AKZO NOBEL NV
Form 20-F
June 21, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark one)

( ) REGISTRATION STATEMENT PURSUANT TO SECTION 12 (b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934 or
(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2006 or
( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 or
( ) SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Date of event requiring this shell company report

Commission file number 0-17444

AKZO NOBEL N.V.

(Exact name of registrant as specified in its charter)

The Netherlands
(Jurisdiction of incorporation or organization)

76 Velperweg, 6824 BM Arnhem
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares	**NASDAQ/NMS**
Common shares of EUR 2 each	**NASDAQ/NMS***

* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12 (g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common shares as of the close of the period covered by the annual report:

Common shares, par value EUR 2 per share	**287,268,350**
Priority shares, par value EUR 400 per share	**48**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Akzo Nobel N.V.

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PART I

INTRODUCTION

The consolidated financial statements of Akzo Nobel N.V. and subsidiaries appearing in this annual report are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and also comply with the financial reporting requirements included in section 9 of Book 2 of the Netherlands Civil Code, as far as applicable. IFRS differ in certain respects from accounting principles generally accepted in the United States ("US GAAP"). IFRS as adopted by the EU is the same for Akzo Nobel as IFRS promulgated by the International Accounting Standards Board. The significant differences between IFRS and US GAAP affecting Akzo Nobel's net income and shareholder's equity are discussed in Note 27 of the Notes to the Consolidated Financial Statements of Akzo Nobel.

The terms "Akzo Nobel" or "the company" are sometimes used herein for convenience in contexts where reference is made to the consolidated companies of Akzo Nobel N.V. in general. Such terms are also used for convenience in referring to individual segments and subsidiaries.

In this annual report, unless otherwise specified or the context otherwise requires, references to "dollars", "U.S. dollars" and "USD" are to the United States currency. The European currency euro is sometimes referred to as EUR. For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate of EUR 0.759 = USD 1.00, the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the "Noon Buying Rate") on December 31, 2006. These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or could be converted into dollars at the rate indicated. On June 12, 2007, the Noon Buying Rate was EUR 0.749= USD 1.00.

In order to utilize the "Safe Harbor" provisions of the United States Private Securities Litigation Reform Act of 1995, Akzo Nobel is providing the following cautionary statement. This document contains certain forward-looking statements with respect to the financial condition, results of operations and business of Akzo Nobel, and certain of the plans and objectives of Akzo Nobel with respect to these items. These statements may generally, but not always, be identified by the use of words such as "anticipate", "assume", "intend", "plan", "project", "should", "expect", "estimate", "believe" or similar expre particular, among other statements, certain statements in Item 4 "Information on the Company" with regard to strategy, management objectives, including return on investment targets, market trends, market standing, market share estimates based on management's estimates, benefits that may result from future restructuring programs, the product volumes, the costs and expenditures related to environmental compliance or remediation, Health, Safety and Environment targets, future research and development initiatives, the Pharma pipeline, the statements in Item 8 "Financial Information" with regard to the outcome of disputes with tax authorities, the outcome or consequences of pending or future legal or regulatory proceedings—including antitrust investigations and other potential related lawsuits—and their effect on the company, and those statements in Item 5 "Operating and Financial Review and Prospects" with regard to trends in results of operations, margins, overall market and macro-economic trends, risk management, exchange rates, and objectives such as return on capital are forward-looking in nature as are all statements under "Forward Looking Statement on 2007" and Item 11 "Quantitative and Qualitative Disclosures about Market Risk".

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By their nature, forward looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These factors include, but are not limited to, levels of business spending in major economies (as well as other developments in the economies of the companys markets in Asia, Latin America, North America, and Europe), the development in market value of pension plan assets, governmental regulations, changes in customer needs, progress of drug development, clinical testing, and regulatory approval, the levels of marketing expenditures by Akzo Nobel and its competitors, the introduction of new products by competitors, raw material and employee costs, future foreign exchange and interest rates, changes in tax rates and product regulation, future business combinations, acquisitions or dispositions, environmental liabilities, and the outcome of tax disputes, antitrust investigations, potential product liability claims and other lawsuits, and wars and acts of terrorism or sabotage.

Statements made in Item 4 Information on the Company referring to Akzo Nobels competitive position are based on management estimates, and in some cases, the statements are also based on information from a range of sources, including analysts reports, independent market studies and Akzo Nobels internal assessment of market share based on publicly available information about the financial results and performance of market participants unless otherwise noted. Such references to the companys positioning refer to its market share based on revenues, unless otherwise noted.

In the analysis of the development of revenues, when compared to the previous year, the company distinguishes between the effects from changed volumes, changed selling prices, currency translation, acquisitions, and divestments. Autonomous revenues growth, which sometimes is used in the discussions in this report, is a non-GAAP measure and is defined as the change in revenues attributable to changed volumes and selling prices. Autonomous revenues growth excludes currency, acquisition, and divestment effects. As a result, autonomous growth numbers reflect comparable revenues performance, and are used and analyzed by the companys management for this purpose. Because of the comparability of revenues performance that can be analyzed by reviewing autonomous growth numbers, the companys management believes that these numbers are useful for those reviewing our financial performance. However, the autonomous growth numbers should not be viewed in isolation or as alternatives to the comparable GAAP measure of revenues and should be read in conjunction with such measure.

The company uses the term Incidentals in the analysis of its results. Incidentals is a non-GAAP measure and is defined as special benefits, results on divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases. Operating income excluding incidentals is one of the key figures management uses to assess the companys performance, as this figure better reflects the underlying trends in the results of the activities.

EBIT margin, formerly called return on sales, is operating income (EBIT) as percentage of revenues.

EBITDA is EBIT before depreciation and amortization.

Interest coverage is EBIT divided by the sum of financing income and expenses. EBITDA coverage is EBITDA divided by the sum of financing income and expenses.

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Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

Item 3. KEY INFORMATION

A. SELECTED CONSOLIDATED FINANCIAL DATA

The selected financial data set forth on the following pages are derived from previously published financial information of Akzo Nobel, including the consolidated financial statements for the years ended December 31, 2006, 2005, and 2004, which appear elsewhere in this annual report. The selected financial data should be read in conjunction with, and are qualified in their entirety by reference to, such financial statements, including the notes thereto.

The audited consolidated financial statements of Akzo Nobel for the years ended December 31, 2006, 2005, and 2004, have been audited by KPMG Accountants N.V., independent registered public accounting firm, whose report thereon is included in Item 18. The consolidated balance sheets as of December 31, 2003 and 2002, and the consolidated statements of income and the consolidated statements of cash flows for the years ended December 31, 2003 and 2002, were also audited by KPMG Accountants N.V.; however, those balance sheets, statements of income, and statements of cash flows are not included in this Form 20-F.

Reference is made to Note 27 of the Notes to the Consolidated Financial Statements regarding differences between IFRS and US GAAP that affected Akzo Nobel's net income and shareholders' equity, as well as certain other lines of the Consolidated Statement of Income and the Consolidated Balance Sheet.

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In millions, except per share amounts	2006	2006	2005	2004	2003	2002
	Selected financial data for the years ended December 31,					
	USD (a)	EUR	EUR	EUR	EUR	EUR
Consolidated Income data:						
Amounts in accordance with IFRS:						
Revenues	18,099	13,737	13,000	12,833		
Operating income	1,926	1,462	1,486	1,527		
Net income; profit attributable to equity						
holders of the company	1,519	1,153	961	945		
Basic earnings per share / ADS (b)	5.30	4.02	3.36	3.31		
Amounts in accordance with US GAAP:						
Revenues	17,984	13,650	12,916	12,680	12,931	13,880
Operating income	1,574	1,195	1,089	1,300	978	1,446
Net income	1,318	1,000	710	832	559	860
Basic earnings per share / ADS (b) (c)	4.60	3.49	2.48	2.91	1.96	3.01
Diluted earnings per share / ADS (b) (c)	4.57	3.47	2.47	2.90	1.95	3.00
Consolidated Balance Sheet data:						
Amounts in accordance with IFRS:						
Total assets	16,845	12,785	12,425	11,951		
Long-term borrowings	3,361	2,551	2,702	2,392		
Shareholders equity	5,460	4,144	3,415	2,605		
Amounts in accordance with US GAAP:						
Total assets	20,833	15,812	16,149	15,513	15,066	16,046
Long-term borrowings	3,295	2,501	2,636	2,391	2,652	2,065
Shareholders equity	9,436	7,162	6,701	6,127	5,651	5,455

(a)

Amounts in this column have been translated solely for the convenience of the reader at the Noon Buying Rate on December 31, 2006, of EUR 0.759 = USD 1.00.

(b) American Depositary Shares.

(c) For the breakdown on earnings from continued and discontinued operations see Note 27 of the Notes to the Consolidated Financial Statements under (r).

The table below sets forth the number of common shares outstanding and the amounts of interim, final and total dividends declared (and the U.S.-dollar equivalents) on the common shares in respect of the fiscal years indicated.

	Number of shares		**Dividends per common share**					
Year ended December 31,				**EUR**			**USD***	
	Average	End of period	Interim	Final	Total	Interim	Final	Total
2002	285,827,092	285,691,957	0.30	0.90	1.20	0.32	0.94	1.26
2003	285,691,957	285,691,957	0.30	0.90	1.20	0.38	1.14	1.52
2004	285,745,587	285,773,239	0.30	0.90	1.20	0.41	1.23	1.64
2005	285,773,239	285,773,239	0.30	0.90	1.20	0.36	1.06	1.42
2006	286,543,714	287,028,440	0.30	0.90	1.20	0.40	1.18	1.58

* Dividends per common share in U.S. dollars are based on the Noon Buying Rate at December 31 of each year.

The following table sets forth for the fiscal periods indicated the average exchange rates for U.S. dollars into euros per dollar based on the applicable Noon Buying Rate.

Year ended December 31,	**Average***
2002	1.06
2003	0.88
2004	0.80
2005	0.80
2006	0.80

* The average of the Noon Buying Rates on the last day of each month during the period.

The following table sets forth for the months indicated the high and low rates for U.S. dollars expressed in euros per dollar.

	High	**Low**
December 2006	0.77	0.75
January 2007	0.77	0.75
February 2007	0.77	0.76
March 2007	0.76	0.75
April 2007	0.75	0.73
May 2007	0.74	0.73

On June 12, 2007, the noon buying Rate was EUR 0.749 = USD 1.00.

Dividends, if any, will be paid in euros, and any exchange rate fluctuations may affect the USD amounts received by holders of ADSs upon conversion by the depositary of such dividends.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

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C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

This section describes some of the risks that could affect the company’s business. The factors below should be considered in connection with any forward-looking statements in the company’s Annual Report on Form 20-F and the cautionary statements contained in the introduction on pages 3 and 4. Forward looking statements can be identified generally as those containing words such as “anticipate”, “assume”, “intend”, “plan”, “project”, “should”, “expo “estimate”, “believe”, and words and terms of similar substance in connection with any discussion of future operating or financial performance.

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

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

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

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

Under the explicit understanding that this is not an exhaustive enumeration, our major risk factors are listed below. There can be no assurance that our Risk Management function or our diversity will be able to mitigate any risks we may face. The risks below are not the only ones that Akzo Nobel faces. Some risks are not yet known to Akzo Nobel and some that Akzo Nobel does not currently believe to be material could later turn out to be material. All of these risks could materially affect Akzo Nobel’s businesses, revenues,

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operating income, net income, net assets, and liquidity and capital resources. The company's risk management systems endeavor the timely discovery of such additional risks.

On March 12, 2007, the company announced its intention to divest Organon BioSciences to Schering-Plough, following their EUR 11 billion binding cash offer. The parties expect the transaction could be completed in the second half of 2007, after consultation with social partners and clearance from regulatory bodies. The risk factors set forth below should be read in the context of a likely sale of Organon BioSciences.

The factors that could affect our financial condition or our business or could cause actual results to differ materially include the following:

External risks

The company may face intense competition from new products and from lower-cost generic products.

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

As new products enter the market, the company's products may become obsolete or competitors' products may be more effective or more effectively marketed and sold than its own products. If Akzo Nobel fails to maintain its competitive position, this could have a material adverse effect on its business and results of operations.

Regulations which limit the prices we may charge for our pharmaceutical products can reduce the company's revenues and adversely affect its business and results of operations.

In addition to normal price competition in the marketplace, the prices of Akzo Nobel's pharmaceutical products are restricted by price controls imposed by governments and health care providers in most countries. Price controls operate differently in different countries and can cause wide variations in prices between markets. Currency fluctuations can aggravate these differences. The existence of price controls can limit the revenues Akzo Nobel earns from its products and may have an adverse effect on its business and results of operations.

About 25% of the company's earnings were derived from the human healthcare markets in 2006. In many countries, the prices for our products are regulated. In the United States, Medicare reform could result in de facto price controls on prescription drugs. In Europe, the company's operations are also subject to price and market regulations. Many governments are introducing healthcare reforms in an attempt to curb increasing healthcare costs. In Japan, where Akzo Nobel also operates, governmental price cuts are introduced biannually. In response to rising healthcare costs, many governments and private medical care providers, such as HMOs, have instituted reimbursement schemes that favor the substitution of generic pharmaceuticals for more expensive brand-name pharmaceuticals. In the United States, generic substitution statutes have been enacted by virtually all states and permit or require the dispensing pharmacist to substitute a less expensive generic drug instead of the original brand-name drug. As a result, the company expects pressure on operating results in its pharmaceuticals business to continue.

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Product regulation may adversely affect the company’s ability to bring new products to market.

The company and its competitors are subject to strict government controls on the development, manufacture, labeling, distribution and marketing of products. The company must obtain and maintain regulatory approval for its pharmaceutical and other products from regulatory agencies before certain products may be sold in a particular jurisdiction. The submission of an application to a regulatory authority does not guarantee that a license to market the product will be granted. Each authority may impose its own requirements and delay or refuse to grant approval, even though a product has been approved by another country. In the company’s principal markets, the approval process for a new product is complex, lengthy and expensive. For pharmaceutical products, the time taken to obtain approval varies by country but generally takes from eight months to several years from the date of application. Regulatory delays, the inability to complete clinical trials successfully, claims and concerns about safety and efficacy, new discoveries, patents and products of competitors and related patent disputes and claims about adverse side effects are only a few of the factors that could adversely affect the realization of product registration. This increases the company’s cost in developing new products and increases the risk that it will not succeed in selling them successfully.

The company’s business will continue to expose it to risks of environmental liabilities.

The company uses hazardous materials, chemicals, biological and toxic compounds in its product development programs and manufacturing processes, which have exposed it, and in the future could expose it, to risks of accidental contamination and events of noncompliance with environmental laws and regulatory enforcement, and possible personal injury and property damage claims resulting therefrom. If an accident occurred or if the company were to discover contamination caused by prior operations, it could be liable for cleanup obligations, damages or fines, which could have an adverse effect on its business and results of operations.

The environmental laws of many jurisdictions impose actual and potential obligations on the company to remediate contaminated sites. These obligations may relate to sites:

- that the company currently owns or operates;
- that the company formerly owned or operated; or
- where waste from the company’s operations was disposed.

These environmental remediation obligations could significantly reduce the company’s operating results. In particular, the provisions and accruals for these obligations may be insufficient if the assumptions underlying the accruals prove incorrect or if the company is held responsible for additional, currently undiscovered contamination.

Stricter environmental, safety and health laws and enforcement policies could result in substantial costs and increase potential liabilities of the company, and could subject the company’s handling, manufacture, use, reuse, or disposal of substances or pollutants to more rigorous scrutiny than is currently the case.

Consequently, compliance with these laws could result in significant capital expenditures as well as other costs and liabilities, thereby affecting Akzo Nobel’s business and operating results.

The company will be responsible for any liabilities arising out of non-compliance with laws and regulation e.g. antitrust litigation or the United Nations’ Oil for Food Program.

Reference is made to Note 25 of the Notes to the Consolidated Financial Statements in this report.

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Because Organon depends on the sale of a limited number of products to generate a substantial portion of its revenues, factors adversely affecting the sale of any of these products could materially harm its revenues and results of operations.

Organon depends on sales of a limited number of products that account for a substantial portion of its revenues. For example, in 2005, revenues from Puregon®, Remeron®, Livial®, Mercilon®, Esmeron®, and NuvaRing® in aggregate accounted for approximately 50% of Organon's revenues. Despite the anticipated launch of several new products over the next few years, including asenapine, we expect to continue to depend on a limited number of key products for the foreseeable future. As a result of this dependence, factors adversely affecting the sale of any of these products could materially adversely affect our revenues and results of operations. These factors include, but are not limited to competition from other branded pharmaceuticals that may be equivalent or superior to our own products or that the market perceives to be more attractive; competition from generic versions of branded pharmaceuticals, irrespective of the way they are marketed, once the term of patent protection and regulatory exclusivity for the original branded pharmaceuticals has expired; technological advances; the marketing strategies of our competitors; supply chain interruptions; work stoppages; changes in prescription practices; changes in the reimbursement policies of third-party payers; and other unforeseen adverse events.

A failure to complete the sale of Organon BioSciences N.V. (OBS) could result in certain non-recoverable costs, negatively affect our ability to realize our strategic goals and negatively impact our share price or otherwise materially adversely affect our business, financial condition, or results of operations.

On March 12, 2007, we announced that the company had received a binding cash offer for our subsidiary OBS from Schering-Plough for EUR 11 billion. There is no assurance that the conditions (consultation with social partners and clearance from regulatory bodies) to the completion of the transaction will be satisfied or waived by us. If the sale is not completed for any reason, we will continue to face the risks associated with the business of OBS. The process involved in completing the sale includes consultation with social partners and obtaining clearance from regulatory bodies, any of which could impose conditions or restrictions on such clearance.

Our business will suffer if we are unable to obtain or defend intellectual property rights in relation to our products, if we are accused of infringing third parties' intellectual property rights or, if we are unable to gain access to, or our licensing partners terminate our rights to, the intellectual property rights of others.

The company's ability to remain competitive and to capture additional market share depends in part on our ability to obtain and defend patents, trademarks, and other forms of intellectual property protection for our products, and on our development and manufacturing processes and our know-how. The process of obtaining patents is lengthy and expensive. We also intend to prosecute patents as appropriate. However, there can be no assurance that patents will be granted in relation to any of our currently pending or future applications or that such patents will be of sufficient scope and strength to provide us with any meaningful legal protection, any commercial advantage, or any ability to recoup our investment in product development.

It may become necessary for us to seek to enforce our patents, trademarks, licenses, and other forms of intellectual property protection and to protect our trade secrets by taking legal action or to engage in litigation in order to defend ourselves against claims of alleged infringement of someone else's intellectual property brought against us by third parties. There can be no assurance that we will be able to successfully settle or otherwise resolve claims that may be brought against us by third parties in the future. If we are unable to successfully settle future claims on terms acceptable to us, we may be required to engage in

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costly and time-consuming litigation and may be prevented from, or experience substantial delays in, marketing our existing pharmaceuticals and launching new ones. If we fail in any such dispute, in addition to paying money claims, we may lose valuable intellectual property rights. Any of these events could require us to divert substantial financial and management resources that we would otherwise be able to devote to our business.

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

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

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

A number of other claims are pending against Akzo Nobel N.V. and its subsidiaries, all of which are contested. The company is also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, the company believes, based upon legal advice and information received, that the final outcome will not materially affect the consolidated financial position of the company but could be material to the company's result of operations or cashflows in any one accounting period.

Product liability claims could adversely affect the company's business and results of operations. The company's financial condition and results of operations could be adversely affected if the company does not successfully mitigate risks associated with insurance of pharmaceutical products.

Given the widespread impact that brand-name drugs have on the health of patient populations, pharmaceutical and medical devices companies have historically been subject to large product-liability claims and settlements caused by the use of their products. The company also runs the risk of product liability claims from its Coatings and Chemicals products. Presently, the company is involved in a number of product liability cases claiming damages as a result of its products. It believes that any reasonably foreseeable unaccrued costs and liabilities associated with such matters will not have a material adverse effect on the company's consolidated financial position but could be materially adverse to its results of operations. There can, however, be no assurance that a future product liability claim or series of claims that are not fully covered by insurance would not have an adverse effect on the company's business or results of operations.

Bad publicity and damage to the company's brands could adversely affect its business and results of operations.

The reputation of the company's brands is critical to its business. The success in promoting and enhancing its brands is dependent on providing safe high-quality products, particularly in the pharma business. If it fails to successfully promote its brands, or if it receives bad publicity as a result of a product liability case or publicized health or other risks associated with its products, the value of the company□s brands will be diminished. This could have a material and adverse effect on the business and results of operations.

Exchange rate fluctuations can have a harmful impact on the company□s financial results.

The company has operations in more than 80 countries throughout the world. As a result, a substantial portion of its assets, liabilities, revenues and expenses are denominated in various currencies other than the euro, principally the U.S. dollar, the British pound, the Swedish krona, the Japanese yen, and Latin American and Asian currencies. Because the company□s financial statements are denominated in euro, fluctuations in currency exchange rates could have a material impact on its reported results. The company has a hedging policy for certain currency exchange rate risks.

The company□s financial condition and results of operations could be adversely affected if the company does not successfully mitigate risks associated with interest rate changes.

A portion of the company□s investments, loans and borrowings bear interest on a non-fixed basis. Accordingly, changes in interest rates can affect the cost of these interest-bearing investments, loans and borrowings. The company mitigates interest risk by financing noncurrent assets and a certain portion of current assets with equity, long-term liabilities and long-term borrowings with fixed interest rates. In the event that this strategy is not successful, the business, financial condition and operating results of the company could be materially and adversely affected as a result of changes in interest rates.

Adverse stock market developments may affect assets of pension funds, causing higher pension charges and pension premiums payable.

The company has a number of defined benefit pension plans, covering a significant part of its employees. Plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. The performance of stock markets could have a material impact on the company□s financial statements as some 50% of plan assets are equity securities. The poor performance of the stock markets in 2001 and 2002 had a negative influence on the investment results of Akzo Nobel□s pension funds, resulting in additional pension charges, pension premiums and payments to such funds in 2002 and subsequent years.

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

At present the company□s long-term credit rating from Moody□s is A3 with a short-term rating of P-2, both with a so-called □stable outlook□. The current long-term credit rating from Standard & Poor□s is A□ and their short-term rating is A-2, both with a so-called □stable outlook□.

The present rating is three notches above the so-called □high-yield zone□. However, if the company□s rating were to decline or approach or enter the high-yield zone, this would result in increased financing costs for the company and could also reduce availability of credit, especially at competitive rates. Such a decline could result from many reasons, including a deterioration in our business, significant and unforeseen contingent liabilities, or strategic initiatives.

A security rating is not a recommendation to buy, sell or hold securities. The rating may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

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Because the company conducts international operations, it is exposed to a variety of risks, many of them beyond its control, that could adversely affect its business.

Akzo Nobel is a global company with operations in Europe, North America, Latin America, Asia, the Middle East, and Africa. In addition to general business risk and the risks described in this section, the company's international operations are subject to a variety of potential risks including: political and economic instability, the risk of hyperinflation in some countries, currency and interest-rate fluctuations, lack of local business experience, difficulty in enforcing property rights, local security concerns, and language and other cultural barriers. In addition, changes in the tax laws of some countries where the company does business can affect the company's net income.

Inability to access raw materials, growth in cost and expenses for raw materials, petroleum and natural gas, and changes in product mix may adversely influence the future results of the company.

Important raw materials or auxiliary materials for the company's production processes are salt, petroleum and petroleum derivatives, natural gas, titanium dioxide, and electricity. Some of these components are available only from a small source of suppliers. Although Akzo Nobel aims to use its purchasing power and long-term relationships with suppliers to acquire raw materials and their constant delivery at the best conditions, the company cannot assure that it will always be able to establish or maintain good relationships with such suppliers or that such suppliers will continue to exist or be able to supply ingredients in conformity with regulatory requirements or the company's requests. In addition, growth in the costs and expenses of these components resulting from a shortage or a change in Akzo Nobel's product mix may adversely influence the company's business and financial results. Akzo Nobel is sensitive to price movements in raw materials. In particular, energy prices pose a risk.

Seasonality may adversely affect the operating results of the company's Coatings and Chemicals business.

A portion of the company's Coatings and Chemicals business is seasonal, with revenues and earnings being relatively higher during the outdoor season and lower during the indoor season. The operating results may be harmed if bad weather delays the outdoor season in the major markets in which the company operates and the company is not able to offset during the corresponding financial year the lag in earnings resulting from such delay.

Strategic Decision Making Risks

A failure to manage expansion effectively could adversely affect the company's business.

Management of the company's growth, as well as the commencement of commercial manufacturing and marketing of the company's forthcoming products, will require continued expansion of the company's systems and internal controls and an increase in the company's manufacturing, marketing and sales operations. In addition, the company intends to continue to add new personnel. Any failure to manage growth effectively and integrate new personnel on a timely basis could adversely affect the company's business.

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The company may not be able to identify significant technology improvements or future acquisitions or may not be successful in integrating acquired businesses.

The company may not be able to identify significant technology improvements or future acquisitions or may not be successful in integrating acquired businesses. The company continuously aims for sustainable growth of its business through research and development, production, and sale of new products and regularly adds new businesses through alliances, ventures, or acquisitions. We place a strong focus on integration of acquisitions as this is critical to achieve the expected results. The company does not know if it will be able to identify any future acquisitions, joint ventures, or alliances. A failure to identify future transactions may impair the company□s future growth.

Internal Risks

The company□s research and development efforts may not succeed or its competitors may develop more effective or successful products.

In order to remain competitive, the company must commit substantial resources each year to research and development through its dedicated resources as well as through various collaborations with third parties. Ongoing investments in new product launches and research and development for future products could produce higher costs without a proportional increase in revenues. Especially in the Pharma businesses, the research and development process can take from six to fourteen years, from discovery to commercial product launch. This process is conducted in various stages, and during each stage there is a substantial risk that the company will not achieve its goals and accordingly may abandon a product for which it has spent substantial amounts.

Due to the inherent unpredictability and high degree of failure associated with the development of new pharmaceuticals, there can be no assurance that we will be able to successfully and timely launch new drugs and other pharmaceutical products. If we do not succeed in developing products for which regulatory approval can be sought, our ability to realize a profitable return on our investment would be diminished. Specifically, if we do not successfully complete our current Phase III registrational trial, receive regulatory approval or achieve market acceptance for asenapine, Organon□s main pipeline drug in the CNS area, we may be unable to commercialize asenapine within the timeframe we planned, or at all, which could have a negative effect on our business and results of operations.

The company is looking for more partners to share the burden and success of product development in this area.

If the company fails to continue developing commercially successful products or fails to find suitable partners, this could have a material adverse effect on the company□s business and results of operations. If its competitors develop more effective products or a greater number of successful new products, or if the competitive position of its European operations changes in a negative way, this could also have a material adverse effect on the company□s business and results of operations.

On the other hand, there is also risk involved with the reliance on partners for the sharing of costs and generation of revenues. If these partners do not perform in accordance with our agreements with them, this could also have a material adverse effect on the company□s business and results of operations.

It can also be the case that due to unwanted side effects of pharmaceutical products, in particular, which appear at a later stage after introduction of a product, the company may decide or may be forced to

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withdraw a certain product from the market. This also could have a material adverse effect on its business and results of operation.

Risks in production processes can adversely affect the companys results of operations.

Certain chemical production processes are hazardous, and natural disasters, operator error or other occurrences could result in explosions, fires, or equipment failure, which could result in injury or death, or damage to property or the environment, and business interruption.

It is the companys policy to try to mitigate production risks by spreading of production and an adequate inventory policy combined with contingency planning and appropriate risk transfer arrangements (e.g. insurances).

Losses and liabilities arising from such events, in so far as not covered by insurance, would significantly reduce the companys revenues or increase costs and could have a material adverse effect on its operations or financial condition.

If the companys management of change is not adequate it may possibly lead to failure to attract the right people or the loss of key staff or knowledge or other business disruption, which could have an effect on productivity and reduced customer focus.

The company puts emphasis on attracting, retaining, motivating, and educating staff, using Human Resources instruments and reduces uncertainty in the working environment through information and communication programs.

The companys future operating results depend in part upon its ability to attract and retain qualified management, scientific, technical, marketing, and support personnel. Competition for such personnel is intense, and there can be no assurance that the company will be able to continue to attract and retain such personnel.

Item 4. INFORMATION ON THE COMPANY

Akzo Nobel N.V. is a public limited liability company (Naamloze Vennootschap) organized under the law of the Netherlands for an indefinite period. The principal executive offices of Akzo Nobel N.V. are located at Velperweg 76, 6824 BM Arnhem, the Netherlands. Its telephone number is +31 (26) 366 4433 and its fax number is +31 (26) 366 3250.

The companys e-mail address is ACC@akzonobel.com, and the address of its website is www.akzonobel.com. Any correspondence regarding this Annual Report on Form 20-F should be directed to the Company Secretary.

The name and address of the person authorized to receive notices and communications from the U.S. Securities and Exchange Commission is:

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At the end of July 2007, the company's principal executive offices will move to Strawinskylaan 2555, 1077 ZZ Amsterdam. The telephone number will be +31 (20) 502 7555 and its fax number will be +31 (20) 502 7666.

OVERVIEW

Akzo Nobel is a Global Fortune 500 company and is listed on both the Euronext Amsterdam and NASDAQ stock exchanges. It i