AKZO NOBEL NV
Form 6-K
July 19, 2004

Form 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13 a - 16 or 15 d - 16 of

The Securities Exchange Act of 1934

Commission file number 0 - 017444

Akzo Nobel N.V.

(Translation of registrant's name into English)

76, Velperweg, 6824 BM Arnhem, the Netherlands

(Address of principal executive offices)

The following exhibit
is filed with this report
Akzo Nobel Report for the second quarter of 2004

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf of the undersigned, thereto duly authorized.

Akzo Nobel N.V.

Name : F.H. Hensel
Title : Senior Vice President Finance

Name : J.J.M. Derckx
Title : Director Corporate Control

Dated : July 19, 2004

Report for the 2nd quarter of 2004

Key figures

| 2nd quarter 2004 | 2nd quarter 2003* | Ch.% | Millions of euros (EUR) | January-June 2004 | January-June 2003* | Ch.% |
|---|---|---|---|---|---|---|
| 216 | 201 | 7 | Net income excl. nonrec. items | 392 | 365 | 7 |
| 0.76 | 0.70 | | - per share, in EUR | 1.37 | 1.28 | |
| 112 | 180 | (38) | Net income | 245 | 319 | (23) |
| 0.39 | 0.63 | | - per share, in EUR | 0.86 | 1.12 | |
| | | | Sales | | | |
| 808 | 888 | (9) | Pharma | 1,629 | 1,772 | (8) |
| 1,397 | 1,411 | (1) | Coatings | 2,628 | 2,673 | (2) |
| 1,147 | 1,133 | 1 | Chemicals | 2,265 | 2,308 | (2) |
| (27) | (33) | | Other | (59) | (67) | |
| 3,325 | 3,399 | (2) | Total | 6,463 | 6,686 | (3) |
| | | | Operating income ** (EBIT) | | | |
| 117 | 146 | (20) | Pharma | 272 | 287 | (5) |
| 146 | 137 | 7 | Coatings | 228 | 207 | 10 |
| 93 | 79 | 18 | Chemicals | 186 | 176 | 6 |
| (21) | (34) | | Other | (59) | (68) | |
| 335 | 328 | 2 | Total | 627 | 602 | 4 |
| 10.1 | 9.6 | | Return on sales **, in % | 9.7 | 9.0 | |
| 9.3 | 7.5 | | Interest coverage | 9.2 | 7.3 | |
| | | | Gearing | 0.99 | 0.92***<br>1.37**** | |
| | | | Number of employees | 63,950 | 64,580***<br>66,360**** | |

Operational performance up; significant nonrecurring charges

- Pharma - going through tough times
- Coatings and Chemicals - clearly up due to autonomous growth and cost savings
- Net nonrecurring charges of EUR 104 million - restructurings and antitrust cases
- Chemicals divestments - on track
- Outlook unchanged - net income, excluding nonrecurring items and special benefits, below 2003

* 2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.
** Excluding nonrecurring items.
*** At December 31, 2003.
**** At June 30, 2003.

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Report for the 2nd quarter of 2004

C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T   O F   I N C O M E

| 2nd quarter | | | Millions of euros | Janu |
|---|---|---|---|---|
| 2004 | 2003 | Ch. % | | 2004 |
| 3,325 | 3,399 | (2) | Sales | 6,463 |
| (2,990) | (3,071) | | Operating costs | (5,836 |
| 335 | 328 | 2 | Operating income * (EBIT) | 627 |
| (36) | (44) | | Financing charges | (68 |
| 299 | 284 | | Operating income * less financing charges | 559 |
| (82) | (89) | | Taxes | (164 |
| 217 | 195 | 11 | Earnings * of consolidated companies, after taxes | 395 |
| 10 | 14 | | Earnings * from nonconsolidated companies | 16 |
| 227 | 209 | | Earnings * before minority interest | 411 |
| (11) | (8) | | Minority interest | (19 |
| 216 | 201 | 7 | Net income excluding nonrecurring items | 392 |
| (104) | (21) | | Nonrecurring items, after taxes and minority interest | (147 |
| 112 | 180 | | Net income | 245 |
| 10.1 | 9.6 | | Return on sales *, in % | 9.7 |
| 9.3 | 7.5 | | Interest coverage | 9.2 |
| 0.76 | 0.70 | | Basic/diluted net income excl. nonrecurring items per share **, in EUR | 1.37 |
| 0.39 | 0.63 | | Basic/diluted net income per share **, in EUR | 0.86 |
| 490 | 494 | (1) | EBITDA | 939 |

| | | | |
|---|---|---|---|
| 134 | 144 | Capital expenditures | 241 |
| 143 | 154 | Depreciation | 287 |

* Excluding nonrecurring items.

** Diluted per share amounts are equal to the basic per share amounts with the exception of diluted net income excluding nonrecurring items per share for the second quarter of 2004, which was EUR 0.75, and net income per share for January-June 2004 and 2003, which were EUR 0.85 and EUR 1.11, respectively.

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Report for the 2nd quarter of 2004

Operational performance up; significant nonrecurring losses

Net income excluding nonrecurring items in the second quarter rose 7% to EUR 216 million. Net income * per share was EUR 0.76 (2003: EUR 0.70). Including net nonrecurring losses of EUR 104 million, second-quarter net income was down 38% to EUR 112 million.

For the first half of 2004, net income excluding nonrecurring items amounted to EUR 392 million, up 7% on 2003. Taking into account net nonrecurring losses of EUR 147 million, net income decreased 23% to EUR 245 million.

Autonomous sales growth of 2%

Second-quarter sales of EUR 3.3 billion were slightly below last year. Autonomous growth at Coatings and Chemicals was more than offset by lower Pharma volumes, negative currency translation effects, and divestments. Sales developed as follows:

| In % | Total | Volume | Price | Currency translation | Acquisitions/ divestments |
|---|---|---|---|---|---|
| Pharma | (9) | (7) | 1 | (3) | |
| Coatings | (1) | 5 | - | (1) | (5) |
| Chemicals | 1 | 2 | 2 | (2) | (1) |
| Akzo Nobel | (2) | 1 | 1 | (2) | (2) |

Operating income - up 2%

Operating income of EUR 335 million was up 2% on last year. The improved operational performance of Coatings and Chemicals and lower pension charges more than offset the earnings decline at Pharma and the negative currency translation effects. Earnings developed as follows:

| Operating income * | Change from 2nd quarter of 2003 |
|---|---|

| Millions of euros | for 2nd quarter of 2004 | Total | Operational performance | Currency translation | Lower pension charges |
|---|---|---|---|---|---|
| Pharma | 117 | (29) | (27) | (5) | 3 |
| Coatings | 146 | 9 | 10 | (4) | 3 |
| Chemicals | 93 | 14 | 12 | (1) | 3 |
| Other ** | (21) | 13 | 10 | - | 3 |
| Akzo Nobel | 335 | 7 | 5 | (10) | 12 |

* Excluding nonrecurring items.

** "Other" mainly comprises pension costs related to former employees of divested operations and results of the (intermediate) holding companies and the captive insurance companies.





Currency translation effects were mainly caused by the weaker U.S. dollar and various Asian currencies.

Return on sales was 10.1%, against 9.6% in the second quarter of 2003.

Financing charges decreased substantially as a result of reduced net borrowings and lower foreign currency exchange rates. Interest coverage in the second quarter improved to 9.3 (2003: 7.5).

The effective tax rate decreased from 31% to 27%, due to incidental factors and changes in the geographic distribution of the Company's results.

Earnings from nonconsolidated companies decreased from EUR 14 million to EUR 10 million, mainly attributable to the Chemicals joint ventures Methanor, FCC Brazil, and Eka Polymer Latex.

Workforce - down 1,440 from restructurings

At June 30, 2004, the Company had 63,950 employees, compared with 64,580 at year-end 2003. Restructurings at all three groups caused a decrease of 1,440, while growth of certain businesses, seasonal influences, and acquisitions and divestments on balance resulted in a workforce expansion of 810. Developments were as follows:

| | June 30, 2004 | Restructurings | Other changes | December 31, 2003 |
|---|---|---|---|---|
| Pharma | 19,920 | (910) | 150 | 20,680 |
| Coatings | 28,890 | (260) | 810 | 28,340 |
| Chemicals | 14,020 | (240) | (150) | 14,410 |
| Other | 1,120 | (30) | | 1,150 |
| Akzo Nobel | 63,950 | (1,440) | 810 | 64,580 |

Report for the 2nd quarter of 2004

Nonrecurring items
In the second quarter of 2004, the Company registered net nonrecurring losses of EUR 104 million. The total net nonrecurring charges for the first half year aggregate EUR 147 million and break down as follows:

| Millions of euros | Gross | Taxes | Net |
| --- | --- | --- | --- |
| Pharma | (69) | 21 | (48) |
| Coatings | (38) | 13 | (25) |
| Chemicals | (17) | 4 | (13) |
| Other | (47) | 1 | (46) |
| Total | (171) | 39 | (132) |
| Nonconsolidated companies | | | (15) |
| Akzo Nobel | | | (147) |

Pharma's nonrecurring losses mainly concern impairment and closure costs of the Organon production site in West Orange, New Jersey, restructuring charges at Diosynth, and costs related to the Remeron (R) court cases in the United States, for which in the first quarter a settlement with generic drug manufacturers was reached. The cases with the direct and indirect purchasers and the State Attorneys General are still ongoing, for which no provisions were recognized yet *.

Coatings' charges relate to the worldwide restructuring program at Car Refinishes, involving a workforce reduction of 600 jobs.

At Chemicals, nonrecurring charges were incurred for the closure of the Surface Chemistry site in Littleborough, United Kingdom.

The nonrecurring charge under Other predominantly consists of an addition to the provision-originally recognized in 2000-for the antitrust cases the Company is involved in *.

The loss for nonconsolidated companies concerns the settlement of certain guarantees for pensions, granted to Acordis at the time of its divestment.

Outlook unchanged - net income, excluding nonrecurring items and special benefits, below 2003
As a consequence of the ongoing negative developments in Pharma, despite somewhat more positive trends in Coatings and Chemicals, we confirm our earlier expressed expectation that full-year net income, excluding nonrecurring items, will be below 2003. This outlook takes the operational impact of the announced Chemicals divestments into account. The special benefit in 2003 from the asenapine cooperation of EUR 70 million, after taxes, is excluded in this comparison.

* Reference is made to the disclosures on pages 98 and 99 in the Akzo Nobel Annual Report 2003.



Report for the 2nd quarter of 2004

Pharma - going through tough times

| 2nd quarter 2004 | 2003 | Ch. % | Millions of euros | January-June 2004 | 2003 | Ch. % |
|---|---|---|---|---|---|---|
| | | | Sales | | | |
| 502 | 576 | | Organon | 1,009 | 1,140 | |
| 254 | 243 | | Intervet | 511 | 496 | |
| 96 | 126 | | Diosynth | 198 | 231 | |
| (44) | (57) | | Intragroup sales/other | (89) | (95) | |
| 808 | 888 | (9) | Total | 1,629 | 1,772 | (8) |
| 117 | 146 | (20) | Operating income * (EBIT) | 272 | 287 | (5) |
| 14.5 | 16.4 | | Return on sales *, in % | 16.7 | 16.2 | |
| 32.1 | 32.2 | | S&D expenses as % of sales | 32.2 | 32.4 | |
| 14.6 | 16.5 | | R&D expenses as % of sales | 15.4 | 16.4 | |
| 158 | 188 | (16) | EBITDA | 358 | 372 | (4) |
| 37 | 59 | | Capital expenditures | 78 | 110 | |
| | | | Invested capital | 2,638 | 2,506** | |
| | | | Number of employees | 19,920 | 20,680** | |

* Excluding nonrecurring items.
** At December 31.

- Sales down - due to lower volumes and currencies
- Cost saving programs - on track
- Organon - facing tough times
  - Remeron (R) - major decline due to generic competition
  - infertility and HT products - sales under pressure
  - gepirone ER - not approved by FDA
  - contraceptives - NuvaRing (R) gathering momentum
  - co-promotion for Avinza (R) - successful
- Intervet - autonomous growth of 6%
- Diosynth - suffering from overcapacity; restructurings progressing well

Report for the 2nd quarter of 2004

Pharma is going through tough times. Sales in the second quarter decreased 9% to EUR 0.8 billion, due to generic competition in the United States for Remeron (R), weaker key currencies, and lower sales for infertility and HT products. Operating income declined 20% to EUR 117 million. Return on sales was 14.5% (2003: 16.4%). In the first half of 2004, due to restructuring the workforce was reduced by 910. The restructuring and cost saving measures are clearly paying off, but did not offset the negative impact from lower Organon sales and the earnings decline at Diosynth. R&D expenses were temporarily somewhat lower this quarter.

The main products in Organon (Human Healthcare) developed as follows:

| Millions of euros | Sales 2nd quarter 2004 | Autonomous growth, % on Q-2 2003 | on Q-1 2004 |
|---|---|---|---|
| Remeron (R) in U.S. | 14 | (74) | (3) |
| Remeron (R) in rest of world | 79 | 1 | (10) |
| Contraceptives | 131 | 4 | 3 |
| Puregon (R)/Follistim (R) | 71 | (13) | 7 |
| Livial (R) | 41 | (20) | 4 |

In the United States, the effects of the generic competition for antidepressants Remeron (R) and Remeron (R) SolTab (R) are bottoming out. In the rest of the world, Remeron's autonomous sales growth was 1% compared to the second quarter of 2003, however down 10% compared to the first quarter of 2004. In June 2004, Organon was informed by the FDA that the antidepressant gepirone ER was "not approvable."
Sales for contraceptives were up, aided by NuvaRing (R) (contraceptive ring), which turned in second quarter 2004 sales of EUR 19 million (Q-2 2003: EUR 9 million; Q-1 2004: EUR 15 million).
Sales of Puregon (R)/Follistim (R) were down in the second quarter of 2004, mainly due to delivery problems in the United States and changed reimbursement policies of the healthcare providers in several important countries. Compared to the first quarter of 2004 sales were higher. The launch of Follistim (R)-AQ (TM) cartridge in the United States was progressing well during the quarter.
Livial (R) sales were impacted by the ongoing discussions about the results of studies on hormone therapies, but were better than in the first quarter of 2004.
The co-promotion with Ligand for their Avinza (R) is showing healthy growth.

The animal healthcare activities Intervet achieved 6% autonomous growth and turned in a satisfactory performance.

Diosynth (active pharmaceutical ingredients) is suffering from overcapacity in the industry and lower (captive) demand. The restructuring program affecting 350 jobs is progressing well. In June 2004, Diosynth and Human Genome Sciences reached an agreement on the process development and production of clinical quantities of a therapeutic monoclonal antibody. Diosynth will be responsible for technology transfer, scaling-up, and production in its new large-scale cell culture facility in Oss, the Netherlands.

Coatings - clearly up due to autonomous growth and cost savings

| 2nd quarter 2004 | 2003 | Ch. % | Millions of euros | January-June 2004 | 2003 | Ch. % |
|---|---|---|---|---|---|---|
| | | | Sales | | | |
| 544 | 534 | | Decorative Coatings | 972 | 952 | |
| 408 | 373 | | Industrial activities | 781 | 735 | |
| 232 | 228 | | Car Refinishes/Nobilas | 453 | 446 | |
| 227 | 214 | | Marine & Protective Coatings | 446 | 418 | |
| (14) | (2) | | Intragroup sales/other | (24) | (7) | |
| 1,397 | 1,347 | 4 | Total continued operations | 2,628 | 2,544 | 3 |
| | 64 | | Impregnated papers | | 129 | |
| 1,397 | 1,411 | (1) | Total | 2,628 | 2,673 | (2) |
| 146 | 137 | 7 | Operating income ** (EBIT) | 228 | 207 | 10 |
| 10.5 | 9.7 | | Return on sales **, in % | 8.7 | 7.7 | |
| 181 | 174 | 4 | EBITDA | 297 | 283 | 5 |
| 29 | 26 | | Capital expenditures | 50 | 48 | |
| | | | Invested capital | 2,208 | 2,043*** | |
| | | | Number of employees | 28,890 | 28,340*** | |

* 2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.
** Excluding nonrecurring items.
*** At December 31.

- Autonomous growth 5% - mainly Asia Pacific and U.S.
- Restructurings paying off - operating income up 7%
- Raw material prices - increasing
- Decorative Coatings - affected by a hesitant business climate in Europe
- Marine & Protective Coatings - star performer
- Industrial activities - solid growth
- Car Refinishes - pressure on margins; major worldwide restructuring announced
- Capital expenditures focused on Asia Pacific
- Various bolt-on acquisitions

In the second quarter, sales of the ongoing Coatings activities grew 4% to EUR 1.4 billion. Autonomous sales growth was 5%, mainly attributable to volume growth. The negative currency impact was 1%.

Operating income rose 7% to EUR 146 million. Return on sales was 10.5% (2003: 9.7%). The contributions from cost savings and lower pension charges more than offset the negative impact of weaker currencies and higher raw material prices, which now are clearly showing an upward trend.

Marine & Protective Coatings, Industrial Finishes, and Powder Coatings improved further. The performance of Decorative Coatings is under pressure from a hesitant business climate in Western Europe and Turkey. Car Refinishes suffers from pressure on margins. In order to realign this business unit with the changing market conditions, a major worldwide restructuring was announced, affecting 600 jobs.

The restructuring programs are progressing well, resulting in a workforce reduction of 260 in the first half of 2004. In growth areas, such as Asia and Eastern Europe, and due to seasonal influences and acquisitions the workforce expanded by 810.

Capital expenditures of EUR 29 million (93% of depreciation) were slightly up compared to the previous year's level. Expenditures are especially directed toward participation in the booming growth in Asia. Two new multi-purpose sites for Industrial Finishes were recently opened in China. In May 2004, the Company announced the construction of a new Decorative Coatings factory in Vietnam.

In the second quarter several bolt-on acquisitions were completed or announced. Nobilas acquired the U.K.-based company Aon Motor Accident Management. This acquisition will secure a leading position for Nobilas in the U.K. market. The Company also announced that Decorative Coatings is to acquire Timpe & Mock, the second largest decorative paint wholesaler in Germany with annual sales of EUR 125 million. This is a major step in the Company's strategy to increase its presence in Germany, the largest coatings market in Europe.

In July 2004, Akzo Nobel signed a contract with the ALTANA Group under which it will acquire their Rhenacoat coil coatings business in France. This is a strategically important acquisition because it will provide Akzo Nobel with a dedicated coil coatings manufacturing facility in France, Europe's largest coil market.

Coatings is pruning its portfolio through selective divestments, which included the industrial resins business in France and the mirror coatings activities in Belgium.





Chemicals - clearly up due to autonomous growth and cost savings

| 2nd quarter | | | Millions of euros | January-June | | |
|---|---|---|---|---|---|---|
| 2004 | 2003* | Ch. % | | 2004 | 2003* | Ch. % |
| | | | Sales | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 241 | 244 | | Pulp & Paper Chemicals | 478 | 520 | |
| 231 | 231 | | Surface Chemistry | 447 | 455 | |
| 201 | 202 | | Functional Chemicals | 401 | 410 | |
| 144 | 143 | | Base Chemicals | 279 | 277 | |
| 121 | 122 | | Polymer Chemical | 241 | 252 | |
| 101 | 88 | | Catalysts | 192 | 179 | |
| 77 | 73 | | Resins | 150 | 146 | |
| 62 | 65 | | Salt | 135 | 142 | |
| 43 | 43 | | Energy | 86 | 86 | |
| (74) | (78) | | Intragroup sales/other | (144) | (159) | |
| ----- | ----- | | | ------ | ------ | |
| 1,147 | 1,133 | 1 | Total | 2,265 | 2,308 | (2) |
| 93 | 79 | 18 | Operating income ** (EBIT) | 186 | 17 | 6 |
| 8.1 | 7.0 | | Return on sales **, in % | 8.2 | 7.6 | |
| 171 | 163 | 5 | EBITDA | 339 | 339 | - |
| 68 | 57 | | Capital expenditures | 112 | 93 | |
| | | | Invested capital | 2,657 | 2,604*** | |
| | | | Number of employees | 14,020 | 14,410*** | |

* 2003 figures have been adjusted for a minor regrouping of activities between Coatings and Chemicals.
** Excluding nonrecurring items.
*** At December 31.

- Autonomous growth of 4%
- Cost saving programs paying off - operating income up 18%
- Raw material and energy prices - increasing
- Functional, Polymer, and Pulp & Paper Chemicals, and Surface Chemistry - benefiting from restructurings and cost savings
- Salt and Base Chemicals - under pressure
- Divestment programs - on schedule





Chemicals' second-quarter sales of EUR 1.1 billion were 1% higher than last year. With uncertain economic conditions persisting in the various regions and markets, volumes and prices were both up 2% from last year. Currency translation had a negative effect of 2%, while divestments resulted in a decrease of 1%.

Operating income jumped 18% to EUR 93 million. Return on sales was 8.1% (2003: 7.0%). The contributions from autonomous growth and cost savings as well as lower pension costs more than offset the negative effects of higher raw material and energy prices and weaker key currencies.

The restructuring programs are progressing well and resulted in a workforce decrease of 240 in the first half of 2004.

Functional Chemicals, Surface Chemistry, Polymer Chemicals, and Pulp & Paper Chemicals clearly benefited from their restructuring and cost saving programs as well as from growth of their activities. Catalysts achieved strong sales growth. Earnings of Salt were under pressure from high shipping costs in Asia, while Base Chemicals was affected by lower caustic prices.

Capital expenditures were up to EUR 68 million, equivalent to 93% of depreciation.

The divestments of Catalysts to Albemarle for EUR 625 million * and of Phosphorus Chemicals to Ripplewood Holdings for EUR 230 million * are expected to be completed in the third quarter of 2004. The divestment of Coating Resins is on track for completion in the last quarter of 2004.

In June 2004, the European Commission decided to allow the Dutch Government to support Akzo Nobel's plans to end chlorine transport by rail in the Netherlands in 2006. This decision makes it financially feasible for Akzo Nobel to start the relocation of chlorine factories. Under the plan, Akzo Nobel will invest around EUR 160 million in a new chlorine plant in Delfzijl. The Company will receive some EUR 65 million from the Dutch Government for the whole project.

* Free of cash and debt.





C O N D E N S E D   C O N S O L I D A T E D   S T A T E M E N T   O F   C A S H   F L O W S

| Millions of euros | January-June |
|---|---|
| | 2004 |
| Total earnings before minority interest | 264 |
| Depreciation and amortization | 312 |
| Cash flow | 576 |
| Changes in working capital | (331) |
| Impairments | 30 |
| Changes in provisions, deferred tax assets and | |

| | | |
|---|---|---|
| accrued prepaid pension costs | (56) | |
| Retained income of nonconsolidated companies | (11) | |
| Other changes | (1) | |
| Net cash provided by operations | | 207 |
| Capital expenditures | (241) | |
| Acquisitions | (22) | |
| Proceeds from divestments | 44 | |
| Repayments nonconsolidated companies | 81 | |
| Other changes | (1) | |
| Net cash used for investing activities | | (139) |
| Dividends paid | | (270) |
| Funds balance | | (202) |
| Net cash (used for)/generated by financing activities | | (138) |
| Effect of exchange rate changes on cash and cash equivalents | | 6 |
| Change in cash and cash equivalents | | (334) |





Operational cash flow - lower due to payments for restructurings and pensions
The funds balance for the first half year of 2004 was EUR 202 million negative (2003: EUR 39 million negative).

Cash flow from operations decreased from EUR 452 million to EUR 207 million in 2004, mainly due to significantly higher payments from provisions. These payments include significant restructuring expenditures and also the additional payment of EUR 50 million to the pension fund in the Netherlands in the first quarter of 2004. The seasonal increase of working capital was in line with the previous year.

Capital expenditures were reduced to EUR 241 million (2003: EUR 257 million), which is 84% of depreciation.





C O N D E N S E D   C O N S O L I D A T E D   B A L A N C E   S H E E T

| Millions of euros | June 30, 2004 | December 31, 2003 |
|---|---|---|

| | | |
|---|---|---|
| Intangible assets * | 595 | 590 |
| Property, plant and equipment | 3,884 | 3,967 |
| Deferred tax assets | 401 | 429 |
| Deferred tax asset for minimum pension liability | 371 | 361 |
| Other financial noncurrent assets | 1,044 | 1,076 |
| Inventories | 2,186 | 2,133 |
| Receivables | 3,191 | 2,671 |
| Cash and cash equivalents | 393 | 727 |
| Total | 12,065 | 11,954 |
| Capital and reserves | 3,392 | 3,326 |
| Minimum pension liability | (851) | (824) |
| Akzo Nobel N.V. shareholders' equity | 2,541 | 2,502 |
| Minority interest | 139 | 140 |
| Equity | 2,680 | 2,642 |
| Provisions | 2,513 | 2,581 |
| Provision for minimum pension liability | 1,379 | 1,342 |
| Long-term borrowings | 2,747 | 2,717 |
| Short-term borrowings | 306 | 441 |
| Current liabilities | 2,440 | 2,231 |
| Total | 12,065 | 11,954 |
| Gearing | 0.99 | 0.92 |
| Shareholders' equity per share, in EUR | 8.89 | 8.76 |
| Number of shares outstanding, in millions | 285.8 | 285.7 |

* Intangible assets include capitalized prior service costs related to the minimum pension liability of EUR 166 million at June 30, 2004 and of EUR 165 million at December 31, 2003.

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Report for the 2nd quarter of 2004

C H A N G E S   I N   E Q U I T Y

| | Capital and reserves | Minimum pension liability | Share-holders' equity | Minority interest | Equity |
|---|---|---|---|---|---|

| Millions of euros | | | | | |
| --- | --- | --- | --- | --- | --- |
| Situation at December 31, 2003 | 3,326 | (824) | 2,502 | 140 | 2,642 |
| Income | 245 | | 245 | 19 | 264 |
| Dividend | (257) | | (257) | (13) | (270) |
| Changes in exchange rates | 78 | (27) | 51 | 3 | 54 |
| Changes in minority interest in subsidiaries | | | | (10) | (10) |
| Situation at June 30, 2004 | 3,392 | (851) | 2,541 | 139 | 2,680 |

Strong financial position
Invested capital at June 30, 2004, amounted to EUR 8.4 billion, EUR 0.2 billion higher than at December 31, 2003, mainly due to the seasonal increase of working capital and currency translation.

Equity was somewhat up, because first half year income and positive currency translation effects more than offset dividends paid. Net interest-bearing borrowings seasonally increased by EUR 0.2 billion. Gearing was 0.99 (December 31, 2003: 0.92; June 30, 2003: 1.37).

Arnhem, July 19, 2004 The Board of Management

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Report for the 2nd quarter of 2004

The report for the 3rd quarter of 2004 will be published on October 19, 2004.

Note
The data in this report are unaudited.

(R) or (TM) indicates trademarks in one or more countries.

The 2003 comparative figures for Coatings and Chemicals have been adjusted for a minor regrouping of activities between these two segments.

Unless indicated otherwise, discussions in this report, such as on earnings developments, exclude nonrecurring items.

Nonrecurring items relate to income and expenses resulting from normal business operations, which, because of their size or nature, are disclosed separately to give a better understanding of the underlying result for the period. These include items such as restructurings and impairment charges, significant gains and losses on the disposal of businesses, and costs related to law suits and antitrust cases, not meeting the requirements for extraordinary items. Operating income before nonrecurring items is one of the key figures management uses to assess the performance of the Company, as these figures better reflect the underlying trends in the results of the activities.

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

Safe Harbor Statement *
This report contains statements which address such key issues as Akzo Nobel's growth strategy, future financial results, market positions, product development, pharmaceutical products in the pipeline, and product approvals. Such statements, including but not limited to the "Outlook", should be carefully considered, and it should be understood that many factors could cause forecasted and actual results to differ from these statements. These factors include, but are not limited to price fluctuations, currency fluctuations, developments in raw material and personnel costs, pensions, physical and environmental risks, legal issues, and legislative, fiscal, and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies. For a more complete discussion of the risk factors affecting our business please refer to our Annual Report on Form 20-F filed with the United States Securities and Exchange Commission.

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

Additional Information
The explanatory sheets used by the CFO during the press conference can be viewed on Akzo Nobel's Internet site at:
www.akzonobel.com/news/presentations.asp

Akzo Nobel N.V.
Velperweg 76
P.O. Box 9300
6800 SB Arnhem
The Netherlands
Tel. + 31 26 366 4433
Fax + 31 26 366 3250
E-mail ACC@akzonobel.com
Internet www.akzonobel.com