-2009.

Managing compliance

The AkzoNobel Compliance Committee, comprising the General Counsel and Corporate Directors of Internal Audit, Compliance, Human Resources and Corporate Control, was set up to foster awareness of, and control compliance with, the AkzoNobel Code of Conduct. Each business unit has appointed a member of the management team to act as the Compliance Focal Point, to manage the roll-out of compliance projects and monitor compliance with the Code of Conduct.

During 2008, the Compliance Committee and Focal Points developed a compliance risk profile for each business unit, using a standard risk identification process. The profile identifies the compliance risks that require special focus. These will be subject to periodic reviews and updates.

AkzoNobel has a number of important tools to measure compliance:

- A corporate complaints procedure allows employees to express their concerns on (alleged) breaches of the Code of Conduct
- Non-financial Letter of Representation. Each business unit has processes in place to assure compliance with the Code of Conduct and other corporate requirements. At the end of the year, each senior manager and the business unit Managing Director signs the non-financial Letter of Representation to confirm compliance. The outcome is reviewed with the responsible Board member and General Counsel and the results are reported to the Board of Management and the Audit Committee
- Compliance audits are conducted within AkzoNobel and the outcome shared with the Compliance Committee.

Complaints procedure

Both AkzoNobel and the former ICI operated global complaints procedures which encouraged employees to report potential violations of the Code of Conduct to their supervisor, to the office of the Legal Counsel, or via an independent whistle blowing process. During 2008, we reviewed and started a project to amalgamate the different procedures into a single process. A global supplier will be appointed to operate a confidential telephone and web-based reporting system.

All breaches of the Code of Conduct are fully investigated under the supervision of the General Counsel. In 2008, we received 89 (2007: 92) calls on our external alert lines. Most were minor HR issues which were treated locally; a few were treated as compliance issues. In total 84 (2007: 36) alleged violations of the Code of Conduct were reported through a variety of routes. These have resulted in 61 (2007: 18) terminations. Breaches included fraud cases, but none of the investigations identified any material issues or evidence of systematic failure of company systems.

Compliance type

	2008 AkzoNobel[1]	2007 AkzoNobel[1]	2007 reported
Business integrity: fraud/bribery	52	4	2
Use and protection of assets	10	10	9
Equal and fair treatment	7	11	11
Conflict of interest	6	5	5
Health and safety	5	3	1
Free market competition	1	3	3
Other	3	0	0
Total	**84**	**36**	**31**

[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.

Compliance source

	2008 AkzoNobel[1]	2007 AkzoNobel[1]	2007 reported
Corporate complaints procedure/US alert line	17	13	8
External investigation	1	1	1
Internal Audit review	14	3	3
Letters to Board of Management	6	2	2
Internal BU investigation	46	17	17
Total	**84**	**36**	**31**
Reports closed by December 31	71	31	26
Reports open on December 31	13	5	5
Number of dismissals	61	18	12

[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.

Employees

Employees deliver our business results and continuously develop our sustainability for long-term success. They also challenge us to new levels of performance – in short, without our people we would not exist as a business.

The Talent Factory

Developing our people is the way to grow our business for the long term. It is therefore AkzoNobel's ambition to build a true and lasting Talent Factory which is widely recognized both inside and outside the company. Our Talent Factory is as much about creating leading programs that support our people in their development as it is about instilling passion for people.

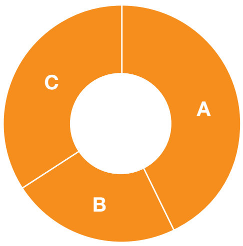
To that end, we have launched a global Management Development curriculum. This program brings a state-of-the-art program design and curriculum to all key countries of AkzoNobel where local providers deliver training in local languages. The "Passion of People" programs introduce AkzoNobel managers of people to key concepts such as situational leadership, coaching skills and behavioral based interviewing, in support of their management roles.

In 2008, courses were held in 11 countries involving 524 participants. Roll-out to 17 more countries is planned in 2009, providing access to 95 percent of the management population.

Participants by region

IN NUMBERS

A	Asia	225
B	Americas	121
C	Europe	178



Measuring progress

We have integrated human resources metrics into the new corporate dashboard for AkzoNobel, in order to monitor our progress in important aspects. We will report on these from 2009.

- Our performance appraisal program
- The movement of high potential employees within the company
- The diversity of our senior leaders and high potential employees
- Our employee survey results.

Diversity

A more focused approach to diversity and inclusiveness in the company was launched during a Diversity Workshop towards the end of 2008. A representative and diverse group of employees from various countries and businesses came together to recommend how we can further develop our approach and activities in line with our new Diversity Statement.

AkzoNobel Diversity Statement

Diversity and inclusion is all about creating an ideal working environment, one which allows all our employees to perform at their best and develop to their full potential.

Our company's workforce should reflect the societies where we do business. We need to truly represent the many and varied cultures of the markets we serve. So we have to be committed and make continuous improvements in order to remain attractive employers for all our people around the world. Driving diversity and inclusion is therefore as much a business need as it is a requirement of our integrity and responsibility as a company.

At AkzoNobel, we strive to attract, motivate and retain our employees in a pleasing environment which brings out the best in people. This requires managers to be inclusive in their leadership. So we do not discriminate against people based on their diversity. In fact, we embrace diversity – be it through culture (nationality, race, religion), gender, disability, sexual orientation or age.

Managers at AkzoNobel need to lead by example by increasing diversity in their teams and promoting inclusiveness wherever possible.

Our key focus areas are gender and cultural diversity in AkzoNobel.

High performance culture

Performance & Development Dialog

Launched in 2005, the Performance & Development Dialog (P&D Dialog) is AkzoNobel's global performance appraisal program, incorporating both performance review and development and career planning. The key objective is to sustain the performance and growth of our employees and the company.

In 2008, 60 percent (2007: 53 percent) of AkzoNobel employees, excluding the former ICI, used the web-based P&D Dialog process, with a paper system available for the remainder. Former ICI employees completed their 2008 performance reviews using their previous system before moving to the P&D Dialog to set 2009 objectives.

During 2008, important changes were made to the P&D Dialog process. These changes align the AkzoNobel Success Factors or competencies with the revised company values. The Success Factors express the key competencies for three segments of employees (all employees, managers and executives) that we will focus on in the years ahead. These Success Factors will be an integral part of all development discussions and are included in the annual performance appraisal process.

Employee survey

In 2008, we conducted a further pulse survey involving a sample of 5,000 employees. Next year, we will carry out a full survey of the entire company. The 2008 survey demonstrated that our employees believe we continue to make progress as a company. The results showed an upward trend from 2007, which continues the positive trend that we have seen since the inception of the global surveys in 2006. Significantly, the results for those with AkzoNobel and ICI heritage reveal very small differences – an encouraging finding in the context of the integration activities.

AkzoNobel employee survey results 2008

IN %

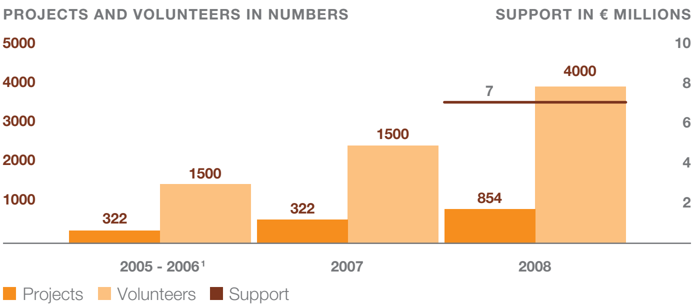
	Favourable +	Neutral ±	Unfavourable -
Customer focus	86	10	4
Quality commitment	84	12	4
Commitment to values	80	14	6
Teamwork	78	15	7
Engagement	78	16	6
Results orientation	74	18	8
Health, safety & environment	72	19	9
Innovation	70	22	8
Stimulating open climate	69	22	9
Managing performance	60	22	18
Developing others	58	23	18

While we see very positive results in the areas of customer focus, quality commitment and engagement throughout the company, there is still room for improvement in people management related questions. The new Management Development curriculum is an important element to continue the improvement in these areas.

Community

The focus for our community activity is to help our people to make a difference. We also support projects where our products can contribute to solving global development needs.

Cumulative Community Program involvement



[1] Includes 109 projects from 2005 program start-up.

Community Program

The AkzoNobel Community Program encourages employees to get involved in their local communities and gives them the financial support to do it. This allows sites and individuals to get involved where our products/resources and the skills and knowledge of employees can benefit the wider community, but also provides opportunities for employees to develop team building and leadership skills.

Since the start of the program, more than 4,000 volunteers from 45 countries have worked on more than 800 projects, totaling more than €7 million and benefiting tens of thousands of people. In 2008, 286 new projects were initiated, including at the newly acquired sites from ICI. The internal 2008 competition winners were chosen by almost 2,250 employees spread all over the world. First prize went to Decorative Paints in Ho Chi Minh City, Vietnam, with their "Clean water means healthy pupils" project. Almost 5,000 students at 22 primary schools in rural Central Vietnam have benefited from a new water system installed by 12 AkzoNobel volunteers and local residents.

Specific information about these projects can be found on our corporate website www.akzonobel.com.

HIV/AIDS prevention

Since 2006, the Community Program has provided €1.5 million in financial support for collaborative Red Cross projects in China and Indonesia. In China, 700 AkzoNobel employees have been involved in HIV/AIDS prevention training for 8,000 students, more than 4,000 migrant laborers and many community leaders and student facilitators. The project in Indonesia, which also involves AkzoNobel employees, is focused on providing water and sanitation to improve general health.

Fighting iron deficiency

The AkzoNobel product Ferrazone is already being used to prevent iron deficiency in an estimated 35 million people in south east Asia through staple food fortification programs. We also support the Flour Fortification Initiative in their work with governments in Africa to improve public health by making fortification of flour produced by large roller mills standard practice.

Health, Safety, Environment and Security management

Managing health, safety, environmental and security (HSE&S) issues is a cornerstone of a successful coatings and chemicals industry. We have global HSE&S standards in place to ensure our sites protect people, assets, the environment, the business and society at large.

Our HSE&S management system drives improvement on underlying sustainability issues that are important for the future success of the company. At a company level we have Key Performance Indicators, with improvement targets and reporting requirements. The individual business units and sites are responsible for developing, executing and monitoring improvement objectives and programs to achieve the required performance.

2008 integration activities

During 2008, a steering team managed the development of a new HSE&S governance model for the new AkzoNobel, bringing together good practices from the former ICI and AkzoNobel. The standards and processes were communicated through three regional conferences held in December 2008 and will be fully implemented in 2009. Examples of these improvements are:

- Revised, challenging HSE&S policy and associated directives, approved and issued by the Board of Management
- Expanded set of HSE&S standards
- Revised and strengthened HSE&S auditing process
- Expanded set of Key Performance Indicators to monitor and drive improvements
- Strengthened crisis management processes.

We also carried out a gap analysis between AkzoNobel and another leading company which identified the opportunity to strengthen our safety leadership, performance management, incident investigation and shared learning. In response, a company incident reporting system will be introduced in 2009 in order to learn more effectively from incidents and further improve our safety performance.

Reliable operations

Operational management systems at our sites are integrated on quality and HSE&S. They are risk-based and follow the Responsible Care® and Coatings Care® principles. Management systems have been set up in line with international standards such as ISO-9000, ISO-14001, RC-14001 and OHSAS-18001.

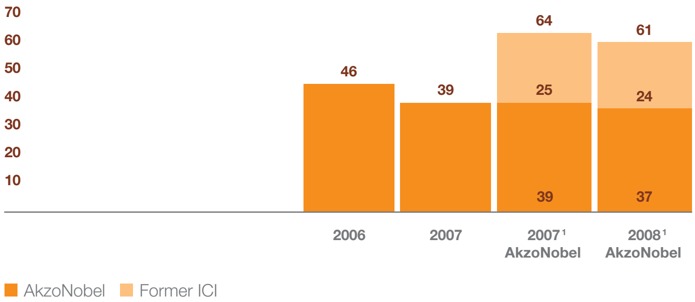
All manufacturing sites are audited by multidisciplinary teams of HSE specialists under the ownership and responsibility of our internal auditing department. Larger sites are also subject to external insurance audits. The HSE&S audit intervals are risk-based and are determined by the inherent hazards present on site and the most recent audit score achieved. All sites are audited at least once in five years. An annual critical review takes place of all sites with a high inherent hazard.

In 2008, 61 management audits took place. They continued to show improving compliance with standards on most sites, though on a few sites a repeat audit will be carried out next year to monitor improvement actions. The special focus areas for former AkzoNobel sites included KPI reporting and embedding behavioral based safety systems. Both are areas for continuing management attention.

In 2009, the auditing process will be extended to focus on HSE&S performance management, as well as checking the completeness of management systems and procedures.

Management audits

NUMBER OF AUDITS



[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.

Product stewardship

By adjusting their product portfolios, our businesses have anticipated both chemicals legislation (REACH, Global Harmonizing System) and the EU VOC 2010 directive so that we will comply with emerging regulation well in advance. In the long run, the costs of compliance – for REACH in the area of €120 million – are expected to be more than offset by new business opportunities. A REACH leadership team, comprising business focal points and corporate staff, has been established to effectively steer the REACH implementation process. They are focusing on issues such as protecting Intellectual Property rights; legal compliance; interpreting legal requirements for contracts/agreements with external parties; and streamlining supply chain processes involving purchasing managers worldwide.

The pre-registration phase was successfully closed on December 1, 2008. The next steps are in progress – consortia formation and additional testing to fill the knowledge gaps for some products. The team will also be considering the IT structure needed for future successful management of the REACH aspects of our value chains.

Health and Safety performance

Occupational safety

The human factor remains an essential element in safety management. In 2006, AkzoNobel management set an ambitious safety performance 2010 target to reduce the Total Reportable Rate for injuries to 2.0 per one million hours worked. All of our businesses have established a safety roadmap including the implementation of Behavioral Based Safety improvement processes – which involve all employees and focus on reducing unsafe situations and unsafe behaviors. Quarterly business reports on their safety improvement programs and on their agreed targets are reviewed by the Board of Management.

The Total Reportable Rate for employees has improved to 4.6 (2007: 5.3) per million hours, while contractors are achieving a rate of 5.2. There has been a steady reduction in TRR since 2005 with good progress towards the 2010 milestone rate of 2.0, but there is still a wide range of performance across the business units. The Lost Time Injury rate, indicating the more serious cases, stands at 1.9 against the 2010 milestone of 0.5.

A number of common themes emerged during 2008 – hand injuries, injuries during non-routine activities, as well as a reduction of lifting-related injuries in North America. In 2009, we will continue behavioral based safety activities and focus more on incident investigation and sharing learning to accelerate improvement.

Employee health

Besides ensuring a safe working environment, we also focus on employee health and managing illness absence. The Total Illness Absence Rate, in 2008 measured for AkzoNobel businesses excluding the former ICI, has remained stable at 2.2 percent (2007: 2.2 percent). We will keep monitoring this Key Performance Indicator for the whole company aiming to stay at a level around 2 percent, but will not set new long-term targets.

The Occupational Illness Rate stands at 0.3 (2007: 0.3) per million hours. From 2008, our reporting criteria were expanded in line with the CEFIC occupational illness categories. The results indicate that 50 percent of the illnesses are caused by physical agents (noise and back/limb disorders) and 34 percent by chemical agents causing skin diseases and other effects. This data will allow sites to focus effort on eliminating the causes with guidance and assistance from the corporate health group.

We also introduced a corporate standard for occupational health management which clarifies AkzoNobel requirements and will support consistent provision worldwide. The "wellness check point" program, a health initiative which allows employees to prepare their personal health risk assessments and their personal health improvement plans, has been piloted in several businesses. The aggregated anonymous results can also be used to shape local health management programs. Wider roll-out is planned for 2009.

Process safety

Following the Baker Report on the Texas refinery explosion, AkzoNobel thoroughly reviewed the process safety management system requirements and carried out specialist process safety audits to verify the asset integrity of ten high hazard sites. No deficiencies that could lead to a major accident were detected.

Drawing on the learning from these reviews and practice from the former ICI, we have updated our process safety/asset integrity standard and management practices. A newly-formed global process safety network is developing additional guidance and training materials and leading indicators to monitor implementation and to support continuous improvement.

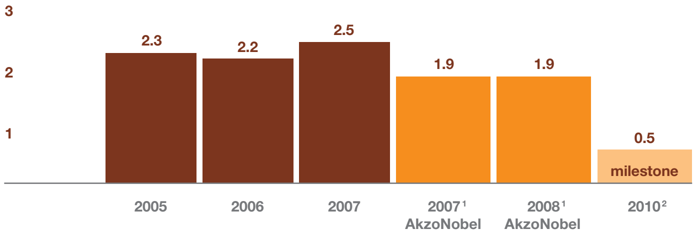
There were two serious incidents in 2008. A contract haulier driver died following a collision in Thailand. The weather was fine, no other vehicles were involved, there was no mechanical fault and the driver was wearing his seatbelt, was adequately rested and had not been drinking.

A fire inside a drier at our Indianapolis facility caused the vessel to implode resulting in loss of production for a number of weeks.

There was an additional incident at our Moses Lake plant in late December 2007 which has been added to the 2008 AkzoNobel figures. A hydrogen explosion did not cause any injuries, but the plant required a three-week shutdown. The full extent of the asset damage became apparent after the close of 2007 reporting. These incidents were investigated to identify root causes, take remedial action and share learning as appropriate across our other sites.

Employee Lost Time Injuries

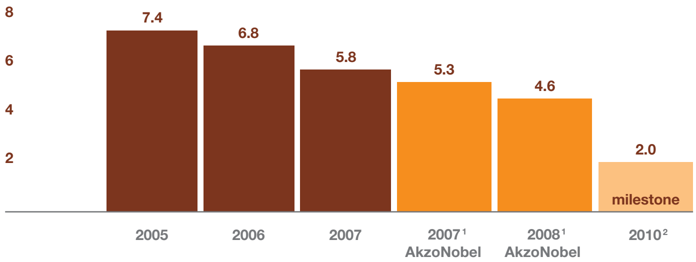
INJURY RATE



The Lost Time Injury frequency rate is the number of injuries, including fatalities, resulting in an employee being unable to work their next scheduled shift, per 1,000,000 hours worked.

Employee Total Reportable Rate for injuries

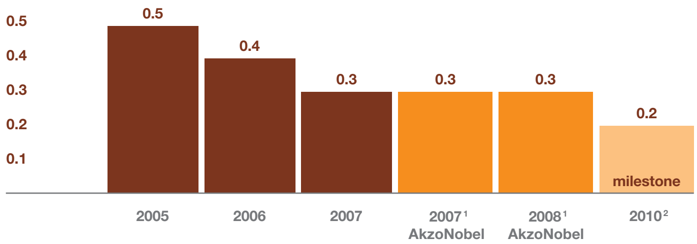
INJURY RATE



The Total Reportable Rate for injuries is the number of injuries, including fatalities, resulting in a lost time case, restricted work or requiring medical treatment by a competent medical practitioner per million hours worked.

Employee Occupational Illness Rate

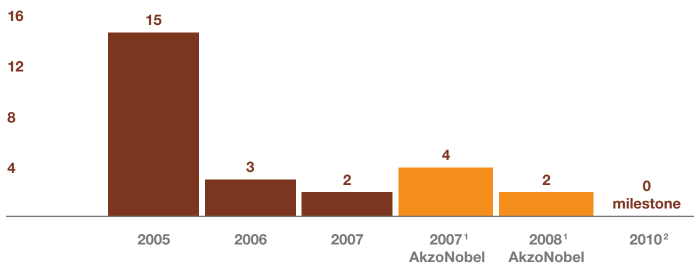
ILLNESS RATE



The Occupational Illness Rate is the number of identified occupational illness cases per million hours worked.

Serious incidents

NUMBER OF INCIDENTS



Serious incidents involve fatalities or grave injury to employees or contractors, or serious environmental, financial or reputational damage.

[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.
[2] Targets were set in 2005, based on the AkzoNobel portfolio that year.

Environmental performance

Emissions to air

Energy and greenhouse gases

This section reflects the performance of our own operations. There are more details of our Carbon Policy and proposed cradle-to-gate reporting on page 190.

We report the direct and indirect CO_2 emissions from our industrial activities in line with the Greenhouse Gas (GHG) protocol.

Energy efficiency and carbon-efficient energy consumption are Key Performance Indicators for our own operations, since energy is an important input for some Specialty Chemicals businesses. In 2008, AkzoNobel's energy bill totaled €660 million, 6.6 percent of total costs of sales.

- 73 percent (2007: 73 percent) of our worldwide power consumption from AkzoNobel sites (excluding the former ICI) is generated from renewables, nuclear and gas-fired combined heat and power (CHP) plants. These sites account for 91 percent of the total 2008 power consumption
- The net energy consumption of our businesses has improved by 12 percent since 1990. There is a small deterioration in 2008 performance because a cogeneration unit in the Netherlands was not in operation. Total energy consumption in 2008 was 115,000 TJ, down 1 percent from 2007 levels
- Direct and indirect energy CO_2 emissions from our operations were 4.6 million tons, down 2 percent on 2007.

Clean air around our plants

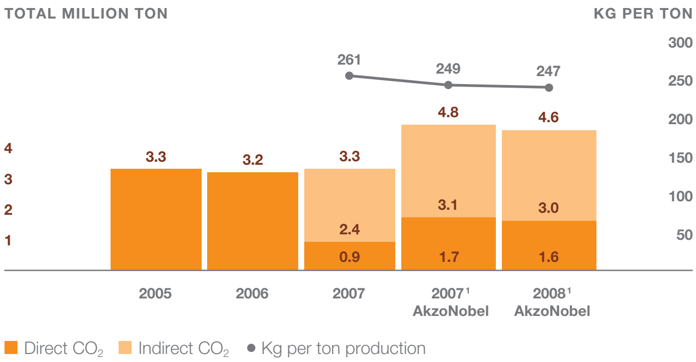
We focus our monitoring on VOC emissions which may lead to local low level ozone creation, smog formation and associated health problems to nearby society and NO_x and SO_x emissions which contribute to acidification.

- Total VOC emissions are 4,048 tons, down 18 percent on 2007 levels, due to product reformulations and equipment improvement, as well as more accurate measurement and divestment of operations
- SO_x emissions from energy used by our sulfuric acid and carbon disulfide plants in Le Moyne, US, and Cologne, Germany, and the former ICI sites are up 16 percent. The increase is mainly due to low market demand and operational issues at the sodium bisulfide plant in Argentina
- NO_x emissions originating from the fuel used for AkzoNobel in our CHP plants in the Netherlands and Denmark and the former ICI sites have also increased by 31 percent. This is due to a small increase in fuel oil use in Pakistan and a new woodchip burner in the salt business
- Emissions of ozone depleting substances are at a very low level. They are mainly due to Freon22 in older air conditioning and cooling units which are continuously being replaced.

Reporting of NO_x and SO_x will be extended to all our operations in 2009.

[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.
[2] Targets were set in 2005, based on the AkzoNobel portfolio that year.
All per ton production values are included in the 2008 Performance summary on page 201.

CO_2 emissions



Direct CO_2 emissions from processes and fuel combustion in our facilities and indirect CO_2 emissions from purchased energy.

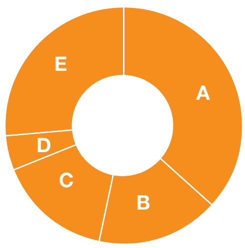
Energy consumption (AkzoNobel sites excluding the former ICI)

IN %	Target 2010	2008	2007
Net energy consumption index	79	88	87
Zero/low carbon power consumption	72	73	73

The net energy consumption index excludes energy required to drive the chemical reaction. Zero/low carbon power is generated from renewable fuels, nuclear and high efficiency CHP plants.

Power consumption fuel mix

IN %		
A	Hydro	37
B	Nuclear	17
C	Gas CHP	16
D	Other renewable	3
E	Fossil fuels	27
		100

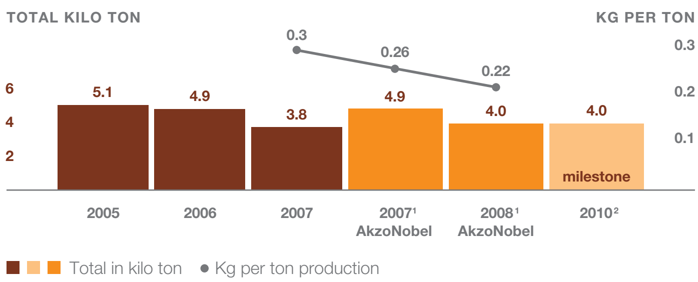


NO_x and SO_x emissions

IN KILO TON	2008[1]	2007[1]	2007
NO_x	1.1	0.9	0.2
SO_x	4.8	4.1	3.2

Emissions which may form acid rain that can lead to acidification. The gases are emissions from manufacturing and combustion of fuel that we burn. Main emissions only.

Volatile organic compound (VOC) emissions



Volatile organic compound emissions may lead to local low level ozone creation, smog formation and associated local health issues. We measure halogenated and non-halogenated organic compounds discharged to air.

Raw materials efficiency

Effective waste management helps to increase raw materials efficiency in our manufacturing operations, reduces our environmental footprint and reduces cost for the company. In 2008, the waste reporting was expanded to total waste, which will encourage waste reduction for reusable, as well as non-reuseable, waste.

In 2008, AkzoNobel produced 795 ktons of waste from its operations, 228 ktons of this was reuseable waste, the rest non-reuseable. Our Soda Ash site generates 510 ktons of non-hazardous waste purely as a result of the process chemistry. Integrating this waste into our numbers would mask improvements from other businesses, so apart from the Total Waste figure, all reporting is based on waste quantities excluding this Soda Ash stoichiometric waste.

- Non-reuseable waste increased by 2 percent during 2008, and the hazardous portion of this increased by 17 percent. These increases are a result of changes in legislation, new acquisitions and the batch nature of hazardous waste disposal.

In 2009, we will extend our efforts from non re-usable waste reduction to total waste reduction and elimination of hazardous waste sent to landfill.

Soil and groundwater remediation

There are substantial costs associated with the assessment and remediation of historical soil and groundwater contamination. We periodically review historical/existing contamination at our sites, taking remedial action when required, and have procedures to prevent new contamination. During 2008, we pulled together specialists and assessment techniques from the former ICI and AkzoNobel into a global Soil and Ground Water expertise center to manage these issues most effectively.

AkzoNobel provides for environmental remediation costs when it is probable that liability will materialize and the cost can be estimated. During 2008, we assessed all the former ICI sites against the AkzoNobel policy and standards and have contained the provisions. We have now set aside €318 million that we believe is sufficient for the sites where AkzoNobel has ownership or responsibility.

Fresh water availability

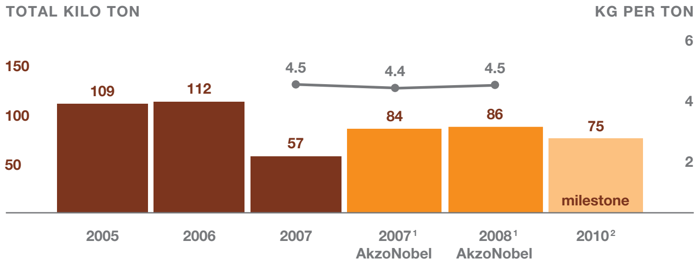
Industrial companies have a responsibility to reduce their burden on fresh water supplies – especially in regions where fresh water is scarce. Sustainable fresh water supply is equally important to the sustainability of the business, so our ambition is to achieve sustainable fresh water management at all our sites in 2015.

In 2008, our HSE and Research, Development & Innovation groups developed a fresh water sustainability assessment which takes into account both the societal impact and the business continuity aspects. The tool allows the site to carry out an assessment and develop a focused improvement plan. We have requested all sites to complete this assessment in 2009.

Besides intake of fresh water, the emission of contaminated water from our sites to surface waters may also negatively impact fresh water resources and eco-systems. So we continue to seek ways to reduce our fresh water consumption and the chemical oxygen demand (COD) of our effluent to surface water.

- The ICI acquisition increased total fresh water use by about 50 million m^3, however, we reduced consumption by 2 percent during 2008. Improvements include more efficient cooling tower operation, leak repairs and more efficient use of fresh water
- Reductions in COD in effluent are being achieved across the business.

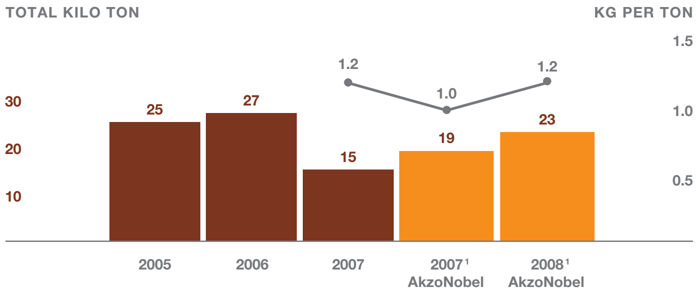
Non-reusable waste



Total in kilo ton ● Kg per ton production

Non-reusable waste which is not used for resource recovery, recycling, reclamation, direct reuse or alternative uses.

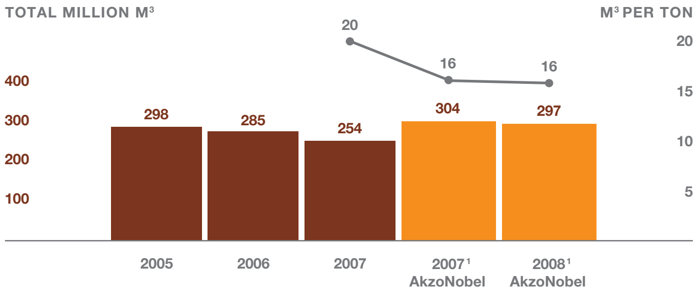
Hazardous non-reusable waste



Total in kilo ton ● Kg per ton production

Non-reusable waste which is classified as hazardous by national, state or local legislation.

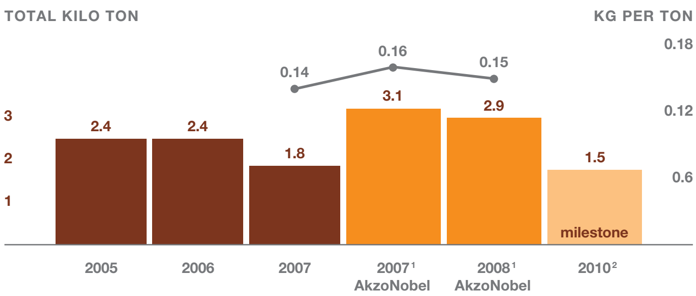
Fresh water consumption



Total in million m^3 ● M^3 per ton production

Total fresh water used from surface, ground or potable water sources.

Chemical oxygen demand



Total in kilo ton ● Kg per ton production

Chemical oxygen demand (COD) is the amount of oxygen required for the chemical oxidation of substances in the waste water effluent that is directly discharged into surface waters from our facilities. It excludes our effluent treated by others.

[1] 2008 AkzoNobel and 2007 AkzoNobel data represent the new AkzoNobel including ICI.
[2] Targets were set in 2005, based on the AkzoNobel portfolio that year.
All per ton production values are included in the 2008 Performance summary on page 201.

Reporting principles

We have a clear commitment and ambition to be best-in-class in sustainability, which we regard as a continuous learning process. Within the boundaries of our values and principles laid down in our Code of Conduct, as well as our corporate ambition to drive sustainability into our daily business practices, we require local management and employees to find the best ways to realize our ambitions in their respective countries.

We are continuously improving our management information systems and data gathering processes. Furthermore, we welcome an active dialog with our stakeholders and give their opinions the serious consideration they deserve. With this process in mind, we expect the clarity, consistency and accuracy of our reporting to further improve over time.

Scope

The sustainability facts and figures of this 2008 Report cover our global activities and performance in the field of sustainability. Specifically, it includes quantitative and qualitative data relating to the calendar year 2008 and comparative data for 2007, based on the AkzoNobel portfolio including businesses from the former ICI, with the following exclusions:

- The managing sustainability reviews and eco-premium product assessments have not been carried out for National Starch and Chemicals Pakistan. These entities contribute €1.4 billion to total revenue
- For both 2007 and 2008 HSE data, we have excluded former ICI businesses which were sold during 2007 and 2008 to allow performance comparison.

Data has, by and large, been obtained from our financial management reporting system and the corporate reporting systems for Health, Safety and Environment (HSE) performance indicators of AkzoNobel and the former ICI. During 2008, former ICI businesses continued to report HSE to ICI definitions, to ensure consistent HSE reporting. The data was converted to AkzoNobel definitions to allow integrated 2008 quarterly and year-end reporting. From 2009, all KPIs are integrated.

Because we are now including sustainability reporting in our 2008 Report – which already includes sustainability aspects of the company's processes and business operations – this facts and figures section provides a summary of the cross-business elements of the sustainability agenda.

Selection of topics

We have focused on the sustainability aspects which form part of the AkzoNobel strategy formulated during 2008. This sets material sustainability metrics and performance firmly alongside financial elements. We continue to seek ways of linking sustainability performance to business results in areas such as carbon and eco-premium solutions.

We appreciate the work of the Global Reporting Initiative (GRI). Where relevant, we have used their Sustainability Reporting Guidelines. An index of all indicators used according to the Global Reporting Initiative guidelines can be found on our corporate website www.akzonobel.com.

We also used information from third party questionnaires, notably the influential Dow Jones Sustainability Indexes and feedback from various other stakeholders.

Reporting process

The integration of sustainability in day-to-day business is part of our internal audits. Moreover, the sustainability sections of this 2008 Report have also been reviewed by independent, external auditors. We have requested the external auditors to focus their 2008 audit program and to provide us with assurance on the embedding of sustainability in the management cycle of our business units and sites – from governance to risk management and compliance; from integrating sustainability objectives in the strategic planning processes, to operational planning, target-setting and progress monitoring – while providing assurance that managers and employees are evaluated and remunerated against these targets.

Senior managers approved the content and the quantitative data used in this sustainability section relating to their respective areas of responsibility. The auditors were asked to review the reliability of the consolidation process for the quantitative data, particularly the integration of former ICI data – together with the other information in our sustainability sections. These reports and Key Performance Indicators were subject to a limited review. We are confident in the overall reliability of the data reported, but recognize that some of this data is subject to a certain degree of uncertainty, inherent to limitations associated with measuring and calculating data.

2008 Performance summary

AREA			ambition 2010	AkzoNobel 2008	AkzoNobel 2007	2007	2006	2005
Product	Eco-premium products	% sales	22 (2009)	18	18	18		
Business integrity	Code of Conduct confirmed incidents	number		84	36	31		
	Code of Conduct trained	% employees		31				
H&S[2]	Fatalities employees	number		0	1	1		
	Total reportable injury rate employees	/million hour	2.0	4.6	5.3	5.8	6.8	7.4
	Lost time injury rate employees	/million hour	0.5	1.9	1.9	2.5	2.2	2.3
	Occupational illness rate employees	/million hour	0.2	0.3	0.3	0.3	0.4	0.5
	Total illness absence rate employees	%		2.2[1]	2.2[1]	2.2	2.3	2.4
	Fatalities contractors	number		0	1	0		
	Total reportable injury rate contractors	/million hour		5.2	–			
	Lost time injury incidents contractors	number		–	66	55	72	76
Raw material efficiency[2]	Total waste	kt		795	–			
	Total non-reusable waste	kt		566	548	57	112	109
	Total waste (excluding Soda Ash)[4]	kt		285	–			
	per ton production[4]	Kg/t		15.1	–			
	Non-reusable waste[4]	kt	75[3]	86	84	57	112	109
	per ton production[4]	Kg/t		4.5	4.4	4.5		
	Hazardous as % non-reusable waste[4]	%		26	23	27	24	23
	Hazardous (non-reusable) waste[4]	kt		23	19	15	27	25
	per ton production[4]	Kg/t		1.2	1.0	1.2		
Maintain natural resources/ fresh air[2]	Fresh water use	Million m^3		297	304	254	285	298
	per ton production	M^3/t		15.8	16.0	20.0		
	COD emissions	kt	1.5[3]	2.9	3.1	1.8	2.4	2.4
	per ton production	Kg/t		0.15	0.16	0.14		
	VOC emissions	kt	4.0[3]	4.0	4.9	3.8	4.9	5.1
	per ton production	Kg/t		0.22	0.26	0.30		
	Total CO_2 emissions	Million t		4.6	4.7	3.3		
	per ton production	Kg/t		247	249	261		
	Direct CO_2 emissions (Scope 1)	Million t		1.6	1.7	0.9	3.2	3.3
	per ton production	Kg/t		85	87	71		
	Indirect CO_2 emissions (Scope 2)	Million t		3.0	3.1	2.4		
	per ton production	Kg/t		161	161	190		
	Total energy consumption	1000TJ		115	116	93		
	Net energy consumption index	%	79[3]	88[1]	87[1]	88	81	
	Zero/low carbon power consumption	%	72[3]	73[1]	73[1]	73	74	
Reliable operations[2]	Serious incidents	number	0	2	4	2	3	15
Sourcing	Vendor policy signed by key suppliers	%	85	82	81[1]	81		
	Supportive supplier visits since 2007	number	200 (2009)	152	100			

2007, 2006, 2005 AkzoNobel data: former AkzoNobel businesses in those years.

2008 AkzoNobel and 2007 AkzoNobel: current AkzoNobel business. Includes data from former ICI business retained until the end of 2008. Minor changes to 2007 data for former AkzoNobel: net energy consumption index; serious incidents; and production figures for per ton parameters harmonized with 2008 definitions.

[1] Former AkzoNobel businesses only.

[2] HSE Key Performance Indicators. Contractor lost time incidents replaced by Total Reportable Injury rate.

[3] Targets set in 2005, based on the AkzoNobel portfolio of that year.

[4] Soda Ash manufacture generates non-hazardous waste as part of the process chemistry, in quantities that will mask improvements from other businesses. Apart from the Total Waste figure, reporting is based on quantities excluding Soda Ash stoichiometric waste.

Assurance report

To the Board of Management of Akzo Nobel N.V.

Engagement

We have performed an assurance engagement on the 2008 Report – Sustainability facts and figures (hereafter Sustainability Sections (pages 187 to 202) of Akzo Nobel N.V. (AkzoNobel)) in accordance with Standard 3410, "Assurance standard relating to social reports". Our assurance engagement aimed to obtain:

- Reasonable assurance that the information in paragraph "Managing our values" is, in all material respects, an accurate and adequate representation of the policy and management with respect to sustainability, business operations and events during 2008
- Reasonable assurance of the reliability of the consolidation process at group level for the HSE Key Performance Indicators
- Limited assurance that the other information in the Sustainability Sections is, in all material respects, an accurate and adequate representation of the policy with respect to sustainability, business operations and events during 2008.

The procedures performed in order to obtain limited assurance aim to verify the plausibility of information and probe less deeply than those performed for assurance engagements aimed at obtaining reasonable assurance.

The management's responsibility

The management of AkzoNobel is responsible for drawing up the 2008 Report – Sustainability Sections in such a way that it gives an accurate and adequate view of AkzoNobel's policy, measures and performance in the field of sustainability. That responsibility comprises, among other things, the design, implementation and maintenance of an internal control system that helps ensure that the 2008 Report – Sustainability Sections does not contain any material inaccuracies, as well as the selection and use of acceptable principles for measuring and presenting sustainability performance results, and the making of estimates that, under the given circumstances, can be deemed to be reasonable. The choices made by the management, the scope of the section and the reporting principles, including the inherent specific limitations that might affect the reliability of the information are explained in the paragraph Reporting principles.

The auditor's responsibility

It is our responsibility to formulate a conclusion with regard to the 2008 Report – Sustainability Sections of AkzoNobel on the basis of the engagement outlined above.

Procedures

We performed our procedures in accordance with Dutch law and the requirements set out therein with respect to the independence of assurance team members. The test criteria that we used are the Sustainability Reporting Guidelines (G3) published by the Global Reporting Initiative, the social reporting guide of the Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving) and AkzoNobel's own reporting policies. We believe that these criteria are suitable in view of the purpose of our assurance engagement.

We have performed all the procedures deemed necessary to obtain the evidence that is sufficient and appropriate to provide a basis for our conclusions. Our main procedures were the following:

- Obtaining insight into the industry, the characteristics of the organization and relevant social issues
- Reviewing the reporting principles and significant estimates and calculations used in the preparation of the Sustainability Sections
- Performing analytical procedures both at the Group and BU levels conducting interviews with responsible company officials in order to verify the existence of the policies and measures described in the Sustainability Sections
- Substantive testing if the information in paragraph "Managing our values" is in accordance with the actual elements of policy, management of business operations and monitoring with respect to sustainability in AkzoNobel's business units during 2008
- Assessing the reliability of the consolidation process for the HSE Key Performance Indicators and the plausibility of the other information in the Sustainability Sections of AkzoNobel, by identifying inherent risks that might affect the reliability of the information and investigating the extent to which such risks are covered by internal controls
- Testing, on a sample basis and insofar as relevant for our engagement, the operation of the internal controls aimed at the reliability of the consolidation process
- Performing a limited number of sample tests to verify the substantiation of the information contained in the Sustainability Sections
- Evaluating the overall view given by the Sustainability Sections of AkzoNobel.

Conclusion

On the basis of our procedures aimed at obtaining reasonable assurance, we conclude that:

- The information in paragraph "Managing our values" is, in all material respects, an accurate and adequate representation of the policy and management with respect to sustainability, business operations and events during 2008
- The consolidation process that underlies the HSE Key Performance Indicators was, in all material respects, performed in a reliable manner.

On the basis of our procedures aimed at obtaining limited assurance, nothing came to our attention to believe that the other information (pages 187 to 202) in AkzoNobel's 2008 Report – Sustainability Sections does not, in all material respects, accurately and adequately represent the sustainability policy, the business operations and events that took place in 2008, in accordance with the Global Reporting Initiative guidelines, the social reporting guide issued by the Dutch Accounting Standards Board, and the documented reporting policy of AkzoNobel.

Rotterdam, February 23, 2009
Ernst & Young Accountants LLP

D.A. de Waard

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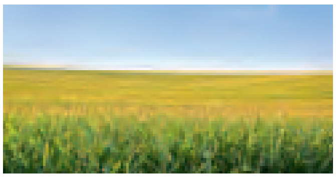
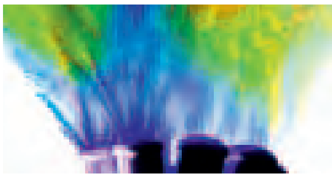
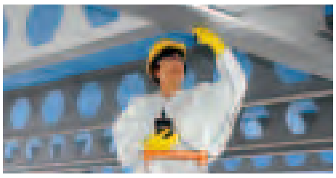
Overview business cases

AkzoNobel Decorative Paints

AkzoNobel Performance Coatings







AkzoNobel Specialty Chemicals

Glossary

ADR
American depositary receipt.

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

Earnings per share
Net income attributable to shareholders divided by the weighted average number of common shares outstanding during the year.

EBIT
Operating income before incidentals.

EBIT margin
EBIT margin is operating income or EBIT as percentage of revenue and can refer to margins both before and after incidentals.

EBITDA
EBITDA is EBIT before depreciation and amortization and refers in this report to EBITDA before incidentals.

EBITDA coverage
EBITDA divided by the sum of financing income and expenses.

EBITDA margin
EBITDA margin is EBITDA as percentage of revenue.

EOI (EVA on invested capital)
Economic value created in relation to invested capital during the period of three consecutive years. This measure is used to encourage EVA performance over a longer period of time.

EVA (Economic Value Added)
EVA is calculated by deducting from net operating profit after taxes (NOPAT) a capital charge representing the cost of capital.

Gearing
Net interest-bearing borrowings divided by equity.

Incidentals
Incidentals are transformation costs, special charges and benefits, results on divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases. EBIT and EBITDA before incidentals and EBIT before incidentals and amortization and depreciation of fair value adjustments are key figures management uses to assess the company's performance, as these figures better reflect the underlying trends in the results of the activities.

Interest coverage
Operating Income divided by the sum of financing income and expenses.

Invested capital
Invested capital is total assets (excluding cash and cash equivalents, investments in associates, assets held for sale) less current income tax payable and less trade and other payables.

Net income
Net income attributable to shareholders of Akzo Nobel N.V.

Net income before incidentals
The sum of net income and incidental charges after tax; or net income less incidental gains after tax.

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

Operating income
Operating income is defined in accordance with IFRS and includes the relevant incidental charges.

Pay-out ratio
Dividend divided by net income before incidentals.

Profit for the period
The sum of net income attributable to shareholders of Akzo Nobel N.V. and the income attributable to minority interests.

Revenue
Revenue consists of income from the sale of goods, services and royalties.

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

Transformation costs
Transformation costs are acquisition-related costs, cost related to divesting businesses as agreed with the European and Canadian authorities, and costs for the new corporate identity.

TSR (total shareholder return)
Used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder. The relative TSR position reflects the market perception of overall performance relative to a reference group.

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Paper
Cover: Heaven
Interior: pages 1 to 132 Heaven
Interior: pages 133 to 208 Fastprint Gold

Disclaimer
In this report, great care has been taken in drawing up the properties and qualifications of the product features. No rights can be derived from these descriptions. The reader is advised to consult the available product specifications themselves. These are available through the relevant business units. In this report the terms “AkzoNobel” and “the company” refer to Akzo Nobel N.V. and its consolidated companies in general. The company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms “we”, “our” and “us” are used to describe the company; where they are used in the chapter “Segment performance”, they refer to the business concerned.

Safe harbor statement
This Report contains statements which address such key issues as AkzoNobel’s growth strategy, future financial results, market positions, product development, products in the pipeline and product approvals. Such statements should be carefully considered and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies.

2008 Report including Sustainability Report
The company’s annual report has this year been combined with the sustainability report into one 2008 Report. The sustainability sections, however, in no way form part of the company’s annual report as the company is required to publish pursuant to Dutch law.

2008 Report – Dutch version
Selected chapters of this report are also available in Dutch. In the event of any discrepancies between the two versions, the English report will prevail.

AkzoNobel
Tomorrow's Answers Today

www.akzonobel.com/report

We're the largest global paints and coatings company and a major producer of specialty chemicals. We supply industries worldwide with quality ingredients for life's essentials. We think about the future, but act in the present. We're passionate about developing sustainable answers for our customers. Based in Amsterdam, the Netherlands, we have 60,000 employees working in more than 80 countries – all committed to excellence and delivering Tomorrow's Answers Today™.

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