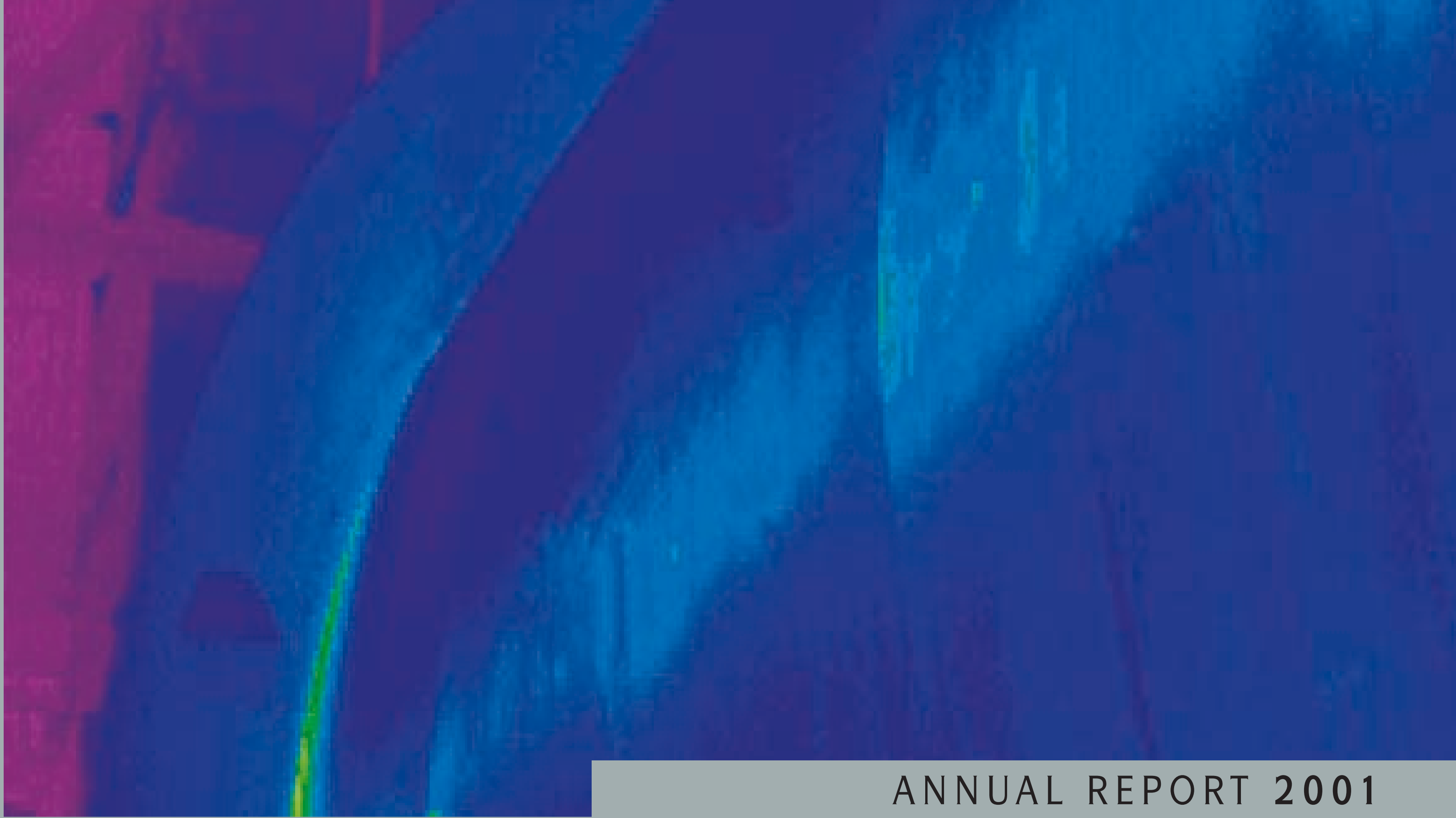


ANNUAL REPORT **2001**

AKZO NOBEL

SAFE HARBOR STATEMENT*

This Annual Report contains statements which address such key issues as Akzo Nobel's growth strategy, future financial results, market positions, product development, pharmaceutical products in the pipeline, and product approvals. Such statements, including but not limited to the "Outlook for 2002," should be carefully considered, and it should be understood that many factors could cause forecasts and actual results to differ from these statements. These factors include, but are not limited to, price fluctuations, currency fluctuations, developments in raw material and personnel costs, physical and environmental risks, and legislative, fiscal, and other regulatory measures. Stated competitive positions are based on management estimates supported by information provided by specialized external agencies.

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

CONTENTS

PROFILE

COMPANY OVERVIEW

Akzo Nobel is a leading company in healthcare products, coatings, and chemicals.

Headquartered in the Netherlands, the Company has activities in 80 countries and employed 67,800 people during 2001. Sales in 2001 were EUR 14.1 billion, with Pharma accounting for EUR 4.0 billion, Coatings for EUR 5.6 billion, and Chemicals for EUR 4.6 billion.

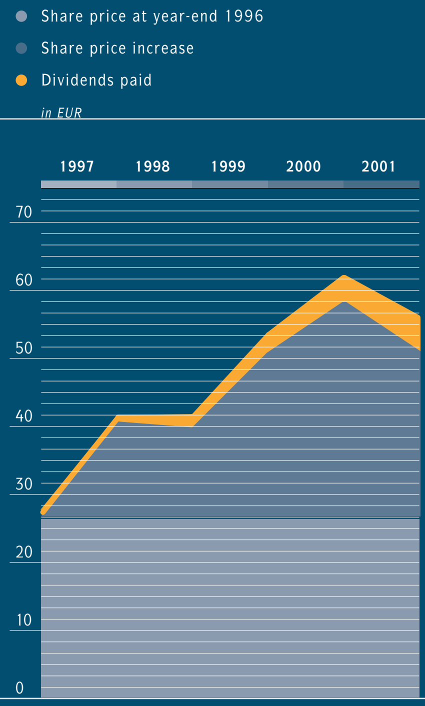
The corporate center coordinates key tasks in such areas as strategy; finance and control; human resources; technology; legal affairs and intellectual property; communications; health, safety, and environment; information management; and risk and insurance management.

In this report the terms "Akzo Nobel" and "the Company" refer to Akzo Nobel N.V. and its consolidated companies in general; the terms "we," "our," and "us" are also used for this purpose. In the chapter "Business Activities," they refer to the businesses concerned.

The symbol ® indicates trademarks registered in one or more countries.

5-year return on Akzo Nobel share

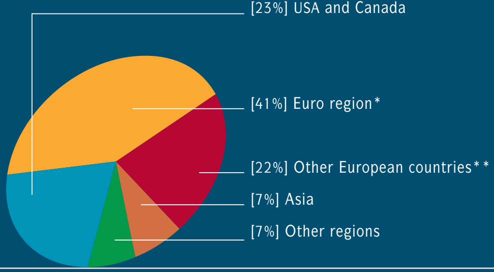
(including dividend)



The above graph shows that the value of an Akzo Nobel share purchased for EUR 26.77 at year-end 1996 rose EUR 23.38 to EUR 50.15 in the five-year period, while shareholders additionally received EUR 5.14 dividend.
In total, this represents an average annual return of 16%.

Net sales by origin

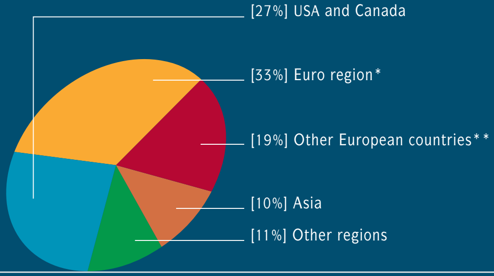
(EUR 14.1 billion)



*	The Netherlands	18%
	Germany	8%
	Other	15%
**	Sweden	8%
	United Kingdom	7%
	Other	7%

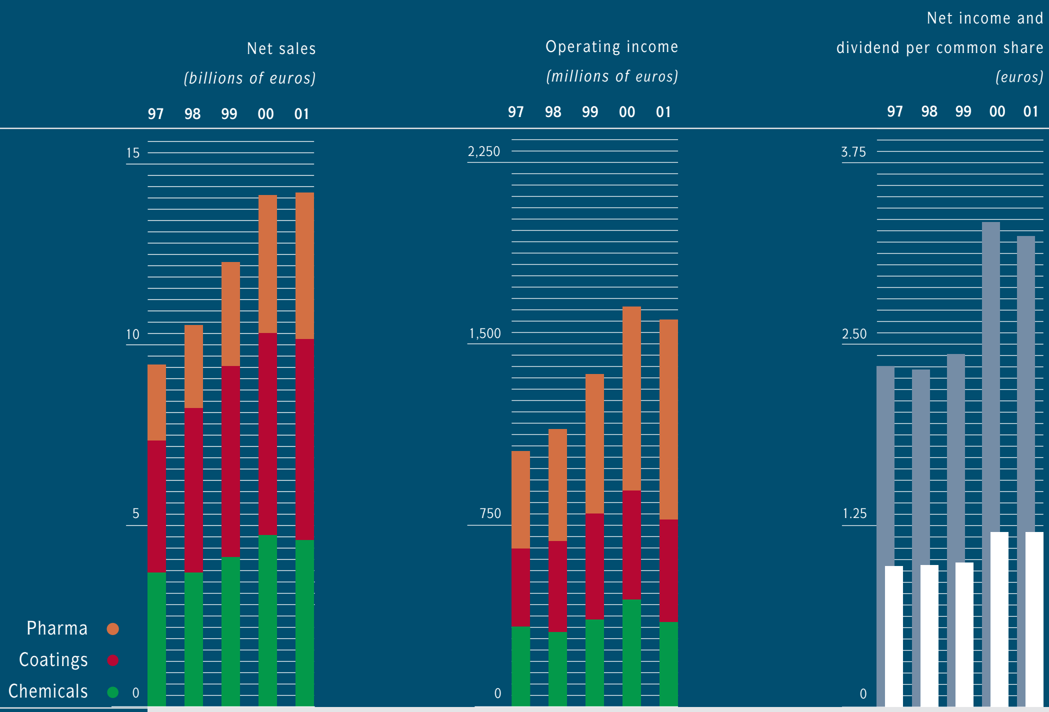
Net sales by destination

(EUR 14.1 billion)



*	The Netherlands	5%
	Germany	8%
	Other	20%
**	Sweden	4%
	United Kingdom	7%
	Other	8%

For definitions of certain financial ratios and concepts see back cover foldout.



COMPANY OVERVIEW*

Millions of euros (EUR)	2001	2000	Key changes in %
Net sales	**14,110**	14,003	1
Operating income (EBIT)			
– before nonrecurring items	**1,571**	1,641	(4)
– after nonrecurring items	**1,122**	1,557	
Economic Value Added (EVA)	**515**	485	6
Net income excluding extraordinary and nonrecurring items	**930**	956	(3)
Net income	**671**	947	
Shareholders' equity at year-end	**2,621**	2,437	8
EBITDA	**2,245**	2,305	(3)
Property, plant and equipment			
– expenditures	**822**	725	13
– depreciation	**635**	631	
*Per common share outstanding, in EUR***			
Net income excluding extraordinary and nonrecurring items	**3.25**	3.34	(3)
Net income	**2.35**	3.31	
Dividend	**1.20**	1.20	
Shareholders' equity at year-end	**9.17**	8.52	8
Share price at year-end	**50.15**	57.20	(12)
Key ratios			
EBIT			
– as percent of net sales (ROS)	**11.1**	11.7	
– as percent of invested capital (ROI)	**17.3**	18.9	
Interest coverage	**6.1**	6.7	
EBITDA : interest	**8.7**	9.4	
Gearing	**1.47**	1.65	
Number of employees at year-end	**66,300**	68,400	

*) *Unless stated otherwise, figures are exclusive of extraordinary and nonrecurring items. Prior year figures have been adjusted to reflect changes in accounting principles. The changes in 2001 are set forth on page 64. Sales and operating income in the graphs are exclusive of Acordis/Fibers divested in 1999.*

**) *Diluted per share amounts are equal to the basic per share figures, except for diluted net income per share for 2001, which was EUR 2.34.*

CHAIRMAN'S STATEMENT

Dear Shareholders,

By many standards 2001 was a turbulent year. The brutal attacks on the United States brought about an international war against terrorism and aggravated a process of worldwide economic decline which had previously set in. Against this background your company has shown a great deal of resilience and can report earnings close to the record earnings of 2000. It is proposed that the dividend be left unchanged.

RESILIENT PERFORMANCE

Our high growth in Pharma and the exit from the Fibers business have certainly contributed to this stable performance. The benefits of this strategy have also been reflected in our stock price which could not escape a small decline relative to the previous year but outperformed most relevant indices.

Needless to say, we realize that Pharma's strong performance largely compensates for an earnings decline of 5% in Coatings and 24% in Chemicals. Although these declines are moderate relative to their industries, they only strengthened our determination to further upgrade our activities. We are doing this through internal restructurings and portfolio improvements.

UPGRADING ACTIONS

Far-reaching restructuring programs targeted to achieve annualized cost savings of EUR 200 million over the next couple of years will impact worldwide some 2,000 jobs at Coatings and 1,500 at Chemicals.

We also modified our portfolio to bring it further in line with our priorities. We invested heavily in growth in Pharma; capital expenditures increased and substantially exceeded depreciation. In addition, we acquired a bridgehead in the United States for our Biotech business. Still, excellent results and the divestment of our Diagnostics business created a positive net cash balance at Pharma.

Our Coatings and Chemicals activities funded their investments and acquisitions from their own generated cash flow. Emphasis was placed on a limited number of targeted acquisitions and divestments in Europe and the United States and some important greenfield investments in Asia, notably in China, and in Russia—two countries where market growth has remained remarkably high.

We also relocated the headquarters of some business units to the real geographic centers in their markets. Polymer Chemicals moved from the Netherlands to Chicago, and Organon is in the process of moving its international headquarters to New Jersey. The new business unit Powder Coatings found a logical home in Felling, United Kingdom. As a result, we presently have ten business units operating from the Netherlands, five from Sweden, three from the United Kingdom, and three from the United States.

The consistent execution of our policy and adherence to our priorities provide a predictable and transparent course of action for our customers, employees, and shareholders. This is the best guarantee for value creation. Measured by EVA, we added EUR 515 million value in this difficult year.

PROFIT UP IN 2002

We assume that the economy will resume growth again in the second half of this year and that no major changes will occur in currency exchange rates. Against that background, we expect, that our ongoing internal programs to boost performance will lead to a net income, excluding extraordinary and nonrecurring items, for 2002 which exceeds the record year 2000.

ALIGNING INTERESTS

To further enhance the quality of our earnings, we have spent and will continue to spend considerable time on in-house training in such key policy areas as application of Business Principles, Competition Compliance, Risk Management, and Good Practices in Human Resources. These programs enable our staff to sharpen their business judgment, gain a better appreciation of risk reward relationships, and improve their motivation. Such programs also contribute to aligning the interests of all parties in the Company. This was also the motive for the employee share plan.

The events of September 11 certainly drove the point home that the safety, security, and health of our employees come first. We have taken special initiatives to respond to these concerns as much as we continue to be active in maintaining an environmentally sustainable future for all our businesses.

It is our people who in the difficult business environment of 2001 provided the return on your investment, and we are thankful for what they have achieved.

Cees J.A. van Lede
Chairman of the Board of Management

MAJOR EVENTS IN 2001

(in chronological order)

PHARMA

- Organon launches Remeron®SolTab™ in the U.S. market, a fast release formulation of its leading antidepressant drug
- Intervet concentrates U.S. animal healthcare manufacturing operations through new integrated EUR 40 million facility in DeSoto, Kansas
- Diosynth establishes biotech bridgehead in the United States through EUR 223 million acquisition of CBSI
- Organon announces relocation of its international headquarters to the United States
- Organon invests EUR 92 million in new office facilities to further integrate its U.S. activities
- Organon Teknika's Diagnostics business divested to bioMérieux
- The U.S. Food and Drug Administration (FDA) approves NuvaRing®, Organon's hormonal vaginal contraceptive ring
- Diosynth starts EUR 18 million extension of the biotech production unit for fermentation and cell culture in Oss, the Netherlands (total investment EUR 45 million)
- Organon and codeveloper Sanofi-Synthélabo receive FDA approval for the antithrombotic drug Arixtra® in the United States
- The Committee for Proprietary Medicinal Products (CPMP) adopts positive opinion on marketing authorization for Arixtra® in the European Union

COATINGS

- New site opened in Suzhou, China, for production of car refinishes, powder coatings, and transportation coatings
- Car Refinishes acquires vehicle refinishes business from MAC Specialty Coatings in the United States
- Marine & Protective Coatings invests in tin-free resin production for TBT-free antifouling coatings in the United Kingdom
- New Powder Coatings business unit establishes platform for continuing growth and announces investments in new plants in Beijing and Ho Chi Minh City
- Industrial Products strengthens its positions in Ecuador and Brazil
- Printing Inks divested to a private equity company and the business unit's management (deal finalized in early 2002)
- Marine & Protective Coatings starts up EUR 19 million heavy-duty coatings plant in Houston, Texas
- Industrial Coatings opens new site in Dongguan City, China, for the production of wood coatings

CHEMICALS

- Polymer Chemicals divests ADC monomer business
- Pulp & Paper Chemicals sells its 50% participation in Akzo-PQ Silica to PQ Corporation
- Plastics and Processing Additives invests in polysulfide expansion in Germany
- Pulp & Paper Chemicals invests EUR 13 million in new processing plant for colloidal silica in the United States
- Surface Chemistry invests EUR 35 million in Asia

RESTRUCTURINGS

- Major restructuring plans announced at Coatings and Chemicals, impacting some 3,500 jobs worldwide

3 5 1 2 4

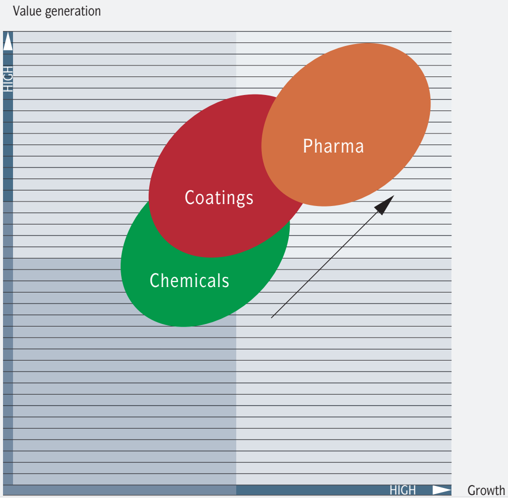
BOARD OF MANAGEMENT

	Has served in this or similar capacity since:
[1] Cees J.A. van Lede (1942, Dutch), *Chairman*	1991
[2] Fritz W. Fröhlich (1942, German), *Deputy Chairman*	1993
[3] Paul K. Brons (1941, Dutch), *Pharma*	1994
[4] Rudy M.J. van der Meer (1945, Dutch), *Coatings*	1993
[5] Dag Strömqvist (1942, Swedish), *Chemicals*	2000

	Has served in this or similar capacity since:
Secretary	
Bart C.M.I. Beusmans* (1940, Dutch)	1996
General Counsel	
A. Jan A.J. Eijsbouts (1945, Dutch)	2000
Senior Vice Presidents	
Frits H. Hensel (1943, Dutch), *Finance*	1997
Olle Werner (1944, Swedish), *Human Resources*	1997

** To be succeeded by G.H. (Han) Jalink as from April 1, 2002.*

OUR STRATEGY: VALUE CREATION



AMBITIOUS OBJECTIVES

Akzo Nobel is a diversified multinational corporation. We consider our diversity an asset, the real value of which lies in our organization philosophy of strongly decentralized business units, combined with optimal use of our financial strength, cyclical resilience, and collective know-how. We will further strengthen our market positions through a targeted investment policy, bolt-on acquisitions and, if necessary, restructuring measures. We will continuously aim at striking a proper balance between the Company's overall size and the focus on our diverse activities. Our strategy is consistent but constantly fine-tuned to optimize value creation—measured by EVA.

We strive to maintain double-digit growth in Pharma, further strengthen and expand our Coatings business—the world's largest in its industry—and concentrate on improving Chemicals' returns and cash flow.

Pharma
With the sale of the nonprescription medicine business of Chefaro and Organon Teknika's Diagnostics business, Pharma is now focusing on prescription pharmaceuticals, animal healthcare, and complex active pharmaceutical ingredients. Several acquisitions have been made in the recent past to further reinforce these three businesses. This focused portfolio enables us to exploit our extensive knowledge base, capitalize on our pipelines of innovative products, and harness critical mass in selected markets. Our strategic trio—Organon, Intervet, and Diosynth—provides a sound basis for maintaining double-digit organic growth and healthy profitability. Given our priority for growth, we will continue to invest in R&D and in selling and distribution. We target a return on sales of more than 20% and eventually a 40% return on investment.

Coatings

In Coatings we aim to strengthen our world leading position through organic growth and selective bolt-on acquisitions. After the major acquisitions made in the last few years the accent is now on harvesting the integration benefits. The worldwide coatings market is in a process of consolidation, in which we want to play a leading role, especially since in this still fragmented market we, as the world leader, only represent an 8% market share. Growth in mature markets is expected to remain in line with GDP; opportunities are in emerging and newly industrialized markets. Growth opportunities also come with technology switches driven by environmental considerations. We have created an improved platform for further profitable growth, which will bring us step by step closer to our ambitious goal of achieving a 30% return on investment.

Chemicals

For Chemicals critical mass and leading positions in chosen segments are essential in the still quite fragmented chemical industry. Our primary efforts focus on structural improvement of margins and cash flow with ongoing cost savings programs. Pruning the portfolio, selective acquisitions, and generating sufficient cash flow to cover capital expenditures are the leading principles. Growth efforts are directed at North America and Asia. We are targeting a return over the business cycle of 2.5% over the cost of capital, which corresponds to a return on investment of about 17%.

Akzo Nobel's key products, competitive positions, as well as Pharma's products in the pipeline are stated on pages 26 and 27.

REPORT OF THE SUPERVISORY BOARD

Activities
During the year the Supervisory Board met four times instead of five times as usual. In view of the September 11 events the meeting scheduled for September had to be canceled at the very last moment. The Board was regularly informed through business reports, rolling forecasts, strategic and operational plans, and presentations by the Board of Management and periodically consulted with the Board of Management on strategy, finance, and major actions.

Subjects discussed in depth were:

- the Company's overall strategy
- economic and market developments, including the effects of the September 11 events
- restructuring measures
- competition compliance
- risk management
- the Company's financial structure
- major investment projects, acquisitions, and divestments.

The *Nomination and Remuneration Committee* prepared proposals for nominations and reappointments to the Supervisory Board and for nominations to the Board of Management. Furthermore, the Committee made remuneration proposals for the members of the Board of Management, including the granting of options and other benefits, for approval by the Supervisory Board.

The *Audit Committee* held consultations with the Chairman of the Board of Management, the Chief Financial Officer, and the external and internal auditors on such issues as accounting principles, internal control, auditors' independence, administrative organization, and risk management. In January 2002, the preparations for the 2001 Financial Statements were extensively discussed with the Board of Management, the external auditors, and the internal auditors. At the recommendation of the Audit Committee the full Board approved the Financial Statements.

Changes in the Supervisory Board
At the General Meeting of April 26, 2001, Jean G.A. Gandois, who had served on the Board for twelve years, resigned as he had reached retirement age. The Board expresses its gratitude to Mr. Gandois for the invaluable contributions he made to the Company over the years.

At the General Meeting of April 24, 2002, Lo C. van Wachem, who has served on the Board for ten years, will step down, having reached retirement age. With his great expertise and broad experience, Mr. van Wachem rendered outstanding services to the Company.

L. Paul Bremer, III and Maarten C. van Veen will step down at the same meeting as their terms of office are expiring. They are recommended for reappointment.

Also at that meeting it will be proposed that membership of the Supervisory Board be raised by one to ten, and that Alain Mérieux and Karel Vuursteen be appointed as Board members. Mr. Mérieux (63) is currently President of the bioMérieux Company in France. Mr. Vuursteen (60) has been Chairman of Heineken N.V. since 1993.

Changes in the Board of Management
At the General Meeting of April 24, 2002, several proposals for changes in the Board of Management will be submitted in order to ensure continuity in the management of the Company.

Paul K. Brons (60) will retire effective July 1, 2002. Toon (A.) Wilderbeek (51), currently General Manager of Akzo Nobel's veterinary business unit Intervet, will be proposed as his successor.

At May 1, 2003, Cees J.A. van Lede (59) will retire as Chairman of the Board of Management. It will be proposed that Hans (G.J.) Wijers, currently Senior Vice President of the Boston Consulting Group and Chairman of the Dutch Office, be nominated to join the Board of Management on October 1, 2002, to succeed Mr. Van Lede as Chairman, effective May 1, 2003. Mr. Wijers will act as adviser to the Board of Management, starting July 1, 2002.

In the context of these changes it will be proposed that membership of the Board of Management be raised by one and be fixed at six.

The Supervisory Board wishes to express its great indebtedness to Mr. Brons for his thirty-seven years of excellent service to the Company. From 1979 till 1983 he was a member of Organon's board after which he became its President. In 1994, he joined the Board of Management with special responsibility for Pharma. Much of Pharma's success is owed to Mr. Brons' great business acumen and wise counsel.

Financial Statements and Dividend Proposal
The Supervisory Board herewith submits for shareholders' approval at the General Meeting of April 24, 2002, the financial statements of Akzo Nobel N.V. for 2001 as prepared by the Board of Management. These financial statements have been audited by KPMG Accountants N.V. Their report can be found on page 92.

The Supervisory Board has approved these financial statements as well as the Board of Management's proposal made therein with regard to the allocation of profit, and the dividend proposal, as stated on page 17. Shareholders are recommended to adopt the financial statements and discharge the members of the Board of Management of their responsibility for the conduct of the business and the members of the Supervisory Board for their supervision.

Arnhem, February 21, 2002

The Supervisory Board

Has served in this or similar capacity since:		
[1] Aarnout A. Loudon (1936, Dutch), *Chairman* 1)	1994	*Former Chairman of the Board of Management of Akzo Nobel* *Chairman of the Supervisory Boards of ABN AMRO Bank and Hollandsche Beton Groep, the Netherlands* *Member of the Supervisory Board of Royal Dutch Petroleum Company* *Nonexecutive Director of Corus Group*
[2] Frits H. Fentener van Vlissingen (1933, Dutch), *Deputy Chairman* 1) 2)	1984	*Managing Director of Flint Holding, the Netherlands* *Advisory Director of Unilever* *Deputy Chairman of the Supervisory Board of SHV Holdings, the Netherlands* *Chairman of the Supervisory Board of Draka, the Netherlands* *Member of the Supervisory Board of CSM, the Netherlands*
[3] The Rt. Hon. Virginia Bottomley JP MP (1948, British)	2000	*Former Secretary of State for Health and Member of the British Cabinet* *Vice Chairman of the British Council* *Governor of the London School of Economics* *Partner of Odgers Ray & Berndtson*
[4] L. Paul Bremer, III (1941, American)	1997	*Former U.S. Ambassador to the Netherlands* *Chairman & CEO of Marsh Crisis Consulting* *Nonexecutive Director of Air Products & Chemicals, Pennsylvania* *Chairman of the U.S. National Commission on Terrorism*

5 6 7 8 9

Has served in this or similar capacity since:

[5] Abraham E. Cohen (1936, American) [2]	1992	*Former Senior Vice President of Merck & Co and President of Merck Sharp & Dohme International* *Chairman of Vasomedical, New York, and Neurobiological Technologies, California* *Nonexecutive Director of Smith Barney (Mutual Funds), New York, Teva Pharmaceutical Ind., Israel, and Pharmaceutical Product Development, North Carolina*
[6] Hilmar Kopper (1935, German) [2]	1990	*Chairman of the Supervisory Boards of Deutsche Bank and DaimlerChrysler* *Member of the Supervisory Boards of Bayer and Solvay* *Advisory Director of Unilever* *Nonexecutive Director of XEROX*
[7] Lars H. Thunell (1948, Swedish) [2]	1999	*President and CEO of SEB Skandinaviska Enskilda Banken* *Member of the Board of Swedish Bankers Association* *Member of the Board of b-business partners B.V., the Netherlands* *Member of the Board of the Swedish Industry and Commerce Stock Exchange Committee*
[8] Maarten C. van Veen (1935, Dutch) [1]	1997	*Former CEO of Koninklijke Hoogovens, the Netherlands* *Chairman of the Supervisory Board of Koninklijke Volker Wessels Stevin, the Netherlands* *Member of the Supervisory Board of ABN AMRO Bank* *Deputy Chairman of the Supervisory Board of Imtech, the Netherlands* *Nonexecutive Director of Corus Group*
[9] Lo C. van Wachem (1931, Dutch) [1]	1992	*Former President, now Chairman of the Supervisory Board of Royal Dutch/Shell* *Chairman of the Supervisory Board of Royal Philips Electronics* *Member of the Supervisory Boards of BMW and Bayer* *Nonexecutive Director of IBM* *Nonexecutive Director of Atco, Canada, and Zurich Financial Services, Switzerland*

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

REPORT OF THE BOARD OF MANAGEMENT

GENERAL*

SOUND FINANCIAL PERFORMANCE

- **Net income 3% below record year 2000**
- **Operating income (EBIT) 4% below 2000**
- **EVA of EUR 515 million (up 6%); all three groups generating value over cost of capital**
- **Pharma contributing more than half of Akzo Nobel's operating income, with continued double-digit growth**
- **Major restructuring programs initiated to cope with weak business climate for Coatings and Chemicals**
- **Capital expenditures EUR 822 million, 129% of depreciation (2000: 115%)**
- **Positive funds balance EUR 315 million (2000: EUR 463 million)**
- **Net interest-bearing debt reduced by EUR 233 million**
- **No significant changes in gearing and interest coverage**

PHARMA

Pharma's operating income rose 9% to EUR 831 million, despite considerably higher marketing and R&D expenses. In 2001, Organon again realized strong growth and distinctly higher results, spurred by strong performance of all of its five main products. Double-digit sales growth was achieved in most of the key countries. The United States, accounting for more than one-third of Organon's worldwide sales, registered a 30% increase. Intervet continued its growth pattern with considerable sales gains and improved margins. In the United States, the slowdown of the economy did not affect Intervet's sales. For Diosynth, 2001 was a successful year with continued growth both in terms of sales and earnings and the establishment of a bridgehead in the United States.

COATINGS

Despite difficult economic circumstances, operating income of EUR 426 million was only 5% lower than in 2000. On balance, results of Decorative Coatings were up from the previous year. Activities in Europe recovered, while the weak economy in Turkey continued to have a negative impact. The industrial coatings activities felt the impact of the economic downturn in virtually all geographic markets, notably the United States and Europe. Car Refinishes succeeded in maintaining its earnings level in the face of difficult market conditions. Marine & Protective Coatings again achieved substantial growth in sales and earnings, helped by the shipbuilding boom in Asia Pacific.

CHEMICALS

In 2001, the chemical industry was impacted by recession. Overall, Chemicals' operating income declined by 24% to EUR 340 million. Pulp & Paper Chemicals maintained its market positions and registered higher results. Salt also turned in a strong performance. Surface Chemistry showed strong resilience to the economic slowdown and came close to its record results achieved in 2000. Base Chemicals stayed behind, largely due to a planned major plant overhaul and a depressed PVC market. Catalysts' results were impacted by higher raw material and energy costs in the United States. Polymer Chemicals, Plastic and Processing Additives, and Functional Chemicals had a difficult year. Resins was also unable to reach the previous year's level.

* *The 2000 figures have been restated to reflect the changes in accounting principles in 2001 as set forth on page 64. Unless stated otherwise, net income and operating income figures are exclusive of extraordinary and nonrecurring items.*

Condensed Consolidated Statement of Income

Millions of euros	**2001**	2000
Net sales:		
Pharma	**4,044**	3,839
Coatings	**5,591**	5,568
Chemicals	**4,604**	4,740
Other	**(129)**	(144)
Total	**14,110**	14,003
Operating income (EBIT) before nonrecurring items:		
Pharma	**831**	765
Coatings	**426**	447
Chemicals	**340**	445
Other	**(26)**	(16)
	1,571	1,641
Financing charges	**(257)**	(245)
Operating income before nonrecurring items, less financing charges	**1,314**	1,396
Taxes thereon	**(417)**	(462)
Earnings of consolidated companies, after taxes	**897**	934
Earnings from nonconsolidated companies	**69**	65
Earnings before minority interest	**966**	999
Minority interest	**(36)**	(43)
Net income excluding extraordinary and nonrecurring items	**930**	956
Extraordinary and nonrecurring items, after taxes	**(259)**	(9)
Net income	**671**	947
Per common share outstanding, in EUR		
Net income excluding extraordinary and nonrecurring items	**3.25**	3.34
Net income	**2.35**	3.31
R&D expenditures:		
Pharma	**536**	492
Coatings	**160**	150
Chemicals	**142**	140

Net sales in 2001 amounted to EUR 14.1 billion, up 1% from 2000. Higher volume for Pharma was offset by lower volume for Coatings and Chemicals. Average selling prices were 2% higher. The balance of acquisitions and divestments was nil, while currency translation had a 1% negative effect. An analysis of the development of sales per group is given at the bottom of this page.

ROS in %	**2001**	2000
Pharma	**20.5**	19.9
Coatings	**7.6**	8.0
Chemicals	**7.4**	9.4
Akzo Nobel	**11.1**	11.7

Financing charges were somewhat higher than in the previous year due to higher short-term interest rates in the first half of the year, the strong U.S. dollar, and less capitalized interest, partially offset by the Company's lower debt level. Interest coverage was 6.1 (2000: 6.7).

The *income tax* charge for 2001 amounted to 32%, compared with 33% in 2000, reflecting changes in the geographic distribution of the Company's results.

Earnings from nonconsolidated companies increased from EUR 65 million to EUR 69 million. Higher results for ECI Elektro-Chemie, the Brazilian catalysts joint venture FCC, and Nippon Ketjen Company were partially offset by lower earnings of Methanor.

Minority interest decreased by EUR 7 million, predominantly due to lower results of the consolidated Coatings joint ventures in Turkey.

Extraordinary and nonrecurring items in 2001 mainly related to restructuring programs and divestment of activities, as set forth on page 17.

R&D expenditures were up 7% from 2000, primarily reflecting Pharma's continuously increased efforts. Pharma's R&D expenses as a percentage of sales were 13%; for Coatings and Chemicals each 3%.

Development of sales in %

	Volumes	Average selling prices	Acquisitions/ divestments	Currency translation	Total
Pharma	9	1	(4)	(1)	5
Coatings	(2)	3	1	(2)	–
Chemicals	(3)	1	–	(1)	(3)
Akzo Nobel	**–**	**2**	**–**	**(1)**	**1**

Funds Balance

Millions of euros	**2001**	2000
Earnings before minority interest	**702**	990
Depreciation and amortization	**674**	664
Cash flow	**1,376**	1,654
Other adjustments to reconcile earnings to cash provided by operations	**218**	80
Changes in working capital	**(141)**	(367)
Net cash provided by operations	**1,453**	1,367
Capital expenditures	**(822)**	(725)
Expenditures for intangible assets	**(59)**	(33)
Acquisitions	**(314)**	(270)
Proceeds from divestments	**376**	358
Redemption loans nonconsolidated companies	**92**	83
Other changes	**(35)**	(4)
Net cash used for investing activities	**(762)**	(591)
Dividends paid	**(376)**	(313)
Total net cash used	**(1,138)**	(904)
Funds balance	**315**	463

Net cash provided by operations was EUR 86 million higher. Earnings were lower, primarily due to write-downs and building of provisions for restructurings, which had no significant cash effect in 2001.

The increase in *working capital* in 2001 was mainly due to growth of the Pharma business, which resulted in higher inventory and receivable balances.

Capital expenditures totaled EUR 822 million (129% of depreciation), with key focus on Pharma.

Acquisitions in 2001 primarily related to the acquisition of CBSI by Diosynth and several smaller acquisitions in Coatings and Chemicals.

Proceeds from divestments in 2001 mainly stemmed from the sale of Organon Teknika's Diagnostics activities.

Redemption of loans by nonconsolidated companies principally related to repayment of the remainder of the subordinated loan extended to Acordis.

In 2001, as in the previous year, normal operations were financed without additional capital market transactions. The Company continued to use the money market, including the Euro and U.S. commercial paper markets, for short-term funding requirements. As backup for this financing, committed credit lines were in place in the amount of EUR 2 billion.

Condensed Consolidated Balance Sheet

Millions of euros, December 31	**2001**	2000
Noncurrent assets	**6,396**	6,216
Working capital*	**2,795**	2,784
Invested capital of consolidated companies	**9,191**	9,000
Nonconsolidated companies	**575**	673
Cash and cash equivalents	**455**	416
	10,221	10,089
Equity	**2,759**	2,596
Provisions	**2,960**	2,797
Borrowings	**4,502**	4,696
	10,221	10,089

Invested capital at December 31, 2001, amounted to EUR 9.2 billion, an increase of EUR 0.2 billion compared to year-end 2000. Working capital was EUR 0.1 billion higher, while currency translation also added EUR 0.1 billion. Acquisitions and divestments, on balance, had virtually no effect.

The *invested capital turnover ratio* was 1.55, against 1.61 in 2000.

The EUR 0.2 billion increase in *equity* was principally caused by the balance of retained income (EUR 0.3 billion) and negative currency translation effects (EUR 0.1 billion). As a consequence of higher equity and lower net interest bearing debt, gearing improved from 1.65 to 1.47.

* *Including dividends to be paid.*

FAR-REACHING RESTRUCTURINGS

In July, the Company announced major restructuring programs for Coatings and Chemicals, which would lead to a workforce reduction of 2,000 employees worldwide. In the meantime, the Company has significantly extended these restructuring programs. They now affect 3,500 jobs worldwide. Through these measures the Company expects to structurally reduce its cost level over the next few years by some EUR 200 million annually.

The divestment of Diagnostics and Printing Inks resulted in a net extraordinary gain of EUR 63 million.

LOWER HEADCOUNT DUE TO DIVESTMENTS AND RESTRUCTURINGS

At December 31, 2001, the number of employees was 66,300, compared with 68,400 at year-end 2000. Divestments, particularly Pharma's Diagnostics activities and Printing Inks, caused a decrease of 3,000, while cost-saving measures at Coatings and Chemicals led to a reduction of 1,800. Acquisitions, mainly for Diosynth in the United States, added 800. Autonomous growth expanded the workforce by 1,900, notably at Pharma.

DIVIDEND PROPOSAL

A dividend of EUR 1.20 per common share (2000: EUR 1.20) will be proposed at the General Meeting of Shareholders of April 24, 2002. In November 2001 an interim dividend of EUR 0.30 was declared and paid. Adoption of this proposal will result in a dividend payment of EUR 343 million, a payout ratio of 37% relative to net income excluding extraordinary and nonrecurring items.

Pages 18 through 59 form an integral part of the Report of the Board of Management.

OUTLOOK FOR 2002

We assume that the economy will resume growth again in the second half of this year and that no major changes will occur in currency exchange rates. Against that background, we expect, that our ongoing internal programs to boost performance will lead to a net income, excluding extraordinary and nonrecurring items, for 2002 which exceeds the record year 2000.

Capital expenditures are expected to be somewhat higher than in 2001, with key focus on growing Pharma.

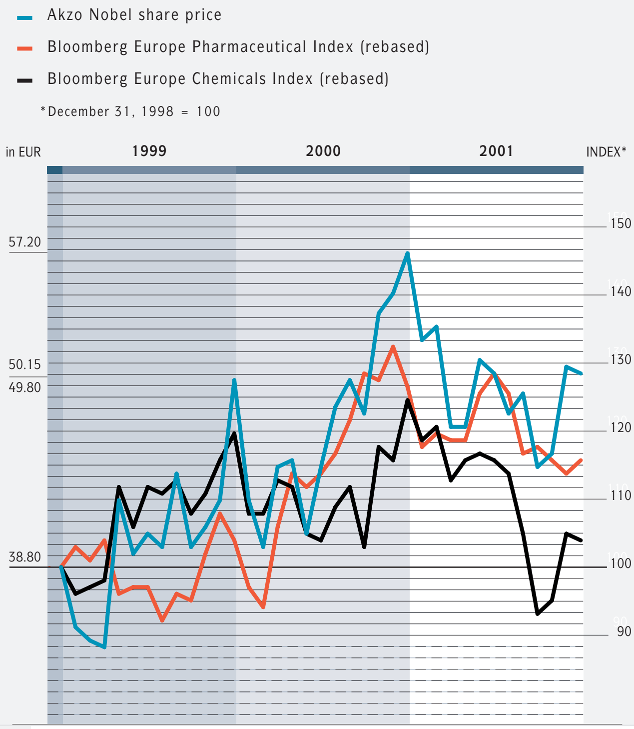
We expect to generate a financial surplus, so that no additional funds will have to be raised for ongoing operations in 2002. For refinancing part of our short-term borrowings and expiring long-term borrowings, we are considering the use of the capital market.

Excluding acquisitions and divestments, the number of employees will decrease considerably in 2002 due to the restructuring programs initiated in 2001.

Arnhem, February 21, 2002

The Board of Management

AKZO NOBEL SHAREHOLDERS



SHAREPRICE OUTPERFORMS INDICES

Over the last three years Akzo Nobel's share price has generally outperformed the most relevant indices.

FOCUS ON CAPITAL PRODUCTIVITY

To enhance our focus and structurally improve our earnings level we divested the Diagnostics business and strengthened Diosynth's U.S. biotech position through the acquisition of CBSI. In addition, we divested Coatings' Printing Inks business and initiated major restructuring programs for Coatings and Chemicals. Pharma's high level of capital expenditures—more than twice depreciation—demonstrates our priority for growth in that area.

VALUE CREATION

In 2001, EVA has been implemented at all business units as a tool to measure performance and appraise investments and acquisitions. We strive for optimal value creation, while conducting our business in a socially responsible manner.

in millions of euros EVA	2001	2000
Pharma	**385**	330
Coatings	**90**	120
Chemicals	**10**	50
Corporate	**30**	(15)
Total	**515**	485

The adverse general economic environment in 2001 resulted in a mixed financial performance, with Pharma adding more value while at Coatings and Chemicals value creation was down from the previous year. All three groups surpassed the internal threshold of 9% cost of capital.

POSITIVE RESPONSE TO EMPLOYEE SHARE PLAN

In 2001 we started the introduction of the Employee Share Plan announced in 2000. First surveys show that the objective of better aligning employee and shareholder interests will be met. For about half of the participants the plan means their first acquaintance with share ownership. The Company buys the employee shares in the open market.

INVESTOR RELATIONS: OPEN DIALOGUE

Akzo Nobel attaches great value to maintaining an open dialogue with the financial community to promote transparency. In 2001, Company management gave presentations at a number of Pharma, Coatings, and Chemicals investment conferences as well as in meetings with investors and analysts. Our second annual Pharma Days in New York and London fostered great appreciation of our strategy and product pipeline.

The internet is a key tool for improving the reach of our financial communications. Analyst presentations and quarterly press conferences and conference calls are posted on Akzo Nobel's website, providing access to professional audiences and as well as the general public.

DISTRIBUTION OF SHAREHOLDINGS

At year-end 2001, approximately 34% of Akzo Nobel's shares were held in the United States, 24% in the United Kingdom, 15% in the Netherlands, and 27% in other countries. About 8% of the total number of shares was owned by private investors and 92% by institutional investors.

Akzo Nobel's common shares are listed on the following stock exchanges:
Euronext (Amsterdam, Brussels, Paris), London, NASDAQ (as American Depositary Shares), Frankfurt am Main, and Stockholm (as Swedish Depositary Receipts). The listing at the Vienna exchange was terminated at December 31, 2001.

Five-year summary

*Amounts in euros per share**	**2001**	2000	1999	1998	1997
Net income excluding extraordinary and nonrecurring items	**3.25**	3.34	2.44	2.32	2.35
Net income	**2.35**	3.31	0.66	1.86	2.40
Dividend	**1.20**	1.20	1.00	0.98	0.97
Shareholders' equity	**9.17**	8.52	6.58	6.68	13.90
Share price					
Highest	**57.85**	59.15	52.40	58.58	42.84
Lowest	**33.73**	37.30	30.00	25.87	26.29
Year-end	**50.15**	57.20	49.80	38.80	39.66
Dividend in % of net income excluding extraordinary and nonrecurring items	**37**	36	41	42	41
Number of common shares outstanding at year-end (in millions)	**285.9**	285.9	285.9	285.3	285.2

To comply with the regulations of the U.S. Securities and Exchange Commission, the Company also files an Annual Report on Form 20-F, which will be available at the Company's office and on the Company's internet website after filing.

For the financial calendar and contacts with Investor Relations, reference is made to page 98.

* *Data have been adjusted to reflect the four-to-one stock split on July 1, 1998, the change in accounting principles for deferred taxes in 1999, and the changes in accounting principles in 2001 as set forth on page 64. Diluted per share amounts are equal to the basic per share figures, except for diluted net income per share for 2001, which was EUR 2.34.*

PEOPLE AT AKZO NOBEL

During 2001 we placed an enhanced focus on improvement of motivational leadership at all management levels. This is a key strategic issue and many business units are pursuing motivational leadership improvement projects. Such leadership has much to do with communication, which is a strong element in recent HR initiatives as is illustrated in the following review.

LEADING PRINCIPLES

To communicate the essence of our HR policy throughout the Company, we have formulated a series of one liner statements, describing key elements of how we shall make our company "a great place to work." They present sincere statements of intent and are meant to promote discussion.

GOOD PRACTICES IN HR

During the year the HR IntrANet site has been remodeled and strengthened with new features, such as a site for sharing Good Practices and a virtual Career Center. Initiatives and experiences in the field of leadership and people management are collected from business units and other sources and shared on the Good Practices site. The term Good Practices was chosen carefully, as there is no Best Practice for every situation.

The aim of the Career Center is, among other things, to help both employee and manager to better prepare for a constructive career discussion. Career coaching by line management, identified as an area for improvement throughout the Company, should start with a straightforward and realistic career discussion.

MEASURING IS CARING

The need for factual information at all levels in the Company now also extends to feedback of a more sensitive nature. Employees want feedback on their individual performance and career potential. Managers want to know about their people skills and how to improve. To address this need, a concise survey has been developed to measure employee perception of leadership behaviors of their immediate superiors. During 2001, three pilot business units have tested this survey. The outcome confirms that the main areas for improvement are in personal development, appraisals, and career coaching.

In 2002, the survey will be rolled out Company-wide. Besides increasing the level of awareness about the importance of these issues, the survey—which will be conducted every three years—will indicate areas for improvement.

We will also regularly measure factors of common HR interest, such as absenteeism, frequency of appraisals, and the percentage of employees in new assignments.

OPEN RESOURCING

During the last few years, the vacancy bank on the IntrANet, has been enjoying growing support from the business units. In 2002, we shall focus on achieving comprehensive coverage of virtually all internal vacancies worldwide. This will provide opportunities for individual initiative by those ready for a career move and stimulate career discussions. Vacancies will also be filled as planned steps in the development of particular individuals.

BENEFITS FOR ALL

Our ambition is to introduce a benefits system allowing more individual choice between elements such as pension and pay. As a first step the relative value of the components to be included will be defined.

The year 2001 has seen the introduction of the employee share plan in our "key countries"; the other countries will follow in 2002. The response so far has been positive with increased employee interest in our share price as a result.

In 2001, all business units and service units implemented EVA, resulting in a stronger focus on capital productivity and improved management priority setting at all levels. Experiences were reviewed at the end of the year and follow-up actions are being planned.

LONG-TERM EFFORT

New projects initiated during the year include e-learning and on-line recruitment. Akzo Nobel strives to be a company with a talent development mindset, in which an open dialogue between manager and employee constitutes the basis of our management culture. Present efforts, particularly by our business units, give rise to optimism.

RESEARCH AND DEVELOPMENT

BASIC RESEARCH: COOPERATION WITH UNIVERSITIES

R&D at Akzo Nobel is conducted by the business units. Many contacts with universities have been developed to gain access to ideas that may result in new concepts for the business units. These contacts essentially have three formats: Multiyear Research Programs, R&D Projects, and Consortia Agreements. For each a number of examples of cooperation with universities are given:

MULTIYEAR RESEARCH PROGRAMS

- Organon and the University of Leiden, the Netherlands, on the synthesis of polysaccharides, resulting in an improved heparin replacement for the prevention of thrombosis, launched in 2001.
- Organon and Washington University on glycoprotein hormones. A recombinant gonadotropin as a successor to Puregon® is now in Phase II clinical trials.
- Powder Coatings and the University of Edinburgh on new curing techniques and enhanced kinetics via microwaves.
- Organon, the University of Wageningen, the Netherlands, and the Academy of Sciences of Belarus on novel ways of synthesizing ball-shaped steroid hormones as a new generation of progestagens.

R&D PROJECTS

- Decorative Coatings and the University of Amsterdam on alternatives for cobalt dryers, resulting in a patent application.
- Decorative Coatings and the University of Lund, Sweden, on high solids waterborne coatings.
- Pulp & Paper Chemicals and Fraunhofer Institute of Berlin on the development of new retention polymers, to be patented shortly.

CONSORTIA AGREEMENTS

Akzo Nobel participates in a number of consortia, including:

- Dutch Polymer Institute. As of 2002 Akzo Nobel business units will fund programs on Polyolefins, Coatings, Rubbers and Functional Polymers.
- Swedish Pulp and Paper Institute, with participation of Pulp & Paper Chemicals (EKA) on impulse technology for mechanically stable paper.

University-Industry cooperation has been further strengthened by the appointment of Akzo Nobel scientists as part-time professors at selected universities in Europe.

HEALTH, SAFETY, AND ENVIRONMENT (HSE)

STRIKING THE PROPER BALANCE BETWEEN PEOPLE, PLANET, AND PROFIT

Concern for health, safety, and the environment is an integral part of Akzo Nobel's business policy. Akzo Nobel actively supports the guiding principles of the Business Charter for Sustainable Development of the International Chamber of Commerce, the Responsible Care® program of the chemical industry, and the Coatings Care® program of the paint and printing ink industry.

Parameter	2001	2005 target
Frequency Rate Lost Time Injuries per 1 million hours worked	3.6	2.5
Total Illness Absence Rate	2.70	3.50
Chemical Oxygen Demand of discharge to surface water, in tons	4,000	3,000
Volatile Organic Compounds (VOC) emission to air, in tons	6,300	4,000
Nonreusable waste, in tons	126,000	115,000

We have designated five parameters to be managed by all Akzo Nobel business units, for which they have included specific targets in their operational plans.

Pharma and Coatings—to a lesser extent—fell short of their 2000 safety performance figures. Chemicals, which was already at a very good level, continued its trend of steady and consistent improvements. The Frequency Rate (FR) for Akzo Nobel as a whole increased slightly compared to the previous year and is still far away from the target of 2.5. We regret to report the death of one of our employees after an explosion at Diosynth's Buckhaven plant in Scotland.

The absenteeism figures due to illness are included for the first time.

The VOC value is traditionally composed of data from mass balances, point measurements, and/or diffuse measurements.

Additionally, Pharma, Coatings, and Chemicals have selected specific parameters and targets.

In a few months more detailed information on HSE can be found on our website.

Our decision requiring implementation of a Product Stewardship Management System by 2003 has already initiated many projects. Examples of the approach some Akzo Nobel business units have chosen can also be found on our internet site.

An improved Corporate Audit Protocol has been operational since January 1, 2002.

The use of our IntrANet HSE website is growing rapidly, and some 30,000 pages are viewed per month. The latest addition is an interactive health section.

SECURITY

Akzo Nobel has undertaken an extensive review of its site security procedures after the terrorist attacks of September 11. Each location has been requested to renew employee and contractor training and security awareness as well as its emergency response plans.

Robert Zandvliet, no title (brushwood)*, tempera on linen, 1999, 201 x 401 cm. A recent addition to Akzo Nobel's art collection, this painting traveled to the Stedelijk Museum Amsterdam and the Kunstmuseum Luzern.*

AKZO NOBEL IN SOCIETY

Akzo Nobel companies actively support programs in the fields of education, sports, arts, culture, and science in their communities, which confirms our role as a good corporate citizen. Most projects are aimed at stimulating young talent. Our proactive approach in developing projects in cooperation with partners has resulted in several interesting initiatives.

The 31st Akzo Nobel Science Award was bestowed on Professor Bengt Kasemo from Chalmers University of Technology, Göteborg, Sweden, and Professor Ingemar Lundström from Linköping University, Sweden, for their excellent multidisciplinary work on surface phenomena. During the Award ceremony we announced the start of the Akzo Nobel Science Scholarships to emphasize the attractiveness of science studies. Commencing in 2002, an annual student exchange program will be set up, under which five students from Swedish Universities will work for six months at Dutch Akzo Nobel companies and five Dutch students at Swedish Akzo Nobel companies.

The terrorist attacks in the United States on September 11 have led to the establishment of a USD 1 million fund. The allocation has been determined in consultation with our U.S. employees. The money is primarily used for direct aid to the victims' families and for scholarships for their children.

Akzo Nobel Art Foundation completed the first five years of its existence. Its international art collection now comprises some 700 items exhibited at Headquarters and in the offices of various business units. The collection brightens people's working environment, and the numerous requests for loans from museums in the Netherlands and abroad bear witness to its high quality. The Foundation, and particularly its international collection of art, was held up as an example to other companies at a September 2001 conference on the place of contemporary art in business sponsored by Dutch business daily "Het Financieele Dagblad" and the auctioneering house Christies.

The funding of educational programs in developing countries through the Education Fund '94 (a cooperation with Plan International) is helped by donations from our own employees worldwide. For the second consecutive year a drawing competition on the theme "Celebration" was held among the children of our employees worldwide. The 15 winning entries were produced as Christmas cards. These cards were printed by the printers of this annual report at cost price and sold to our business units at market price. The profits of the cards sold were donated to the Education Fund.

As part of our Akzo Nobel for Young Talent series, we organized concerts in Birmingham, (United Kingdom), Helsinki, and Rotterdam, featuring four young talented musicians who were given the opportunity to perform with renowned orchestras and conductors. To date, there have been 24 concerts all over the world to promote the careers of 16 young soloists.

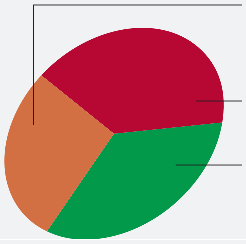
Christmas card drawing by Kaushik Tarafdar (age category 10-12 years) from India.

A new cultural program was started with Introdans, the Arnhem-based contemporary ballet company. Under the title "Akzo Nobel and Introdans in Duet," the dancers will be encouraged to perform on international stages. The first performance was in the Stockholm Dansens Hus in October.

Through its Education-Industry Partnership program, Akzo Nobel encourages young children to show a greater interest in science and technology. Within the framework of this program, German students from three secondary schools in the Düren and Cologne region visited headquarters in Arnhem. They attended lectures and workshops on diverse subjects such as globalization and environmental and human resources aspects in an international company.

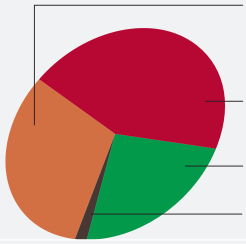
Net sales

(EUR 14.1 billion)



Number of employees

at December 31, 2001 [66,300]



BUSINESS ACTIVITIES

AKZO NOBEL'S PRODUCTS AND MARKETS

PHARMA

COATINGS

CHEMICALS

MAJOR PRODUCT LINES	KEY PRODUCTS/APPLICATIONS	COMPETITIVE POSITION

PHARMA

Prescription drugs, veterinary products, and active ingredients for the pharmaceutical industry
2001 sales EUR 4.0 billion

Key products/applications	Competitive position
Organon: contraceptives, infertility treatment, hormone replacement therapy (HRT), CNS products (antidepressants, antipsychotics), antithrombotics, and muscle relaxants	Among top four suppliers of hormonal contraceptives, second largest in infertility products; building up positions in CNS and HRT. World leader in muscle relaxants; entering the antithrombosis segment
Intervet: veterinary vaccines and pharmaceuticals	The third largest world supplier of veterinary products
Diosynth: complex active pharmaceutical ingredients	Leading supplier of steroids and industrial peptides, strong in heparins, synthetic oligosaccharides; growing position in biotechnology-based pharmaceuticals

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

Project	Application	Phase	Launch
Implanon®	contraceptive implant	market III	2000 (Europe) 2002/3 (USA)
Nuvaring®	contraceptive ring	approved	2002
Male contraception	contraceptive	II	> 2005
Puregon® Pen™	infertility	launched III	2001 (Europe) 2003 (USA)
Xyvion™	osteoporosis	III	2004 (USA)
Andriol® Testocaps™	male HRT	III	2002 (Europe) 2004 (USA)
Ariza™	depression	filed	2002 (USA) 2003 (Europe)
Org 34517	depression	II	2006
Org 5222	psychosis	II	2005
Arixtra®	thrombosis	market filed	2002 (USA) 2002 (Europe)
S-O 34006	thrombosis	II	> 2005
Org 39141	rheumatoid arthritis	II	2007

Veterinary products in the pipeline

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

COATINGS

Coatings and related products*
2001 sales EUR 5.6 billion

The world's leading coatings producer

Key products/applications	Competitive position
Decorative Coatings: coatings for decoration and protection of architectural structures	Market leader in Europe
Industrial activities: powder coatings, coatings for wood, metal, coil, and plastics, and nonstick coatings, e.g. for construction, and products for building components, automotive, aircraft, appliances, furniture, mirrors, cookware, and agricultural equipment	World leader in selected markets

* *Printing Inks was divested in 2001 (deal finalized in early 2002).*

MAJOR PRODUCT LINES	KEY PRODUCTS/APPLICATIONS	COMPETITIVE POSITION
	Car refinishes: finishes for passenger cars, commercial vehicles, and graphic products for decals	Among top four global suppliers
	Marine & Protective Coatings for protection and decoration of hulls, interiors, and superstructures for ships and yachts; protective coatings and fire-retardant products for large plants and offshore installations	World leader
	Industrial Products: resin-impregnated paper for surfacing of wood panels and flooring; adhesives and resins for wood-based board, panels, furniture, floors, and doors	World leader in the noncaptive market Leader in selected market niches

CHEMICALS

Specification, functional, and specialty chemicals *2001 sales EUR 4.6 billion*	**Pulp & Paper Chemicals:** pulp bleaching chemicals and chemicals for the manufacture of paper and board	World leader in pulp bleaching chemicals and strong worldwide position in paper chemicals
	Functional Chemicals: chelates, micronutrients, flame retardants, thickeners, animal feed additives, and intermediates such as carbon disulfide, monochloroacetic acid, and ethylene amines	Leading or strong worldwide positions
	Surface Chemistry: surfactants and fatty acids used in detergents, cleaning, and personal care, as well as in asphalt production and the agro, oil, mining, and textile industries; thickeners and additives for coatings and building materials	Leading or strong worldwide positions
	Polymer Chemicals: polymerization catalysts such as organic peroxides, metal alkyls, and custom-manufactured Ziegler-Natta systems for the polymer-producing industry	Leading or strong worldwide positions
	Resins for coatings and printing inks	Leading in selected market niches
	Base Chemicals: chlorine and caustic soda for industrial applications	Leading positions in Northwest Europe
	Salt for electrolysis, other chemical industries, food applications, and consumer use	Leading position in Northwest Europe
	Catalysts for the oil refining and chemical industries	Leading global supplier of the most extensive range of refinery catalysts
	Plastic and Processing Additives: plastic additives such as stabilizers and polysulfide chemicals for high-performance sealants	Leading supplier in Europe

Akzo Nobel also conducts chemical activities through joint ventures. In 2001, sales of these nonconsolidated companies totaled EUR 1.7 billion on a 100% basis.


PHARMA
COATINGS
CHEMICALS

Pharma

Responsible in Board of Management:	Business Units:	General Managers:	Sales *(millions of euros)* 2001	2000
Paul K. Brons	Organon*	*Tjeerd Kalff***	**2,504**	2,254
	Intervet	*A.T.M. (Toon) Wilderbeek*	**1,096**	1,020
	Diosynth	*Johan C.C.B. Evers*	**488**	379

Group Director Technology:
Jan H. Dopper

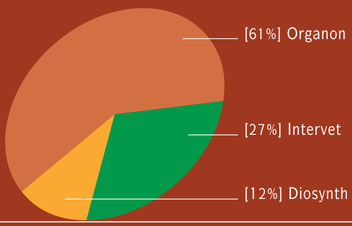
* *Sales for 2001 and 2000 include the Pharmaceuticals activities of former Organon Teknika on a full-year basis.*

** *As from January 1, 2002, Hans M. Vemer.*

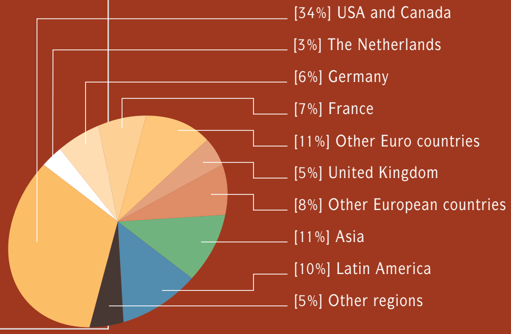
PHARMA BUSINESS

2001 business unit sales

(EUR 4.0 billion)



2001 net sales by destination



Millions of euros	**2001**	2000
Net sales	**4,044**	3,839
Operating income (EBIT) before nonrecurring items	**831**	765
Depreciation and amortization	**164**	167
EBITDA before nonrecurring items	**995**	932
Capital expenditures	**317**	214
R&D expenditures	**536**	492
Invested capital at year-end	**2,558**	2,367
EVA	**385**	330
Key ratios		
Operating income as percentage of:		
– net sales (ROS)	**20.5**	19.9
– invested capital (ROI)	**33.7**	34.4
Net sales/invested capital	**1.64**	1.73
Capital expenditures/depreciation	**2.1**	1.5
Number of employees at year-end	**21,100**	21,000

STRONG PERFORMANCE IN CHALLENGING ENVIRONMENT

Pharma's operating income rose 9% to EUR 831 million, despite considerably higher marketing and R&D expenses to boost growth. All three business units turned in strong performances. Capital expenditures were 115% in excess of depreciation.

In today's business environment, R&D-driven pharmaceutical companies are increasingly being challenged to either make significant contributions to better healthcare by bringing improved pharmaceuticals to the market or see established market shares evaporate once patents from previous R&D efforts expire.

We see this challenge of a dynamic, rapidly changing market, however, as an opportunity for growth and expansion. This opportunity, though, does not come easily: the hurdles to be cleared when bringing new pharmaceuticals to the market are getting higher, the time for earning back R&D investments is getting shorter, and global competition is becoming fiercer with fewer players and higher stakes.

Such is the "high risk/high reward" environment in which in 2001 we again achieved a high growth rate and were able to announce the upcoming launch of several new, innovative products. During the year we also strengthened our Pharma group significantly by changing its business portfolio. We have focused it further, strengthening it in those areas where we have the best R&D know-how and the proven capability to successfully and profitably bring new therapies to market.

For definitions of certain financial ratios and concepts see back cover.

Indeed, we have been able to “change the face” of Pharma through a number of steps:

- As from the beginning of 2001, the nonprescription drug business unit Chefaro was sold and deconsolidated.

- In the course of 2001, Organon Teknika’s Diagnostics operations—an innovative activity, which, however, lacked critical mass—was sold to bioMérieux, a major French diagnostics company.

- An important bridgehead was established for Diosynth in the United States through the acquisition of CBSI in North Carolina, a company specializing in the development and upscaling of new biotechnology-based compounds.

With the successful acquisition and integration of Hoechst Roussel Vet and Bayer’s veterinary biologicals in the United States, Intervet became the world’s third largest veterinary healthcare company. To support Intervet’s continuing success as an R&D-based company, a major new veterinary pharmaceutical research site was opened in Schwabenheim, Germany, while construction of an integrated new Midwest site was started in De Soto, Kansas.

Thanks to a well-filled pipeline and its strengthened international marketing organization, we expect a robust performance by Organon in the coming years. For Organon, the United States is now by far its largest market, as well as being the most dynamic, competitive, and R&D-intensive environment in the world. Therefore, we decided to move Organon’s International Headquarters from Oss, the Netherlands, to New Jersey, from where it will coordinate its worldwide R&D and business activities.

The three business units—Organon, Intervet, and Diosynth—that now form our Pharma group, provide a sound and solid basis from which to achieve future growth. All three are strongly and successfully focused on innovation. All three are significant players in their markets. They clearly and fully carry integral entrepreneurial responsibility for their own specific areas of activity, while all three possess important R&D know-how and technological capabilities that provide synergies within our Pharma group, enabling the launch of current and future new products. In Organon’s areas of human pharmaceuticals, new therapeutic approaches are increasingly based on highly complex, difficult-to-produce molecules. Diosynth is mastering the complexity to do just that. It is enabling Organon and third-party customers to quickly and successfully bring such complex new R&D compounds to the market.

Both in human and veterinary healthcare, with urgent challenges in the fields of food safety and new diseases, vaccine technology is expected to play a growing role. Intervet, with its successful R&D record, has meanwhile become the world’s fifth largest company in terms of sales on the total (human plus animal) worldwide vaccine market. While it has focused—and will continue to do so—on the application of vaccines in the area of animal health, Intervet’s know-how and therapeutic approaches are already highly relevant for human health today and may become increasingly so in future.

The antithrombotic drug Arixtra®, a joint development by Organon and French-based Sanofi-Synthélabo, is the result of a long and ongoing period of research and development. Arixtra® is the first in a new class of drugs for the prevention of deep vein thrombosis in orthopedic surgery patients. FDA approval for this drug was obtained after a priority review procedure.

ARIXTRA®

A YEAR OF CHANGE AND EXPANSION

Developments in the Business Units

ORGANON — PRESCRIPTION DRUGS

2001 was another successful year for Organon with double-digit sales growth. The pharmaceutical products of Organon Teknika were integrated into Organon as of May 1, 2001. On an ongoing basis, total sales increased 11%. Operating income and EVA were substantially higher. R&D expenditures were up 13% to EUR 383 million. Selling and distribution costs rose 13% to EUR 992 million.

In order to better prepare for current and future developments in the global pharmaceutical market and to structure the business more clearly, we decided to move Organon's International Headquarters, from Oss, the Netherlands, to Roseland, New Jersey, in the course of 2002. This major move involves around 90 jobs.

On January 1, 2002, Hans Vemer succeeded Tjeerd Kalff as President of Organon.

Organon achieved autonomous sales growth in eight of the ten key countries. In the United States, sales grew 30%. This country accounts for more than 33% of Organon's worldwide sales. France registered a sales gain of 9%, Germany 20%, the United Kingdom 14%, Italy 19%, Spain 35%, the Netherlands 9%, and Canada 31%. Sales in Japan and Brazil were affected by an unfavorable economic climate and currency exchange losses against the euro.

Exceptionally high sales gains were recorded in Australia (60%), Korea (45%), and Mexico (37%).

Sales development of the main product groups was as follows:

- Contraception + 10% to EUR 540 million
- Hormone Replacement Therapy + 11% to EUR 314 million
- Infertility + 10% to EUR 384 million
- Depression + 39% to EUR 720 million
- Hospital pharmaceuticals* –2% to EUR 272 million

The top four products account for EUR 1,573 million sales and represent 63% of total sales. Marvelon®/Mercilon®/Mircette® (oral contraceptives) registered 6% growth to EUR 431 million. Sales of Remeron® (antidepressant) were up 51% to EUR 627 million. Puregon® (infertility product) sales increased 17% to EUR 329 million. Sales of Livial® (hormone replacement) gained 20% to EUR 186 million.

Headcount increased 1,300 to 12,800, including 380 transferees from Organon Teknika. Most of the increase was in the R&D Group and Marketing & Sales.

Organon's R&D efforts focus on increasing research output (new chemical entities) and further improvement of the research process and quality. An efficiency drive is currently underway in Development, especially in Japan (as part of the company's Time Compression Initiative program).

Registrations were obtained for NuvaRing® (contraceptive vaginal ring) in Europe and the United States, and for Puregon® Solution (infertility) and Remeron® SolTab™ (depression) in the United States. In the United States, Arixtra®, the new antithrombotic developed and to be marketed in a 50% joint venture with Sanofi-Synthélabo, was submitted for registration by mid-February 2001 and was approved in December 2001. Also in December, the Committee for Proprietary Medicinal Products (CPMP) recommended market authorization for Arixtra® in the EU member states. Besides Arixtra®, four other important dossiers were submitted for registration: Puregon® and Esmeron® in Japan, Ariza™ antidepressant in the United States, and Andriol® Testocaps™, an improved orally active androgen, in Europe.

Organon's well-filled R&D pipeline, as illustrated on page 26, should lead to further new introductions in the years to come.

* *Former Organon Teknika.*

In line with the master plan for production facilities, EUR 25 million was invested in production in the United States and the Netherlands, while a small factory in Argentina was closed down. In India, where Organon was able to increase its participation in subsidiary Infar from 51% to more than 92%, a new pharmaceutical factory will be built in 2002/2003. In Roseland, New Jersey, an office building was acquired. This building is now under renovation and will be used by Organon USA and the staff of Organon's International Headquarters from July 2002 onwards.

The new office and service building in Oss, the Netherlands, was completed in November 2001. Furthermore, the construction of new laboratories for the Toxicology and Drug Disposition department in the Netherlands is in the final stage of completion. In December 2001, investments of EUR 37 million for the construction of a Pharmaceutical Pilot Plant in Oss and of EUR 36 million for extension of the production site in Swords, Ireland, were authorized.

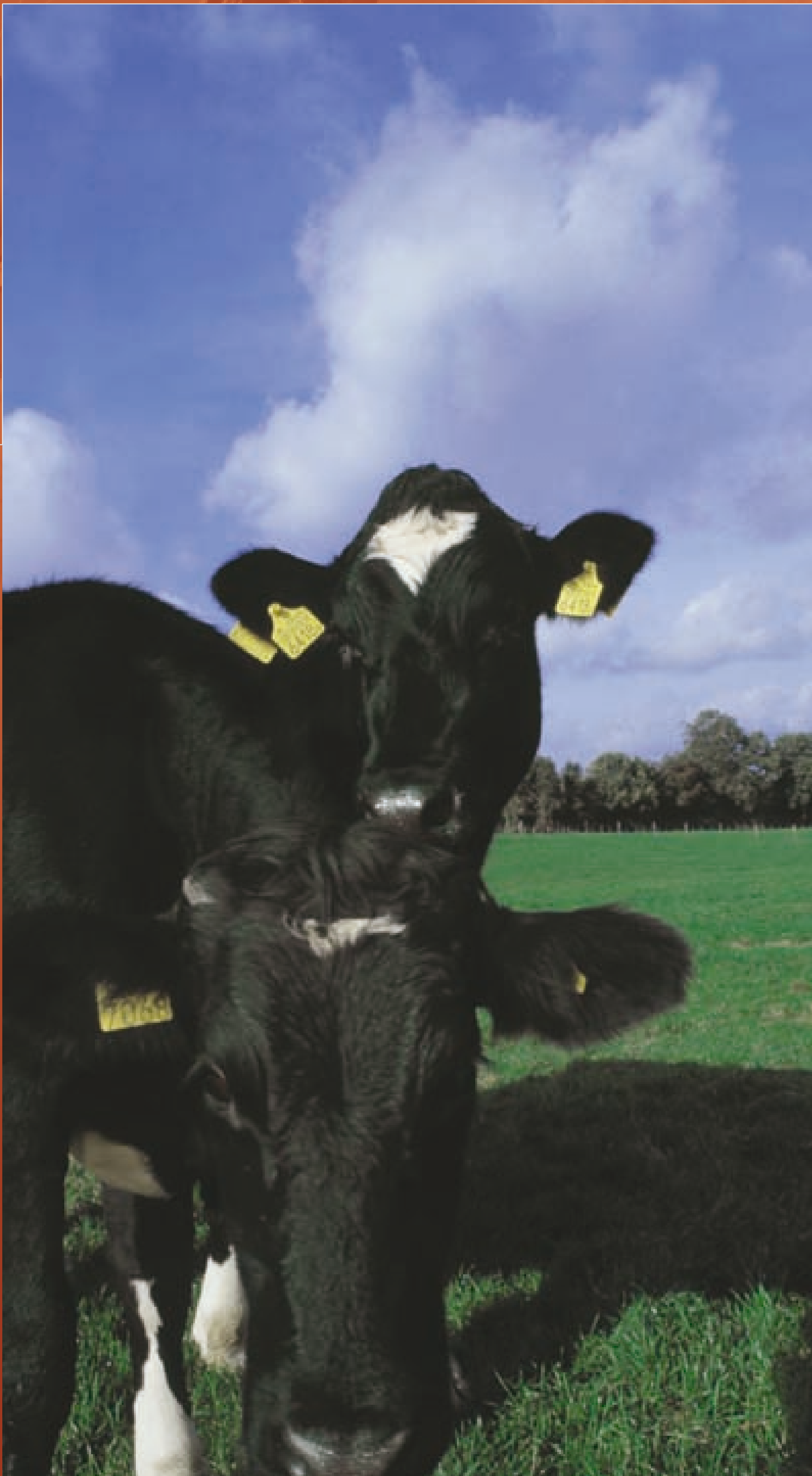
The actions and developments outlined above constitute a solid foundation for future expansion. Organon's goal is to double its sales in the coming five years. Sales in the United States should grow to 45-50% of total sales. Japan, with four new products in the coming years, will get extra attention and is expected to grow to 15% of total sales.

We focus on our core capabilities and aim for expansion in those fields where we are strong, such as Contraception, Hormone Replacement Therapy, Infertility, Depression, Anesthesia, and Thrombosis.

With our drive to become a player in the first league or top 20 of the pharmaceutical industry, all disciplines in approximately 60 local companies are challenged to improve their performances. In these efforts they will be aided by our intensive education program ProVision for senior managers, which will be finalized in the spring of 2002.

Intervet's newly developed Foot-and-Mouth Disease (FMD) diagnostic tool allows effective routine testing and distinguishes antibodies induced by a field virus infection from those induced by existing modern FMD vaccines. This test will allow the EU to abolish its policy of mass animal destruction in case of an FMD outbreak. The development of this test reflects the Company's customer-oriented thinking and societal responsibility.

FMD TEST



INTERVET — VETERINARY PRODUCTS

IN EXCELLENT SHAPE

Intervet successfully continued its growth pattern with considerable sales gains and improved margins. The spread of BSE in Western Europe and the foot-and-mouth disease (FMD) outbreak in the first half of 2001 put significant pressure on the European market. In the United States, which now accounts for 40% of the world animal health market, the slowdown in the economy did not affect sales.

In 2001, Intervet placed a stronger focus on strengthening its presence in key country markets, notably the United States. The companion animal market will be the key driver. Vaccine development technology has been the basis of Intervet’s success and will provide a platform for future growth. Current objectives are to complete the extensive viral and bacterial vaccines program for all economically relevant species and to intensify R&D efforts aimed at antiparasitic vaccines.

In early 2001, we embarked on a EUR 40 million project to construct a state-of-the-art facility at our DeSoto, Kansas site. It will serve as the regional R&D, production, and administrative center in the Mid-West. The completion of this integrated facility will significantly streamline U.S. operations. The number of U.S. core sites will be reduced to three: DeSoto (Kansas), Millsboro (Delaware), and Worthington (Minnesota). Vaccine research in Copenhagen has been successfully transferred to Milton Keynes, United Kingdom, where also all vaccine research in the United Kingdom will be consolidated. New subsidiaries have been set up in Eastern Europe. Intervet now has a presence in 55 countries.

In response to the foot-and-mouth crisis, we have developed a new FMD diagnostic tool that permits more effective routine testing and makes it possible to distinguish between infected and vaccinated animals. This test could allow EU countries to change current policy and avoid mass animal destruction. Despite its importance for modern disease control, the test kit will make only a minor contribution to earnings. Its development is based on the Company’s tradition of customer-oriented thinking and societal responsibility. In total, nearly 20 new vaccine and pharmaceutical products were successfully launched during the year.

The opening of a modern research center for pharmaceuticals in Schwabenheim, Germany, has laid the basis for further expansion of our R&D activities aimed at combating priority infections and diseases caused by parasites. Schwabenheim is also an example of Intervet’s objective to structure the growing company more effectively. Regulatory activities for pharmaceuticals are now focused in Schwabenheim and for vaccines in Boxmeer, the Netherlands.

2001 was also an important year for streamlining production processes. We have put in place new logistic tools with a customer-oriented ordering system. Global rollout of these tools will proceed throughout 2002. In addition, we are investing further in e-business following our acquisition of an innovative provider of electronic animal health information in 2000.
The e-business specialists have created a platform for on-line solutions needed to meet present and future customers’ needs.

DIOSYNTH — COMPLEX ACTIVE PHARMACEUTICAL INGREDIENTS

PLATFORM STRENGTHENED

In line with Akzo Nobel's pharma strategy, in 2001 Diosynth focused on further organic growth, made a strategic acquisition, and placed strong emphasis on the U.S. market. The platform for Diosynth's excellent performance and future growth was strengthened significantly. At the same time, Diosynth achieved continued growth in sales and profitability.

Highlights were:

- 13% organic sales growth
- start of EUR 18 million extension of the biotech production unit for fermentation and cell culture in Oss, the Netherlands (total investment EUR 45 million)
- acquisition of CBSI, a service provider in biotech processing, in Durham, North Carolina, for EUR 223 million
- expansion of the chemical processing infrastructure in the Netherlands
- divestment of Rosemont Pharmaceutical Corp. (generics) in Denver, Colorado.

Through the acquisition of CBSI, Diosynth has now established the critical mass to play also a leading role in the strongly developing biopharmaceutical market segment. Diosynth possesses the relevant technologies and expertise to serve its European and American customers with upscaling and production projects for complex, innovative medicines.

For its chemical activities, Diosynth managed to gear production capacity to growing third-party and captive demand. However, capacity needs to be added in the coming years. The expansion strategies for captive as well as third-party production aim at active pharmaceutical substance classes involving complex organic chemistry.

In 2001, Diosynth's R&D departments focused on translating several processes into regular production for steroids, carbohydrates, peptides, and biopharmaceuticals. These products typically reflect Diosynth's strength in mastering complexity in the production of active pharmaceutical ingredients. Given customers' interest in Time-To-Market issues, we are exploring new technologies that provide solutions for speedier product development trajectories.

Coatings

Responsible in Board of Management:
Rudy M.J. van der Meer

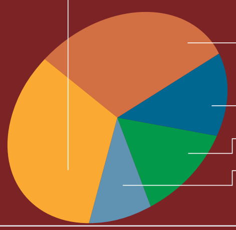
Senior Group Director:
M. (Rinus) Rooseboom

Business Units:	**General Managers:**	**Sales** *(millions of euros)* **2001**	2000
Decorative Coatings:		**1,885**	1,864
– Europe	*Leif Abildgaard*		
– International	*Jan Andersson*		
Industrial activities:		**1,678**	1,725
– Industrial Coatings	*Göran Jönsson*		
– Industrial Finishes	*Robert J. Torba*		
– Powder Coatings	*Bill McPherson*		
Marine & Protective Coatings	*Leif Darner*	**729**	671
Car Refinishes	*Cor J.L.M. de Grauw*	**708**	692
Industrial Products	*Lars-Erik Thomsgård*	**533**	524

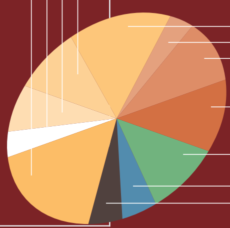
Note: Printing Inks was divested in 2001 (deal finalized in early 2002).

2001 business unit sales

(EUR 5.5 billion)



2001 net sales by destination



Millions of euros	**2001**	2000
Net sales	**5,591**	5,568
Operating income (EBIT) before nonrecurring items	**426**	447
Depreciation and amortization	**162**	151
EBITDA before nonrecurring items	**588**	598
Capital expenditures	**181**	170
R&D expenditures	**160**	150
Invested capital at year-end	**2,395**	2,323
EVA	**90**	120
Key ratios		
Operating income as percentage of:		
– net sales (ROS)	**7.6**	8.0
– invested capital (ROI)	**18.1**	19.8
Net sales/invested capital	**2.37**	2.46
Capital expenditures/depreciation	**1.2**	1.1
Number of employees at year-end	**28,900**	30,300

ALL SET FOR FURTHER GROWTH

The aim of our Coatings group remains to grow and strengthen our world leading positions through a combination of organic growth and selective bolt-on acquisitions. The world coatings market is in a process of consolidation, in which we want to play a leading role, especially since in this still fragmented market we, as the world leader, represent only 8% market share.

Growth in mature markets is expected to stay in line with GDP; opportunities are in emerging and newly industrialized markets. In 2001, two grass-root sites in China were commissioned, one in Suzhou for Car Refinishes, Powder Coatings, and Transportation Coatings and one in Dongguan City for Wood Coatings. Furthermore, we are building new powder coatings facilities in Beijing and Vietnam, setting-up a majority-owned decorative coatings joint venture in Indonesia, and constructing a Car Refinishes R&D facility in Bangalore, India. Moreover, we anticipate that growth possibilities will come with technology switches driven by innovation and environmental considerations. To underscore the importance and growth potential of powder technology, a separate business unit Powder Coatings was launched on July 1, 2001.

In 2001, we stepped up R&D efforts; expenditures rose almost 7% to EUR 160 million. Frontline proprietary technologies, such as daylight cure, organic/inorganic hybrids (epoxy silane based), latent catalysts (moisture or light activation), new high performance polymers (hot melts, waterborne and high solids), thin layer powder technology and fast, efficient pigment evaluation, color matching, and recipe calculation, were patented during the year. Autoclear III, a unique multipurpose clearcoat, has been widely accepted in the market and received the Akzo Nobel Coatings award for the most profitable technological innovation in 2001.

In 2001, we continued our selective acquisition strategy by integrating French paint merchant Vachon (Decorative Coatings), acquiring the vehicle refinishes business MAC Specialties Coatings in the United States (Car Refinishes), assuming full ownership of our global nonstick coatings joint venture, and acquiring Borden Chemical's industrial resins and wood adhesives business in Ecuador.

Far-reaching restructuring programs initiated by mid-2001 were accelerated and extended during the second half of the year in order to improve our cost structure considerably. These programs, impacting more than 2,000 jobs worldwide, include a drastic reduction of sites, rationalization and overhaul of product range, stock keeping units, brands, and mixing machines. Although we expect that the cost base will improve in 2002, most of the effects will become visible over the next few years.

In November 2001, we announced the divestment of the business unit Printing Inks. Although its performance improved remarkably this year, this business no longer fitted our portfolio. We plan to use the funds thus released to further strengthen our core businesses.

Sales of EUR 5.6 billion were basically flat compared to 2000. Despite difficult economic circumstances, operating income before nonrecurring items of EUR 426 million was only 5% lower than in 2000. Return on sales dropped to 7.6%, against 8.0% in 2000. Return on investment was 18.1% compared to 19.8% in 2000. Capital expenditures of EUR 181 million were 116% of depreciation.

On balance, results of Decorative Coatings were up from the previous year. Activities in Europe recovered, while the weak economy in Turkey continued to have a negative impact. The industrial coatings activities felt the impact of the economic downturn in virtually all geographic markets, notably the United States and Europe. Car Refinishes succeeded in maintaining its earnings level in the face of difficult market conditions. Marine & Protective Coatings again achieved substantial growth in sales and earnings, helped by the shipbuilding boom in Asia Pacific.

2001 was characterized by increasing uncertainty and a significant deterioration of the business climate approaching a recession, first in the United States but later also in Europe and Asia. Nevertheless, we managed to maintain sales at the previous year's level and limited the decrease in operating income to only 5% through tight cost control. With major restructuring measures underway in all business units, we are confident that we have created an improved platform for further profitable growth, which will bring us step by step closer to our ambitious goal of achieving a 30% return on investment.

Developments in the Business Units

DECORATIVE COATINGS

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

DECORATIVE COATINGS EUROPE

BETTER RESULTS – IMPROVED ORGANIZATIONAL STRUCTURE

The new pan-European organizational structure, which divides the business into three strongly focused sub-business units: Trade, Retail, and Specialties, has been fully implemented and is now well placed to serve customers across Europe. The business unit enjoys leading market positions in virtually all Western European countries.

Overall earnings were considerably higher than in the previous year.

Major rationalization of the production and logistic structure resulted in a number of site closures in Denmark, Germany, and the United Kingdom. The Sneek site in the Netherlands was sold, and the wallpaper activities in the United Kingdom were divested.

Market developments varied throughout Europe. The French and U.K. markets continued to grow, a number of countries showed stable development, while the German market was adversely affected by the downturn in the construction industry.

Major investments in a state-of-the-art waterborne topcoat/translucent coatings plant at the Cologne site were completed. As a result of these investments and the restructuring measures in Germany, the headcount in this country decreased substantially.

In the Sikkens® range we successfully introduced a highly innovative waterborne lacquer that uniquely combines superior application properties with a perfect aspect of the dry coat. Our range of gloss levels enables customers to use an innovative product while complying with the latest HSE regulations.

The Crown® retail relaunch in the United Kingdom proved to be very successful. This was primarily due to the success of the Breatheasy® campaign in which the Crown® assortment was transformed into a low VOC line, bringing health and safety benefits to our customers.

The integration of Vachon, one of Europe's biggest paint merchants based in the Rhône-Alpes area in France which was acquired early in the year, was successfully completed.

DECORATIVE COATINGS INTERNATIONAL

ADJUSTING TO DIFFERENT MARKET CONDITIONS

2001 showed a mixed picture. Performance in Turkey was adversely affected by the financial crisis there, while results of operations in nearby regions, such as Greece and North Africa, were excellent. The difficult economic climate in South America, particularly in Argentina but also in Brazil, only affected us marginally. Volume gains were recorded in Asia.

Satisfactory improvements were achieved in Eastern and Central Europe, particularly in Russia where the construction of the paint factory outside Moscow started up, with first production scheduled for early 2002. Ground was broken for the construction of a new building adhesives factory in Germany, which will increase capacity considerably starting from 2002.

We continued our product stewardship efforts, focusing on lead, chromates, and APEO (alkylphenol polyethoxylate). We also started the "INNOVA" project to increase the level of creative innovations.

Major site rationalizations have resulted in cost reductions in several countries, which will improve our results during the coming years.

Coil coatings, one of the major products of Industrial Finishes, are used to coat a flat product (coil or sheets of steel or aluminum) before other stages of industrial manufacture. The coated coil can be bent, profiled, deep drawn, etc. without detriment to the surface coating. Coil coatings are available in a wide range of colors.

COIL COATINGS

INDUSTRIAL ACTIVITIES

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

INDUSTRIAL COATINGS

A YEAR OF MAJOR RATIONALIZATION

2001 saw a constant weakening of market conditions, which started in the United States at the end of 2000 and continued into Asia Pacific and Europe. The September 11 events caused a slowdown in the important Aerospace market. Operating income failed to reach the 2000 level.

Transportation Coatings initiated a restructuring program to address its European cost structure by reducing the number of sites. Furthermore, intensified product development efforts led to a substantial improvement of the product range. Our presence in Asia Pacific was increased with the opening of a new production unit in Suzhou, China.

Specialty Coatings is currently restructuring its product portfolio, focusing on segments such as Non-Stick Coatings (now fully-owned), nonautomotive Plastic Coatings, and Building and Mirror Coatings. During the year the Container Coatings activities based in Zion, Illinois, were divested.

Aerospace Coatings' increased global presence after the acquisition of Dexter Coatings in 2000 substantially improved the unit's sales and market coverage.

In recent years, much R&D effort has been spent on the development of eco-efficient products, with a strong emphasis on reduction of VOC emissions. We experience increased customer demand for these products, which allows us to capitalize on our new waterborne and high-solids (including solid paint) technologies.

INDUSTRIAL FINISHES

TOUGH BUSINESS CLIMATE

The year began under adverse conditions, as the economy in North America struggled to gain momentum again, while industrial activity in Europe diminished at an alarming pace. In addition, activities in Asia and South America were impacted, although to a lesser degree. 2001 proved to be a very difficult year as demand for our products dropped, competition intensified, and selling prices fell, resulting in a decline in operating income compared to the previous year.

Against this gloomy backdrop, we responded quickly by containing costs, driving working capital down, and preserving volume. As a result we successfully maintained our market share, managed to reduce working capital as a percentage of sales to a historic low, and kept capital expenditures below depreciation.

During the year we opened a new plant in Dongguan City, China.

Through the cost control measures taken, we will be excellently positioned when the business cycle rebounds.

Powder Coatings with its globally renowned brands Interpon® and RESICOAT® is now a separate business unit. It delivers cost and quality benefits to its customers through its products for metal window frames and panels for architectural applications, domestic appliances, automotive components, and other industrial markets, such as coatings for pipes. Our innovative products are based on unique technologies, such as our patented "Particle Management Technology."

POWDER COATINGS

ADDING VALUE THROUGH INNOVATION

CONTINUING IMPROVEMENT IN OVERALL RESULTS

POWDER COATINGS

Powder Coatings assumed full business unit status on July 1. Globally, sales were slightly down, despite another strong year in Asia Pacific. Due to general pressure on margins in all regions, earnings were below the 2000 level.

In Italy, we expanded capacity and added a new bonding facility at our Cernobbio site in response to growth in demand for metallic finishes. Our new factory in Turkey was brought fully on line.

In China, new capacity for pipeline powders was commissioned in Beijing and a new site in Suzhou was opened. Construction of a new plant in Vietnam is well underway and due for start up in early 2002.

Sales of our unique patented technologies continued to grow. Interpon® *Express* color mixing is now fully commercial in the United States, United Kingdom, France, Germany, and Sweden, where it is revolutionizing service in small batches of custom colors. Units will be installed in Australia and Korea in 2002.

We recorded excellent growth in sales of Interpon® *Extra* powders, which deliver cost and quality benefits to our customers through the use of our patented “Particle Management Technology."

We achieved first commercial sales of Interpon® *Woodcote* powders on MDF, an area that presents an excellent growth opportunity for the future.

The development of e-commerce solutions at both ends of the supply chain continued. The first customer interactive extranet is operative in Spain, and e-procurement pilots are linking operations and suppliers in Italy, the United Kingdom, and Spain.

MARINE & PROTECTIVE COATINGS

With its strong International® brand name Marine & Protective Coatings maintained its position as the worldwide leader in the markets in which it operates.

The business unit again turned in an improved earnings performance in 2001.

Marine Coatings had another good year, helped by the continuing boom in shipbuilding across the Asia Pacific region. This is expected to continue into 2002.
With worldwide legislation on tin-containing antifouling now in place, our early commitment to the development and marketing of tin-free Intersmooth® Ecoloflex SPC™ and biocide-free Foul Release system Intersleek® 700™ has enabled us to remain ahead of our competitors with proven and tested products now well established in the marketplace.

Protective Coatings sales remained flat in 2001, but an improvement in European earnings over previous years has begun to exert a positive influence on the results of the overall business. Asia continued to show good growth in sales and earnings, spurred by the increased level of offshore new construction in the region.

2001 saw the introduction of Interfine® inorganic technology, which is expected to enhance performance. Our e-commerce initiative continues to secure customer alliance agreements, particularly in the United States.

Sales of Yacht Coatings were up from 2000, following strong growth in Europe, as new products launched to accommodate legislative activity in antifoulings improved market share. Significant savings, flowing from the ongoing globalization activities, along with higher sales, fueled earnings growth over the record level of the previous year.

CAR REFINISHES

ROBUST PERFORMANCE UNDER DIFFICULT CONDITIONS

Car Refinishes succeeded in growing sales and maintaining its level of profitability in the face of difficult market conditions. Our balanced geographic position, together with our multisegment approach, enabled us to find the best possible response to a changing environment.

Europe West and North America were under pressure from market conditions but registered a good sales and earnings performance. The results of Europe East were severely affected by the economic crisis in Turkey. Asia and South America experienced equally difficult conditions but improved their position and profitability. Africa and the Middle East had to contend with lower volumes but kept their earnings almost stable.

We are now a major player in the Commercial Vehicles market. The Mason™ CT brand was launched in continental Europe, and a number of successful pilots in Vehicle Image Management (paint and vinyl) took place. Utech, acquired in 2001, generated good sales growth in North America in the light commercial segment.

Sikkens® Autobase® Plus™, launched in October, proves to be a major technological innovation in solvent-borne basecoats and is being recognized as a potential market leader. Autobase® Plus™ is a central part of a major “product switch” program whereby every topcoat is being replaced by a new generation of products, based on innovative superdispersion technology.

With the opening of a new production site at Suzhou, China, we completed our policy of having manufacturing capacity in all growing car repair markets, backed up by the experience and expertise of the existing plants in Europe and the United States.

INDUSTRIAL PRODUCTS

SLOWER GROWTH DUE TO ECONOMIC DOWNTURN

Sales increased in spite of the economic downturn in almost all geographic markets, while volumes remained at the previous year’s level, but operating income lagged behind because of high raw material costs.

Impregnated Papers faced weak markets in most regions and increasing competition. New production facilities for a new generation of flooring films are now on stream. Ongoing investment in local production in Brazil will support our leading position in the South American market.

In a weaker market, Wood Adhesives continued to deliver good results due to the introduction of a new machine and adhesive system for the laminated beam industry. An adhesives operation was acquired in Ecuador in line with our plans to further growth in South America.

Expancel® microspheres continued to show a good performance but also experienced a weaker market, resulting in a slower growth. A “high temperature” Expancel® type was launched during the year.

PRINTING INKS

The business unit Printing Inks was divested in 2001, as it no longer fitted within the Coatings product portfolio from a strategic perspective. The deal was finalized in early 2002.

Chemicals

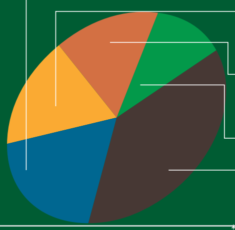
Responsible in Board of Management:
Dag Strömqvist

Senior Group Director:
Conrad S. Kent

Business Units:	General Managers:	Sales *(millions of euros)* 2001	2000
Pulp & Paper Chemicals	*Jan Svärd*	**1,020**	990
Functional Chemicals	*Peggy Viehweger*	**785**	817
Surface Chemistry	*Rob Frohn*	**715**	763
Polymer Chemicals	*Arend-Jan Kortenhorst*	**584**	648
Resins	*J. (Jo) Lennartz*	**419**	410
Catalysts	*W.W. (Jon) Meijnen*	**367**	356
Base Chemicals	*H.C.J. (René) Scheffers*	**357**	382
Salt	*Floris A. Bierman*	**261**	233
Plastics and Processing Additives	*Kees van Nierop*	**211**	238
Energy	*Gert N. van Ingen*	**165**	153

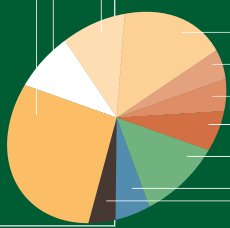
2001 business unit sales

(EUR 4.9 billion)



* 9% Resins
8% Catalysts
7% Base Chemicals
5% Salt
4% Plastics and Processing Additives
3% Energy

2001 net sales by destination



Millions of euros	**2001**	2000
Net sales	**4,604**	4,740
Operating income (EBIT) before nonrecurring items	**340**	445
Depreciation and amortization	**336**	333
EBITDA before nonrecurring items	**676**	778
Capital expenditures	**310**	329
R&D expenditures	**142**	140
Invested capital at year-end	**3,132**	3,064
EVA	**10**	50
Key ratios		
Operating income as percentage of:		
– net sales (ROS)	**7.4**	9.4
– invested capital (ROI)	**11.0**	15.2
Net sales/invested capital	**1.49**	1.62
Capital expenditures/depreciation	**1.0**	1.0
Number of employees at year-end	**15,100**	15,800

A DIFFICULT YEAR FOR THE CHEMICAL INDUSTRY

In 2001, the chemical industry was impacted by recession. The general trend toward globalization and concentration on core businesses created further customer consolidation and intensified competition. While we did well compared to our peers, we accelerated restructuring programs, which should reduce the workforce by 1,500. Investments and minor acquisitions were made to strengthen our leading positions in selected areas. We are also strengthening our presence in North America and Asia.

In Pulp & Paper Chemicals efficiency projects should lead to significant workforce reductions. A new business concept, where we take over production of a bleaching agent on site at customer plants, was successfully introduced in Sweden, Finland, and Brazil, enabling our customers to focus on core businesses. In France a new plant started up for production of an environmentally friendly wet strength agent. An investment in a new colloidal silica plant in Wisconsin will enhance our position as the world’s largest producer of this product.

Functional Chemicals ended its most difficult year to date. Several efficiency projects were introduced, particularly in Chelates and Phosphorus Chemicals. The acquisition of U.K.-based Contract Chemicals improved the product range and geographic spread in chelates. In China, a new monochloroacetic acid plant will come on stream in the first half of 2002 that should strengthen our leadership position.

Surface Chemistry showed strong resilience to the economic slowdown. In Singapore we broke ground for a new surfactants plant; in Malaysia fractionated fatty acid capacity will be increased, and in Sweden a new production line for rheology additives started up.

Polymer Chemicals' four years of sales growth came to an abrupt halt at the end of 2000. Manufacturing operations in Europe and North America are being restructured. We will close Gillingham, United Kingdom, and Burt, New York, consolidating production in our other facilities. The startup of a new process in Deer Park, Texas will reduce metal alkyls production costs. Expansion of our organic peroxides in developing markets continues. We are constructing two new plants in China and one in Russia, in majority-owned joint ventures. In 2001 we acquired full ownership of our joint venture in India.

For Resins, 2001 was a year of consolidation and integration. This will continue in 2002 with focus on further efficiency measures throughout the business unit.

Catalysts' result was impacted by higher raw material and energy costs in North America. The Pasadena, Texas FCC plant was upgraded, resulting in closure of the Los Angeles site. This led to structurally lower costs and an improved and expanded product line servicing the largest market in the world. The HPC market keeps growing due to more stringent fuel specifications.

Base Chemicals announced the shutdown of its unprofitable methylene chloride/chloroform and chlorine plants in Delfzijl, the Netherlands, by year-end 2003. Overall, development of our major chlor-alkali business continued to be positive. Extensive discussions with authorities on how to reduce chlorine transports in the Netherlands and still meet sound business criteria are expected to be concluded in the first half of 2002.

In Salt, the bulk business was strong. In specialty salt we are implementing a restructuring program aimed to lift results toward the bulk business level. The solar salt facility in Onslow, Western Australia, came on stream successfully.

Margins of Plastics and Processing Additives were under pressure from higher raw material prices and lower demand in Plastic Additives. In August, we announced our withdrawal from the lead stabilizers business, to be completed early in 2002. Results of Polysulfides improved and capacity has been expanded substantially in Greiz, Germany.

Overall, Chemicals' operating income declined by 24% to EUR 340 million, 7.4% of sales (2000: 9.4%). Our strategic actions should contribute to future growth and considerably improve results even if the downturn continues into 2002. We will continue to focus on value creation through innovation, superior technology, and lowest cost, targeting a return over the business cycle of 2.5% over the cost of capital, which corresponds to a return on investment of about 17%.

Developments in the Business Units

PULP & PAPER CHEMICALS

RESULTS IMPROVED, RESTRUCTURING UNDERWAY

Sales and results were up from 2000 and market positions were maintained. However, the slowdown of the worldwide economy and pulp and paper mill stoppages negatively impacted the business. Cost reduction and efficiency projects, which should lead to a considerable workforce reduction, are in progress. Strong efforts to strengthen relationships with strategic customers are underway, in line with the growing globalization of the pulp and paper industry.

Bleaching Chemicals' earnings improved despite depressed volumes due to stoppages to control inventory at many European pulp mills. A major project aimed at cost leadership and market focus, including savings in logistics, production, and R&D as well as rationalization investments, was implemented and should reach full effect in late 2002. In a new concept, Pulp & Paper Chemicals is increasingly taking over the pulp mill's generation of the bleaching agent chlorine dioxide on site at customer plants, enabling us and our customers to focus on core businesses for lower costs and better performance. The concept has been well received by customers in Sweden, Finland, and Brazil, where several units are already in operation. In North America the conversion to chlorate and hydrogen peroxide to meet environmental regulations continued. Despite paper mill closures and stoppages, results for bleaching chemicals in North America improved slightly. High energy costs in the first half of the year considerably impacted production costs.

The Paper Chemicals business was under strong pressure due to the frequent closure of paper mills in moves by customers to balance lower demand. Increasing raw materials costs were another negative factor. New acquisitions and investments will enhance competitiveness. The acquisition of U.S.-based Hopton Technologies concluded in January 2001 added new competence in the area of paper surface treatment. A new production unit for more environmentally friendly wet strength agents started up in France. Construction of a colloidal silica plant commenced in Wisconsin. Expansions are underway in Sweden and Brazil. We also took measures to restructure the important sizing business in Europe.

Specialty Products, which includes a number of diversified businesses complementary to pulp and paper chemicals, showed improved results, boosted by Pine Specialties and Kromasil®, an advanced silica product chiefly for chromatographic purification of pharmaceuticals. A new Kromasil® production unit in Bohus, Sweden, will start up in early 2002. Permascand in Sweden, a unit mainly producing equipment for electrochemical processes, was successfully restructured.

The joint venture between Pulp & Paper Chemicals and Polymer Latex GmbH, producing SB-latex for paper coating, registered better performance, mainly due to reduced raw material costs. The participation in the Akzo-PQ Silica joint venture was sold.

FUNCTIONAL CHEMICALS

WEATHERED A DIFFICULT YEAR, PREPARING FOR IMPROVEMENT

Functional Chemicals ended its most difficult year to date with sales flat relative to 2000. Rising raw material costs and steady economic deterioration in the United States throughout the year, compounded by the events of September 11, led to an all-time low result for the business unit.

Despite higher raw material prices, Industrial Chemicals matched its 2000 performance. The Chelates business in the United States completed its first full year of operations with improving efficiencies but was unable to reverse a declining trend, due to high raw material prices and a slowdown of the economy. Results for Sulfur Products, which was confronted with a structural decline of the global viscose fiber market, deteriorated markedly. Benefiting from lower oil prices and improved pricing, the Ethylene Amines business performed favorably. Our global Phosphorus Chemicals business was hit hardest by the economic downturn, and performance was severely impacted by the steep downturn of the worldwide polycarbonate industry.

The Chelates business' product range and geographic spread were improved considerably through the acquisition of Contract Chemicals in the United Kingdom. Satisfactory progress was made on other strategic investments aimed at strengthening our leadership positions in monochloroacetic acid and carboxymethylcellulose.

We launched several key initiatives to support accelerated growth and renewal in the business unit; notable among these were a program aimed at fostering common values and behaviors throughout the organization, review of the business portfolio, and steps to structurally improve the human resources management system.

SURFACE CHEMISTRY

RESTRUCTURING PAYS OFF

Surface Chemistry came close to duplicating the record results achieved in 2000, despite the economic slowdown and the impact of the September 11 events.

Our Surfactants business in the Americas was hit hardest, as margins at major customers came under pressure. Our European Surfactants operation further improved its performance as restructuring programs implemented in previous years continued to pay off. In Asia, we still recorded growth but at a lower pace than in the past few years.

Oleochemicals again surpassed the previous year's results. The Rheology Additives business performed strongly, but below the 2000 level due to lower sales to the paint industry and higher raw material costs.

Considerable progress was achieved in Asia in 2001. On Jurong Island in Singapore, we are constructing a new production plant for surfactants that will go on stream in 2003. We also decided to increase capacity for fractionated fatty acids in Pasir Gudang, Malaysia, in a joint venture with Lam Soon, and to increase the industrial surfactants capacity of LACO, the 50% joint venture with Lion Corporation in Japan.

In Örnsköldsvik, Sweden, a new production line for rheology additives based on cellulose, which went on stream in September, is paving the way for a broader product portfolio, notably for the building industry.

POLYMER CHEMICALS

DRAMATIC SLOWDOWN IN POLYMER INDUSTRY

For Polymer Chemicals, four years of unprecedented sales growth came to an abrupt halt at the end of 2000. The economic slowdown in North America was aggravated by a more severe slowdown in the polymer industry there, resulting in strongly increased competition, in part due to very high natural gas prices in the first half of the year. As the economic slowdown spread across the globe, the global polymer industry suffered, which also hurt suppliers like Polymer Chemicals.

Total sales in 2001 were down 10%, due to a combination of lower volumes, lower prices, and the divestment of the Optical Monomers business in February 2001.

As a consequence of these developments, earnings in 2001 were considerably down from the previous year.

We will continue our approach of restoring growth through rationalization actions, which will strengthen our low cost position, geographic expansion, and increased emphasis on innovation. Restructuring of manufacturing operations in Europe and North America will reduce the number of sites. Closures at Gillingham, United Kingdom, and Burt, New York, were announced. Start-up of our solvent recovery unit in Deer Park, Texas, at the end of 2001 will reduce metal alkyls production costs.

A.O. Ankorit, the 51% joint venture in Russia, announced the construction of an advanced organic peroxides plant. The 88% joint venture TANP in China will also build a second peroxides plant in Tianjin, as the first plant is fully sold out. The newly formed 70% joint venture KANP plans to build a modern MEKP (methyl ethyl ketone peroxide) factory in China.

Our newly created Polymer Chemicals Innovation Center has already presented several interesting new business opportunities that are designed to restore growth to earlier levels.

RESINS

INCREASED CUSTOMER FOCUS

Sales were up on 2000, largely as a result of acquisitions. However, earnings clearly lagged behind. For Resins, 2001 was a year of consolidation and integration, following the acquisitions in 1999 and 2000. We are now creating a basis for increased customer focus, greater efficiency, and further growth.

Sales of Surface Coatings Resins in the United States and the United Kingdom were impacted by the economic situation, but the effect on results was largely offset by continued strong performance by majority-owned Malaysian and Indonesian joint ventures and improved results in continental Europe.

The Printing Ink Resins activities in Europe were further strengthened through the acquisition of Solutia's European Printing Ink Resins business but suffered from reduced demand in Europe and the Americas.

CATALYSTS

RAW MATERIAL COSTS IMPACT PERFORMANCE; RESTRUCTURINGS COMPLETED

Refineries throughout the world increasingly rely on our catalysts to create environmentally friendly transportation fuels and upgrade low quality oil into valuable clean fuel products.

Results were lower than in 2000, due mainly to higher raw materials and energy costs in North America. Upgrading of the Pasadena, Texas FCC plant has been completed, resulting in the closure of the Los Angeles site. The effect of this project is twofold: it lowers manufacturing costs structurally and allows supply from a single site with an expanded and improved product line to the largest market in the world.

The HPC market continues to grow due to the new transportation fuel specifications. Tax incentives in Europe also caused increased demand for higher-end products. STARS continues

Our Catalysts business unit strongly focuses on the development of new catalysts that allow refineries all over the world to produce environmentally friendly transportation fuels. Our latest product line NEBULA permits customers to produce low sulfur diesel without making major investments.

CATALYSTS

to dominate the market for low sulfur diesel. NEBULA, our latest product line, has now proven to be a drop-in solution for some customers to produce 10-ppm sulfur diesel with no or little capital investment. If this trend is maintained, the time to market cycle may be reduced, thus increasing the benefits of our strong R&D output.

The 50% Nippon Ketjen joint venture had an excellent year. FCC-S.A. registered improved results but is still underperforming. The Eurecat joint venture enjoyed another year of solid operations and acceptable results. This catalysts recycling operation remains an integral element of our "Total Catalyst Management" concept.

Further growth is expected in the environmentally friendly segment with the commercialization of FCC emission control additives and a new solid alkylation process introduced during our eco-Magic customer symposium in June 2001.

BASE CHEMICALS

ENHANCING FUTURE RESULTS

Base Chemicals' results were down from the previous year's record, principally due to the major planned maintenance overhaul in its Rotterdam plant and a depressed PVC market.

The underperforming methylene chloride/chloroform plant and the related diaphragm chlorine plant in Delfzijl, the Netherlands, will be closed by the end of 2003. E-business-driven efficiency improvements and restructuring plans in Delfzijl, all underway, will considerably decrease the total number of employees in the coming years.

Extensive discussions with authorities on how to reduce chlorine transports in the Netherlands and still meet sound business criteria are expected to be concluded in the first half of 2002.

The 50% joint venture ECI had a record year due to extremely high caustic prices. After its excellent results in 2000 and the first half of 2001 the 30% joint venture Methanor was confronted with lower margins due to the deterioration in global economic conditions.

SALT

SOLID PERFORMANCE; MAJOR RESTRUCTURING UNDER WAY

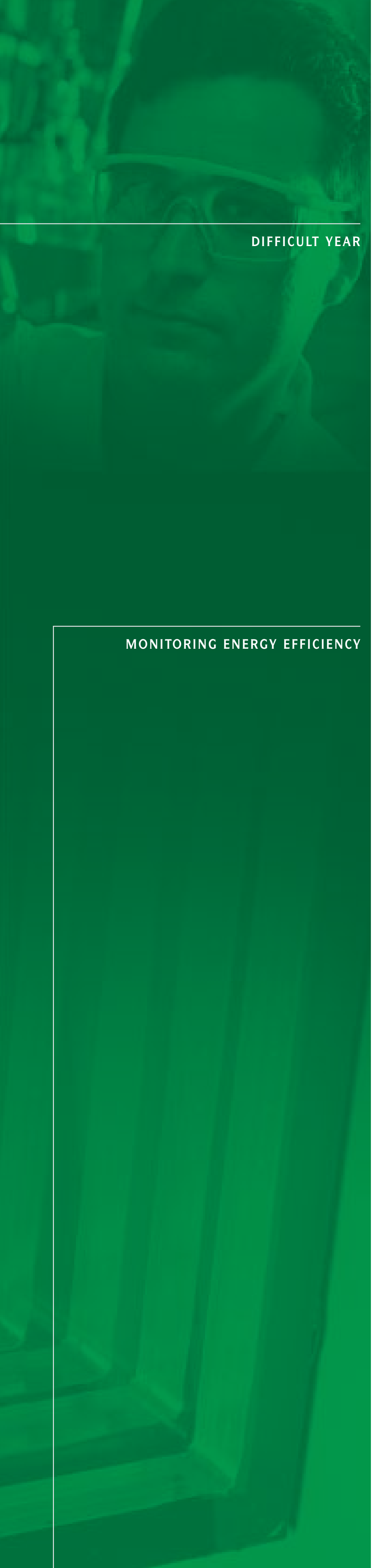
Salt registered a solid performance in 2001. Sales and results improved over 2000, and costs were kept under tight control. This good performance, which started off with favorable results for our deicing salt, was characterized by high sales to the chemical industry throughout the year. The bulk salt business was able to further strengthen its position in a restructuring market.

The specialty salt business, however, continued to underperform in a market characterized by overcapacity. We have announced a restructuring program to improve this situation. The program, supported by the introduction of a dynamic European brand identity for the consumer product range, is expected to turn around the specialties business.

The solar salt facility in Onslow, Western Australia, supplying the Asia Pacific region, came on stream according to plan. Prospects are promising.

Polysulfides, produced by Plastics and Processing Additives, find application in such products as sealants. These advanced products provide excellent adhesion to most common substrates such as glass, ceramic, aluminum, steel, PVC, concrete and wood. Major applications are as sealants in double glazing and butt glazing and in aerospace.

POLYSULFIDE



PLASTICS AND PROCESSING ADDITIVES

DIFFICULT YEAR

Throughout the year margins were under pressure from higher raw material prices and lower demand in Plastic Additives but improved in Polysulfides. On balance, earnings were down from the previous year's level. These developments initiated a number of measures aimed at future growth and profitability improvements. In August, we announced our withdrawal from the lead stabilizers business. The withdrawal, which affects employees in Germany, the United Kingdom, and the Netherlands, will be completed in 2002. Restructuring of other stabilizer businesses is designed to improve our competitive position.

A new solid biocide has been introduced and diversification into organic biocides is progressing. Environmentally friendly calcium-based stabilizers have been launched for the flooring market.

A strategic investment is underway to expand production of high quality polysulfides substantially (almost 50%) in Greiz, Germany. Production will commence in the first quarter of 2002.

ENERGY

MONITORING ENERGY EFFICIENCY

All Akzo Nobel operations in the Netherlands have joined the "Benchmarking Program on Energy Efficiency 2001-2012," a program officially agreed between the Dutch Government and the energy-intensive Industry. In this timeframe, the program requires Akzo Nobel's Dutch operations to work toward and stay in the "World Top 10 position on Energy Efficiency," using benchmarking procedures.

In 2001 we implemented our energy efficiency monitoring system at Akzo Nobel's energy-intensive sites in the United States, Canada, Germany, and the Nordic countries. Comparison and benchmarking of the monitoring results for potential savings and energy efficiency improvements have defined interesting opportunities for cost-effective projects.

Market conditions in Europe for gas-fired cogeneration units gradually improved during the year, reflecting support measures by individual EU member states. Lower oil and gas prices should bring further improvement in 2002.

OTHER ACTIVITIES

Flexsys

Weak economic conditions worldwide had an adverse impact on operating results of this 50% rubber chemicals joint venture. Continued cost reduction programs were implemented, including closure of the intermediates plants for antidegradants in Newport, United Kingdom. The new investment in a world-scale Crystex® insoluble sulfur plant in Malaysia was successfully commissioned for commercial production in the last quarter of 2001.

Delamine

Sales of this 50% ethylene amines joint venture were strong during most of the year, but weakened in the last quarter. Worldwide price increases were successfully implemented early in the year and, together with more moderate raw material prices, resulted in overall improvement in operating results compared to the preceding two years.

Focused on shareholder issues.

General

Akzo Nobel N.V. is a public limited liability company (Naamloze Vennootschap) under Netherlands law, registered in Arnhem. The responsibility for the conduct of Akzo Nobel's business is entrusted to the Board of Management under the supervision of the Supervisory Board.

Shareholders

Akzo Nobel has three classes of shares: common shares, cumulative preferred shares, and priority shares. At December 31, 2001, only common shares and priority shares had been issued and were outstanding.

General Meetings of Shareholders (General Meeting) are held at least once a year. All resolutions are made on the basis of the "one share one vote" principle. The Annual General Meeting reviews the Annual Report and decides on adoption of the Financial Statements and the dividend proposal, as well as on the discharge of the Members of the Board of Management of their responsibility for the conduct of the business, and the members of the Supervisory Board for their supervision. With the exception of a number of special items, such as amendments of the Articles of Association, all resolutions require an absolute majority. The General Meeting approves nominations to the Supervisory Board and the Board of Management and decides on the issue of new shares and the restriction or exclusion of preemptive rights of existing shareholders. The meeting may authorize the Board of Management to issue new shares up to 10 percent of the issued and outstanding number of common shares and to restrict or exclude the preemptive rights of the existing shareholders in respect of such new issues. Currently, such power has been granted for a period of eighteen months effective from the General Meeting held on April 26, 2001.

Any holder or holders of common shares representing at least one percent of the total issued capital may submit proposals in writing for the agenda of a General Meeting at the Company's office at least six weeks in advance of that meeting. The Board of Management may decide not to accept such proposals on the grounds that they are not in the Company's interests.

Akzo Nobel offers those shareholders who hold their shares through an associated Netherlands custodian bank the possibility of participating in the proxy voting system of the Shareholder Communication Foundation. The Foundation intends to further develop this proxy voting system so that other shareholders may also benefit from this facility. In 2001, Akzo Nobel's articles of association were amended, authorizing the Board of Management to establish a record date for the purpose of exercising the right to participate in and vote at the General Meeting.

The priority shares are held by the Akzo Nobel Foundation, established at Curaçao, the Netherlands Antilles. The Foundation's board consists of the members of Akzo Nobel's Supervisory Board and Board of Management. With respect to any appointments or reappointments of members of the Supervisory Board and the Board of Management by the General Meeting, the Meeting of Holders of Priority Shares has the right to submit a binding nomination of at least two persons for each vacancy. The latter meeting also approves proposals for amendments of the Articles of Association.

No preferred shares have been issued to date. Such shares may be issued for funding purposes and are not subject to restrictions on transfer rights or to limitations on numbers held by any person. Any issue of such shares by the Company will be at or near the prevailing market price for common shares.

Supervisory Board
The Supervisory Board, which consists solely of nonexecutive members, exercises supervision over the Board of Management's policies and business conduct and provides advice. In the performance of their duties the members of the Supervisory Board act in the Company's best interests.

The number of members of the Supervisory Board is fixed by the General Meeting on the proposal of the Meeting of Holders of Priority Shares. At each Annual General Meeting at least one-fourth of the members of the Supervisory Board shall step down, including any member who has reached the age of 70 since the previous Annual General Meeting was held.

The Supervisory Board may unanimously decide to delegate certain tasks to one or more of its members. In this context, the Supervisory Board has established a Nomination and Remuneration Committee to prepare proposals for nominations and remuneration of the members of the Supervisory Board and the Board of Management and an Audit Committee to review the Company's financial affairs.

The composition of the Supervisory Board should be such that the members can fulfill their tasks independently of one another and of the Board of Management. Membership of the Supervisory Board should reflect both the variety of the Company's businesses and its international character and provide expertise in such areas as finance and societal relations. To ensure continuity, the Supervisory Board may include one former member of the Board of Management; in special circumstances a second member may be considered.

Board of Management
The Board of Management is responsible for the management of Akzo Nobel and its businesses. The number of the members of the Board of Management is fixed by the General Meeting on the proposal of the Meeting of Holders of Priority Shares. Members of the Board of Management may be removed from office by the General Meeting on the proposal of the Supervisory Board. A resolution to remove a member of the Board of Management other than on the proposal of the Supervisory Board requires a majority of at least two-thirds of the votes cast at the General Meeting. 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.

Internal Structure of Management and Control
Akzo Nobel fosters continuous awareness of Corporate Governance throughout the organization. The Company Statement, which has been further developed in Business Principles, sets high standards for corporate and individual behavior. The Company's coherent internal structure of management and control is not limited to financial control but also relates to such issues as integrity, compliance with internal and external rules and regulations, human resources, and health, safety and environment management. Every year operational and service unit managers are required to state how they have fulfilled their responsibilities in a Letter of Representation, also in the field of assessment of financial, technological, social, legal, and political risks. In 2001, Akzo Nobel completed a comprehensive risk management improvement project that will be fully rolled out in 2002.

FINANCIAL STATEMENTS

Changes in Accounting Principles

In line with recently issued directives and pronouncements of the Netherlands Accounting Standards Board, the Company changed its accounting for certain intangible assets and for pensions and other postretirement benefits, effective January 1, 2001.

Intangible Assets

The new directives affect the Company's accounting for preparation and start-up expenses and for development costs.

The Company used to capitalize preparation and start-up expenses of large investment projects and amortize these on a straight-line basis over the estimated useful lives of the facilities, after they had been put into service. In line with the new standard, preparation and start-up expenses are charged to income as incurred. The book value of these expenses at December 31, 2000, amounted to EUR 38 million, of which EUR 5 million was obtained in the context of an acquisition in 2000. As a consequence of the new standard, EUR 33 million was written off against shareholders' equity at December 31, 2000, which had an after-tax effect of EUR 22 million, and EUR 5 million was added to goodwill. Application of the new standard to 2000 resulted in operating income and net income being, respectively, EUR 7 million and EUR 5 million lower, compared with the amounts reported previously.

The Company used to expense development costs as incurred. In accordance with the new accounting standard development costs are to be capitalized, starting in 2001, if certain conditions are met. These conditions relate to the (technical) ability and intention to complete and use the intangible asset, and the probability of future economic benefits generated by this asset. In respect of development costs incurred by Pharma in 2001, the criteria for capitalization have not been met. In 2001, EUR 7 million was capitalized under this standard for other development costs. For the book value at December 31, 2001, of EUR 6 million, a statutory reserve was recognized.

Pensions and Other Postretirement Benefits

The pronouncements in respect of pensions and other postretirement benefits allow application of U.S. accounting standards SFAS No. 87 "Employers' Accounting for Pensions" (SFAS 87) and SFAS No. 106 "Postretirement Benefits other than Pensions" (SFAS 106). Historically, the Company applied these standards in its Annual Report on Form 20-F (Form 20-F) filed with the U.S. Securities and Exchange Commission in connection with its listing on NASDAQ/NMS. At December 31, 2000, there was no material difference between the amounts for Form 20-F reporting purposes and the amounts resulting from the first-time application of these standards at the same date for Dutch financial reporting purposes. In order to further harmonize its financial reporting, the Company has therefore elected to implement these new standards through incorporation of the amounts already reported in Form 20-F in its financial statements.

For pension accounting the major differences with the standards previously applied is that under SFAS 87 obligations and costs are calculated on the basis of projected future pension entitlements and that plan assets are valued at market value. Interest charges on certain unfunded pension schemes, which were accounted for as financing charges under the old standards, are now included in operating income. Furthermore, in accordance with SFAS 87, nonrecurring gains as result of pension premium refunds in Sweden are deferred and recognized on a settlement basis. In case of pension underfunding, additional provisions are recognized either through recognition of an intangible asset or by means of a direct charge against shareholders' equity. The principal difference for other postretirement benefits is that nonvested entitlements should be accrued for during the employee's years of service.

The combined effect on shareholders' equity of applying SFAS 87 and SFAS 106 at December 31, 2000, was an increase of EUR 13 million. For the year 2000, operating income before nonrecurring items was EUR 4 million lower, and operating income, after nonrecurring items, was EUR 45 million lower, compared with the amounts reported previously. Financing charges were reduced by EUR 27 million, and net income was EUR 14 million lower.

Consolidation

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

Joint ventures where Akzo Nobel has joint control together with its partner are proportionally consolidated. Interests in companies where Akzo Nobel can exercise significant influence are treated as nonconsolidated companies.

Valuation

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

Translation of Foreign Currencies

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

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

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

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

Exchange Rates of Key Currencies

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

	Balance sheet		Statement of income	
	2001	2000	**2001**[1)]	2000[1)]
USD	**0.881**	0.928	**0.895**	0.926
GBP	**0.611**	0.622	**0.619**	0.607
SEK	**9.315**	8.820	**9.291**	8.472

1) *Average rates.*

Principles of Valuation of Assets and Liabilities

Intangible Assets

Purchased goodwill is capitalized and amortized on a straight-line basis over the estimated useful life, up to a maximum of 20 years. Development costs are capitalized if it is probable that sufficient future economic benefits will be generated by the intangible asset arising from development, and amortized on a straight-line basis over the estimated useful life, which in the majority of cases is 5 years.

Other intangible assets are capitalized and amortized on a straight-line basis over their estimated useful life, which in the majority of cases is 10 to 15 years.

In cases were the book value so computed permanently exceeds the value to the business additional write-downs are made.

Property, Plant and Equipment

Property, plant and equipment are valued at cost less depreciation. Cost includes the financing charges of capital investment projects under construction. Capital investment grants are deducted from property, plant and equipment.

Depreciation is computed by the straight-line method based on estimated useful life, which in the majority of cases is 10 years for plant equipment and machinery, and which ranges from 20 to 30 years for buildings. In cases where the book value so computed permanently exceeds the value to the business additional write-downs are made.

Financial Noncurrent Assets

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

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

For the valuation of deferred tax assets reference is made to Deferred Taxes

Other financial noncurrent assets are stated at face value, at cost, or at lower market value. For pension overfunding reference is made to Pensions and Other Postretirement Benefits.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost, defined as the full manufacturing costs related to the stage of processing, is determined by the first-in first-out (FIFO) method. Provisions are made for obsolescence.

Receivables

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

Cash and Cash Equivalents

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

Provisions

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

Pensions and Other Postretirement Benefits

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

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

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

Deferred taxes

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

Long-Term Borrowings and Short-Term Debt

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

Principles of Determination of Income

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

- Net sales is defined as the revenue from the sale and delivery of goods and services, net of rebates, discounts, and similar allowances, and net of sales tax. Net sales are recognized upon delivery of goods or when services are rendered.

- Cost of sales comprises the manufacturing costs of the goods and services sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing costs include such items as:
  – the costs of raw materials and supplies, energy, and other materials;
  – depreciation and the costs of maintenance of the assets used in production;
  – salaries, wages, and social charges for the personnel involved in manufacturing.

- Research costs are expensed as incurred.

- Preparation and start-up expenses are charged to income.

- Royalty income is recognized on an accrual basis under Other results.

- Interest on interest swaps is included in the statement of income under Financing charges.

- Taxes on income comprise both current and deferred taxes, including effects of changes in tax rates.

- Income from nonconsolidated companies consists of Akzo Nobel's equity in earnings of these companies and interest on loans granted to them, with due allowance being made for taxes relating to these items.

Earnings per Share

Earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding during the year. For basic earnings per share the weighted average number of common shares was 285,888,385 for 2001 and 285,902,574 for 2000. For diluted earnings per share this was 286,328,864 and 286,155,360, respectively.

Consolidated Statement of Income

Millions of euros	NOTE	2001		2000[1)]	
Net sales			14,110		14,003
Cost of sales			(7,393)		(7,436)
Gross margin			6,717		6,567
Selling expenses		(3,565)		(3,468)	
Research and development expenses		(847)		(790)	
General and administrative expenses		(798)		(756)	
Other results	1	64		88	
			(5,146)		(4,926)
Operating income before nonrecurring items			1,571		1,641
Nonrecurring items	2		(449)		(84)
Operating income, after nonrecurring items			1,122		1,557
Financing charges	3		(257)		(245)
Operating income less financing charges			865		1,312
Taxes	4		(281)		(440)
Earnings of consolidated companies after taxes			584		872
Earnings from nonconsolidated companies		69		65	
Nonrecurring items nonconsolidated companies		(14)		78	
	5		55		143
Earnings before minority interest			639		1,015
Minority interest			(31)		(43)
Net income before extraordinary items			608		972
Extraordinary items after taxes	6		63		(25)
Net income			671		947
Net income excluding extraordinary and nonrecurring items			930		956
In EUR:					
Basic net income per share			2.35		3.31
Basic net income excluding extraordinary and nonrecurring items per share			3.25		3.34
Diluted net income per share			2.34		3.31
Diluted net income excluding extraordinary and nonrecurring items per share			3.25		3.34

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

1) *Restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*

Consolidated Balance Sheet

AFTER ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2001		2000[1)]	
Assets					
Noncurrent assets					
Intangible assets	8		**508**		388
Property, plant and equipment	9		**4,568**		4,501
Financial noncurrent assets:	10				
– nonconsolidated companies		**575**		673	
– deferred tax assets	11	**445**		493	
– other financial noncurrent assets		**875**		834	
			1,895		2,000
			6,971		6,889
Current assets					
Inventories	12	**2,270**		2,267	
Receivables	13	**3,229**		3,135	
Cash and cash equivalents	14	**455**		416	
			5,954		5,818
Total			**12,925**		12,707
Equity and liabilities					
Equity	15				
Akzo Nobel N.V. shareholders' equity		**2,621**		2,437	
Minority interest		**138**		159	
			2,759		2,596
Provisions	16		**2,960**		2,797
Long-term borrowings	17		**2,235**		2,729
Short-term debt					
Short-term borrowings	18	**2,267**		1,967	
Current liabilities	19	**2,704**		2,618	
			4,971		4,585
Total			**12,925**		12,707

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

1) *Restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*

Consolidated Statement of Cash Flows

Millions of euros	**2001**		2000[1]	
Total earnings before minority interest	**702**		990	
Depreciation and amortization	**674**		664	
Cash flow		**1,376**		1,654
Other adjustments to reconcile earnings to cash provided by operations:				
– (gain)/loss on divestments	**(114)**		(125)	
– write-downs	**172**		73	
– equity in earnings of nonconsolidated companies	**(85)**		(154)	
– dividends from nonconsolidated companies	**67**		32	
– changes in provisions	**101**		308	
– changes in deferred tax assets	**81**		(56)	
– other changes	**(4)**		2	
		218		80
Change in working capital[2]		**(141)**		(367)
Net cash provided by operations		**1,453**		1,367
Investments in intangible assets	**(59)**		(33)	
Capital expenditures	**(822)**		(725)	
Proceeds from sale of property, plant and equipment	**10**		114	
Investments in nonconsolidated companies	**(4)**		(13)	
Redemption loans nonconsolidated companies	**92**		83	
Acquisition of consolidated companies[3]	**(314)**		(270)	
Proceeds from sale of interests[3]	**376**		244	
Other changes in financial noncurrent assets[4]	**(41)**		9	
Net cash used for investments		**(762)**		(591)
		691		776
Purchase of shares	**(10)**			
Issuance of shares	**3**		1	
New long-term borrowings	**142**		155	
Repayment of long-term borrowings	**(668)**		(222)	
Changes in short-term borrowings	**261**		(917)	
Net cash used for financing activities		**(272)**		(983)
		419		(207)
Dividends paid		**(376)**		(313)
		43		(520)
Effect of exchange rate changes on cash and cash equivalents		**(4)**		4
Change in cash and cash equivalents		**39**		(516)
Cash and cash equivalents at beginning of year		**416**		932
Cash and cash equivalents at end of year		**455**		416

See note 22.

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

1) *Restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*
2) *Inventories and receivables less current liabilities, exclusive of dividends.*
3) *Net of cash of acquired or divested interests.*
4) *Excluding deferred tax assets.*

Notes to the Consolidated Financial Statements

GENERAL

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

Affiliated Companies

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

Changes in Consolidated Interests

On June 15, 2001, Covance Biotechnology Services Inc., New Jersey, was acquired for EUR 223 million, including goodwill of EUR 21 million.

At the end of June 2001, the Diagnostics business of Organon Teknika was divested for EUR 334 million, resulting in a gain of EUR 56 million after taxes.

Effective October 31, 2001, the activities of the business unit Printing Inks were divested for EUR 75 million, to be settled in January 2002. The after-tax gain on this divestiture amounted to EUR 7 million.

At year-end 2000, Chefaro, Akzo Nobel's Over-The-Counter activity, was divested for EUR 140 million. The gain on this divestiture was EUR 90 million.

During 2001 and 2000, Akzo Nobel acquired and divested various other businesses, none of which were significant to the consolidated financial statements.

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

Segment Information

	Net sales to third parties		Group net sales		Operating income before nonrecurring items		Operating income, after nonrecurring items		Earnings from nonconsolidated companies	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Pharma	**4,044**	3,838	**4,044**	3,839	**831**	765	**790**	767	**1**	3
Coatings	**5,574**	5,547	**5,591**	5,568	**426**	447	**226**	434	**–**	4
Chemicals	**4,465**	4,589	**4,604**	4,740	**340**	445	**122**	368	**55**	47
Other	**27**	29	**44**	36	**(26)**	(16)	**(16)**	(12)	**13**	11
Total	**14,110**	14,003	**14,283**	14,183	**1,571**	1,641	**1,122**	1,557	**69**	65
Intergroup revenues			**(173)**	(180)						
			14,110	14,003						

	Total assets		Total liabilities excluding borrowings		Capital expenditures		Investments in intangible assets		Depreciation and amortization	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000	**2001**	2000
Pharma	**3,333**	2,964	**865**	798	**317**	214	**31**	13	**164**	167
Coatings	**3,372**	3,381	**1,357**	1,451	**181**	170	**7**		**162**	151
Chemicals	**3,837**	3,953	**1,124**	1,269	**310**	329	**21**	20	**336**	333
Miscellaneous and eliminations including cash and cash equivalents	**1,808**	1,736	**2,318**	1,897	**14**	12			**12**	13
Nonconsolidated companies	**575**	673								
	12,925	12,707	**5,664**	5,415	**822**	725	**59**	33	**674**	664

	Sales by country of destination 2001	2000	Total assets 2001	2000	Capital expenditures 2001	2000
The Netherlands	**720**	787	**2,599**	2,866	**235**	156
Germany	**1,052**	1,064	**946**	1,607	**52**	51
Sweden	**512**	538	**831**	762	**71**	74
United Kingdom	**1,036**	1,052	**1,371**	1,198	**36**	56
Other European countries	**3,964**	3,879	**1,842**	2,017	**104**	96
USA and Canada	**3,802**	3,596	**3,118**	2,333	**220**	193
Latin America	**917**	944	**589**	592	**33**	35
Asia	**1,429**	1,466	**859**	865	**54**	35
Other regions	**678**	677	**345**	308	**17**	29
	14,110	14,003	**12,500**	12,548	**822**	725
Eliminations and cash and cash equivalents			**(150)**	(514)		
Nonconsolidated companies			**575**	673		
			12,925	12,707		

CONSOLIDATED STATEMENT OF INCOME

Note [1]

Other Results

	2001	2000
Royalties	**48**	66
Results on sale of redundant assets	**3**	2
Currency exchange differences	**4**	2
Other items	**9**	18
	64	88

Note [2]

Nonrecurring Items

In 2001, the following nonrecurring items were recognized:

Gains on divestments	26
Pension premium refund Sweden	19
Asset impairments and restructurings at	
– Chemicals	(257)
– Coatings	(201)
– Pharma	(36)
	(449)

In 2000, the following nonrecurring items were recognized:

Pension premium refund Sweden	11
Asset impairments and restructurings at	
– Chemicals	(77)
– Coatings	(18)
	(84)

Note [3]

Financing Charges

	2001	2000
Interest received and similar income	**21**	26
Interest paid and similar expenses	**(278)**	(271)
	(257)	(245)

Interest paid was reduced by EUR 5 million (2000: EUR 9 million) due to the capitalization of financing expenses of capital investment projects under construction.

Note [4]

Taxes on Operating Income less Financing Charges

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

Percentage	**2001**	2000
Corporate tax rate in the Netherlands	**35**	35
Effect of lower tax rates in certain countries	**(3)**	(1)
Tax exempt income	**(1)**	(1)
Profits of the year, compensated with losses for which in prior years no deferred tax assets were recognized	**(1)**	–
Losses of the year, not recognized as deferred tax asset	**2**	1
	32	34

Note [5]

Earnings from Nonconsolidated Companies

Earnings from nonconsolidated companies were net of a tax charge of EUR 10 million (2000: EUR 16 million). The net nonrecurring after-tax loss in 2001 mainly related to nonrecurring charges recognized for Acordis. The net nonrecurring after-tax gain in 2000 relates to the gain on the divestment of the Company's participation in Tosoh Akzo Corporation and the Company's share in the gain on the divestment of Twaron Products by Acordis, partially offset by the effect of the settlement for the Acordis divestment.

Note [6]

Extraordinary Items

In 2001, the following extraordinary items were recognized:

	Gross	Taxes	Net
Divestiture			
– Diagnostics business	79	(23)	56
– Printing Inks	(3)	10	7
	76	(13)	63

For information on the divestiture of the Diagnostics business and Printing Inks reference is made to Changes in Consolidated Interests on page 71.

In 2000, the following extraordinary charges were recognized:

	Gross	Taxes	Net
Divestiture			
– Chefaro	90		90
– Other	40	(5)	35
Antitrust cases	(200)	50	(150)
	(70)	45	(25)

For information on the divestiture of Chefaro reference is made to Changes in Consolidated Interests on page 71. For information on the antitrust cases reference is made to note 20.

Note [7]

Salaries, Wages, and Social Charges

	2001	2000
Salaries and wages	**2,696**	2,569
Pension and other postretirement costs	**242**	217
Other social charges	**478**	499
	3,416	3,285

Employees

Average number of employees	**2001**	2000
Pharma	**21,000**	21,200
Coatings	**30,100**	30,100
Chemicals	**15,400**	15,600
Other units	**1,300**	1,300
	67,800	68,200
Number of employees at December 31	**66,300**	68,400

CONSOLIDATED BALANCE SHEET

Note [8]

Intangible Assets

	Total	Goodwill	Licenses, know-how, and intellectual property rights	Intangible assets for minimum pension funding	Development costs
Situation at December 31, 2000					
Cost of acquisition	463	124	321	18	
Amortization	(75)	(3)	(72)		
Book value	388	121	249	18	
Changes in book value					
Acquisitions	105	94	11		
Investments	59		52		7
Amortization	(39)	(10)	(28)		(1)
Write-downs	(18)	(2)	(16)		
Changes in minimum pension funding	9			9	
Changes in exchange rates	4	–	4	–	
Total changes	120	82	23	9	6
Situation at December 31, 2001					
Cost of acquisition	623	218	371	27	7
Amortization	(115)	(15)	(99)		(1)
Book value	**508**	**203**	**272**	**27**	**6**

Note [9]

Property, Plant and Equipment

	Total	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process
Situation at December 31, 2000						
Cost of acquisition	9,863	2,744	5,712	884	427	96
Depreciation	(5,362)	(958)	(3,699)	(612)		(93)
Book value	4,501	1,786	2,013	272	427	3
Changes in book value						
Acquisitions	165	54	97	14		
Divestitures	(151)	(63)	(30)	(33)	(23)	(2)
Capital expenditures	822	161	428	85	131	17
Disinvestments	(10)	(5)	(3)	(1)		(1)
Depreciation	(635)	(119)	(436)	(76)		(4)
Write-downs	(154)	(65)	(75)	(13)		(1)
Changes in exchange rates	30	6	23	1		
Total changes	67	(31)	4	(23)	108	9
Situation at December 31, 2001						
Cost of acquisition	10,337	2,838	6,002	924	535	38
Depreciation	(5,769)	(1,083)	(3,985)	(675)		(26)
Book value	**4,568**	**1,755**	**2,017**	**249**	**535**	**12**

The book value of property, plant and equipment financed by installment buying and leasing was EUR 17 million at December 31, 2001 (at December 31, 2000: EUR 15 million).

Note [10]

Financial Noncurrent Assets

	Total	Nonconsolidated companies		Deferred tax assets	Other
		Share in capital	Loans		
Situation at December 31, 2000	2,000	571	102	493	834
Acquisitions/deconsolidations/investments	74	1	4	12	57
Divestitures/repayments	(157)	(22)	(92)	–	(43)
Amounts recognized as income/(expense)	20	85		(81)	16
Dividends received	(67)	(67)			
Changes in minimum pension funding	21			21	
Changes in exchange rates	4	(7)		–	11
Situation at December 31, 2001	**1,895**	**561**	**14**	**445**	**875**

Nonconsolidated Companies

Chemicals joint ventures accounted for EUR 384 million of Akzo Nobel's share in the capital of nonconsolidated companies at December 31, 2001 (at December 31, 2000: EUR 398 million).

Some Akzo Nobel companies are general partners in a number of partnerships that are included in the balance sheet under nonconsolidated companies. Akzo Nobel's equity in the capital of these partnerships was EUR 140 million at year-end 2001 (at December 31, 2000: EUR 141 million). Equity in 2001 earnings was EUR 38 million, against EUR 31 million in 2000. At year-end 2001, these partnerships accounted for EUR 2 million of short-term receivables from nonconsolidated companies (at December 31, 2000: EUR 4 million).

Other Financial Noncurrent Assets

Other financial noncurrent assets include overfunding at a pension fund in the United Kingdom of EUR 656 million (at December 31, 2000: EUR 629 million).

Note [11]

Deferred Tax Assets and Provisions

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

Asset/(liability)	**2001**	2000
Net operating loss carryforwards	**233**	203
Provisions	**413**	500
Intangible assets	**86**	34
Property, plant and equipment	**(239)**	(251)
Overfunding at pension funds	**(182)**	(218)
Others	**(44)**	39
	267	307
Valuation allowance	**(382)**	(332)
Net deferred taxes	**(115)**	(25)

Classification of the deferred tax assets and liabilities takes place at a fiscal entity level as follows:

Asset/(liability)	**2001**	2000
Deferred tax assets	**445**	493
Deferred tax provisions	**(560)**	(518)
	(115)	(25)

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

For deferred tax provisions reference is made to note 16.

Note [12]

Inventories

	2001	2000
Raw materials and supplies	**672**	676
Work in process	**467**	429
Finished products and goods for resale	**1,121**	1,157
Inventory prepayments	**10**	5
	2,270	2,267

Provisions for obsolescence deducted from the inventory book values totaled EUR 199 million at December 31, 2001 (at December 31, 2000: EUR 161 million).

Note [13] **Receivables**

	2001	2000
Trade receivables	**2,340**	2,358
Taxes	**345**	189
Receivables from nonconsolidated companies	**73**	89
Prepaid expenses	**145**	141
Other receivables	**339**	371
	3,242	3,148
Discounted portion	**(13)**	(13)
	3,229	3,135

Provisions for doubtful accounts deducted from the book values of receivables aggregated EUR 180 million (at December 31, 2000: EUR 176 million).

At December 31, 2001, other receivables include a receivable for the divestment of Printing Inks of EUR 75 million

For details on receivables from nonconsolidated companies reference is made to note 10.

Note [14] **Cash and Cash Equivalents**

	2001	2000
Short-term investments	**136**	99
Cash on hand and in banks	**319**	317
	455	416

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings, and marketable securities immediately convertible into cash.
At December 31, 2001, the amount of cash and cash equivalents was freely available.

Note [15] **Equity**

	Akzo Nobel N.V. shareholders' equity	Minority interest
Situation at December 31, 2000	2,437	159
Issuance of shares	3	
Purchased shares	(10)	
Income for the year	671	31
Dividend	(343)	(36)
Changes in minority interest in subsidiaries		(18)
Changes in minimum pension funding	(32)	
Changes in exchange rates	(105)	2
Situation at December 31, 2001	**2,621**	**138**

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

Note [16] **Provisions**

	Total	Deferred taxes	Pensions and other postretirement benefits	Restructuring of activities	Environmental costs	Other
Situation at December 31, 2000	2,797	518	1,413	268	221	377
Additions charged to income	630	38	227	283	6	76
Acquisitions	–	–				
Divestiture	(19)		(19)			
Utilization	(529)		(223)	(152)	(18)	(136)
Changes in minimum pension funding	62		62			
Changes in exchange rates	19	4	14	1	2	(2)
Situation at December 31, 2001	**2,960**	**560**	**1,474**	**400**	**211**	**315**

The current portion of provisions amounted to EUR 530 million (at December 31, 2000: EUR 428 million).

Deferred Tax Provisions
For details on deferred taxes reference is made to note 11.

Provisions for Pensions and Postretirement Benefits other than Pensions

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

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

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

Below a table is provided with a summary of the changes in the pension benefit obligations and plan assets for 2001 and 2000. Also provided is a table with a summary of the changes in the accumulated postretirement benefit obligations and plan assets for 2001 and 2000.

	Pensions		Other postretirement benefits	
	2001	2000	**2001**	2000
Benefit obligation				
Situation at December 31, 2000	**(7,507)**	(6,971)	**(334)**	(314)
Acquisitions	**(1)**	(42)		(5)
Divestments/curtailments	**26**	102	**13**	
Service costs	**(250)**	(211)	**(13)**	(12)
Interest costs	**(449)**	(418)	**(25)**	(22)
Plan amendments	**(1)**	(163)	**(10)**	
Benefits paid	**416**	404	**21**	19
Actuarial gains and losses	**(107)**	(182)	**(50)**	20
Changes in exchange rates	**(77)**	(26)	**(14)**	(20)
Situation at December 31, 2001	**(7,950)**	(7,507)	**(412)**	(334)
Plan assets				
Situation at December 31, 2000	**7,380**	7,079	**2**	–
Acquisitions	**–**	39		2
Divestments/curtailments	**(6)**	(89)		
Contribution by employer	**145**	18		
Contribution by employees	**23**	12		
Benefits paid	**(361)**	(347)	**–**	–
Actual return on plan assets	**(556)**	626	**–**	–
Changes in exchange rates	**82**	42	**–**	–
Situation at December 31, 2001	**6,707**	7,380	**2**	2
Funded status	**(1,243)**	(127)	**(410)**	(332)
Unrecognized net loss/(gain)	**916**	(269)	**(9)**	(59)
Unrecognized prior service costs	**203**	221	**5**	(6)
Unrecognized net transition obligation	**(2)**	(2)		
Minimum funding requirements	**(93)**	(31)		
Net balances	**(219)**	(208)	**(414)**	(397)

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

	2001	2000
Prepaid pension costs under other financial noncurrent assets	**656**	629
Provisions for pensions and other postretirement benefits under provisions	**(875)**	(837)
	(219)	(208)

The weighted average assumptions underlying the pension computations at December 31 were:

Percent	2001	2000
Discount rate	**6.0**	6.1
Rate of compensation increase	**3.8**	3.8
Expected return on plan assets	**7.2**	7.2

The 2001 and 2000 net periodic pension costs for the defined benefit pension plans were as follows:

	2001	2000
Service costs – for benefits earned during the period	**227**	199
Interest costs on projected benefit obligation	**449**	418
Expected return on plan assets	**(521)**	(498)
Net amortization of unrecognized net transition obligation	**–**	(4)
Amortization of prior service costs	**20**	15
Net actuarial gain recognized	**(2)**	(2)
Settlement/curtailment loss	**–**	7
	173	135

The principal defined benefit plans referred to above cover approximately 55% of Akzo Nobel's employees. The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 48 million in 2001, and EUR 44 million in 2000.

Net periodic other postretirement benefit costs are as follows:

	2001	2000
Service costs for benefits allocated to the period	**13**	12
Interest costs on accumulated postretirement obligation	**25**	22
Amortization of prior service costs	**(1)**	(1)
Net actuarial gain recognized	**(3)**	(2)
Curtailment (gain)/loss	**(13)**	7
	21	38

For postretirement healthcare benefit plans in the United States, representing approximately 80% of the obligations, accruals have been calculated using a healthcare cost increase rate of 7.5% decreasing gradually to 5.5% over the next 4 years and remaining at that level thereafter (at December 31, 2000: 7.15% decreasing gradually to 5.0% over the next 5 years and remaining at that level thereafter). The discount rate was 7.5% at December 31, 2001, and 7.75% at December 31, 2000.

For the plans in the Netherlands a healthcare cost increase rate of 4% per year was used with a 5.5% discount rate at December 31, 2001 (at December 31, 2000: 4% and 5.5%, respectively).

A 1% increase in the assumed healthcare cost increase rate would have increased the 2001 postretirement healthcare costs by EUR 6 million and the accumulated benefit obligation at December 31, 2001 by EUR 49 million.

Provisions for Environmental Costs

For details on environmental exposures reference is made to note 20.

Other Provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases of EUR 111 million. Reference is made to note 20.

Note [17]

Long-Term Borrowings

	2001	2000
Debentures:		
– issued by Akzo Nobel N.V.	**1,011**	1,147
– issued by consolidated companies	**959**	1,038
Private borrowings	**21**	30
Debt to credit institutions	**153**	417
Other borrowings	**91**	97
	2,235	2,729

The total amount of long-term credit facilities arranged by Akzo Nobel was USD 1.0 billion (at December 31, 2001: EUR 1.1 billion; at December 31, 2000: EUR 1.1 billion). Both at the end of 2001 and 2000 the facilities were not used. Furthermore, the Company has a EUR 1.0 billion short-term back-up facility.

During 2001 the average interest rate was 6.1% (2000: 5.8%).

Aggregate maturities of long-term borrowings are as follows:

	2002	2003/2006	after 2006
Debentures:			
– issued by Akzo Nobel N.V.	136	363	512
– issued by consolidated companies	5	659	295
Private borrowings	11	8	2
Debt to credit institutions	96	53	4
Other borrowings	46	14	31
	294	1,097	844

For details on debentures issued by Akzo Nobel N.V. reference is made to note g to the balance sheet of Akzo Nobel N.V. Debentures issued by consolidated companies include the 6% 98/03 USD 500 million bonds (at December 31, 2001: EUR 568 million; at December 31, 2000: EUR 539 million).

Debt to credit institutions was secured to an aggregate amount of EUR 10 million (at December 31, 2000: EUR 9 million) by means of mortgages, etc.

For details on financial instruments reference is made to note 21.

Note [18]

Short-Term Borrowings

	2001	2000
Commercial paper	**1,455**	1,585
Debt to credit institutions	**704**	370
Borrowings from nonconsolidated companies	**108**	12
	2,267	1,967

Commercial paper relates to Akzo Nobel's commercial paper program in the United States, which at December 31, 2001, as at December 31, 2000, had a maximum of USD 1.0 billion (year-end 2001: EUR 1.1 billion; year-end 2000: EUR 1.1 billion), and to Akzo Nobel's Euro commercial paper program, which at December 31, 2001, had a maximum of EUR 1.5 billion (at December 31, 2000: EUR 1.5 billion).

For details on financial instruments reference is made to note 21.

Note [19] **Current Liabilities**

	2001	2000
Prepayments by customers	**23**	20
Suppliers	**1,411**	1,433
Debt to nonconsolidated companies	**6**	15
Taxes and social security contributions	**302**	246
Amounts payable to employees	**301**	297
Dividends	**262**	259
Pensions	**12**	16
Other liabilities	**387**	332
	2,704	2,618

Note [20] **Commitments and Contingent Liabilities**

Environmental Matters

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

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

As stated in note 16, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated EUR 211 million at December 31, 2001 (at December 31, 2000: EUR 221 million). While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion based on information currently available, would not have a material effect on the Company's financial position but could be material to the Company's results of operations in any one accounting period.

Antitrust Cases

Akzo Nobel is involved in investigations by the antitrust authorities in the United States, Canada, and the European Union into alleged violations of the respective antitrust laws for some products in these jurisdictions. In addition, the Company is involved in civil damage claims in relation to some of these alleged antitrust violations. Fines, civil damage settlements, and legal costs incurred in 2001 in connection with these cases amounted to EUR 59 million (2000: EUR 30 million). Based on an estimate of the probable fines, civil damages, and costs to be paid over a number of years to come – taking into account legal advice and the current facts and circumstances – the Company has a provision amounting to EUR 111 million (2000: EUR 170 mln); reference is made to note 16.

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

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

Commitments
Purchase commitments for property, plant and equipment aggregated EUR 140 million at December 31, 2001. At December 31, 2000, these commitments totaled EUR 41 million. In addition, the Company has purchase commitments for raw materials and supplies incident to the ordinary conduct of business.

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated EUR 561 million at December 31, 2001 (at December 31, 2000: EUR 639 million). Payments due within one year amount to EUR 141 million (2000: EUR 143 million); payments due after more than five years amount to EUR 167 million (2000: EUR 239 million).

Guarantees relating to nonconsolidated companies totaled EUR 11 million (at December 31, 2000: EUR 26 million). As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2001, the risk ensuing from these liabilities was EUR 156 million (at December 31, 2000: EUR 84 million).

Note [21] **Financial Instruments**

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

At December 31, 2001, outstanding contracts to buy currencies totaled EUR 0.8 billion (at December 31, 2000: EUR 0.6 billion), while contracts to sell currencies totaled EUR 2.2 billion (at December 31, 2000: EUR 1.5 billion). These contracts mainly relate to pounds sterling, U.S. dollars, Swedish kronor, Danish kroner, and Japanese yen.

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

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

Fixed rate liabilities with an interest rate of 6.3% were swapped with floating rate EURIBOR-related liabilities for an amount of EUR 145 million and a remaining maturity of 4 years. Floating rate EURIBOR-related liabilities were swapped with fixed rate liabilities with an interest rate of 5.3% for an amount of EUR 145 million and a remaining maturity of 4 years.

The Company has entered into interest rate cap agreements with a cap rate of 8½% for an amount of USD 200 million (year-end 2001: EUR 227 million; year-end 2000: EUR 215 million) to protect itself against the risk of excessive increases in interest rates on short-term U.S. dollar borrowings. These contracts will expire in 2003.

Akzo Nobel has swap agreements related to a 9% pound sterling loan with an outstanding amount of EUR 23 million at December 31, 2001. Under the terms of these agreements Akzo Nobel will pay to financial institutions the euro equivalent of the original amount of the loan and interest on such amount at a fixed rate of 7.6% in exchange for its obligations under this loan agreement.

Credit Risk

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

Commodities

In order to hedge the price risk of natural gas, the Company has entered into put and call options for 100,000 barrels of petroleum for each month of 2002 with a floor of USD 15.03 – 16.30 and a cap of USD 21.50 per barrel.

Fair Value of Financial Instruments

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

	December 31, 2001		December 31, 2000	
Asset/(liability)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Foreign currency contracts	(35)	(30)	11	14
Interest swap contracts	–	6	–	15
Interest rate cap contracts	1	–	1	–
Long-term borrowings	(2,220)	(2,262)	(2,729)	(2,724)
Petroleum options	–	1		

CONSOLIDATED STATEMENT OF CASH FLOWS

Note [22]

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

	Working capital[1]	Long-term borrowings	Short-term borrowings
Changes in 2001 balance sheet items	14	(494)	300
Eliminations:			
– changes in exchange rates	(5)	(49)	(47)
– changes in consolidation	132	17	8
Changes in 2001 financial position	141	(526)	261

[1] *Inventories and receivables less current liabilities, exclusive of dividends.*

Akzo Nobel N.V. Statement of Income

Millions of euros	NOTE	2001	2000
Net income from affiliated companies	a	**689**	964
Other net income		**(18)**	(17)
Net income		**671**	947

Akzo Nobel N.V. Balance Sheet

AFTER ALLOCATION OF PROFIT

Millions of euros, December 31	NOTE	2001		2000	
Assets					
Noncurrent assets					
Financial noncurrent assets	c		**8,361**		8,685
Current assets					
Receivables	d	**175**		235	
Cash and cash equivalents	e	**34**		17	
			209		252
Total			**8,570**		8,937
Shareholders' Equity and Liabilities					
Shareholders' equity	f				
Subscribed share capital		**572**		649	
Additional paid-in capital		**1,799**		1,796	
Statutory reserves		**83**		–	
Cumulative currency translation differences		**(721)**		(616)	
Other reserves		**888**		608	
			2,621		2,437
Long-term borrowings	g		**4,617**		5,259
Short-term debt	h		**1,332**		1,241
Total			**8,570**		8,937

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

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

GENERAL

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

Foreign currency has been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income given on pages 65 through 67. Thus net income and shareholders' equity are equal to net income and shareholders' equity as shown in the consolidated financial statements on pages 68 and 69. As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code.

STATEMENT OF INCOME

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

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

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

Total Remuneration
In 2001, the remuneration for members of the Supervisory Board was EUR 423,000 (2000: EUR 449,000). Former members of the Supervisory Board did not receive any remuneration in 2001, as in 2000.

In 2001, remuneration for members of the Board of Management, including expenses for pensions and other such obligations, amounting to EUR 5,684,000 (2000: EUR 5,964,000) was charged to Akzo Nobel N.V. and its subsidiaries. The charges for former members of the Board of Management amounted to EUR 23,000 (2000: EUR 107,000).

Supervisory Board
In respect of their functions the members of the Supervisory Board received in 2001 the following remuneration:

Euros	
Aarnout A. Loudon, *Chairman*[1]	54,200
Frits H. Fentener van Vlissingen, *Deputy Chairman*[1] [2]	45,500
Virginia Bottomley	41,000
L. Paul Bremer, III	41,000
Abraham E. Cohen[2]	45,500
Jean G.A. Gandois, till May 1, 2001	13,700
Hilmar Kopper[2]	45,500
Lars H. Thunell[2]	45,500
Maarten C. van Veen[1]	45,500
Lo C. van Wachem[1]	45,500

1) *Member of the Nomination and Remuneration Committee.*
2) *Member of the Audit Committee.*

At December 31, 2001, the members of the Supervisory Board held 51,083 Akzo Nobel N.V. common shares and no options. The specification is as follows:

Number of shares	
Frits H. Fentener van Vlissingen	42,332
L. Paul Bremer, III	500
Abraham E. Cohen	4,000
Maarten C. van Veen	297
Lo C. van Wachem	3,954

Board of Management

The service contracts of the members of the Board of Management are determined by the Supervisory Board, which has delegated this task to the *Nomination and Remuneration Committee*. The objective of the Company's remuneration policy is to provide remuneration in a form that will motivate and retain the members of the Board of Management as top executives of a major international company. In the determination and differentiation of the remuneration level of the Chairman, the Deputy Chairman, and the other members due allowance is made for the individual's specific responsibilities. Remuneration is differentiated on a basis comparable to that in other large international companies. To ensure that remuneration is linked to performance, members of the Board of Management are granted a variable remuneration component related to specific targets; as from the year 2000 this component is primarily dependent on the Economic Value Added realized.

The salaries of the members of the Board of Management were increased at January 1, 2001 with 8.8% (the previous increase was made at May 1, 1999). For the Chairman and Deputy Chairman a further adjustment was made in favor of the fixed component of the remuneration, in order to better reflect the market circumstances. For 2001 the members of the Board of Management received the following salaries and performance-related bonuses:

Euros	**2001**	2000
Cees J.A. van Lede, *Chairman*		
Salary	**605,000**	490,100
Bonus	**447,700**	480,000
	1,052,700	970,100
Fritz W. Fröhlich, *Deputy Chairman*		
Salary	**525,900**	444,600
Bonus	**370,800**	386,000
	896,700	830,600
Paul K. Brons		
Salary	**432,000**	397,000
Bonus	**303,800**	311,000
	735,800	708,000
Rudy M.J. van der Meer		
Salary	**432,000**	397,000
Bonus	**303,800**	311,000
	735,800	708,000
Dag Strömqvist, from July 1, 2000		
Salary	**432,000**	198,500
Bonus	**303,800**	155,500
	735,800	354,000

Pension Scheme

Accrued pension benefits depend on service years, membership years of the Board of Management, retirement age, and the customs and rules in the respective countries of origin. The cost for these pension schemes are for the Company's account. Members of the Board of Management normally retire in the year that they reach the age of 62.

Other Benefits

Other benefits granted to the members of the Board of Management are in conformity with those customary elsewhere.

Stock Options [1)]

The conditional options issued to the members of the Board of Management in 2001 have an exercise price of EUR 46.75 and the expiry date is April 30, 2011. The number of options granted can (after three years) be reduced by a maximum of 50% if certain performance criteria set beforehand are not met or not met sufficiently.

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

Number of options	Year of issue	Exercise price in EUR	Outstanding at December 31, 2000	Granted in 2001	Exercised in 2001	Outstanding at December 31, 2001	Expiry date
Cees J.A. van Lede	1997	28.10	20,592		9,000	11,592	April 28, 2002
	1998	47.40	36,000			36,000	April 28, 2003
	1999	42.50	36,000			36,000	April 25, 2004
	2000	44.82	39,600			39,600	April 27, 2010
	2001	46.75		39,600		39,600	April 30, 2011
Fritz W. Fröhlich	1998	47.40	24,000			24,000	April 28, 2003
	1999	42.50	27,000			27,000	April 25, 2004
	2000	44.82	29,700			29,700	April 27, 2010
	2001	46.75		29,700		29,700	April 30, 2011
Paul K. Brons	1996	22.45	8,164		8,164		April 27, 2001
	1997	28.10	15,060		10,000	5,060	April 28, 2002
	1998	47.40	24,000			24,000	April 28, 2003
	1999	42.50	24,000			24,000	April 25, 2004
	2000	44.82	26,400			26,400	April 27, 2010
	2001	46.75		26,400		26,400	April 30, 2011
Rudy M.J. van der Meer	1996	22.45	16,164		16,164		April 27, 2001
	1997	28.10	15,060		5,000	10,060	April 28, 2002
	1998	47.40	24,000			24,000	April 28, 2003
	1999	42.50	24,000			24,000	April 25, 2004
	2000	44.82	26,400			26,400	April 27, 2010
	2001	46.75		26,400		26,400	April 30, 2011
Dag Strömqvist	1998	47.40	6,000			6,000	April 28, 2003
	1999	42.50	6,000			6,000	April 25, 2004
	2000	44.82	3,300			3,300	April 27, 2005
	2000	44.82	13,200			13,200	April 27, 2010
	2001	46.75		26,400		26,400	April 30, 2011
			444,640	148,500	48,328	544,812	

All options with an expiry date after the year 2003 are conditional options; the remainder is unconditional.

1) *For a description of the option scheme until 1998 and the revised option scheme reference is made to note f.*

At December 31, 2001, the members of the Board of Management held 7,432 Akzo Nobel N.V. common shares. The specification is as follows:

Number of shares	
Cees J.A. van Lede	1,500
Fritz W. Fröhlich	1,000
Paul K. Brons	1,564
Rudy M.J. van der Meer	1,168
Dag Strömqvist	2,200

Members of the Board of Management held no options other than the aforementioned stock options. All Members of the Board of Management participate in the Akzo Nobel Employee Share Plan, whereby 6 Akzo Nobel N.V. common shares are conditionally granted and vest after three years.

BALANCE SHEET

Note [c]

Financial Noncurrent Assets

		Consolidated companies		Loans to nonconsolidated	Other financial
	Total	Share in capital	Loans[1]	companies	noncurrent assets
Situation at December 31, 2000	8,685	3,631	4,976	69	9
Investments/disinvestments	(1,151)	(1,151)			
Equity in earnings	689	689			
Dividends received	(536)	(536)			
Loans granted	1,627		1,627		
Repayment of loans	(816)		(745)	(69)	(2)
Changes in minimum pension funding	(32)	(32)			
Changes in exchange rates	(105)	(157)	52		
Situation at December 31, 2001	**8,361**	**2,444**	**5,910**		**7**

Note [d]

Receivables

	2001	2000
Receivables from consolidated companies	**35**	59
Receivables from nonconsolidated companies	**16**	28
Taxes	**105**	68
Other receivables	**19**	80
	175	235

Note [e]

Cash and Cash Equivalents

	2001	2000
Short-term investments	**9**	6
Cash on hand and in banks	**25**	11
	34	17

At December 31, 2001, the amount of cash and cash equivalents was freely available.

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

Note [f] **Shareholders' Equity**

	Subscribed share capital	Additional paid-in capital	Statutory reserves	Cumulative translation differences	Other reserves	Shareholders' equity
Situation at December 31, 1999	649	1,795	–	(586)	24	1,882
Issue of common shares	–	1				1
Net income					947	947
Dividend					(343)	(343)
Goodwill					(16)	(16)
Changes in minimum pension funding					(4)	(4)
Changes in exchange rates in respect of affiliated companies				(30)		(30)
Situation at December 31, 2000	649	1,796	–	(616)	608	2,437
Issue of common shares	–	3				3
Purchase of common shares					(10)	(10)
Reduction of par value	(77)		77			–
Net income					671	671
Dividend					(343)	(343)
Capitalized development cost			6		(6)	–
Changes in minimum pension funding					(32)	(32)
Changes in exchange rates in respect of affiliated companies				(105)		(105)
Situation at December 31, 2001	**572**	**1,799**	**83**	**(721)**	**888**	**2,621**

Subscribed Share Capital

Authorized capital stock of Akzo Nobel N.V. is EUR 1,600,019,200 and consists of 48 priority shares of EUR 400, 600 million common shares of EUR 2 and 200 million cumulative preferred shares of EUR 2. Subscribed share capital consists of 48 priority shares, 286,044,300 common shares, and no preferred shares. In 2001, 106,600 common shares were issued in connection with the exercise of options.

In connection with obligations under Akzo Nobel's Employee Share Plan, the Company has purchased common shares. In 6 blocks during the period April-December 2001 189,487 common shares were purchased, which the Company still held at December 31, 2001. These common shares were acquired at prevailing stock market price at the time of purchase, which averaged EUR 47.03. Furthermore, on April 23, 2001, the Company acquired 29,568 common shares at EUR 49.16 per share, which were transferred to an outside trust fund of Akzo Nobel's employees in the United Kingdom on May 1, 2001.

Stock Options

Options are granted to all members of the Board of Management, Senior Vice Presidents and Executives. Contrary to prior years, options were also granted to the executives in the United States in 2001. As a result the number of participants increased from approximately 650 in 2000 to approximately 760 in 2001. The options expire after five years (except for those granted to the members of the Board of Management as from 2000, which expire after ten years) and cannot be exercised during the first three years. The option to choose for stock appreciation rights expired. No financing facilities exist for option rights or tax payable thereon. The options issued under the scheme until 1998 were exercisable immediately upon grant. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share of EUR 2 or one American Depositary Share (ADS). The exercise price is the Euronext Amsterdam opening price on the first day that the Akzo Nobel share is quoted ex dividend, or the opening price for an ADS on NASDAQ/NMS on the first day that the Akzo Nobel ADS is quoted ex dividend.

Employee Share Plan

In 2001, the Company introduced the Akzo Nobel Employee Share Plan, whereby Akzo Nobel N.V. common shares are conditionally granted to the employees. These rights vest if the employee has remained in the Company's service for a period of three years. The number of shares granted varies from country to country. At December 31, 2001, conditional grants for 225,088 common shares were outstanding, which have a vesting date of May 1, 2004.

Outstanding Option Rights (including Board of Management)

Year of issue	Exercise price in EUR	Outstanding at December 31, 2000	Granted in 2001	Exercised in 2001	Lapsed in 2001	Outstanding at December 31, 2001	Expiry date
Unconditional options							
1996	22.45	47,204		47,204			April 27, 2001
1997	28.10	104,264		54,008		50,256	April 28, 2002
1998	47.40	437,100		2,200		434,900	April 28, 2003
Total		588,568		103,412		485,156	
Conditional options							
1999	42.50	1,131,600			41,800	1,089,800	April 25, 2004
2000	44.82	899,020			7,480	891,540	April 27, 2005
2000	44.82	148,500				148,500	April 27, 2010
2001	46.75		895,180			895,180	April 30, 2006
2001	46.75		148,500			148,500	April 30, 2011
Total		2,179,120	1,043,680		49.280	3,173,520	
	In USD						
ADSs							
2001	41.69		149,490		1,320	148,170	April 30, 2006
Total		2,767,688	1,193,170	103,412	50,600	3,806,846	

Statutory Reserves

At the Annual Meeting of Shareholders of April 26, 2001, an amendment of the Articles of Association was approved whereby the par value of the priority shares was adjusted from NLG 1,000 to EUR 400 and of the common shares and the cumulative preferred shares from NLG 5 to EUR 2. As the revised par values are somewhat lower than the original par values, in accordance with section 67a of Book 2 of the Netherlands Civil Code, the Company recognized a statutory reserve of EUR 77 million for this reduction in subscribed share capital. Statutory reserves also include EUR 6 million for capitalized development costs, as well as the reserves relating to the earnings retained by affiliated companies after 1983. The latter statutory reserves have been calculated by the so-called collective method.

Note [g]

Long-Term Borrowings

	2001	2000
Debentures	**1,011**	1,147
Debt to consolidated companies	**3,602**	4,110
Other borrowings	**4**	2
	4,617	5,259

Debentures

	2001	2000
8% 1992/02	**136**	136
6⅝% 1993/03	**136**	136
7% 1995/05	**227**	227
5¾% 1996/01		136
5⅝% 1998/08	**512**	512
	1,011	1,147

Debt to Consolidated Companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 3.4% in 2001 (2000: 6.2%).

Note [h]

Short-Term Debt

	2001	2000
Debt to credit institutions	**127**	155
Commercial paper	**874**	763
Debt to consolidated companies	**20**	10
Borrowings from nonconsolidated companies	**3**	10
Dividend	**258**	258
Other liabilities	**50**	45
	1,332	1,241

Commercial paper relates to Akzo Nobel's Euro commercial paper program, which at December 31, 2001, had a maximum of EUR 1.5 billion (at December 31, 2000: EUR 1.5 billion).

Note [i]

Liabilities Not Shown in the Balance Sheet

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of certain Netherlands consolidated companies. These debts, at December 31, 2001, aggregating EUR 1.3 billion (at December 31, 2000: EUR 0.9 billion), are included in the consolidated balance sheet.

Additionally, guarantees were issued in behalf of consolidated companies in the amount of EUR 3.2 billion (2000: EUR 2.5 billion), including guarantees issued by Akzo Nobel N.V. in relation to the exemption of certain Irish companies[1], under section 5(c) of the Companies (Amendment) Act 1986 Ireland.

The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated Balance Sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., as disclosed in Commitments in Note 20 of the Notes to the Consolidated Financial Statements.

Guarantees relating to nonconsolidated companies amounted to EUR 11 million (2000: EUR 26 million).

Arnhem, February 21, 2002

The Board of Management

Cees J.A. van Lede
Fritz W. Fröhlich
Paul K. Brons
Rudy M.J. van der Meer
Dag Strömqvist

The Supervisory Board

Aarnout A. Loudon
Frits H. Fentener van Vlissingen
Virginia Bottomley
L. Paul Bremer, III
Abraham E. Cohen
Hilmar Kopper
Lars H. Thunell
Maarten C. van Veen
Lo C. van Wachem

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

AUDITORS' REPORT

We have audited the 2001 financial statements of Akzo Nobel N.V., Arnhem, as included in this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Arnhem, February 21, 2002

KPMG Accountants N.V.

PROFIT ALLOCATION AND DISTRIBUTIONS IN ACCORDANCE WITH THE ARTICLES OF ASSOCIATION

Article 43

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

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

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

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

Article 44

44.7

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

PROPOSAL FOR PROFIT ALLOCATION

With due observance of article 43, paragraph 6, of the Articles of Association, EUR 328 million of net income is carried to other reserves.

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

Following the acceptance of this proposal, the holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 will be made available from May 8, 2002.

SPECIAL RIGHTS TO HOLDERS OF PRIORITY SHARES

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

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

FINANCIAL SUMMARY

Consolidated Statement of Income[1)]

Millions of euros	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Net sales	**14,110**	14,003	14,432	12,482	10,914	10,182	9,751	10,078	7,491	7,584
Operating income before nonrecurring items	**1,571**	1,641	1,238	1,147	1,041	846	850	838	432	498
Financing charges	**(257)**	(245)	(245)	(179)	(93)	(88)	(87)	(99)	(74)	(89)
Taxes	**(417)**	(462)	(323)	(336)	(316)	(251)	(266)	(220)	(112)	(121)
Earnings from nonconsolidated companies	**69**	65	52	45	54	41	62	46	37	30
Earnings from normal operations, after taxes	**966**	999	722	677	686	548	559	565	283	318
Minority interest	**(36)**	(43)	(25)	(16)	(17)	(16)	(20)	(17)	(2)	(9)
Net earnings excluding extraordinary and nonrecurring items	**930**	956	697	661	669	532	539	548	281	309
Extraordinary and nonrecurring items, after taxes	**(259)**	(9)	(508)	(129)	15		(16)	(36)	(183)	(30)
Net income	**671**	947	189	532	684	532	523	512	98	279
EBITDA	**2,245**	2,305	2,009	1,825	1,638	1,392	1,345	1,359	834	893
Common shares, in millions at December 31	**285.9**	285.9	285.9	285.3	285.2	284.7	284.3	284.3	215.9	184.0
Dividend	**343**	343	286	278	275	242	226	226	154	136
Per common share, in EUR										
Net income	**2.35**	3.31	0.66	1.86	2.40	1.87	1.83	1.80	0.52	1.52
Net income excluding extraordinary and nonrecurring items	**3.25**	3.34	2.44	2.32	2.35	1.87	1.89	1.93	1.49	1.68
Dividend	**1.20**	1.20	1.00	0.98	0.97	0.85	0.79	0.79	0.74[2)]	0.74
Shareholders' equity	**9.17**	8.52	6.58	6.68	13.90	11.86	10.22	9.84	12.23	12.44
Number of employees at December 31	**66,300**	68,400	68,000	85,900	68,900	70,700	69,800	70,400	60,700	62,500
Salaries, wages, and social charges	**3,416**	3,285	3,777	3,368	2,969	2,820	2,725	2,772	2,360	2,346
Ditto, as % of net sales	**24.2**	23.5	26.2	27.0	27.2	27.7	27.9	27.5	31.5	30.9
Ratios										
Operating income before nonrecurring items as percentage of net sales	**11.1**	11.7	8.6	9.2	9.5	8.3	8.7	8.3	5.8	6.6
Operating income before nonrecurring items as percentage of invested capital	**17.3**	18.9	13.1	14.5	15.6	13.6	14.6	14.5	10.0	12.0
Net income excluding extraordinary and nonrecurring items as percentage of shareholders' equity	**36.7**	44.3	36.8	22.5	18.2	16.9	18.9	19.8	11.4	13.9

1) *Prior years have been restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*

2) *Holders of the 31.5 million common shares placed in November 1993 were only entitled to the final dividend of EUR 0.57 per share.*

For definitions of certain financial ratios and concepts see back cover.

Consolidated Balance Sheet [1)]

Millions of euros, December 31	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Intangible assets	**508**	388	326	166	133	134	168	137	64	49
Property, plant and equipment	**4,568**	4,501	4,435	5,311	4,420	4,304	3,848	3,808	2,886	2,656
Financial noncurrent assets	**1,895**	2,000	1,878	1,401	880	846	752	749	583	616
Noncurrent assets	**6,971**	6,889	6,639	6,878	5,433	5,284	4,768	4,694	3,533	3,321
Inventories	**2,270**	2,267	2,091	2,291	1,835	1,760	1,648	1,541	1,317	1,269
Receivables	**3,229**	3,135	2,981	2,823	2,267	1,981	1,907	1,865	1,429	1,341
Cash and cash equivalents	**455**	416	932	536	317	404	317	330	845	299
Current assets	**5,954**	5,818	6,004	5,650	4,419	4,145	3,872	3,736	3,591	2,909
Total assets	**12,925**	12,707	12,643	12,528	9,852	9,429	8,640	8,430	7,124	6,230
Shareholders' equity	**2,621**	2,437	1,882	1,907	3,964	3,375	2,907	2,796	2,641	2,289
Minority interest	**138**	159	154	190	118	108	88	83	70	64
Equity	**2,759**	2,596	2,036	2,097	4,082	3,483	2,995	2,879	2,711	2,353
Provisions	**2,960**	2,797	2,432	2,582	1,963	1,891	1,834	1,712	1,363	1,164
Long-term borrowings	**2,235**	2,729	2,678	2,672	914	975	1,233	1,424	1,061	817
Short-term borrowings	**2,267**	1,967	2,803	2,663	778	1,128	735	500	643	638
Current liabilities	**2,704**	2,618	2,694	2,514	2,115	1,952	1,843	1,915	1,346	1,258
Short-term debt	**4,971**	4,585	5,497	5,177	2,893	3,080	2,578	2,415	1,989	1,896
Total equity and liabilities	**12,925**	12,707	12,643	12,528	9,852	9,429	8,640	8,430	7,124	6,230
Invested capital										
Of consolidated companies	**9,191**	9,000	8,373	9,012	6,841	6,512	5,955	5,689	4,496	4,111
In nonconsolidated companies	**575**	673	644	466	579	561	525	496	437	562
Total	**9,766**	9,673	9,017	9,478	7,420	7,073	6,480	6,185	4,933	4,673
Property, plant and equipment										
Capital expenditures	**822**	725	797	819	641	836	750	741	531	423
Depreciation	**635**	631	740	661	587	537	488	516	402	395
Ratios										
Net sales/invested capital	**1.55**	1.61	1.53	1.57	1.63	1.63	1.67	1.74	1.74	1.83
Gearing	**1.47**	1.65	2.23	2.29	0.34	0.49	0.55	0.55	0.32	0.49
Equity/noncurrent assets	**0.40**	0.38	0.31	0.30	0.75	0.66	0.63	0.61	0.77	0.71
Inventories and receivables/current liabilities	**2.03**	2.06	1.88	2.03	1.94	1.92	1.93	1.78	2.04	2.07

1) *Prior years have been restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*

For definitions of certain financial ratios and concepts see back cover.

Business Segment Statistics[1]

Millions of euros	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992
Pharma										
Net sales	**4,044**	3,839	2,865	2,323	2,094	1,793	1,713	1,665	1,552	1,473
Operating income[2]	**831**	765	577	461	409	348	336	293	260	234
Invested capital[3]	**2,558**	2,367	2,081	1,399	1,243	1,083	894	818	808	733
Operating income[2]										
– as percentage of net sales	**20.5**	19.9	20.1	19.8	19.5	19.4	19.6	17.6	16.8	15.9
– as percentage of invested capital	**33.7**	34.4	35.4	34.9	35.2	35.2	39.3	36.0	33.7	33.3
EBITDA	**995**	932	717	566	499	428	404	357	315	284
Capital expenditures	**317**	214	199	173	107	107	124	108	103	88
Average number of employees	**21,000**	21,200	18,300	16,200	15,500	15,100	14,300	14,100	14,000	13,600
Coatings										
Net sales	**5,591**	5,568	5,266	4,570	3,618	3,218	2,960	2,989	1,697	1,725
Operating income[2]	**426**	447	425	369	319	252	203	221	75	80
Invested capital[3]	**2,395**	2,323	2,196	2,167	1,436	1,324	1,254	1,191	778	787
Operating income[2]										
– as percentage of net sales	**7.6**	8.0	8.0	8.1	8.8	7.8	6.9	7.4	4.4	4.6
– as percentage of invested capital	**18.1**	19.8	19.5	20.5	23.1	19.6	16.6	17.9	9.6	10.2
EBITDA	**588**	598	573	492	419	343	286	308	124	128
Capital expenditures	**181**	170	155	181	120	106	101	95	67	54
Average number of employees	**30,100**	30,100	30,400	27,500	21,900	20,800	20,600	21,000	13,300	14,100
Chemicals										
Net sales	**4,604**	4,740	4,154	3,670	3,706	3,726	3,559	3,804	2,845	2,755
Operating income[2]	**340**	445	368	318	334	261	278	330	161	168
Invested capital[3]	**3,132**	3,064	2,803	2,669	2,749	2,678	2,413	2,429	1,649	1,623
Operating income[2]										
– as percentage of net sales	**7.4**	9.4	8.9	8.7	9.0	7.0	7.8	8.7	5.7	6.1
– as percentage of invested capital	**11.0**	15.2	13.5	11.7	12.3	10.3	11.5	13.6	9.8	10.3
EBITDA	**676**	778	665	590	592	498	489	565	332	338
Capital expenditures	**310**	329	311	291	273	432	356	344	203	151
Average number of employees	**15,400**	15,600	15,000	14,400	14,700	15,900	16,200	16,900	13,800	14,300
Acordis/Fibers										
Net sales			2,242	1,947	1,606	1,540	1,626	1,645	1,470	1,707
Operating income[2]			(110)	20	(2)	(2)	45	12	(41)	32
Invested capital[3]				1,682	1,144	1,155	1,156	960	1,204	995
Operating income[2]										
– as percentage of net sales			(4.9)	1.0	(0.1)	(0.1)	2.8	0.7	(2.8)	1.9
– as percentage of invested capital			(6.4)	1.4	(0.2)	(0.2)	4.3	1.1	(3.7)	3.1
EBITDA			48	152	108	98	146	118	71	146
Capital expenditures			107	135	83	144	140	146	141	113
Average number of employees			17,400	16,100	13,700	14,500	15,200	16,700	18,500	20,100

1) *Prior years have been restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*
2) *Before nonrecurring items.*
3) *At December 31.*

For definitions of certain financial ratios and concepts see back cover.

Regional Statistics[1)]

Millions of euros	2001	2000	1999	1998	1997
The Netherlands					
Net sales by destination	**720**	787	862	797	788
Net sales by origin	**2,533**	2,214	2,583	2,556	2,606
Operating income[2)]	**219**	360	264	220	217
Capital expenditures	**235**	156	214	196	163
Invested capital[3)]	**1,568**	1,974	1,914	1,986	1,767
Number of employees[3)]	**12,700**	12,800	12,900	18,100	17,600
Germany					
Net sales by destination	**1,052**	1,064	1,436	1,339	1,212
Net sales by origin	**1,070**	1,134	1,944	1,627	1,480
Operating income[2)]	**82**	83	24	75	59
Capital expenditures	**52**	51	68	74	54
Invested capital[3)]	**702**	570	151	859	766
Number of employees[3)]	**4,200**	4,700	5,100	12,000	10,700
Sweden					
Net sales by destination	**512**	538	524	518	496
Net sales by origin	**1,088**	1,268	1,003	984	864
Operating income[2)]	**67**	79	63	94	101
Capital expenditures	**71**	74	70	80	99
Invested capital[3)]	**716**	734	863	783	759
Number of employees[3)]	**4,500**	4,700	4,700	4,900	4,700
United Kingdom					
Net sales by destination	**1,036**	1,052	1,164	1,000	802
Net sales by origin	**924**	966	1,406	955	597
Operating income[2)]	**38**	55	7	66	52
Capital expenditures	**36**	56	69	89	25
Invested capital[3)]	**1,238**	1,194	1,255	1,579	252
Number of employees[3)]	**5,200**	5,600	5,700	9,600	3,800
Other European countries					
Net sales by destination	**3,964**	3,879	4,327	3,915	3,367
Net sales by origin	**3,266**	3,025	2,814	2,607	2,149
Operating income[2)]	**712**	558	498	405	353
Capital expenditures	**104**	96	121	147	88
Invested capital[3)]	**1,178**	1,316	1,649	1,273	1,021
Number of employees[3)]	**14,800**	15,300	15,400	16,000	13,200

Millions of euros	2001	2000	1999	1998	1997
USA and Canada					
Net sales by destination	**3,802**	3,596	3,382	2,850	2,446
Net sales by origin	**3,263**	3,198	3,162	2,620	2,305
Operating income[2)]	**190**	237	248	203	167
Capital expenditures	**220**	193	144	149	134
Invested capital[3)]	**2,570**	2,034	1,516	1,671	1,599
Number of employees[3)]	**10,300**	10,600	10,100	12,600	9,500
Latin America					
Net sales by destination	**917**	944	841	790	709
Net sales by origin	**660**	704	566	565	509
Operating income[2)]	**104**	91	53	43	57
Capital expenditures	**33**	35	36	31	40
Invested capital[3)]	**429**	419	415	451	455
Number of employees[3)]	**4,500**	4,700	4,500	5,100	4,800
Asia					
Net sales by destination	**1,429**	1,466	1,223	756	715
Net sales by origin	**1,039**	1,132	687	398	311
Operating income[2)]	**113**	122	54	20	24
Capital expenditures	**54**	35	35	38	29
Invested capital[3)]	**560**	553	448	296	166
Number of employees[3)]	**7,900**	7,600	7,700	6,000	4,100
Other regions					
Net sales by destination	**678**	677	673	517	379
Net sales by origin	**267**	362	267	170	93
Operating income[2)]	**46**	56	27	21	11
Capital expenditures	**17**	29	40	15	9
Invested capital[3)]	**230**	206	162	114	56
Number of employees[3)]	**2,200**	2,400	1,900	1,600	500

1) *Prior years have been restated for changes in accounting principles. Reference is made to Changes in Accounting Principles on page 64.*

2) *Before nonrecurring items.*

3) *At December 31.*

For definitions of certain financial ratios and concepts see back cover.

Akzo Nobel N.V.
Investor Relations Department
Tel: +31 26 366 4317
Fax: +31 26 442 4909
E-mail: investor.relations@akzonobel.com

FINANCIAL CALENDAR

- Report for the 1st quarter 2002
  April 23, 2002

- Annual Meeting of Shareholders
  April 24, 2002

- Quotation ex 2001 final dividend
  April 26, 2002

- Payment of 2001 final dividend
  May 8, 2002

- Report for the 2nd quarter 2002
  July 24, 2002

- Report for the 3rd quarter 2002
  October 23, 2002

- Quotation ex 2002 interim dividend
  October 24, 2002

- Payment of 2002 interim dividend
  November 7, 2002

- Report for the year 2002
  February 11, 2003

- Annual Meeting of Shareholders
  April 17, 2003

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: http://www.akzonobel.com

Design

Dedato, Amsterdam

Photographer

Aatjan Renders, Amsterdam

Printing and typesetting

Tesink bv, Zutphen, the Netherlands

DEFINITIONS

EBIT
Operating income (Earnings Before Interest and Taxes)

EBITDA
Earnings Before Interest, Taxes, Depreciation and Amortization

EVA (Economic Value Added)*
Net Operating Profit After Taxes (NOPAT) less Cost of Capital

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

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

Invested capital
Total assets less cash and cash equivalents and less current liabilities

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

Gearing
Net interest-bearing borrowings divided by equity

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

Interest coverage
EBIT before nonrecurring items divided by financing charges

* *The elements of the EVA calculation cannot be derived directly from the data given in the Financial Statements, as it takes into account certain adjustments such as equalization of restructuring costs over a number of years instead of a one-time charge.*