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PROFILE

COMPANY OVERVIEW

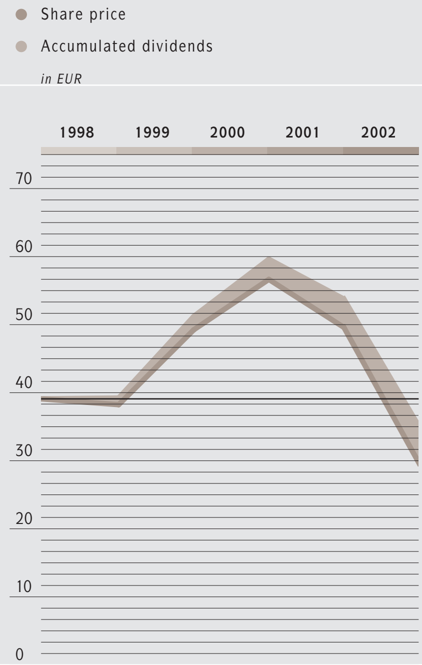
Akzo Nobel, headquartered in the Netherlands, is a business leader in healthcare products, coatings, and chemicals.

The Company has subsidiaries in more than 80 countries, which employed 67,000 people. Sales in 2002 were EUR 14.0 billion, with Pharma accounting for EUR 4.0 billion, Coatings for EUR 5.5 billion, and Chemicals for EUR 4.6 billion.

In this report the terms "Akzo Nobel" and "the Company" refer to Akzo Nobel N.V. and its consolidated companies in general. The Company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world. The terms "we," "our," and "us" are used to describe the Company; where they are used in the chapter "Business Activities," they refer to the businesses concerned.

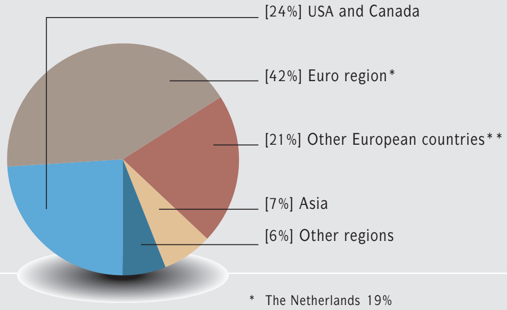
The symbol ® indicates trademarks registered in one or more countries.

5-year development Akzo Nobel share



Net sales by origin

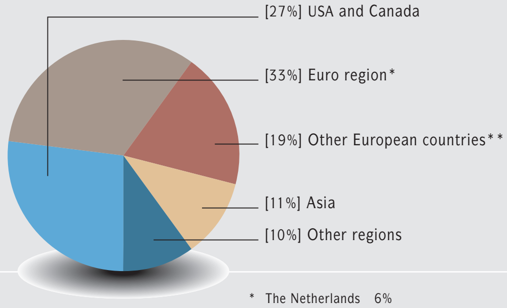
(EUR 14.0 billion)



* The Netherlands	19%
Germany	8%
Other	15%
** Sweden	8%
United Kingdom	7%
Other	6%

Net sales by destination

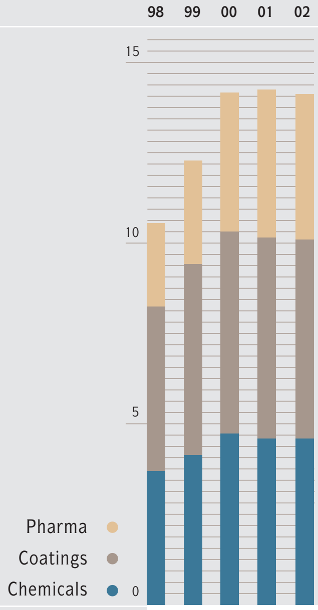
(EUR 14.0 billion)



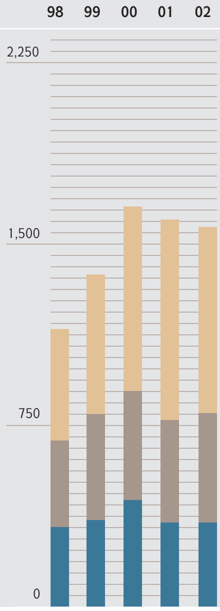
* The Netherlands	6%
Germany	8%
Other	19%
** Sweden	4%
United Kingdom	7%
Other	8%

For definitions of certain financial ratios and concepts please refer to inside back cover foldout.

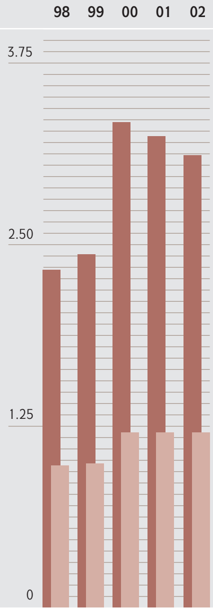
Net sales
(billions of euros)



Operating income
(millions of euros)



Net income* and
dividend per share
(euros)



COMPANY OVERVIEW

Millions of euros (EUR)	**2002**	2001
Net sales	**14,002**	14,110
Operating income before nonrecurring items (EBIT)	**1,492**	1,571
Depreciation and amortization	**681**	674
EBITDA	**2,173**	2,245
Capital expenditures	**689**	822
Operating income, after nonrecurring items	**1,362**	1,122
Economic Value Added (EVA)	**482**	477**
Net income excluding extraordinary and nonrecurring items	**892**	930
Net income	**818**	671
Per common share outstanding, in EUR		
Net income excluding extraordinary and nonrecurring items	**3.12**	3.25
Net income	**2.86**	2.35
Dividend	**1.20**	1.20
Shareholders' equity at year end	**7.34**	10.07
Share price at year end	**30.23**	50.15
Key ratios		
EBIT as percent of net sales (ROS)	**10.7**	11.1
EBIT as percent of invested capital (ROI)	**16.5**	16.8
EBIT : financing charges (interest coverage)	**7.3**	6.1
EBITDA : financing charges	**10.7**	8.7
Gearing	**1.46**	1.34
Number of employees at year end	**67,900**	66,300

* *excluding extraordinary and nonrecurring items*
** *restated for changed treatment of pension costs*

CHAIRMAN'S STATEMENT

Dear Shareholders,

The economy in the year 2002 did not bring what we had hoped for. The anticipated recovery in the second half of the year failed to materialize. After a strong first quarter the economy slipped further back in almost all our markets. At the same time, the euro strengthened relative to almost all currencies. And to make matters worse, the continuing dramatic decline in stock prices negatively affected pension assets, which translated into a substantial provision on the balance sheet and a considerable increase in pension costs.

RESULTS ONLY MILDLY BEHIND

Against that difficult background, Akzo Nobel weathered the storm reasonably well. Our results lagged only mildly behind the previous two years, which were record years in the history of the Company. Our stock price, however, declined more than the trends of markets. It was particularly severely hit as the expected introduction of a key new pharmaceutical product on the U.S. market had to be delayed and an important court case on our major product Remeron® was lost.

Although our Coatings and Chemicals operations clearly did better than in 2001, they could not fully compensate for the higher pension costs, negative currency effects, and lower Pharma earnings. Consequently, Economic Value Added (EVA) increased only marginally and did not meet our target for the first year since we introduced this important economic yardstick.

In light of these adverse developments, we revised our plans in the course of the year. Capital expenditures were cut to offset any negative influence of additional cash payments into pension funds and adjust to changed market expectations. In 2001, we had already embarked on an ambitious plan to promote operational excellence. The associated program to reduce the number of jobs by 3,500 was accelerated and extended to 5,500.

Finally, we reduced our working capital and kept expenditures for acquisitions and proceeds from divestments more or less in balance.

These actions have resulted in a strong reduction of net debt by EUR 0.8 billion and a lean organization, fit and ready to benefit from a potential upturn in the market. Our credit rating has been maintained, and our debt structure improved as a result of a 7-year EUR 1 billion bond flotation. Unfortunately, we had to increase our pension provisions by a large amount.

INVESTMENTS AND ACQUISITIONS IN LINE WITH PRIORITIES

The investments and acquisitions that did take place were made in line with our priorities. Pharma's investments were nearly twice the depreciation level and focused on providing the high-quality conditions required for further growth. Coatings and Chemicals reduced their investments to well below depreciation and favored priority businesses and regions. Particularly China and Central and Eastern Europe enjoyed their attention. In these areas, growth continued at a high rate, and we opened several new factories to participate in this development.

Our international programs to promote Business Principles, Competition Law Compliance, Risk Management, and Good Practices in Human Resources were intensified. The scandals in financial markets underscored the necessity of these programs and proved that we had started these initiatives well in time. Our corporate governance is being extensively reviewed in the light of these external developments and the new regulations, emanating particularly from the United States.

EMPHASIS ON CUSTOMERS, COSTS, AND CASH

The business climate for 2003 is highly uncertain. The economy is flat in most countries, and few positive signals suggest a pick-up shortly. Markets lack direction, consumers' and investors' confidence is low, and the threat of a war against Iraq creates additional uncertainty. Currencies will probably be negative for us, especially during the first six months of 2003, and pension charges will again go up. Furthermore, the Company is confronted with generic competition for Remeron®.

This is a difficult year where an aggressive approach is warranted. We will make a virtue out of this necessity and focus Company-wide on three critical priorities: Customers, Costs, and Cash. We will use our imagination to serve our customers better than our competitors. Cost-cutting opportunities will be vigorously pursued; where needed, additional restructuring programs will be implemented. Capital expenditures will be restricted to the order of magnitude of 2002. On top of that, we will continue to screen our activities and upgrade our portfolio. Nevertheless, at present we have to assume that net income for 2003, excluding extraordinary and nonrecurring items, will be significantly below the level of 2002.

Naturally, I would have preferred to end my last introduction to the Annual Report on a more positive note, but I am more than confident that under the leadership of Hans Wijers, Akzo Nobel will again bring out the best in your company. He will do this with the same support I have enjoyed from our employees, our customers, and you as shareholders.

I thank you all for your support. It has been a privilege and a fascinating experience to run this great company.

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

MAJOR EVENTS IN 2002

PHARMA

Organon

- Arixtra®, the new pentasaccharide antithrombotic developed together with Sanofi-Synthélabo, introduced in the United States in February
- Marketing authorization received for Arixtra® in the European Union
- NuvaRing®, the once-a-month contraceptive ring, launched
- Executive Office moved to Roseland, New Jersey
- FDA requires additional data for Variza™ (gepirone ER)
- Restructuring affecting 300 jobs in the United States and Japan
- Unfavorable court ruling on Remeron® patent infringement in the United States

Organon/Intervet/Diosynth

- New unit–Nobilon–set up for development, production, and marketing of human vaccines

Diosynth

- Rosemont Pharmaceuticals Ltd., Leeds, United Kingdom, sold
- Integration of Covance Biotechnology in Diosynth RTP Inc. completed

COATINGS

Decorative Coatings

- Shareholding in Greek paint company Vivechrom increased to 76%
- Building adhesives factory opened in Rosendahl, Germany
- Decorative coatings factory opened in Moscow
- Specialty paint producer Plascon (United Kingdom) acquired
- New joint venture formed in Indonesia
- Wholesalers in Germany acquired

Powder Coatings

- EUR 12 million invested in Cernobbio, Italy
- Ferro Powder Coatings in Americas and Asia Pacific acquired
- 50% participation in joint venture in Mexico

Marine & Protective Coatings

- Awlgrip® marine and aerospace coatings businesses acquired
- Participation in Korean marine coatings joint venture increased to 60%

Car Refinishes

- French and Finnish car paints distributors acquired
- Accident Management Services (AMS) set up in October

Industrial Coatings

- Investment in new nonstick coatings factory in China announced
- General industrial coatings activities in France, North America, and the Nordic countries divested

Industrial Finishes

- Coil coatings facility opened at Akzo Nobel's Suzhou site in China
- Two new wood coatings factories to be built in China

CHEMICALS

Functional Chemicals

- New MCA plant inaugurated in Taixing, China

Surface Chemistry

- Crompton Industrial Specialties acquired

Polymer Chemicals

- Small metal organics start-up company in Marburg, Germany, acquired

Base Chemicals

- Chlorine capacity in Rotterdam Botlek area to be expanded
- Agreement with Dutch government to relocate chlorine and MCA plants from Hengelo to Delfzijl and to virtually eliminate regular chlorine transportation in the Netherlands by 2006
- Participation in German-based ECI Elektro-Chemie GmbH raised from 50% to 100%

Salt

- Closure of plant in Stade, Germany, announced

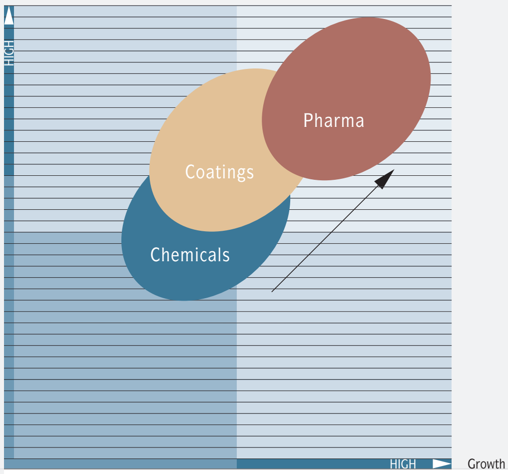
3 2 1 4 6 5

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] A.T.M. (Toon) Wilderbeek (1950, Dutch), *Pharma*	2002
[4] Rudy M.J. van der Meer (1945, Dutch), *Coatings*	1993
[5] Dag Strömqvist (1942, Swedish), *Chemicals*	2000
[6] G.J. (Hans) Wijers (1951, Dutch)	2002

	Has served in this or similar capacity since:
Secretary	
G.H. (Han) Jalink (1949, Dutch)	2002
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

OUR STRATEGY: VALUE CREATION



Akzo Nobel is a diversified multinational group of companies. We focus on leadership positions in selected markets on the strength of our entrepreneurial spirit and Business Principles. We consider our diversity an asset, the real value of which lies in our organization philosophy of strongly decentralized operating companies, combined with optimal use of our financial power, cyclical resilience, and collective know-how. Concentrating on sustained growth, we strengthen our market positions through a targeted investment policy, complementary acquisitions and, if necessary, restructuring measures.

We continuously aim at striking a proper balance between overall size and the focus on our diverse activities. We strive to maintain strong 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. Our strategy is constantly being fine-tuned to optimize value creation, while a solid balance sheet structure and sound financial ratios are maintained.

Akzo Nobel's key products, competitive positions, as well as Pharma's products in the pipeline are stated on pages 34 and 35.

PRIORITY TO GROWTH

Pharma

Pharma will continue its pattern of primarily organic growth, based on its strong commitment to R&D and its pipeline, which has created substantial value over the years. In addition, growth momentum will be supported by intensively pursuing opportunities for collaborations and product acquisitions. Our present portfolio enables us to exploit our extensive knowledge base, capitalize on our pipelines of innovative products, and harness critical mass in selected markets.

Actions

Our strategy is reflected in a double-digit average annual organic growth on an ongoing basis and an equally strong earnings gain over the last five years. Under a scenario of a temporary slowdown, we strive to bolster growth through new product launches–for example Arixtra® and NuvaRing®–from our pipeline. Simultaneously, cost cutting programs to safeguard our earnings level are implemented. Organon also moved its Executive Office to the United States, its most important market. Organic growth and acquisitions in the last few years have made Intervet the world's third largest supplier of veterinary products. Diosynth strengthened its position through CBSI acquired in 2001 and invested heavily in upstream and downstream processing capacity. In 2001 and 2002, Rosemont's generics activities in the United States and the United Kingdom were divested.

Pharma's long-term financial targets are a return on sales of around 20% and return on investment of 40%.

Coatings

STRENGTHEN WORLDWIDE LEADING POSITION

Major acquisitions in the last few years, combined with organic growth, lifted Coatings to the world's number one position. We aim to strengthen this position through further organic growth and bolt-on acquisitions. Growth in mature markets is expected to remain in line with GDP. Opportunities are in emerging markets and in technology switches often driven by environmental considerations. In the fragmented worldwide coatings market we, as the world leader, only represent 8%. This market is in a process of consolidation, in which our global positions in many fields enable us to play a leading role.

Actions

In line with this strategy, Coatings' expansion efforts and investments in Asia resulted in improved positions and strong growth, particularly in China. The acquisitions of Ferro's powder coatings businesses in the Americas and Asia, the aerospace activities of U.S. Paint, a marine and protective coatings factory in Korea, and U.S. Paint Yacht bolstered our positions in these areas. Major restructuring programs, including some divestments and plant closures, and strong efforts to reduce working capital are geared to lift profitability.

Coatings' long-term financial target is to achieve a 30% return on investment.

Chemicals

UPGRADING THE PORTFOLIO

For Chemicals critical mass and leading positions in chosen segments are essential in the quite fragmented chemical industry. Our strategy is based on three cornerstones: concentrate on fewer growth areas, drive innovation, and inspire and develop our people. Our primary efforts focus on structural improvement of margins and cash flow through ongoing cost savings programs. Divestments, selective acquisitions, and generating sufficient cash flow to upgrade the portfolio are the leading principles. Growth efforts are directed at North America and Asia.

Actions

The acquisition of the Crompton Industrial Specialties business in the United States, Europe, and Asia and the start-up of a grassroots monochloroacetic acid plant in China represent two important steps to support Chemicals' leading positions in these areas. Base Chemicals strengthened its position in the German market by increasing its participation in ECI Elektro-Chemie from 50% to 100%. In order to improve performance and cash flow, extensive restructurings, including plant closures such as the Stade, Germany, salt plant, are being implemented, combined with a working capital reduction program.

Chemicals is 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%.

Financing objectives
In order to ensure sustained growth of our businesses and to be able to finance expansion we want a sound financial position and a solid balance sheet structure at all times. As a basic rule, we finance noncurrent assets and half of the inventories by equity, provisions, and long-term debt, while we cover the remainder of working capital by net short-term borrowings. We strive to maintain an interest coverage of at least 5.

Strongly supported by our EVA approach discussed on pages 22 and 23, we are guarding the performance of our businesses and closely monitoring capital expenditures and working capital.

We strive for solid “single A” credit ratings (year-end ratings were: Moody’s A2; Standard & Poor’s A-).

Actions
As a consequence of our debt reduction program, net interest-bearing borrowings were down EUR 0.8 billion from year-end 2001. However, as equity fell by EUR 0.8 billion, mainly due to the balance of substantial pension provisions and retained earnings, gearing at year-end 2002 was 1.46, against 1.34 in 2001. Interest coverage of 7.3 exceeded our strategic minimum level.

Health, Safety, and Environment
Concern for health, safety, and the environment is an integral part of our business policy and a prerequisite for sustainable development of the Company. We strive not just to apply the rules and regulations but to do better. We use five parameters which have been translated into specific targets for operational plans. These parameters and actions taken are discussed on page 30.

REPORT OF THE SUPERVISORY BOARD

Activities
During the year the Supervisory Board met five times. The September meeting was held in the United States when the new Organon headquarters were opened. The Board also had a meeting without the Board of Management being present. The Board was regularly informed through business reports, rolling forecasts, strategic and operational plans, and presentations by the Board of Management and it periodically consulted with the Board of Management on strategy, finance, and major actions.

Topics of discussion included:

- the Company's overall strategy
- economic and market developments
- Corporate Governance and compliance with the U.S. Sarbanes-Oxley Act of 2002
- risks and risk management
- Human Resources policy
- pensions
- the Company's financial structure
- restructuring measures
- major investment projects, acquisitions, and divestments.

The *Nomination and Remuneration Committee* prepared proposals for nomination and reappointment to the Supervisory Board and the planning of succession within the Board of Management. Furthermore, the Committee made remuneration proposals for the members of the Board of Management, including the granting of stock 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, administrative organization, and risk management. The Audit Committee verified the external auditors' independence, in particular with regard to nonauditing services rendered. In addition, the Committee prepared the proposal to the Supervisory Board for the succession of the lead audit partner in the context of the desirability of periodic transfer of responsibility. In January 2003, the draft 2002 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 Shareholders of April 24, 2002, membership of the Supervisory Board was raised by one and fixed at ten. Lo C. van Wachem, who had served on the Board for ten years, stepped down, as he had reached retirement age. We are indebted to Mr. van Wachem for the invaluable contributions he made to the Company over the years. The vacancies were filled by the appointment of Alain Mérieux and Karel Vuursteen. Also at that meeting, L. Paul Bremer, III and Maarten C. van Veen stepped down as their terms of office were expiring. They were reappointed.

At the General Meeting of Shareholders of April 17, 2003, Hilmar Kopper, who has served on the Board for thirteen years, will step down as his term of office is expiring. Mr. Kopper will not be available for reappointment. The Supervisory Board owes a debt of gratitude to Mr. Kopper for his many invaluable contributions to the Company.

Also at that meeting, it will be proposed that membership of the Supervisory Board be raised to eleven, and that Uwe-Ernst Bufe and Cees J.A. van Lede be appointed as members. Until 2000, Mr. Bufe (58) was chairman of the board of management of Degussa A.G.

We highly appreciate that Mr. van Lede will continue to serve the Company as a member of the Supervisory Board.

Changes in the Board of Management

In order to guarantee continuity in the Board of Management it was decided to spread the retirement dates of the members. Consequently, Paul K. Brons, member of the Board of Management with special responsibility for Pharma retired effective July 1, 2002. He was succeeded by Toon (A.) Wilderbeek. The Supervisory Board expressed its gratitude to Mr. Brons for his many outstanding services to the Company.

In this context it was announced that effective May 1, 2003, Mr. van Lede will retire as Chairman of the Board of Management to be succeeded by Hans (G.J.) Wijers, who joined the Board on October 1, 2002. As from July 1, 2002, Mr. Wijers acted as advisor to the Board of Management.

To further provide for a gradual transition of management responsibilities, Dag Strömqvist will postpone his retirement date beyond May 2004 to the end of that year, if so desired at that point in time.

The Supervisory Board wishes to express its great indebtedness to Cees van Lede for his invaluable contributions to the development of Akzo Nobel. Mr. van Lede joined Akzo's Board of Management in 1991. He became Vice Chairman of the Board of Management in 1993 and has been its Chairman since 1994. Under his direction the Company was shaped into the present Akzo Nobel, with the integration of the Nobel businesses, the acquisition of Courtaulds, and the divestment of the fibers activities as major milestones.

The Supervisory Board also expresses its great appreciation for the way in which the Board of Management managed the Company under often difficult circumstances.

Financial Statements and Dividend Proposal

The Supervisory Board herewith submits for shareholders' adoption at the General Meeting of April 17, 2003, the financial statements of Akzo Nobel N.V. for 2002 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 101.

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 20. 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 10, 2003

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 Board of ABN AMRO Bank* *Member of the Supervisory Board of Royal Dutch Petroleum Company*
[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 MP (1948, British)	2000	*Former Secretary of State for Health and Member of the British Cabinet* *Governor of the London School of Economics* *Partner of Odgers Ray & Berndtson*
[4] L. Paul Bremer, III (1941, American) [3]	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] 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,* *and Teva Pharmaceutical Industries, Israel*

Has served in this or similar capacity since:

[6] Hilmar Kopper (1935, German) [2]	1990	*Chairman of the Supervisory Board of DaimlerChrysler* *Member of the Supervisory Board of Solvay* *Advisory Director of Unilever* *Nonexecutive Director of XEROX*
[7] Alain Mérieux (1938, French)	2002	*Chairman of bioMérieux* *Director of WENDEL Investissement, Eurazeo, Rue Impériale de Lyon, Compagnie Plastic Omnium SA, and Lazard LLC*
[8] 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* *Chairman of the Board of IBX, Integrated Business Exchange AB*
[9] 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* *Deputy Chairman of the Supervisory Board of ABN AMRO Bank* *Deputy Chairman of the Supervisory Board of Imtech, the Netherlands* *Nonexecutive Director of Corus Group*
[10] Karel Vuursteen (1941, Dutch)	2002	*Former CEO of Heineken, the Netherlands* *Member of the Supervisory Boards of Gucci Group, Heineken Holding, ING Group, Koninklijke Ahold, and Randstad Holding, the Netherlands* *Member of the Supervisory Board of Henkel, Germany* *Member of the Supervisory Board of Electrolux, Sweden* *Vice Chairman of Nyenrode University, the Netherlands*

[1] *member of the Nomination and Remuneration Committee*
[2] *member of the Audit Committee*
[3] *from October 1, 2002, member of the Nomination and Remuneration Committtee*

GENERAL*

NET INCOME BELOW PREVIOUS YEAR

- **All groups achieved autonomous growth**
- **Operating income down EUR 79 million (5%) – EUR 80 million impact from higher pension charges and EUR 80 million from weaker currencies**
- **Pharma – challenging year**
- **Coatings – strong performance**
- **Chemicals – stable in difficult business conditions**
- **Strong cash flow**
- **Decline in market value of pension assets – SFAS 87 pension accounting:**
  – increased pension charges for 2002 and 2003
  – EUR 1.1 billion after-tax equity charge

PHARMA

- Autonomous growth 6% - negative currency impact 4%
- Growth slowing down throughout the year
- Cost-cutting programs extended; now affecting 800 jobs
- Organon
  – Remeron® patent case U.S. – lost in December
  – NuvaRing® and Arixtra® – slow take-off
  – delay in FDA approval Variza™ (gepirone ER)
  – accelerated R&D spending; up EUR 65 million (12%)
  – headquarters moved to U.S.
- Intervet – under pressure
- Diosynth – strong performance; Rosemont U.K. divested

COATINGS

- Autonomous growth 3% – negative currency impact 3%
- Restructurings – extended and accelerated
- Continuous strengthening of portfolio
- Significant working capital reduction
- Decorative Coatings – benefiting from cost savings
- Industrial activities – improving despite weak business climate
- Marine & Protective – excellent performance

CHEMICALS

- Autonomous growth 2% – negative currency impact 3%
- Restructurings – extended
- Selective acquisitions – further portfolio improvement
- Significant cash flow generator
  – working capital reduction
  – limited capital expenditure
- Catalysts – great year
- Salt and Base Chemicals – solid performance
- Pulp & Paper, Surface, Polymer Chemicals
  – fierce competition
  – continued restructuring
- Agreement reached with Dutch government to cease regular chlorine transportation in the Netherlands

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

Condensed Consolidated Statement of Income

Millions of euros	2002	2001
Net sales:		
Pharma	**4,008**	4,044
Coatings	**5,521**	5,591
Chemicals	**4,598**	4,604
Other	**(125)**	(129)
Total	**14,002**	14,110
Operating income before nonrecurring items (EBIT):		
Pharma	**768**	831
Coatings	**465**	426
Chemicals	**344**	340
Other	**(85)**	(26)
	1,492	1,571
Financing charges	**(204)**	(257)
Operating income before nonrecurring items, less financing charges	**1,288**	1,314
Taxes	**(399)**	(417)
Earnings of consolidated companies, after taxes	**889**	897
Earnings from nonconsolidated companies	**38**	69
Earnings before minority interest	**927**	966
Minority interest	**(35)**	(36)
Net income excluding extraordinary and nonrecurring items	**892**	930
Extraordinary and nonrecurring items, after taxes	**(74)**	(259)
Net income	**818**	671

All groups achieved autonomous *sales* growth. The negative currency translation impact predominantly related to the weakening of the U.S. dollar, the Brazilian real, and various Asian currencies. Acquisitions mainly concerned Ferro's powder coatings business and Crompton's Industrial Specialties, while divestments mainly related to the Diagnostics activities and Printing Inks.

ROS in %	2002	2001
Pharma	**19.2**	20.5
Coatings	**8.4**	7.6
Chemicals	**7.5**	7.4
Akzo Nobel	**10.7**	11.1

Financing charges decreased from EUR 257 million in 2001 to EUR 204 million in 2002. This was the result of a substantial reduction of net borrowings and lower short-term interest rates. Furthermore, U.S. dollar denominated interest translated into lower financing charges. Interest coverage improved from 6.1 to 7.3. EBITDA coverage was 10.7 (2001: 8.7).

Taxes for 2002 amounted to 31%, against 32% in 2001, reflecting changes in the geographic distribution of the Company's results.

Earnings from nonconsolidated companies decreased from EUR 69 million to EUR 38 million. Particularly earnings for Acordis, Flexsys, and Methanor were lower.

Nonrecurring items in 2002

Restructuring and impairment charges at:	
– Pharma	**(111)**
– Coatings	**(26)**
– Chemicals	**(99)**
	(236)
Gain on divestments	**91**
Pension premium refund Sweden	**15**
Gross nonrecurring items	**(130)**
Taxes	**64**
Nonrecurring items consolidated companies	**(66)**
Nonrecurring items nonconsolidated companies	**(8)**
Net nonrecurring items	**(74)**

Nonrecurring restructuring and impairment charges of EUR 74 million mainly relate to the extended restructuring plans at all three groups, which affect 1,500 additional jobs worldwide. No charge has been recognized for the additional global cost-saving plans at Pharma, as the details have not yet been announced. Restructuring and impairment charges consist of provisions for severance payments and other restructuring costs as well as asset write-downs. Pharma's nonrecurring items include a write-down of EUR 67 million for the gepirone ER (Variza™) knowhow intangible asset. In view of the developments in 2002, the chances of success have been reviewed. Although the Company has good hopes for the future of this product, it still decided for prudence reasons to write down this intangible asset. The nonrecurring gain on divestments concerns the divestment of Rosemont Pharmaceuticals Ltd. in the United Kingdom and several other smaller divestments.
The nonrecurring items at nonconsolidated companies principally relate to charges for Acordis.

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

Funds Balance

Millions of euros	**2002**	2001
Earnings before minority interest	**853**	702
Depreciation and amortization	**681**	674
Cash flow	**1,534**	1,376
Other adjustments to reconcile earnings to cash provided by operations	**(103)**	202
Changes in working capital	**117**	(141)
Net cash provided by operations	**1,548**	1,437
Capital expenditures	**(689)**	(822)
Expenditures for intangible assets	**(19)**	(59)
Acquisitions	**(257)**	(314)
Proceeds from divestments	**208**	376
Redemption loans nonconsolidated companies	**5**	92
Other changes	**(27)**	(19)
Net cash used for investing activities	**(779)**	(746)
Dividends paid	**(363)**	(376)
Total net cash used	**(1,142)**	(1,122)
Funds balance	**406**	315

During 2002, the Company enforced a strict cash discipline on all operations. Capital expenditures were cut to offset the negative influence of additional cash payments into pension funds and to adjust to changed expectations for market growth.

Net cash provided by operations rose from EUR 1.4 billion to EUR 1.5 billion in 2002. The inflow from higher earnings and better control over working capital was partially offset by additional pension premiums paid in the amount of EUR 100 million and higher payments from provisions, partly due to the execution of the Company's restructuring programs.

Capital expenditures and acquisitions were made in line with the Company's priorities. Pharma's investments were nearly twice the depreciation level and focused on providing the high-quality conditions required for further growth. Coatings and Chemicals reduced their investments to well below depreciation. Investments were targeted at priority businesses and regions, particularly China and Central and Eastern Europe. In these areas, growth continued at a high rate and we opened several new factories to participate in this development.

During 2002, the Company made various selective bolt-on acquisitions and several divestments to further upgrade its portfolio. Acquisition expenditures mainly concerned Ferro's powder coatings activities, Awlgrip® marine and aerospace coatings business, and Crompton's Industrial Specialties. Proceeds from divestments principally related to the sale of Rosemont Pharmaceuticals Ltd. and Printing Inks.

Condensed Consolidated Balance Sheet

Millions of euros, December 31	**2002**	2001
Noncurrent assets	**6,081**	6,343
Working capital	**2,611**	3,052
Invested capital of consolidated companies	**8,692**	9,395
Nonconsolidated companies	**491**	575
Other assets	**676**	53
Cash and cash equivalents	**520**	455
	10,379	10,478
Equity	**2,235**	3,016
Minimum pension liability	**1,794**	93
Other provisions	**2,574**	2,867
Borrowings	**3,776**	4,502
	10,379	10,478

Invested capital at December 31, 2002, amounted to EUR 8.7 billion, compared with EUR 9.4 billion at year-end 2001. Due to currency translation invested capital went down EUR 0.7 billion. As a result of the Company's focus on cash, working capital was EUR 0.1 billion lower, while capital expenditures virtually equaled depreciation and amortization. Acquisitions added EUR 0.3 billion, while divestments and write-downs each resulted in a decrease of EUR 0.1 billion.

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

Equity increased EUR 0.3 billion due to 2002 income, partially offset by dividends paid and negative currency translation effects. Taking into account the EUR 1.1 billion after-tax minimum pension liability charge, equity went down EUR 0.8 billion.

FINANCING ACTIVITIES

In May 2002, we placed public bonds in the amount of EUR 1 billion with a maturity of 7 years. The proceeds were used to redeem expiring long-term debt and reduce debt outstanding under our commercial paper programs. For this purpose we swapped EUR 500 million into USD 445 million with floating LIBOR-rate interest. Consequently, utilization of these USD 1 billion and EUR 1.5 billion commercial paper programs was lower than in previous years. The programs are supported by committed backup lines in a total amount of EUR 2 billion. During the year, the Company continued to use the money market, including the Euro and U.S. commercial paper markets for short-term funding requirements.

WORKFORCE REDUCTION

The number of employees developed as follows:

	December 31, 2002	Acquisitions/ divestments	Restructuring lay-offs	Net hiring	December 31, 2001
Pharma	21,800	(100)	(100)	900	21,100
Coatings	29,800	1,100	(1,200)	1,000	28,900
Chemicals	15,100	600	(700)	100	15,100
Others	1,200			–	1,200
Akzo Nobel	**67,900**	**1,600**	**(2,000)**	**2,000**	**66,300**

The workforce expansion from acquisitions mainly related to Ferro's powder coatings activities, the German decorative coatings distributor Wümeg, Crompton's Industrial Specialties, and ECI Elektro-Chemie.

In 2001, Coatings and Chemicals initiated restructuring programs for a workforce reduction of 3,500. In 2002, additional programs in all three groups were announced for a further reduction of 1,500. So far a workforce reduction of 2,200 has been realized, resulting in cost savings of EUR 65 million in 2002. On top of that, the Company has plans for a further global work force reduction at Pharma of 500, for which details will be announced shortly. So in total the Company has workforce reduction plans of 5,500, with the following reduction plans per group:

	Program 2001	Additions 2002/2003	Total program	Realized so far
Pharma		800	800	100
Coatings	2,000	500	2,500	1,400
Chemicals	1,500	700	2,200	700
Akzo Nobel	**3,500**	**2,000**	**5,500**	**2,200**

The Company expanded its workforce in those activities and regions where it is growing, like in Asia.

PENSION COSTS

Pension charges

The poor performance of the stock markets in 2001 had a negative influence on the investment results of Akzo Nobel's pension funds. In accordance with the rules of SFAS 87–the standard Akzo Nobel applies for pension accounting–this resulted in an increase in 2002 non-cash pension charges of EUR 80 million, affecting all groups. During 2002, stock markets came down further. In accordance with SFAS 87 this did not lead to additional charges in the statement of income in 2002. However, pension costs for 2003 will further increase by EUR 130 million when compared to 2002.

Minimum pension liability
As explained above, a decline of the funding position does not affect the statement of income in the year itself. However, SFAS 87 stipulates that if pension liabilities based on present entitlements of the employees exceed the value of the pension fund assets, additional pension provisions are to be recognized as a direct charge (after taxes) against shareholders' equity. For 2002, this charge for the Company amounted to EUR 1.1 billion after taxes. This charge does not have an effect on cash or earnings.

Pension premiums paid
Pension premiums to be paid by the Company are based on local regulations and arrangements with Akzo Nobel's pension funds. In the fourth quarter of 2002, the Company paid additional premiums of EUR 100 million. Cash saving programs were implemented to cover this additional funds outflow.

FAST CLOSE PROJECT

To improve the quality and speed of financial reporting processes throughout the organization we are implementing a comprehensive Fast Close project. We managed to speed up publication of our quarterly and annual reports. While our report for the year 2001 was published on February 22, 2002, the report for 2002 appeared on February 11, 2003.

DIVIDEND PROPOSAL

A dividend of EUR 1.20 per common share (2001: EUR 1.20) will be proposed to the General Meeting of Shareholders on April 17, 2003. In November 2002 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 38% relative to net income excluding extraordinary and nonrecurring items, compared with 37% in 2001.

Pages 21 through 66 form an integral part of the Report of the Board of Management.

OUTLOOK FOR 2003

The business climate for 2003 is highly uncertain. Currencies will probably be negative for us, especially during the first six months of 2003, and pension charges will again go up. Furthermore, the Company will be confronted with generic competition for Remeron®.

We will continue to focus Company-wide on three critical priorities: Customers, Costs, and Cash. We will use our imagination to serve our customers better than our competitors. Cost-cutting opportunities will be vigorously pursued; where needed, additional restructuring programs will be implemented. We will also continue our debt reduction program through strict cash discipline. Capital expenditures will be restricted to the order of magnitude of 2002. On top of that, we will continue to screen our activities and upgrade our portfolio based on value creation.

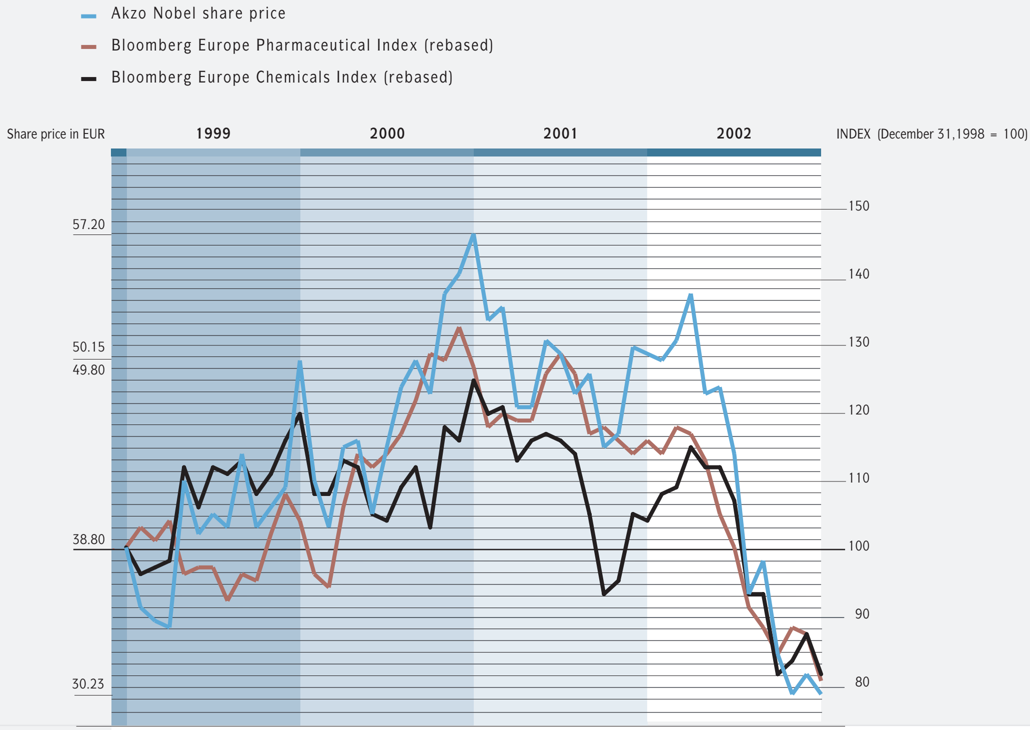
Nevertheless, at present we have to assume that net income for 2003, excluding extraordinary and nonrecurring items, will be significantly below the level of 2002.

We plan to generate a financial surplus also in 2003 and therefore anticipate that no additional funds will have to be raised for ongoing operations. Excluding acquisitions and divestments, the number of employees is expected to decrease due to the implementation of restructuring programs at all groups.

Arnhem, February 10, 2003

The Board of Management

AKZO NOBEL SHAREHOLDERS



OPEN DIALOGUE WITH INVESTMENT COMMUNITY

In 2002, Akzo Nobel actively communicated its strategy and the developments of its businesses to the financial world. Board members and business unit managers attended Pharmaceutical and Chemicals conferences as well as a number of road shows. We held Akzo Nobel Pharma R&D days again in New York and London and a Spring Analysts Meeting on Chemicals in Amsterdam. A newly designed website was launched at the beginning of 2002. The quarterly results press conferences and the analysts conference calls as well as the presentations at analysts meetings are all webcasted and accessible on line.

DISCLOSURE OF MAJOR HOLDINGS

As required by the Disclosure of Major Holdings in Listed Companies Act 1996, the Netherlands Authority for the Financial Markets announced in July 2002 that ING had acquired a position of 5% in Akzo Nobel common shares.

DISTRIBUTION OF SHAREHOLDINGS

At year-end 2002, approximately 38% of Akzo Nobel's shares were held in the United States, 20% in the Netherlands, 15% in the United Kingdom, and 27% in other countries. About 9% of the total number of shares was owned by private investors and 91% by institutional investors.

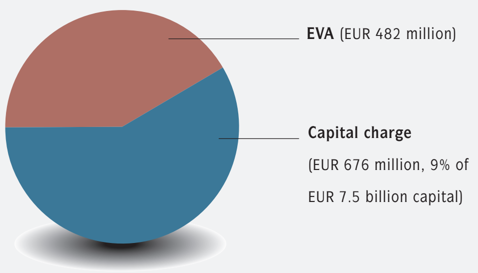
LISTING OF AKZO NOBEL SHARES

Akzo Nobel's common shares are listed on Euronext and NASDAQ (as American Depositary Shares). In 2002, listings in London, Frankfurt, and Stockholm were terminated as the price of the Akzo Nobel share is predominantly set on Euronext Amsterdam.

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 108.

ECONOMIC VALUE ADDED (EVA*)



FOCUS ON CAPITAL PRODUCTIVITY

Creating value, "*making your business worth more tomorrow than it is today*," is the key message. Throughout the Company, EVA is the tool employed to measure and guide value creation. By means of this tool operational managers are increasingly focused on capital productivity. They are urged to run their businesses with day-to-day awareness of value creation and thereby contribute to an attractive and competitive performance of Akzo Nobel.

THE EVA FORMULA

EVA-based management implies a strong focus on capital effectiveness, efficiency, productivity, and competitiveness. EVA is a key tool in the evaluation of business performance and in capital allocation and investment decisions. EVA-based tools also assist in daily operational decision making. In order to keep our managers alert, we place strong emphasis on continuous management training in applying the EVA Management Tool at all levels in the organization.

To foster employee awareness of and involvement in the cultural change the EVA approach brings about, an intranet information site has been established.

EVA is calculated by deducting a capital charge, representing the cost of capital calculated on the basis of an average rate of return investors expect, from net operating profit after taxes (NOPAT). 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 nonrecurring items over a number of years instead of one-time charge and special treatment of strategic investments and acquisitions.

Until now the Company applied an after-tax weighted average cost of capital (WACC) of 9%. Despite this relatively high hurdle, value creation at all three groups was positive. From 2003, onwards the Company will apply a WACC of 8%, due to the decreased financing costs.

EVA developed as follows:

Millions of euros EVA	**2002**	2001**
Pharma	**350**	370
Coatings	**122**	83
Chemicals	**3**	5
Corporate	**7**	19
Total	**482**	477

INCENTIVES

For all senior executives an incentive system based on EVA improvement has been implemented since January 1, 2001. EVA improvement targets are set in advance, based on share prices over a certain period. The incentive system rewards sustainable performance–the creation of value over the long term–by withholding a portion of the yearly bonus. Payment of this portion is subject to realization of the long-term target. In addition, most business units have introduced EVA incentive schemes for their middle and lower management.

EVA AWARD

To maintain awareness of EVA and keep employees at all levels alert to EVA opportunities we initiated an "EVA Award." This award is conferred upon the employee (below senior executive level) who comes up with the most appealing EVA idea. Many ideas were submitted. The winner of the "EVA Award 2002" was Thijs Bakker, assistant controller at Resins. Over the past couple of years, Mr. Bakker has worked on an integrated framework–a combination of several real-data simulation models–explaining EVA performance at different levels in the organization, with the possibility of zooming in on specific subjects. Using his model, it is possible to create clear targets and translate these into specific, people-related assignments.

* *EVA® is a registered trademark of Stern Stewart & Co.*

** *restated for changed treatment of pension costs*

RISK MANAGEMENT

Operational management is responsible for Risk Management. All business unit managers have identified the most important risks affecting their business and are required to develop policies and programs designed to adequately manage these risks. In addition, they have to report regularly on the application of such policies and programs. The goal of this reporting process is to ensure adequate attention for a proper balance between entrepreneurial attitude and risk levels associated with business opportunities.

Risk boundaries are governed by Akzo Nobel's Company Statement, Business Principles, Internal Authority Schedules, and Corporate Directives in such areas as Finance & Control, Health, Safety and Environment, Human Resources, Communications, and Legal. Reporting on these elements has been integrated in our Business Planning & Review cycle. Risk reporting not only covers the perceived likelihood and assessed impact, but also includes preemptive and remedial action to deal with risks. In addition, independent appraisals could provide a review of the effectiveness of our risk management approach.

The Risk Management and Control Procedures are reviewed by the Audit Committee and major deviations from assessed risks and corrective actions are evaluated.

A separate Risk Management support function has been established in Akzo Nobel's Risk Insurance Management department, which is also responsible for developing and executing internal and external insurance programs.

In spite of the goal to maintain high awareness of business risks and related management and control procedures, risks can never be fully excluded: they are an inherent part of doing business.

The great variety of businesses leads to a large number of different risk factors, each of which may result in a material impact on a particular business unit but may not materially affect the Company as a whole. In addition, some of these factors may offset each other within Akzo Nobel.

MAJOR RISK FACTORS

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

The Company faces intense competition from new products, low-priced generics, and products being commoditized.
In 2002 the Company lost an important court case on its major product Remeron® in the United States.

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

The Company's research and development efforts may not succeed or its competitors may develop more effective or successful products.
The introduction of two new FDA-approved Organon products, Arixtra® and NuvaRing®, in the U.S. market took off slower than expected.

Product regulation may adversely affect the ability to bring new products to market.
The Company's planned introduction of the new CNS product Variza™ (gepirone ER) was delayed as we did not yet receive FDA approval.

Akzo Nobel's business will continue to expose it to risks of environmental liabilities.
In 2002, the Company concluded an agreement with the Dutch government limiting regular chlorine transports in the Netherlands, thus reducing any associated risks.

The Company will be responsible for any liabilities arising out of antitrust litigation.
The Company is involved in investigations by the antitrust authorities in the United States, Canada, and the European Union into alleged violations of the respective antitrust laws in these jurisdictions. Since 2000 a special project to reduce such risks has been in place, and in 2002 we placed special emphasis on the practical implementation of Business Principles.

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

Risks in production processes can adversely affect the Company's results of operations.
It is the Company's policy to mitigate production risks by spreading of production and an adequate inventory policy.

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

A failure to manage expansion effectively could adversely affect Akzo Nobel's business. The Company may not be able to identify future acquisitions nor be successful in integrating acquired businesses.
The Company continuously aims to grow its business through development, production, and sale of new products and regularly adds new businesses through acquisitions. We place a strong focus on integration of acquisitions as this is critical to achieve the expected results.

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

Product liability claims could adversely affect Akzo Nobel's business and results of operations.
The Company is involved in product liability cases. It believes that any unaccrued costs and liabilities will not have a material adverse effect on the Company's consolidated financial position.

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

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

Adverse stock market developments may affect assets of pension funds, causing higher pension charges.
In 2002, this led to an additional pension charge and a substantial provision on the balance sheet.

The Company is exposed to a variety of risks due to its international character. Many of these risks are beyond its control and could adversely affect the business.
The Company aims to spread its activities geographically to benefit from opportunities and to reduce the risk of political and economic instability.

PEOPLE AT AKZO NOBEL

THE MESSAGE

Our major ambition is improvement of motivational leadership in the Company. This initiative was launched during 2001 and will remain the number one issue for the foreseeable future. Our message is simple: knowing that technology and capital can be made available anywhere, we wish to be attractive–internally and externally–to the kind of people that really make a difference.

We have in mind people with a certain attitude; basically those, in all disciplines, that are more inclined to find solutions than problems. Our ambition is to offer "a great place to work": a place where all employees know where they are heading, have a challenging role, and where going "that extra mile" is not only a reward in itself but is also appreciated and recognized as part of Akzo Nobel behavior.

In order to get closer to that "great place," we have adopted a few one-liners to communicate our ambition, such as: "We praise success more than blame mistakes, but learn from both," "Remember - small minds recruit even smaller minds," "Great managers grow new managers", and "Education is fine; but attitude puts it to work."

As intended, these and other one-liners have triggered discussion. During 2002, the message they convey was presented and debated with some 500 middle managers and executives in corporate training programs. A further 500 have taken the message on board in a number of Akzo Nobel conferences. But, of course, it takes more to really make it happen. The message may be simple, but it is not easy to accomplish, as it requires both the willingness and the ability to change.

LEADING THE WAY

The first prerequisite for a willingness to change is awareness. To create that awareness the employee leadership survey, piloted in 2001, was rolled out company-wide in 2002 (over 23,000 respondents so far, with more to come in the first months of 2003). The three business units that carried out the Pilot Survey in 2001 identified areas for improvement: constructive dialogues between employee and superior, annual appraisals, career discussions, and coaching.

The business units completing the survey in 2002 are expected to follow up with similar action plans during 2003. By triggering action of this kind the surveys prove that "what gets measured gets done."

LOOKING FOR OPPORTUNITIES

In order to be attractive, one has to show what one can offer. Vacancies are display windows for opportunities; a challenge for those that are looking forward and upward. Our best opportunities deserve the attention of our best people.

The intranet vacancy bank provides visibility for our internal vacancies. The bank provides an open invitation for employees to take a more active part in their own career development. This signal is important, as employees sometimes perceive traditional top-down management development as a "black box."

The number of vacancies in the bank will increase as management becomes more familiar with the use of this feature. The present average of 250 visits per day shows that employees are already using it.

BENEFITS TAILOR-MADE

Remuneration to employees has many faces, such as base salary, variable pay, pension benefits, and illness compensation. Together they form the total remuneration. In our process to implement a more flexible remuneration system–more adaptable to individual needs–components have been defined and their relative value determined. This provides a basis for a "cafeteria benefits system." Project groups are now investigating how such a concept can be applied in the Netherlands, Sweden, and the United States. Other countries will be included in the coming years.

We have put considerable effort into the worldwide implementation of the employee share plan. It is our belief that employee participation in the Company's equity will contribute to the desired attitudes. Full coverage is expected in the third quarter of 2003.

EUROPEAN COUNCIL

Akzo Nobel's European Council–a body for information and consultation on transnational Company issues with employee representatives from countries in the European Union–met twice during the year. A prime ambition is to make visible and understandable such trends and strategic developments that over time will lead to changes and adaptations all the way through the organization to the factory floor. The Council has enhanced two-way communication between management and our European employees, and this is expected to improve further as we gain more experience. The upcoming EU enlargement will be a further test to the Council's flexibility.

RESEARCH AND DEVELOPMENT

In all of our activities we want to be in the forefront through ambitious R&D, exploring and innovating and always striving for optimization, sustainability, and profitable growth.

	EUR million 2002	EUR million 2001	% of sales 2002	% of sales 2001
Pharma	**600**	535	**15**	13
Coatings	**166**	160	**3**	3
Chemicals	**135**	142	**3**	3

In 2002, R&D expenditures were up 8% from the previous year, primarily reflecting Pharma's stepped up efforts.

R&D SPEARHEADS

Pharma

DISCOVERING INNOVATIVE THERAPIES

In the last decade, the rapid pace of technological progress and scientific discovery has brought about a radical revolution in industrial drug discovery. With the human genomic map virtually completed, the expectation is that diseases and their genetic causes will be better understood. This may lead to novel drugs affecting target receptors with hitherto unknown mechanisms of action. High-throughput screening of chemical structures in many recombinant receptor assays has further increased the possibilities. Worldwide, innovative pharmaceutical R&D is now facing the next challenge of finding connections between the new, unknown targets and clinical practice. To that end, industrial and academic scientists are teaming up to design new experimental methods in clinical and animal pharmacology.

Organon R&D, too, is endeavoring to fully apply these new technological developments and discover innovative therapies in its areas of interest: contraception, infertility, osteoporosis, psychiatry, muscle relaxants, pain management, and cardiovascular and immunological disorders. It is essential to identify innovative drug candidates and keep Organon's drug pipeline well filled in alliance with specialized companies and academic groups.

In a market where success is determined by broad and high quality product ranges for various animal species, R&D is of utmost importance to Intervet. R&D is conducted in two departments: one for vaccines and one for pharmaceuticals. High-tech biotechnology is applied to develop state-of-the-art antigens for vaccination. To further improve vaccines, the basic mechanisms of immune stimulation are being explored. In the pharmaceuticals department, Intervet not only develops existing human drugs for use in animals, but also new drugs for parasitic and bacterial diseases exclusively for animals. Advanced techniques such as genomics, proteomics, and bioinformatics are fully integrated in Intervet's pharmaceutical R&D. R&D is further bolstered by teaming up with government institutes and universities all over the world.

Process optimization and upkeep of chemical and biochemical synthesis routes, biochemical extractions, and production of recombinant biologicals constitute the main efforts of Diosynth R&D. Additionally, new processes are being explored to secure the supply of bulk strategic starting materials.

In 2002, a new business entity, Nobilon, was set up to exploit the synergy potential of biotech expertise available within the Pharma business units. Currently, business opportunities are studied which may lead to an entry into the human vaccine field.

Coatings

ENVIRONMENTAL ADAPTATION AND IMPROVED PERFORMANCE

The two main drivers for Coatings R&D are environmental adaptation and improved performance, including the ability to provide new beautiful colors, outstanding durability, and faster and easier application.

During 2002, the R&D efforts yielded several new frontline proprietary technologies related to:

- the use of daylight in the paint curing process;
- antifouling coatings based on new chemistry;
- curing catalysts that are latent in the paint but are activated by moisture or light after paint application;
- new high performance polymers for water-based, solvent-free, and high-solids systems;
- improved thin layer powder technology;
- faster and more efficient pigment evaluation, which is crucial for color matching and recipe evaluation.

The projects are undertaken by the individual business units in different geographic locations. Several of the projects involve customer, supplier, or university cooperation. The resulting technology base is made available to the entire Coatings group.

Chemicals

CONTINUOUS UPGRADING OF CORE TECHNOLOGIES

For each business unit within Chemicals the preservation and continuous upgrading of its core technologies are essential to secure competitive market advantages. This requires the approach to be both customer and application oriented and implies an appropriate balance in its technology program between short-term and long-term innovation goals. An important driver for the technology program is sustainability of both current and future operations and products.

State-of-the-art R&D resources, embedded in the individual business units, are instrumental in executing the technology program. R&D units are established in all major markets.

In order to access, explore, and exploit the latest technologies originating from the scientific world, business units also operate in shared development platforms, often including university partners. These efforts are assisted by Chemicals group centers of excellence. Typical issues studied in these platforms are:

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

ENGINEERING

Akzo Nobel Engineering (AE) is globally active in improving the competitive position of its business partners by contributing added value through integral engineering solutions. AE is involved in major investment projects, particularly at Chemicals and Pharma, and achieves a substantial part of its sales outside of Akzo Nobel by supplying valuable expertise to steady business partners, mainly in the fields of chemicals, paper and fibers. AE delivers a sound technological and financial contribution to Akzo Nobel.

HEALTH, SAFETY, AND ENVIRONMENT (HSE)

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. At the end of the year a new Corporate Policy Statement on HSE was issued, now including a paragraph on our emphasis on Product Stewardship.

We have designated five parameters which have been translated into specific targets for the operational plans.

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

Coatings and Pharma have improved their safety performance, whereas Chemicals remained stable at its relatively good level. The Frequency Rate for Akzo Nobel as a whole therefore has dropped compared to the previous year, although it is still above the target of 2.5.
This improvement is, regrettably, overshadowed by a total of five fatalities in work-related circumstances.

The Total Illness Absence Rate (TIAR) is already below the target set for 2005. We now focus our attention for improvement on those sites where the TIAR is still above 3.5.

Despite several acquisitions in 2002, all the values for the environmental parameters have dropped compared to last year; we have confidence that we will meet the 2005 targets.

Our latest Corporate Directive 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 adopted can be found on our internet site. Pharma has taken an advanced approach toward Product Stewardship by concentrating on Issue Management, resulting in action plans that will be launched early in 2003 at all three Pharma business units.

An improved version of our Corporate Audit Protocol, employing new software, has been operational since October 1, 2002.

SECURITY

Akzo Nobel pays continuous attention to security with the main objective to provide a secure environment for employees, contractors, temporary staff, visitors, and neighbors. As an example of these efforts, Akzo Nobel's Chemicals operations in the United States play an active role in the development of guidelines for the Chemical Industry aimed at improved security on sites and during transportation. These guidelines form an integral part of the Responsible Care® program, which Akzo Nobel endorses.

"Little Fairy – Big Trees"
One of the winning entries for the Education Fund Christmas card competition.
Photograph made by Aslaug Sitje, Norway.

AKZO NOBEL IN SOCIETY

Akzo Nobel operating companies have been active in supporting programs in the fields of education, sports, arts, culture, and science in their communities, thus confirming our role as a good corporate citizen. Most projects are aimed at stimulating young talent. Over the years, our proactive approach has resulted in several interesting projects undertaken in cooperation with partners.

In August 2002, the city of Bitterfeld, Germany, was severely hit by the flooding of the Mulde, and 16,000 inhabitants had to be evacuated. Although Functional Chemicals' local site remained unharmed, a number of its employees were evacuated and suffered loss or damage of their properties. Employees and management of other sites in Germany donated money, household appliances, and clothing to help their Bitterfeld colleagues.

The 32nd Akzo Nobel Science Award was bestowed upon professor Anton Berns, scientific director and chairman of the Board of Management of the Dutch Cancer Institute / Antoni van Leeuwenhoek Hospital and Extraordinary Professor of Experimental Genetics of Congenital Diseases at the University of Amsterdam. The Akzo Nobel Science Award was presented to him for his research in the field of experimental genetics, in particular fundamental cancer research and molecular immunology.

In 2001, we announced the start in 2002 of the Akzo Nobel Science Scholarships aimed at encouraging science studies. An annual exchange program has been established, 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.

Together with four other multinational Dutch-based companies, Akzo Nobel was one of the initiators of a project in the Netherlands to encourage children in secondary schools to take up a university study in natural sciences and technology. Projects will be started through partnerships with educational institutions located in the proximity of the companies involved. Akzo Nobel has experience in this field through its Education-Industry Partnership (EIP) Program and will continue its activities in this context.

Ab van Hanegem, untitled, acrylic on canvas,
(3x) 152 x 202 cm
Collection Organon Newhouse, United Kingdom

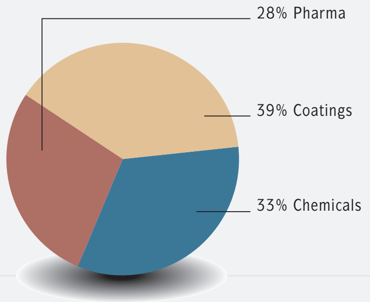
The financing of educational programs in developing countries through the Education Fund '94 (a cooperation with Plan International) is helped by donations of our employees worldwide. Through a fund-raising action during the Coatings Conference in Shanghai a substantial amount was raised for educational projects in China. Aside from China, projects to be financed were chosen in Vietnam and Brazil. In 2002, we organized a worldwide photography competition on the theme "Trees" among our employees and their partners and children. The 15 winning entries were produced as Christmas cards. Produced at cost by the printers of this annual report, these cards were sold to our business units at market price. The profit on the 22,000 cards sold was donated to the Education Fund.

In our Akzo Nobel for Young Talent series–a program to encourage the international career of talented young musicians from around the world–we organized concerts in Chicago, Singapore and Brussels, featuring four young talented musicians who were given the opportunity to perform with renowned orchestras and conductors. To date, there have been 27 concerts all over the world to promote the careers of 17 young soloists.

In 2002, the Akzo Nobel Art Foundation made further additions to its collection of modern art, which now comprises 900 works. Sculptures, paintings, drawings, and photographs were purchased from young artists of different nationalities. The collection is not only exhibited in the Arnhem headquarters but other Company units in various countries have acquired a collection or part collection as well. In Organon's new offices in Oss a well-targeted action plan has resulted in a splendid blend of architecture and art. A number of works of art were also purchased by Organon in Newhouse, United Kingdom.

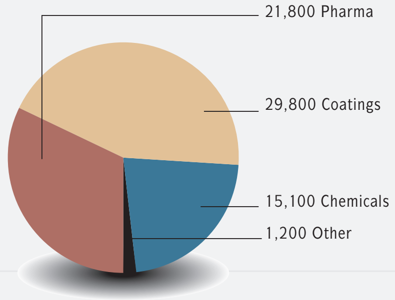
Net sales

(EUR 14.0 billion)



Number of employees

at December 31, 2002 [67,900]



BUSINESS ACTIVITIES
PRODUCTS AND MARKETS

PHARMA
COATINGS
CHEMICALS

PRODUCTS AND MARKETS

MAJOR PRODUCT LINES	KEY PRODUCTS/APPLICATIONS	COMPETITIVE POSITION

PHARMA

Prescription drugs, veterinary products, and complex active pharmaceutical ingredients *2002 sales EUR 4.0 billion*	**Organon:** contraceptives, infertility treatment, hormone replacement therapy (HRT) and osteoporosis, CNS products (antidepressants, antipsychotics), antithrombotics, and muscle relaxants	Among top four suppliers of hormonal contraceptives, second largest in infertility products; among top five players in HRT; building up positions in CNS and osteoporosis; world leader in neuromuscular relaxation; entering the antithrombosis segment
	Intervet: veterinary vaccines and pharmaceuticals	Third largest world supplier of veterinary products; leading in veterinary vaccines
	Diosynth: complex active pharmaceutical ingredients	Leading supplier of steroids and synthetic peptides, strong in heparins, oligosaccharides, and biopharmaceuticals

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

Project	Application	Phase	
Implanon®	contraceptive implant	market III	Europe USA
Org 33628	contraceptive	II	
Male contraception	contraceptive	II	
Puregon Pen®	infertility	market filed	Europe USA
FSH-CTP	infertility	II	
Xyvion™	osteoporosis	III	
Andriol® Testocaps™	male HRT	filed II	Europe USA
Variza™ (gepirone ER)	depression	filed III	USA Europe
Org 5222	psychosis	III	
Org 24448	psychosis	II	
Arixtra® new indications	thrombosis	III/filed	
SanOrg 34006	thrombosis	III	
Org 39141	rheumatoid arthritis	II	

Veterinary products in the pipeline

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

Active pharmaceuticals ingredients

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

COATINGS

Coatings and related products *2002 sales EUR 5.5 billion* **The world's leading coatings company**	**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

MAJOR PRODUCT LINES	KEY PRODUCTS/APPLICATIONS	COMPETITIVE POSITION
	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
	Car refinishes: finishes for passenger cars, commercial vehicles, and graphic products for decals	Among top three global suppliers
	Industrial Products: resin-impregnated paper for surfacing of wood panels and flooring;	World leader in the noncaptive market
	adhesives and resins for wood-based board, panels, furniture, floors, and doors	Leader in selected market niches

CHEMICALS

Specification, functional, and specialty chemicals *2002 sales EUR 4.6 billion*	**Pulp & Paper Chemicals:** pulp bleaching chemicals and chemicals for the manufacture of paper and board; specialty resins for adhesives and polymer manufacturing; high performance separation products for pharmaceuticals	World leader in pulp bleaching chemicals and strong worldwide position in paper chemicals
	Functional Chemicals: chelates, micronutrients, flame retardants, animal feed additives, PVC additives, and intermediates such as carbon disulfide, monochloroacetic acid, methyl amines and ethylene amines	Leading or strong worldwide positions
	Surface Chemistry: surfactants and fatty acids used in detergents, cleaning, and personal care, as well as in asphalt production and the agro, oil, mining, and textile industries; cellulosic specialties as thickeners and additives for coatings,building materials, pharmaceutical products, food, mining and oil	Leading or strong worldwide positions
	Polymer Chemicals: polymerization catalysts such as organic peroxides, metal alkyls, and custom-manufactured Ziegler-Natta systems for the polymer-producing industry; high-purity metal organics for the electronic industry, and intermediates for pharmaceutical products	Leading or strong worldwide positions
	Base Chemicals: chlorine and caustic soda for industrial applications	Leading positions in Northwest Europe
	Resins for coatings and printing inks	Leading in selected market niches
	Catalysts for the oil refining and chemical industries	Leading global supplier of the most extensive range of refinery catalysts
	Salt for electrolysis, other chemical industries, food applications, and consumer use	Leading position in Northwest Europe Global leader in vacuum salt

Chemical activities are also conducted through joint ventures. In 2002, sales of these nonconsolidated companies totaled EUR 1.5 billion on a 100-percent basis.


PHARMA
COATINGS
CHEMICALS

Pharma

Responsible in Board of Management	Business Units	General Managers	Sales *(millions of euros)* 2002	2001
A.T.M. (Toon) Wilderbeek	Organon	*Hans M. Vemer*	**2,593**	2,504
	Intervet	*Ruurd Stolp*	**1,081**	1,096
Group Director Technology	Diosynth	*Johan C.C.B. Evers*	**529**	488
Jan H. Dopper				

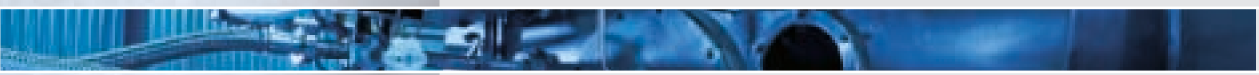
an eye

research focused

ORGANON

on health

global



DIOSYNTH

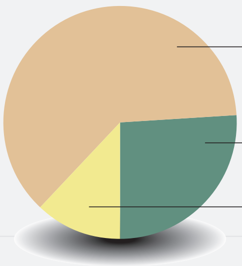
INTERVET

Akzo Nobel Pharma is an innovative **global player** in human and animal healthcare.

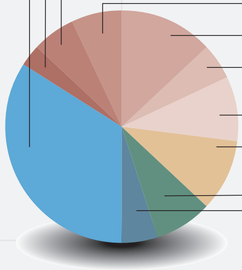
successful products

2002 business unit sales

(EUR 4.2 billion)



2002 net sales by destination



Millions of euros	**2002**	2001
Net sales	**4,008**	4,044
Operating income before nonrecurring items (EBIT)	**768**	831
Depreciation and amortization	**180**	164
EBITDA	**948**	995
Capital expenditures	**297**	317
R&D expenditures	**600**	535
Invested capital at year end	**2,475**	2,558
EVA	**350**	370*
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**19.2**	20.5
– invested capital (ROI)	**30.5**	33.7
Net sales/invested capital	**1.59**	1.64
Capital expenditures/depreciation	**2.0**	2.1
Number of employees at year end	**21,800**	21,100

**restated for changed treatment of pension costs*

A CHALLENGING YEAR

Pharma's three business units each focus on a different segment of the pharmaceutical industry. Organon is our human pharmaceutical business. Diosynth concentrates on the manufacturing of active pharmaceutical ingredients for Organon and for third parties as well. Intervet specializes in veterinary drugs and vaccines. In 2002, a special unit, Nobilon, was established as a new venture into the areas of human vaccines and biopharmaceuticals.

A number of factors in the pharmaceutical business environment made 2002 a very challenging year. Competition from companies that produce generic drugs became much more aggressive both in the courts and in the marketplace, while the hurdles to obtaining new product licensses increased in Europe, the United States, and Japan. The economic situation in Latin America and elsewhere contributed to the turbulent and complex business situation.

Akzo Nobel Pharma was not immune to these difficulties. In late December 2002 an unfavorable court ruling in the Remeron® case paved the way for our competitors to produce and distribute in the United States generic versions of this important Organon product. In Japan, our product licenses for Remeron® and Xyvion™ were delayed by the regulatory authorities. In the United States, additional data requests by the FDA regarding Variza™ (gepirone ER) delayed its registration as well. Aside from these developments, Intervet and Organon were also adversely affected by the depressed economic situation in Latin America. The weaker U.S. dollar had a EUR 61 million negative influence on Pharma sales as compared to 2001.

Despite these adverse conditions and higher pension costs, we were successful in maintaining Pharma's operating income at a level of EUR 768 million (2001: EUR 831 million). We remain confident of our capabilities and business plans. In 2002, we significantly increased R&D spending and invested in the launch of two new products, Arixtra® and NuvaRing®.

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

Arixtra® is a novel pentasaccharide drug used to prevent thrombosis following certain surgical procedures such as orthopedic operations. The product has been developed and is marketed in conjunction with our partner Sanofi-Synthélabo. NuvaRing® is an intravaginal ring which releases a minimum amount of drug to prevent conception. Its unique features make it an attractive alternative to oral contraceptives or contraceptive patches.

Pharma's capital expenditures were nearly twice the amount of depreciation. These expenditures included major investments in GMP (Good Manufacturing Practice) production facilities, laboratory improvements, and the completion of the new Organon headquarters.

For several years now the Pharma group has been divesting noncore businesses in order to focus on ethical pharmaceuticals. The last step in this process was the sale of Rosemont, a company in the United Kingdom specializing in generic, liquid, orally taken drugs.

The unfavorable ruling in the Remeron® patent case is likely to decrease sales of the product in the United States. The EU patent is secure until 2004. Steps were taken in 2002 to mitigate the impact of this patent expiration on operating income. Further steps are planned for 2003 to limit the financial impact.

Recent investments in downstream processing capacity at our Oss, Netherlands site provided Diosynth with a very competitive base to grow within the commercially attractive biotechnology production segment. Diosynth continues to attract major pharmaceutical companies as well as biotech start-ups as customers for its process development and active pharmaceutical ingredients (API) production businesses.

During 2002, Intervet faced the challenge of the downturn of the economy in Latin America, which is an important market for cattle and poultry production. Compared to 2001, sales in the United States were flat in dollar terms, with volume up slightly. A one-time inventory write-off also adversely impacted operating income. In 2003 a new vaccine production facility near Kansas City will be opened. In 2002, a new virology R&D building was opened at Boxmeer, the Netherlands, and the Pharmaceutical R&D facility in Schwabenheim, Germany, became fully operational. Intervet is now in a good position to continue its course of sustained growth in the veterinary market.

In 2002, we also decided to enter the human vaccine business because it is a growth market and because we can benefit from our experience in vaccines and biotechnology in general. Based on doses, Intervet is the largest vaccine producer in the world and in terms of sales it is number five. The start-up business, Nobilon, will be housed in a new vaccine production facility in Boxmeer, which is scheduled to be operational in mid-2003. Nobilon will focus initially on human vaccines. Sales by Nobilon from its own products are not anticipated until after 2007, however. In the interim, the facility can produce certain vaccines for third parties.

ORGANON – PRESCRIPTION DRUGS

CONTINUED MOMENTUM FOR GLOBAL GROWTH

Despite a turbulent 2002, Organon was able to maintain 5% ethical sales volume growth. Higher selling and distribution expenses, increased spending on key development projects, and substantial currency translation effects resulted in an operating income that was slightly below the previous year's level.

We achieved this sales growth in both Europe and the United States, the two largest pharmaceutical markets. The weakening of the U.S. dollar and other currencies, increased generic competition for our Mircette® oral contraceptive, and the launch costs associated with our NuvaRing® contraceptive vaginal ring and Arixtra® antithrombotic slowed sales growth.

Growth momentum was preserved in 2002 through sustained investment in our existing products, continued support of our strong R&D pipeline, precise cost containment efforts, and an ongoing commitment to strategic alliances. These actions contributed to Organon's transformation into a more agile and responsive global organization. Organon achieved several significant milestones in 2002, including record sales of its antidepressants Remeron® and Remeron SolTab®, the introductions in the United Sates of NuvaRing® and Arixtra® and the relocation of Organon's International Headquarters from Oss, the Netherlands, to Roseland, New Jersey, in September. On a more negative note, we were confronted at the end of the year with the unfavorable court ruling on Remeron® in the United States.

To help achieve Organon's growth objectives, we took specific measures designed to improve both operation efficiency and financial performance. We announced the restructuring and reduction of the U.S. field sales force, while in Japan staff numbers will also be reduced, primarily through early retirement.

The pharmaceutical industry is facing challenges from competition by producers of generic drugs, while at the same time demands for additional drug efficacy and safety data are being made by various public and government bodies. To help meet these challenges a more global approach to the business is required.

Organon is well on its way toward becoming a truly global business. The relocation of our headquarters to the United States is more than a symbolic step. It places us at the center of the most dynamic, competitive, and R&D intensive environment in the world. Organon is taking good advantage of its international strengths in its ongoing search for new development and marketing alliances.

Sales development of the main product groups was as follows:

• Central Nervous System	+ 11%	to EUR 800 million
• Contraception	– 3%	to EUR 521 million
• Infertility	+ 5%	to EUR 402 million
• Hormone Replacement Therapy	+ 5%	to EUR 330 million
• Hospital pharmaceuticals	+ 3%	to EUR 282 million

The top four product groups accounted for EUR 2,053 million in sales in 2002 and represented 79% in total sales. Sales of Remeron® (antidepressant) were at an all-time high, up 14% to EUR 717 million. Sales of Marvelon®/Mercilon®/Mircette® (oral contraceptives) declined 12% to EUR 380 million. Puregon®/Follistim® (infertility) sales increased 8% to EUR 356 million. Sales of Livial® (hormone replacement) gained 12% to EUR 208 million.

Headcount increased by 500 to 13,300 in 2002.

February 2002 saw the U.S. launch of the antithrombotic Arixtra® by Organon and our joint venture partner Sanofi-Synthélabo. Initial sales took off slowly due to existing long-term contracts for competing drugs and the inherent inertia of the hospital formulary system. Arixtra® is currently approved for the prevention of thrombosis following hip and joint surgery. Planned label expansions are expected to drive sales growth considerably.

In July 2002, we launched the contraceptive ring NuvaRing® in the U.S. market. Corresponding launches are now underway in several European countries. Organon's other novel form of contraception, Implanon®, a single rod contraceptive implant, is now being marketed in 15 European countries, Asia, Latin America, and Australia.

IN THE PIPELINE

The pharmaceutical industry grows and remains vital through successful research and development programs. At Organon we are committed to improvements in the R&D process that ensure more effective utilization of our R&D assets and people. We seek to increase productivity while maintaining the required balance between efficiency and quality needed to meet our R&D objectives.

At Organon we understand that R&D productivity is not directly proportional to R&D budget or staff size. Essential factors to R&D success, like creativity and the desire to succeed, are independent of size. We believe that our focus, process efficiency, and talent management are relatively more productive, compared to many of our larger competitors. This gives us confidence that we will be able to maintain an attractive R&D pipeline and continue Organon's path toward increasing growth over the long run.

A new antipsychotic drug, Org 5222 has entered Phase III of clinical development. It has a promising pharmacological profile compared to drugs currently prescribed for that condition.

Product formulations for a new male contraceptive concept are being evaluated in Phase IIb trials as part of a joint development with Schering AG (Germany). A new estrogen-free female contraceptive is in Phase II testing as well. Organon's CNS pipeline includes several Phase II projects. All in all, we believe that our pipeline is promising, while we continue to push for greater R&D productivity.

For Arixtra®, studies are in progress to expand the number of thrombotic indications for which it is approved, for example, treatment of venous and arterial thrombosis. Research is also in progress on SanOrg 34006, a new compound in our synthetic antithrombotic line to prevent and treat long-term venous and arterial thrombosis.

LOOKING AHEAD

At Organon we realize that we cannot rest on past performance success if we are to meet the challenges ahead, but we can continue to build upon the strengths that brought us to where we are today. We will put resources to work defending and growing our market share in the female health market, including contraception, infertility treatment, and hormone replacement therapy, and maintaining our market share in depression and anesthesiology. We also plan to continue our investments in the atherothrombosis, psychosis, and osteoporosis areas, while working to expand our competencies in the areas of rheumatoid arthritis and pain management.

We are taking operational steps that should make us a more customer friendly and focused company. In this context we moved from a six-region to a four-region sales organization and will develop functional marketing support at both the clinical and commercial development levels. Organon will continue to focus on the basics in business, managing all business processes, including manufacturing and inventory, in an effort to ensure the best possible outcome.

INTERVET – VETERINARY PRODUCTS

SET TO FACE CHALLENGES

Every day, throughout the world, hundreds of thousands of animals are treated successfully with Intervet veterinary products. Intervet takes a diversified approach to mirror the highly fragmented veterinary market, focus research on emerging regional needs, and properly address local markets.

Key activities in 2002 included continued business consolidation and streamlining the company structure. Intervet's excellent global coverage and its broad range of products for farm and companion animals put the company in a strong position to weather the stagnation in the veterinary market and compensate for the challenging market conditions in some parts of the world. Nevertheless, operating income was lower, also due to some inventory write-off.

Intervet's efforts to optimize value creation are driven by innovation and application of state-of-the-art technology. Annual investment in R&D exceeds 10% of sales, and more than 15% of Intervet's total workforce is engaged in R&D activities. In 2002, a new project management system for R&D was implemented, creating an information interface for all functions involved in the development of new products.

In April 2002, after a 15-month construction period, modern virology research facilities were opened at the Boxmeer site in the Netherlands. Intervet's strategy focuses on the development of proprietary antiparasitic drugs and new antiparasitic vaccines. The modern pharmaceuticals research facility in Schwabenheim, Germany, is now completely staffed and fully operational for further expansion of R&D activities. The transfer of the research activities from Vienna, Austria, to Schwabenheim was completed in 2002.

With its newly developed foot-and-mouth disease (FMD) diagnostic tool, Intervet permits a new and comprehensive approach to combating FMD in Europe. In addition, the World Organization for Animal Health (OIE) has adopted a number of important changes to its provisions on FMD, especially in relation to vaccination.

Intervet must respond quickly to a fast-changing, highly competitive environment. For marketing purposes, extensive knowledge management databases have been launched to connect those involved in the global marketing process.

The global rollout of the customer-oriented ordering and forecasting system introduced in 2001 was successfully finalized in June 2002. A major logistics and manufacturing initiative was started to design and implement the next generation of business system platforms within Intervet's larger subsidiaries.

The construction of a state-of-the-art facility at the De Soto, Kansas, site was completed on schedule in the fall of 2002. Regional R&D, distribution and administrative activities have already begun at this Mid-West center. Production will come on stream by mid-2003 after finalization of the validation phase. The addition of a molecular laboratory in the United States in 2003 will enable researchers to take novel approaches in the development of new generations of existing products and develop products for new diseases for which conventional technology is inadequate.

DIOSYNTH – COMPLEX ACTIVE PHARMACEUTICAL INGREDIENTS

STRONG PERFORMANCE

Although the decline of the world economy also impacted the pharmaceutical industry, Diosynth again registered a strong performance, both in sales and operating income. Compared to the previous year, sales showed an increase of 8%, while operating income was also clearly ahead. It should be noted that a direct comparison cannot be made due to the Diosynth's focus on strategic shift, as is reflected by the divestment of Rosemont Denver (Colorado) in August 2001, the divestment of Rosemont Leeds (United Kingdom) in September 2002, and the acquisition of the former U.S.-based Covance Biotechnology Services Inc. (now called Diosynth RTP, Inc.) in June 2001. Excluding these divestments and acquisitions, Diosynth still shows satisfactory sales and earnings gains, making 2002 a very good year for the business unit.

In 2002, we spent much energy on the integration of Diosynth RTP and the corresponding biotech activities in Oss, the Netherlands. As far as business activities are concerned, integration has now been completed. Technical and market integration should be completed in 2003, once the new Upstream Processing plant (Diosource, Oss) has become operational.

For our chemical activities we are looking into possibilities of extending our production, as capacity constraints are limiting further growth for this strongly performing product group.

Coatings

Responsible in Board of Management	Business Units	General Managers	Sales *(millions of euros)* 2002	2001
Rudy M.J. van der Meer	Decorative Coatings:		**1,915**	1,875*
	– Europe	*Leif Abildgaard*		
Senior Group Director	– International	*Jan Andersson*		
M. (Rinus) Rooseboom	Industrial activities:		**1,718**	1,667*
	– Industrial Coatings	*Göran Jönsson*		
	– Industrial Finishes	*Robert J. Torba*		
	– Powder Coatings	*Bill McPherson*		
	Marine & Protective Coatings	*Leif Darner*	**759**	729
	Car Refinishes	*Cor J.L.M. de Grauw*	**713**	708
	Industrial Products	*Lars-Erik Thomsgård*	**532**	533

** adjusted for regrouping of activitites*

a color

strong brands

DECORATIVE COATINGS INTERNATIONAL

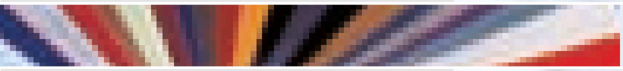
INDUSTRIAL COATINGS

market driven

DECORATIVE COATINGS EUROPE

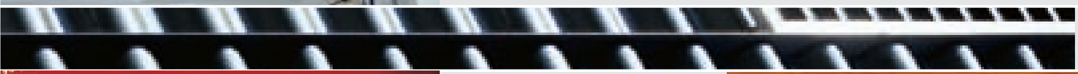
INDUSTRIAL FINISHES

POWDER COATINGS

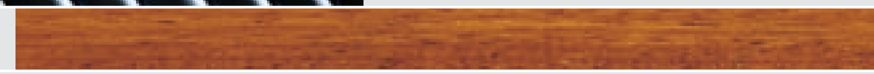


wonderland

CAR REFINISHES



INDUSTRIAL PRODUCTS

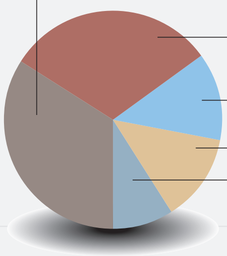


MARINE & PROTECTIVE COATINGS

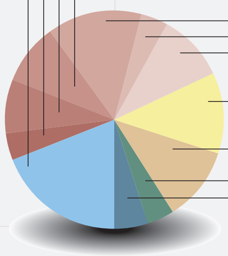
Akzo Nobel is the **world leader** in coatings with a broad product range and **strong brands** such as Sikkens®, Sadolin®, Crown®, International®, and Interpon®

technology based

2002 business unit sales
(EUR 5.6 billion)



2002 net sales by destination



Millions of euros	**2002**	2001
Net sales	**5,521**	5,591
Operating income before nonrecurring items (EBIT)	**465**	426
Depreciation and amortization	**158**	162
EBITDA	**623**	588
Capital expenditures	**131**	181
R&D expenditures	**166**	160
Invested capital at year end	**2,264**	2,395
EVA	**122**	83*
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**8.4**	7.6
– invested capital (ROI)	**20.0**	18.1
Net sales/invested capital	**2.37**	2.37
Capital expenditures/depreciation	**0.9**	1.2
Number of employees at year end	**29,800**	28,900

**restated for changed treatment of pension costs*

STRONG PERFORMANCE

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. We will continue to play a leading role in the consolidation of the still fragmented world coatings market in which we, as world leader, have only 8% market share.

Since growth in the (mature) industrialized markets is limited to around GDP, most of our efforts are geared toward emerging markets, especially Asia. In 2002, we increased ownership in our marine coatings joint venture in Korea to 60%, commissioned a powder coatings facility in Vietnam and a coil coatings facility in Suzhou, China, inaugurated the newly built Car Refinishes Research center in Bangalore, India, and formed a 65%-owned decorative coatings joint venture in Indonesia. Furthermore, we are building another two grassroots wood coatings sites in China and are investing in a nonstick coatings facility in Dongguan City. During the year, we opened our first decorative coatings factory in Moscow as well as a new building adhesives factory in Germany.

We again stepped up our R&D efforts: expenditures rose 4% to EUR 166 million, reaching for the first time 3.0% of sales. The 2002 Akzo Nobel Coatings Award for the most promising technical innovation went to Car Refinishes for a new UV-A light assisted curing technology in two-component paint products. We started preparing for the construction of a new Car Refinishes Research Center in Pontiac, Michigan, and an extensive renovation of our worldwide Marine and Yacht research and product development facilities in Felling, United Kingdom.

During the year, Crazy Car Colours®–a unique, patented temporary finish–was introduced. This finish can be removed easily with warm water without damaging the original surface. The Decorative Coatings ”Disney* Home Color” concept, using Disney's famous cartoon figures as a basis for an innovative color approach in designing children's rooms, was awarded during the DIYTEC 2002 Fair in Cologne, Germany.

Car Refinishes created a new Accident Management Services (AMS) unit, aimed at providing comprehensive accident management services to insurance companies, bodyshops, and fleet owners, facilitating damage settlement within the total repair chain.

In 2002, we continued our selective bolt-on acquisition strategy by acquiring the Awlgrip® marine and aerospace coatings businesses, the high performance specialty paint businesses of Plascon, United Kingdom, car paints distributors in France and Finland, several decorative paint distributors in Germany, Switzerland, and the Benelux, and by increasing our shareholding in the Greek decorative coatings joint venture Vivechrom to 76%. We also strengthened our position in the Korean marine coatings market by acquiring the Chilseo manufacturing site and at the same time increasing our shareholding in the marine coatings joint venture IPK to 60%. By acquiring the Ferro Powder Coatings activities in the Americas we were able to resolve a major strategic gap. Moreover, we fortified our global leadership position in powder coatings with the Ferro businesses in Korea and China, the formation of a 50% joint venture in Mexico, and the expansion of our powder coatings activities in Italy.

Sales of EUR 5.5 billion were basically flat compared to 2001. Despite difficult economic circumstances and increased pension costs in 2002, we have been able to realize a quantum leap in performance through tight cost control on all fronts, while some of the effects of the far-reaching restructuring programs initiated by mid-2001 and accelerated during 2002 materialized.

Coatings' operating income before nonrecurring items of EUR 465 million was up 9% from 2001. Return on sales increased to 8.4%, against 7.6% in 2001. Return on investment, met the 20% threshold; 20.0% compared to 18.1% in 2001. Operating working capital (on a moving quarterly average basis) dropped from 24.8% to 23.0% of sales, while capital expenditures of EUR 131 million were only 87% of depreciation.

* *Disney® is a registered trademark of Disney Enterprises Inc.*

DECORATIVE COATINGS

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

DECORATIVE COATINGS EUROPE

ADDING VALUE AND COLOR

Operating income for Decorative Coatings Europe in 2002 was better than in the previous year. On a comparable basis, income improved considerably on the previous year, despite a mixed season for outdoor painting. This favorable performance was primarily attributable to our continued efforts to improve the quality of the business, supported by a beneficial price development for several key raw materials during most of the year. By implementing a number of restructuring projects, we reduced operating costs and invested capital. During the year we acquired Plascon in the United Kingdom and Ireland as well as a number of paint merchant outlets in Germany.

Retail and Trade showed strong progress, and Specialties maintained good profitability in the face of a slowdown in the construction of new buildings in a number of countries.

We assigned high priority to adding value for our customers and transferring best practices. Our R&D strongly focuses on creating innovative products and improving their environmental performance. We set up test markets for a new generation of waterborne products and systems and devoted R&D efforts to a further reduction of VOC (volatile organic compounds) emissions. The first pilot of the future new tinting machine for points of sale was set up in preparation for a general rollout in the years to come. The Retail organization won the Innovation Award at the DIYTEC 2002 Trade Show in Cologne, Germany, for the Disney® Home Color product range. This range will be introduced in several European countries. With the acquisition of Plascon in the United Kingdom and Ireland we gained an attractive portfolio in speciality paints with further add-on potential for other European markets through our existing channels.

We also bolstered our strong European brand positions by making additional marketing efforts in a number of countries including Spain, where a TV commercial starring former soccer player Johan Cruijff and his son Jordi supported a relaunch of our Bruguer® brand.

DECORATIVE COATINGS INTERNATIONAL

PROGRESS IN GEO EXPANSION

Despite the difficult economic climate in countries like Turkey and Argentina, we registered satisfactory gains in operating income. Our niche concepts in the United States and in Argentina (wood care products) proved successful, bringing further growth in sales and earnings compared to the previous year. On a more negative note, good progress and performance in Brazil were offset by the devaluation of the real. We achieved double-digit volume growth in our growth markets in Asia (China, Vietnam, and Indonesia where a new Jakarta-based joint venture was established) as well as in Russia and Ukraine. Our new factory just outside Moscow, which opened in June 2002, successfully produced its first batches of paint. Our facilities in Hungary and Poland, where we are the number two paint producer, will serve as platforms for further expansion in Eastern Europe. We achieved volume and earnings gains for our European building adhesives. A new production plant for powder-based tile adhesives and leveling compounds was opened in Germany during the year. In a move to reduce costs and concentrate resources, we moved the laboratories for liquid adhesives from Sweden to Germany.

Our North African operations in Morocco and Tunisia continue to deliver good returns. We set up one head office in Casablanca and rationalized production and warehousing activities. Rationalization efforts in Morocco will be finalized in 2003.

The Paccess supply chain project, which offers huge potential savings through more efficient electronic handling, has been implemented in a number of operations.

We are continuing our product stewardship efforts, which mainly focus on lead, chromates and APEO (alkylphenol polyethoxylate).

INDUSTRIAL ACTIVITIES

In 2002, Akzo Nobel's industrial coatings activities included three global business units: Industrial Coatings, Industrial Finishes, and Powder Coatings. In order to achieve the best possible synergies it was decided to dissolve Industrial Coatings with effect from January 1, 2003, and to transfer the activities to the other Coatings business units.

INDUSTRIAL COATINGS

MAJOR RESTRUCTURING

2002 was another year with weak market conditions in the United States and Europe, while business activities in Asia Pacific increased considerably. Operating income ended below the 2001 level.

Transportation Coatings continued implementing its restructuring program in Europe. In line with this program, production is being concentrated in a limited number of sites. Product development efforts led to substantial improvements in product ranges, and a license agreement for ED (Electro Deposition) primers was concluded with Japanese Kansai Paints. The start-up of the activities in India showed satisfactory progress.

Specialty Coatings drastically restructured its product portfolio, focusing on Non-Stick Coatings, Specialty Plastics, and Mirror and Building Components. During the year, we divested General Industrial activities in the United States, France, Scandinavia, and Poland. We also announced plans to establish a Non-Stick production unit in Dongguan City, China, which will be ready by the end of March 2003.

Aerospace Coatings benefited from the acquisition of the aerospace activities of U.S. Paints. However, performance suffered from the downturn in overall aerospace activities.

We continued our R&D efforts on the development of eco-efficient products, placing a continued strong emphasis on reduction of VOC emissions.

INDUSTRIAL FINISHES

FIRST MOVER IN CHINA

As a result of the steady pull from the North American market and buoyant growth in Asia, worldwide demand for wood and coil coatings strengthened in 2002. In addition, we were able to capitalize on growth opportunities due to the cost containment efforts and the strategic decisions taken in 2001. Accordingly, the North American business gained market share as it proved to have a leading edge on competition. Also, prior investments in frontier markets, supported by local sourcing, contributed significantly to our results. Developments in Europe presented a different challenge. Our European-based businesses, faced with a dull market and overcapacity, focused on structurally reducing costs, maintaining market share, and preparing for growth in Eastern Europe. These factors resulted in a substantial improvement in both organic growth and operating income.

In order to be both environmentally proactive and enhance the value of our products to our customers, we further refined our portfolio of R&D projects. In addition, we continued to leverage core technologies in developing markets at an accelerated pace.

During the year, we bolstered our position in the rapidly growing Asian market by constructing and commissioning a coil coatings facility at the Company's production site in Suzhou, China.

POWDER COATINGS

STRENGTHENED WORLD LEADERSHIP POSITION

2002 saw a continued weakening of the markets in Europe and the Americas, while markets in Asia continued to grow, particularly China. Operating income was ahead of the 2001 level, with an improving trend in the second half of 2002 as the benefits of cost cutting began to emerge.

In September, we acquired Ferro's powder coatings businesses in the Americas and Asia. This gives us a credible number three position in a U.S. market which still has room to mature as customers reinvest in facilities and move from liquid to powder as a coatings material. In October, we also acquired a 50% share in a growing powder coatings business in Mexico.

The acquisitions in Asia reinforce our number one position in the fastest growing powder markets in the world. In addition, we opened our new plant in Vietnam on time, and we are satisfied with our progress there.

Our sales of Interpon® products based upon our unique patented technologies continued to grow, especially in Asia. The acquisition of the Ferro business gave us further new technology, particularly in acrylic powder coatings. Our growing global presence will allow international customers to purchase our full range of products wherever they decide to invest in manufacturing facilities.

After two years of recession in the worldwide powder coatings market we are in a stronger position than before to benefit from any upturn in market conditions. However, we are not relying on a benign market scenario to improve our financial performance.

MARINE & PROTECTIVE COATINGS

EXCELLENT PERFORMANCE

This business is the worldwide market leader for Marine Antifouling and Heavy Industry Anticorrosion Coatings under the International® brand.

2002 was another year of strong performance with growth in sales and operating income across all market sectors and geographic regions.

Marine Coatings benefited from a high level of newbuilding activity, in particular in Korea and China. In October, it strengthened its position in the Korean market by increasing its shareholding in the joint venture with DPI to 60% and by acquiring the Marine Coatings factory from its partner.

During the year, the business has been phasing out tin-containing antifouling in preparation for the IMO's (International Maritime Organization) ban on the application of tin-based antifouling from January 1, 2003. With the patented Ecoloflex® tin-free antifouling, the business has a good position with proven technology going forward.

The Protective Coatings business had an excellent year with high activity in the Heavy Industry market. In particular, supplies to the oil and gas offshore industry were buoyant with new construction of platforms and FPSO (Floating Production Storage and Offloading) units. Sales of the fire proofing material Chartek® for offshore installations were excellent.

The Yacht business also had a strong year in the retail/maintenance market in the United States and Europe. In May, we strengthened the business through the acquisition of the U.S. Paint Yacht and Aerospace coatings under the Awlgrip® brand. This acquisition added substantially to the product portfolio in the topsides finishes segment of the professional superyacht market.

CAR REFINISHES

GROWTH CONTINUES DESPITE SOFT ECONOMY

Car Refinishes once again proved that its strategy of global presence, in all relevant market segments, with leading innovative products, services and software allows it to find the best response under any market conditions. Despite a soft economy, we were able to maintain sales through intensified market development efforts, restructuring, and rigorous cost containment.

In Europe West, sales improved despite a shrinking market, and Sikkens® Autowave® became the leading waterborne basecoat in the market. In North America, sales and operating income showed satisfactory growth, reflecting successful product launches such as Sikkens® Autobase® Plus and Sikkens® Autoclear® III. In Europe East, the crisis in Turkey is wearing off. Asia experienced a real turnaround with income growing almost 50%, spurred by multisegment sales and cost cutting. South America continued to be affected by a failing economy, but market share grew. Earnings also improved in Africa and the Middle East, where we are starting a multisegment market approach and are building up the organization. We continue to strengthen our position in the Commercial Vehicles market by building upon our extended product range, including the Mason CT® and U-Tech™-brands.

Sikkens® Autobase® Plus delivered on its promise of being the leading solvent-borne basecoat in the industry with rapidly growing sales around the world, particularly in North America.

We set up a new unit (AMS), aimed at providing comprehensive accident management services to insurance companies, bodyshops and fleet owners, facilitating damage settlement within the total repair chain.

We have created a dedicated global organization to strengthen our relationships with car manufacturers and are making good progress in securing automotive aftermarket approvals.

INDUSTRIAL PRODUCTS

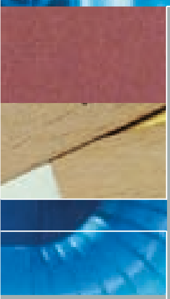
A YEAR OF RECOVERY

Volumes grew under market conditions that remained soft in most areas. Our Asian wood adhesives activities showed the strongest growth, reflecting increased demand from a booming furniture industry in China. Growth was also seen in the Americas. Capacity expansion in North America to support growing sales of impregnated paper to the flooring industry was well timed. Expancel® microspheres show continued growth. In all major areas of activity better margins based on more efficient production and purchasing processes in combination with stringent cost control resulted in operating income that was considerably higher than in the previous year. Better management of operational working capital contributed to this positive development. The expected effects of restructuring projects have materialized.

A continued strong focus on R&D enabled us to launch a number of new systems within wood adhesives for the furniture and construction industry and within impregnated papers to the flooring industry. New Expancel® qualities strongly boosted sales to the shoe industry.

A greenfield investment in Brazil for the production of impregnated papers came on stream toward the end of the year. Interquimec SA, Ecuador, which we acquired in 2001, is now well integrated in our South American resins and adhesives activities.

Chemicals



Responsible in Board of Management
Dag Strömqvist

Senior Group Director
Conrad S. Kent

Business Units	General Managers	Sales *(millions of euros)* 2002	2001
Pulp & Paper Chemicals	*Jan Svärd*	**969**	1,020
Functional Chemicals	*W.W. (Jon) Meijnen*	**769**	785
Surface Chemistry	*Rob Frohn*	**752**	715
Polymer Chemicals	*Arend-Jan Kortenhorst**	**560**	584
Base Chemicals	*H.C.J. (René) Scheffers*	**464**	357
Resins	*J. (Jo) Lennartz*	**414**	419
Catalysts	*Ray Hurley*	**375**	367
Salt	*Peter J.F. Gommers*	**269**	261
Energy	*Gert N. van Ingen*	**158**	165

** as from January 1, 2003, Robert (Bob) Margevich*

the right

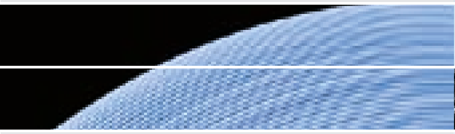
tailored products

global force

PULP & PAPER CHEMICALS

POLYMER CHEMICALS

SURFACE CHEMISTRY



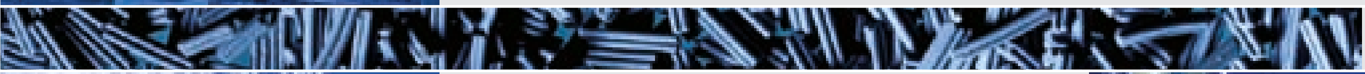
FUNCTIONAL CHEMICALS

RESINS

chemistry

BASE CHEMICALS

CATALYSTS



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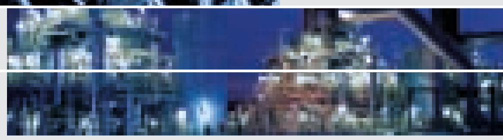
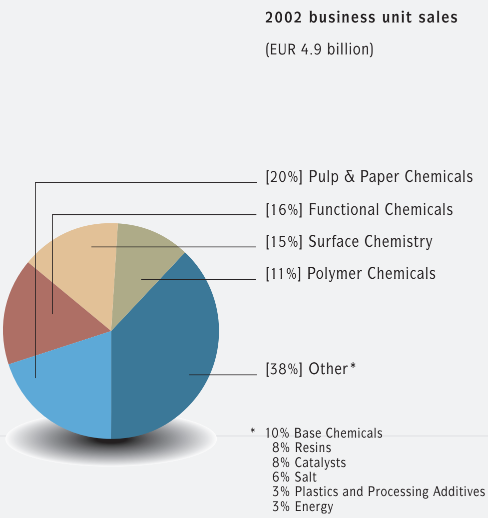
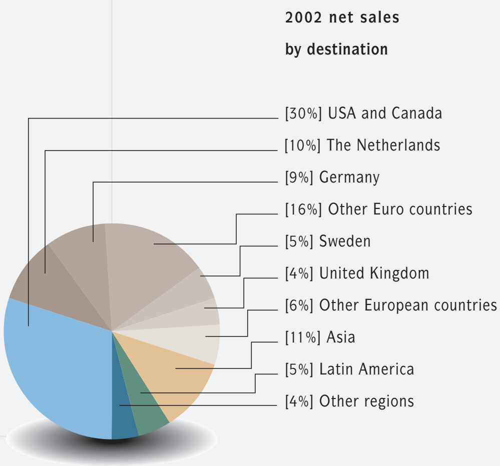


Akzo Nobel Chemicals has a **long tradition** in the specialty chemicals industry with specification, functional, and specialty chemicals.

ENERGY

eco-efficient





Millions of euros	**2002**	2001
Net sales	**4,598**	4,604
Operating income before nonrecurring items (EBIT)	**344**	340
Depreciation and amortization	**328**	336
EBITDA	**672**	676
Capital expenditures	**248**	310
R&D expenditures	**135**	142
Invested capital at year end	**2,850**	3,132
EVA	**3**	5*
Key ratios		
EBIT as percentage of:		
– net sales (ROS)	**7.5**	7.4
– invested capital (ROI)	**11.5**	11.0
Net sales/invested capital	**1.54**	1.49
Capital expenditures/depreciation	**0.8**	1.0
Number of employees at year end	**15,100**	15,100

**restated for changed treatment of pension costs*

INSPIRING CHEMISTRY AND PEOPLE

In the course of 2002 the Chemical Industry in general saw hardly any performance improvement compared to a very difficult 2001. The Polymer Industry and the Pulp & Paper Industry, two of our major customer segments, faced volume and/or intensified price competition, which negatively impacted our performance. Restructuring programs, already in place from 2001, to a certain extent compensated for lower volumes or margins. In addition, higher pension costs had a negative impact on our earnings.

During 2002 we implemented either growth-based or cash flow-based management for our various business segments, following an earlier strategic review. Simultaneously, we started a program to further inspire and develop our people. A third effort was put in place to boost innovation throughout Chemicals in order to enhance long-term growth and profit, and a small Innovation Unit was formed. This unit will establish a network across business units to fully exploit innovation opportunities, foster cross-fertilization, and set new rules for the game. New business concepts will be placed in an “incubator” to ensure rapid development and effective exploitation.

In 2002 we made some selective acquisitions. In acquiring the Industrial Specialties from Crompton we boosted our North American position and improved our presence in Asia, while providing a platform for further product development and business growth. Mochem, a small start-up company, was acquired to strengthen our High Purity Metal Organics business, which supplies the electronics and telecommunication industries. Base Chemicals became full owner of ECI Elektro-Chemie GmbH by acquiring TUI’s 50% share. Further portfolio changes included the divestment of the lead stabilizer business and our carbon disulfide plant in Indonesia.

REVIEW

As a consequence of the strategic review we made some internal movements. Plastics and Processing Additives lacked critical mass following the management buyout of the lead stabilizer business, and PVC Additives was moved to Functional Chemicals with Polysulfides going to the Innovation Unit. The CMC business was transferred from Functional Chemicals to Surface Chemistry in order to create a strong Cellulosic Specialties business together with Rheology Additives.

A new silica sol plant started up in Wisconsin to support our growing retention agent business for the American paper industry. A new Kromasil® production plant came into operation in Sweden to reinforce this excellently developing business of separation chemicals for pharmaceuticals. The first large-scale monochloroacetic acid plant in China was inaugurated in June. Our Cellulosic Specialties expanded production in the Netherlands and Italy and a new type of methyl-based Bermocoll® thickener was introduced to the market.

Decisions were taken during the year to invest in a Resins plant in China to support the fast growing market for coatings and to invest in state-of-the-art hydroprocessing capacity in North America to more effectively supply their growing market. In addition, we decided to expand Ethylene Amines capacity in Sweden. To satisfy growing demand from pipeline customers in Rotterdam, we are currently increasing chlorine capacity.

An agreement was reached with the Dutch government to cease regular chlorine transportation in the Netherlands as of January 1, 2006. As a consequence chlorine capacity in Rotterdam will be further expanded and chlorine and monochloroacetic acid activities in Hengelo will be transferred to Delfzijl.

Restructuring efforts continued forcefully throughout Chemicals during 2002 concentrating on lowering production and administrative costs, improving supply chain efficiency and product optimization. Several of these programs will continue into 2003.

Most Chemicals business units managed to substantially lower their operating working capital in 2002.

Overall, Chemical's sales of EUR 4.6 billion were flat compared to 2001. Operating income increased by 1% to EUR 344 million, which is 7.5% of sales (2001: 7.4%).

Chemicals will continue to focus on profitable growth, serving customers, growing people, enhanced innovation throughout the group, and investing in line with its portfolio strategy. This approach, combined with superior technology and lowest cost, provides the basis for the targeted return over the business cycle of 2.5% over the cost of capital, which corresponds to a return on investment of about 17%.

PULP & PAPER CHEMICALS

NEW CONCEPTS REDUCE COSTS AND IMPROVE EFFICIENCY

During the year, Pulp & Paper Chemicals was confronted with a downturn in the pulp and paper industry, particularly in Europe and North America. Overcapacity and fierce competition forced down selling prices. Operating income was lower, mainly due to lower margins in the first half of the year. However, improvement occurred later in the year, which is expected to continue into 2003.

North America registered the weakest performance for both pulp bleaching and paper chemicals, reflecting paper machine shutdowns and total mill closures. By the end of the year the situation for bleaching chemicals improved as European and North American markets began to move toward a better balance between demand and supply. In South America, particularly in Brazil and Chile, our bleaching chemicals show promising growth, and further capacity expansion may be needed there. The situation in Asia has improved considerably and our operations there are making good progress.

As cost efficiency is an essential competitive tool, we initiated in 2001 a comprehensive restructuring program covering most operations of Pulp & Paper Chemicals in Europe and North America. This program primarily focuses on administrative and production costs but also includes measures to improve efficiency in the supply chain with key customers. These measures have affected more than 300 jobs.

The chlorine dioxide concept, which involves on-site production of this bleaching chemical at customers' plants managed from a Pulp & Paper Chemicals Remote Operations Center, is very successful. Several new units have been established at customer mills in Europe and South America, resulting in improved efficiency and closer cooperation.

The development of remote process control is also a prerequisite for the substantial restructuring measures we are now implementing at our own plants. Integration of new IT and chemical process technology forms an essential part of systems for the supply of chemicals on site. Such systems are now being developed and will be provided by us as the chemicals supplier.

Demand for our new wet strength agents with improved properties and our retention systems with several new components is growing. The opening of a new plant for silica sols in Howard, Wisconsin, completed our supply structure for retention agents to the North American paper industry.

Within our range of specialty products, separation chemicals for pharmaceuticals are enjoying excellent market growth, and a new Kromasil® factory came on stream in Bohus, Sweden. Restructuring measures and organic growth resulted in improved performance for our electrochemicals equipment unit Permascand and the water treatment projects Purate and MPP systems.

FUNCTIONAL CHEMICALS

RAW MATERIAL PRICES AND RESTRUCTURING BOLSTER RESULTS

Functional Chemicals can look back on a challenging year, with sales slightly below 2001. A decline in raw material prices for all product groups, particularly earlier in the year, and restructuring efforts contributed to a substantial improvement in operating income.

Under tight market supply conditions, the results for Ethylene Amines remained favorable. Phosphorus Chemicals, benefiting from its restructuring efforts and improving markets in polyurethane foams, recovered strongly from the previous year. Led by monochloroacetic acid, Industrial Chemicals continued to perform well. Adverse market conditions, particularly in North America and Asia Pacific, prevailed in our Chelates business. Even though a strongly improved cost structure and lower raw material prices had a positive effect on earnings, the financial performance of this unit remained unsatisfactory. Sulfur Products suffered from rapidly shrinking markets in the rayon industry and from poor market conditions in general in Asia Pacific. As a consequence, we divested the Indonesian carbon disulfide plant. On a more positive note, Lubricants posted a modest improvement.

The successful start-up of the grassroots monochloroacetic acid plant in China and the capacity expansion on stream in carboxymethylcellulose in Arnhem and Novara, Italy, considerably strengthened the Industrial Chemicals business. To ensure continuity of supply when regular chlorine transports are discontinued in the Netherlands in 2006, production of monochloroacetic acid will be relocated from Hengelo to Delfzijl.

Commitment to the Ethylene Amines business was reinforced by the decision to invest in new production capacity.

SURFACE CHEMISTRY

ECONOMIC DOWNTURN SLOWS GROWTH

The slowdown in the world economy also impacted the three business areas within Surface Chemistry, causing operating income to remain clearly below the previous year's level.

Compared to 2001, growth rates and margins for our Surfactants declined in all regions. In particular, industrial surfactants and surfactants for agro applications were under pressure. The more consumer-related business (fabric care and cleaning) performed well during 2002 as in previous years. The Japanese joint venture Lion Akzo Corporation benefited from increased demand in the fabric care segment.

The acquisition of the Industrial Specialties business of Crompton Corporation considerably boosted our position in North America and is also a significant step forward in our strategy to become well established in Asia. The acquisition adds to our strong presence in fatty amine derivatives and provides a platform for further product development and business growth. The integration is progressing well.

Our Oleochemicals business recorded a steady sales volume in 2002, but margins were clearly below 2000 and 2001 record levels, as prices of natural oils and fats rose during the year. Selective investment projects initiated during 2002 will contribute to further growth in the years to come.

Rheology Additives (cellulosic specialties for the paint and building industries) experienced a slowdown in growth, reflecting developments in the large economies in Europe and South America, but overall performance was in line with 2001. Our new methyl-based Bermocoll® thickener was introduced to the market and is developing according to plan.

POLYMER CHEMICALS

A BUSINESS UNIT IN TRANSITION

Operating income in 2002 was disappointing as a consequence of a sluggish economy, unfavorable currency developments (particularly the U.S. dollar against the euro), and a further deterioration of margins due to fierce price competition.

In the last quarter of 2002 we acquired Mochem, a small German start-up company, strengthening our High Purity Metal Organics business, which supplies the electronics and telecommunications industries.

Our 50% Japanese joint venture Kayaku Akzo Corporation continued to suffer from the slow Japanese economy. The majority-owned Chinese joint ventures TANP and CANP did well and benefited from healthy growth in China and Asia in general. Our Russian joint venture Ankorit also performed satisfactorily.

Polymer Chemicals has a transition program in place to restore the healthy growth and profitability performance demonstrated in the 1996-2000 period. Initiatives are already underway to achieve this. These involve four main thrusts, starting with a reduction of the number of sites where Organic Peroxides will be manufactured; two have already been discontinued, three more will follow in the course of 2003. In addition, we are implementing a more efficient global Supply Chain and Customer Relationship Management system, based on one global SAP system, which is already operational. Innovation and New Business Development are receiving heavy emphasis, as is the securing of a gradual improvement in margins.

BASE CHEMICALS

SOLID IMPROVEMENT

Despite lower caustic prices, Base Chemicals' operating income improved due to higher volumes and lower costs.

In order to meet increasing demand in the Rotterdam area, local membrane electrolysis capacity will be expanded from 360,000 to 450,000 tons per annum. The project will come on stream in the last quarter of 2003.

An agreement was reached with the authorities to cease regular chlorine transportation in the Netherlands as of January 1, 2006. As a consequence, membrane electrolysis capacity in Rotterdam will be further expanded to 500,000 tons per annum and the chlorine and MCA activities in Hengelo, the Netherlands, will be transferred to Delfzijl, the Netherlands. This relocation will be carefully aligned with the closure of the diaphragm electrolysis and chloromethane plants in Delfzijl announced last year. The net effect will be a reduction of the workforce by some 100 employees.

In the fourth quarter, Base Chemicals became full owner of ECI Elektro-Chemie GmbH, Germany, by acquiring TUI's 50% share.

The results of the 30% joint venture Methanor decreased, mainly due to lower prices and a maintenance stop.

RESINS

INCREASED EFFICIENCY - RESULTS IMPROVED

Despite volume growth, sales declined slightly. Nevertheless, operating income improved significantly, aided by lower raw material prices and cost savings.

In 2002, we completed the integration of recent acquisitions and focused on improving efficiencies in the production and supply chain. Emphasis on customer relations supported by our technical problem-solving capabilities strengthened our position in the generally stagnant Coating and Printing Ink markets.

Coatings Resins' volumes were up, but price pressure persisted, notably in Europe and the Americas. Growth of the majority-owned joint ventures in Malaysia and Indonesia continued. The new resins plant to be built in Suzhou, China, is one of the first solvent-borne resins foreign investments in that fast growing market.

Printing Ink and UV Resins, facing tough competition and flat markets, managed to increase volumes and results significantly. We restructured UV resins manufacturing in Europe and intensified market development efforts in Europe and the United States.

We took important initiatives to increase innovative power and improve personnel development.

CATALYSTS

RATIONALIZATION AND INNOVATION BRING BENEFITS

Catalysts maintained its leadership position by delivering new and innovative products to the fuels industry. Many of these new products allowed our customers to avoid high capital expenditures that would otherwise have been needed to meet new and future environmental regulations in the areas of emission control and low sulfur fuels.

Operating income was up significantly, compared to 2001. Sales were only slightly higher. This gain in performance was attributable to several factors. In 2002, we reaped the full benefits from the consolidation of our North American FCC production activities. We also benefited from our strengthened positions in the performance segments of the HPC market and the FCC additives market.

We recorded growth in both the HPC and the FCC markets, aided by new transportation fuel specifications and the tendency of refiners to use heavier feeds than in previous years. In these key areas, we were able to provide product and service solutions for difficult challenges our customers were facing in their businesses. We are currently investing in state-of-the-art HPC capacity in Pasadena, Texas, to supply the growing North American market more effectively.

The Nippon Ketjen joint venture did even better than in the record year 2001. Our Eurecat joint venture had another good year. FCC-S.A. results were lower than expected, in part due to the devaluation of the Brazilian real.

We continue to invest substantially in R&D. Our R&D units keep on producing innovative technologies that bring immediate benefits to our customers in the fuel industry.

SALT

SOLID PERFORMANCE; RESTRUCTURING IN FULL SWING

Salt delivered a solid performance in 2002. Sales and operating income improved slightly on 2001, and costs were kept under tight control. Performance reflected high sales to the chemical industry throughout the year, offset by lower results for deicing salt. We continued to invest in technology in order to strengthen our position as global leader in vacuum salt and solution mining.

The specialty salt business failed to meet financial targets in a market characterized by overcapacity. A restructuring program–including closure of one of the three production locations (Stade, Germany), reduction of headcount in the Hengelo location (the Netherlands), and upgrading of the product portfolio–is in full progress. The program is expected to be fully effective by the end of 2003.

In its first fully operational year, the solar salt facility in Onslow, Western Australia, performed above expectations both in production and sales.

ENERGY

PERFORMANCE MAINTAINED IN VOLATILE ENERGY MARKET

Operating income from our gas, electricity, and steam supply activities was on par with the previous year, despite volatile oil and gas markets throughout 2002. Our cogeneration joint ventures operated reliably, and the future of cogeneration in Europe will be better secured in a new European Council directive.

OTHER NONCONSOLIDATED COMPANIES

Flexsys
Weak economic conditions during the second half of 2001 continued, resulting in essentially flat volumes for our 50% rubber chemicals joint venture. Due to lower prices caused by highly competitive market conditions, revenues in 2002 were substantially lower. Several cost savings and production restructuring programs were implemented, which offset a significant part of the lower revenues effect. Flexsys sold and exited from its nonstaining antioxidants business (NSAO), which had been a minor activity based on production at its Nitro, West Virginia plant.

Delamine
Sales volumes for this 50% ethylene amines joint venture were higher than in the previous year but selling prices and results were lower. A major maintenance stop at the Delfzijl, Netherlands plant and lower export revenues due to strengthening of the euro in the second half of the year were offset by lower overall raw material costs than in 2001.

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, 2002, 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 24, 2002.

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. The Board of Management is authorized to establish a record date for the purpose of exercising the right to participate in and vote at the meeting of shareholders.

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 profile of the Supervisory Board is available for inspection at the Company's office.

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, internal control procedures, and accounting reports.

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 operating 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 the form of a Letter of Representation, which also covers the fields of financial, technological, social, legal, and political risks.

FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Changes in Accounting Principles

In line with recently issued directives of the Netherlands Accounting Standards Board, the Company changed its accounting for the final dividend proposal and for the Akzo Nobel Employee Share Plan, effective January 1, 2002.

Dividend Proposal

The Company used to recognize the proposal for the final dividend as a liability under current liabilities. Under the new standard, of which early adoption is encouraged, a dividend shall not be recognized as a liability until it has been approved by the General Meeting of Shareholders.

Comparative figures have been restated. The effect of this new principle on shareholders' equity at December 31, 2001, was an increase of EUR 257 million.

Akzo Nobel Employee Share Plan

Under the Akzo Nobel Employee Share Plan, Akzo Nobel N.V. common shares are granted for free to the employees after a certain vesting period. In accordance with the new standard, effective for rights granted from 2002 onwards, the value of the shares on the date of the grant is recognized as a charge in the statement of income spread over the vesting period, which in general is 3 years. For 2002, the net charge to income amounted to EUR 2 million.

Consolidation

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

Joint ventures where Akzo Nobel has joint control are proportionally consolidated. 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 inter-company loans of a permanent nature with respect to affiliated companies outside the Euro region 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	
	2002	2001	**2002**	2001
USD	**1.047**	0.881	**0.944**	0.895
GBP	**0.651**	0.611	**0.630**	0.619
SEK	**9.183**	9.315	**9.135**	9.291

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

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost, defined as 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 for prior service costs with the balance, net of taxes, being charged to shareholders' equity.

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

Deferred Taxes

Deferred tax assets and liabilities are based on 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 reversed. Deferred tax assets, including assets arising from losses carried forward, are recognized if it is more likely than not that the asset will be realized. Nonrefundable dividend taxes are taken into account in the determination of provisions for deferred taxes to the extent of earnings expected to be distributed by affiliated companies.

Long-Term Borrowings and Short-Term Debt

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

Principles of Determination of Income

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

- Net sales is defined as the revenue from the sale and delivery of goods and services, net of rebates, discounts, and similar allowances, and net of sales tax. Net sales are recognized upon delivery of goods or when services are rendered.
- Cost of sales comprises the manufacturing costs of the goods and services sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing costs include such items as:
  – the costs of raw materials and supplies, energy, and other materials;
  – depreciation and the costs of maintenance of the assets used in production;
  – salaries, wages, and social charges for the personnel involved in manufacturing.
- Research cost and preparation and start-up expenses are charged to income as incurred.
- Royalty income is recognized on an accrual basis under other results.
- Interest on interest swaps and forward rate agreements is included in the statement of income under financing charges.
- Taxes on income comprise both current and deferred taxes, including effects of changes in tax rates.
- Income from nonconsolidated companies consists of Akzo Nobel's equity in earnings of these companies and interest on loans granted to them, with 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 285,827,092 for 2002 and 285,888,385 for 2001. For diluted earnings per share this was 286,331,205 and 286,328,864, respectively.

Consolidated Statement of Income

Millions of euros	NOTE	2002		2001	
Net sales			**14,002**		14,110
Cost of sales			**(7,301)**		(7,393)
Gross margin			**6,701**		6,717
Selling expenses		**(3,549)**		(3,565)	
Research and development expenses		**(912)**		(847)	
General and administrative expenses		**(801)**		(798)	
Other results	1	**53**		64	
			(5,209)		(5,146)
Operating income before nonrecurring items			**1,492**		1,571
Nonrecurring items	2		**(130)**		(449)
Operating income, after nonrecurring items			**1,362**		1,122
Financing charges	3		**(204)**		(257)
Operating income less financing charges			**1,158**		865
Taxes	4		**(335)**		(281)
Earnings of consolidated companies after taxes			**823**		584
Earnings from nonconsolidated companies		**38**		69	
Nonrecurring items nonconsolidated companies		**(8)**		(14)	
	5		**30**		55
Earnings before minority interest			**853**		639
Minority interest			**(35)**		(31)
Net income before extraordinary items			**818**		608
Extraordinary items after taxes	6				63
Net income			**818**		671
Net income excluding extraordinary and nonrecurring items			**892**		930
In EUR:					
Basic net income per share			**2.86**		2.35
Basic net income excluding extraordinary and nonrecurring items per share			**3.12**		3.25
Diluted net income per share			**2.86**		2.34
Diluted net income excluding extraordinary and nonrecurring items per share			**3.12**		3.25

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

Consolidated Balance Sheet

Millions of euros, December 31	NOTE	2002		2001[1]	
Assets					
Noncurrent assets					
Intangible assets	8		629		508
Property, plant and equipment	9		4,402		4,568
Financial noncurrent assets:	10				
– nonconsolidated companies		491		575	
– deferred tax assets	11	405		419	
– deferred tax asset for minimum pension liability		503		26	
– other financial noncurrent assets		818		875	
			2,217		1,895
			7,248		6,971
Current assets					
Inventories	12	2,206		2,270	
Receivables	13	2,815		3,229	
Cash and cash equivalents	14	520		455	
			5,541		5,954
Total			12,789		12,925
Equity and liabilities					
Equity	15				
Capital and reserves		3,216		2,918	
Minimum pension liability		(1,118)		(40)	
Akzo Nobel N.V. shareholders' equity		2,098		2,878	
Minority interest		137		138	
			2,235		3,016
Provisions[2]	16		4,368		2,960
Long-term borrowings	17		2,797		2,235
Short-term debt					
Short-term borrowings	18	979		2,267	
Current liabilities	19	2,410		2,447	
			3,389		4,714
Total			12,789		12,925

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

1) *Restated for change in accounting principles. Reference is made to Changes in Accounting Principles on page 70.*

2) *Includes provision for minimum pension liability amounting to EUR 1,794 million at December 31, 2002 (December 31, 2001: EUR 93 million).*

Consolidated Statement of Cash Flows

Millions of euros	**2002**		2001	
Total earnings before minority interest	**853**		702	
Depreciation and amortization	**681**		674	
Cash flow		**1,534**		1,376
Other adjustments to reconcile earnings to cash provided by operations:				
– gain on divestments	**(94)**		(114)	
– write-downs	**110**		172	
– equity in earnings of nonconsolidated companies	**(40)**		(85)	
– dividends from nonconsolidated companies	**82**		67	
– changes in provisions	**(189)**		101	
– changes in deferred tax assets	**(20)**		81	
– change in accrued prepaid pension costs	**37**		(16)	
– other changes	**11**		(4)	
		(103)		202
Change in working capital		**117**		(141)
Net cash provided by operations		**1,548**		1,437
Investments in intangible assets	**(19)**		(59)	
Capital expenditures	**(689)**		(822)	
Investments in nonconsolidated companies	**(16)**		(4)	
Redemption loans nonconsolidated companies	**5**		92	
Acquisition of consolidated companies[1]	**(257)**		(314)	
Proceeds from sale of interests[1]	**208**		376	
Other changes in noncurrent assets[2]	**(11)**		(15)	
Net cash used for investments		**(779)**		(746)
		769		691
Purchase of shares - net	**(6)**		(10)	
Issuance of shares	**4**		3	
New long-term borrowings	**1,044**		142	
Repayment of long-term borrowings	**(213)**		(668)	
Changes in short-term borrowings	**(1,121)**		261	
Net cash used for financing activities		**(292)**		(272)
		477		419
Dividends paid		**(363)**		(376)
		114		43
Effect of exchange rate changes on cash and cash equivalents		**(49)**		(4)
Change in cash and cash equivalents		**65**		39
Cash and cash equivalents at beginning of year		**455**		416
Cash and cash equivalents at end of year		**520**		455

See note 22.

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

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

GENERAL

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

Affiliated Companies

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

Changes in Consolidated Interests

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

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

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

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

On June 15, 2001, Covance Biotechnology Services Inc., North Carolina, 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. The deal was finalized in January 2002. The after-tax gain on this divestiture amounted to EUR 7 million.

During 2002 and 2001, 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	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
Pharma	**4,008**	4,044	**4,008**	4,044	**768**	831	**747**	790	**1**	1
Coatings	**5,508**	5,574	**5,521**	5,591	**465**	426	**446**	226	**1**	–
Chemicals	**4,466**	4,465	**4,598**	4,604	**344**	340	**248**	122	**39**	55
Other	**20**	27	**33**	44	**(85)**	(26)	**(79)**	(16)	**(3)**	13
	14,002	14,110	**14,160**	14,283	**1,492**	1,571	**1,362**	1,122	**38**	69
Intergroup revenues			**(158)**	(173)						
			14,002	14,110						

	Total assets 2002	Total assets 2001	Total liabilities excluding borrowings 2002	Total liabilities excluding borrowings 2001	Capital expenditures 2002	Capital expenditures 2001	Investments in intangible assets 2002	Investments in intangible assets 2001	Depreciation and amortization 2002	Depreciation and amortization 2001
Pharma	**3,195**	3,333	**841**	865	**297**	317	**15**	31	**180**	164
Coatings	**3,338**	3,372	**1,426**	1,357	**131**	181		7	**158**	162
Chemicals	**3,557**	3,837	**1,145**	1,124	**248**	310	**4**	21	**328**	336
Miscellaneous and eliminations, including cash and cash equivalents	**2,208**	1,808	**3,366**	2,061	**13**	14			**15**	12
Nonconsolidated companies	**491**	575								
	12,789	12,925	**6,778**	5,407	**689**	822	**19**	59	**681**	674

	Sales by country of destination 2002	Sales by country of destination 2001	Total assets 2002	Total assets 2001	Capital expenditures 2002	Capital expenditures 2001
The Netherlands	**816**	720	**2,618**	2,595	**197**	235
Germany	**1,084**	1,052	**819**	931	**36**	52
Sweden	**517**	512	**798**	831	**36**	71
United Kingdom	**963**	1,036	**1,134**	1,365	**25**	36
Other European countries	**3,951**	3,964	**2,210**	1,842	**136**	104
USA and Canada	**3,723**	3,802	**2,772**	3,090	**177**	220
Latin America	**767**	917	**424**	589	**31**	33
Asia	**1,513**	1,429	**838**	859	**41**	54
Other regions	**668**	678	**306**	345	**10**	17
	14,002	14,110	**11,919**	12,447	**689**	822
Eliminations and cash and cash equivalents			**379**	(97)		
Nonconsolidated companies			**491**	575		
			12,789	12,925		

CONSOLIDATED STATEMENT OF INCOME

Note [1]

Other Results

	2002	2001
Royalties	**57**	48
Results on sale of redundant assets	**5**	3
Currency exchange differences	**(15)**	4
Other items	**6**	9
	53	64

Note [2]

Nonrecurring Items

The following nonrecurring items were recognized:

	2002	2001
Gains on divestments	**91**	26
Pension premium refund Sweden	**15**	19
Asset impairments and restructurings at		
– Pharma	**(111)**	(36)
– Coatings	**(26)**	(201)
– Chemicals	**(99)**	(257)
	(130)	(449)

Note [3]

Financing Charges

	2002	2001
Interest received and similar income	**15**	21
Interest paid and similar expenses	**(219)**	(278)
	(204)	(257)

Interest paid was reduced by EUR 7 million (2001: EUR 5 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	**2002**	2001
Corporate tax rate in the Netherlands	**35**	35
Effect of lower tax rates in certain countries	**(4)**	(3)
Tax exempt income	**(1)**	(1)
Profits of the year, compensated with losses for which in prior years no deferred tax assets were recognized	**(2)**	(1)
Losses of the year, not recognized as deferred tax asset	**1**	2
	29	32

Note [5]

Earnings from Nonconsolidated Companies

Earnings from nonconsolidated companies were net of a tax charge of EUR 3 million (2001: EUR 10 million). The net nonrecurring after-tax loss in 2002, as in 2001, mainly related to nonrecurring charges recognized for Acordis.

Note [6]

Extraordinary Items

In 2002, no extraordinary items were recognized.

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 77.

Note [7] **Salaries, Wages, and Social Charges**

	2002	2001
Salaries and wages	**2,690**	2,696
Pension and other postretirement costs	**342**	242
Other social charges	**520**	478
	3,552	3,416

Employees

Average number of employees	2002	2001
Pharma	**21,700**	21,000
Coatings	**29,200**	30,100
Chemicals	**14,900**	15,400
Other units	**1,200**	1,300
	67,000	67,800
Number of employees at December 31	**67,900**	66,300

CONSOLIDATED BALANCE SHEET

Note [8] **Intangible Assets**

	Total	Goodwill	Licenses, knowhow, and intellectual property rights	Prior service costs for minimum pension liability	Development costs
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
Changes in book value					
Acquisitions	127	127			
Divestments	(4)	(4)			
Investments	19		19		–
Amortization	(59)	(19)	(39)		(1)
Write-downs	(82)	(8)	(74)		
Change related to minimum pension liability	146			146	
Changes in exchange rates	(26)	(21)	(5)		
Total changes	121	75	(99)	146	(1)
Situation at December 31, 2002					
Cost of acquisition	758	314	264	173	7
Amortization	(129)	(36)	(91)		(2)
Book value	**629**	**278**	**173**	**173**	**5**

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, 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
Changes in book value						
Acquisitions	159	31	123	5	–	–
Divestitures	(9)	(3)	(2)	–	(4)	
Capital expenditures	689	260	413	91	(81)	6
Disinvestments	(34)	(17)	(11)	(4)	–	(2)
Depreciation	(622)	(112)	(426)	(83)		(1)
Write-downs	(28)	(8)	(19)	(1)		–
Changes in exchange rates	(321)	(137)	(130)	(13)	(41)	–
Total changes	(166)	14	(52)	(5)	(126)	3
Situation at December 31, 2002						
Cost of acquisition	10,315	2,864	6,105	906	409	31
Depreciation	(5,913)	(1,095)	(4,140)	(662)		(16)
Book value	**4,402**	**1,769**	**1,965**	**244**	**409**	**15**

The book value of property, plant and equipment financed by installment buying and leasing was EUR 42 million at December 31, 2002 (at December 31, 2001: EUR 17 million).

Note [10]

Financial Noncurrent Assets

		Nonconsolidated companies			Deferred tax asset	
	Total	Share in capital	Loans	Deferred tax assets	for minimum pension liability	Other
Situation at December 31, 2001	1,895	561	14	419	26	875
Acquisitions/deconsolidations/investments	82	(5)	16	7		64
Divestitures/repayments	(40)		(5)			(35)
Amounts recognized as income/(expense)	23	40		20		(37)
Dividends received	(82)	(82)				
Change related to minimum pension liability	477				477	
Changes in exchange rates	(138)	(48)		(41)		(49)
Situation at December 31, 2002	**2,217**	**466**	**25**	**405**	**503**	**818**

Nonconsolidated Companies

Chemicals joint ventures accounted for EUR 296 million of Akzo Nobel's share in the capital of nonconsolidated companies at December 31, 2002 (at December 31, 2001: EUR 384 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 96 million at year-end 2002 (at December 31, 2001: EUR 140 million). Equity in 2002 earnings was EUR 4 million, against EUR 38 million in 2001. At year-end 2002, these partnerships accounted for EUR 1 million of short-term receivables from nonconsolidated companies (at December 31, 2001: EUR 2 million).

Other Financial Noncurrent Assets

Other financial noncurrent assets include accrued prepaid pension costs of EUR 579 million (at December 31, 2001: EUR 656 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)	**2002**	2001
Net operating loss carryforwards	**204**	233
Provisions	**393**	387
Intangible assets	**85**	86
Property, plant and equipment	**(255)**	(239)
Accrued prepaid pension costs	**(162)**	(182)
Other	**(308)**	(381)
	(43)	(96)
Valuation allowance	**(65)**	(45)
Net deferred taxes	**(108)**	(141)

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

Asset/(liability)	**2002**	2001
Deferred tax assets	**405**	419
Deferred tax provisions	**(513)**	(560)
	(108)	(141)

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

	2002	2001
Raw materials and supplies	**684**	672
Work in process	**441**	467
Finished products and goods for resale	**1,065**	1,121
Inventory prepayments	**16**	10
	2,206	2,270

Provisions for obsolescence deducted from the inventory book values totaled EUR 151 million at December 31, 2002 (at December 31, 2001: EUR 199 million).

Note [13]

Receivables

	2002	2001
Trade receivables	**2,064**	2,340
Taxes	**293**	345
Receivables from nonconsolidated companies	**43**	73
Prepaid expenses	**143**	145
Other receivables	**286**	339
	2,829	3,242
Discounted portion	**(14)**	(13)
	2,815	3,229

Provisions for doubtful accounts deducted from the book values of receivables aggregated EUR 182 million (at December 31, 2001: EUR 180 million).

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

Note [14]

Cash and Cash Equivalents

	2002	2001
Short-term investments	**244**	136
Cash on hand and in banks	**276**	319
	520	455

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

At December 31, 2002, the amount of cash and cash equivalents was freely available.

Note [15]

Equity

	Capital and Reserves	Minimum pension liability	Akzo Nobel N.V. shareholders' equity	Minority interest	Equity
Situation at December 31, 2001	2,918	(40)	**2,878**	138	**3,016**
Issue of common shares	4		**4**		**4**
Purchase of common shares – net	(6)		**(6)**		**(6)**
Income for the year	818		**818**	35	**853**
Dividend	(343)		**(343)**	(20)	**(363)**
Changes in minority interest in subsidiaries				(3)	**(3)**
Changes related to minimum pension liability		(1,078)	**(1,078)**		**(1,078)**
Changes in exchange rates	(175)		**(175)**	(13)	**(188)**
Situation at December 31, 2002	**3,216**	**(1,118)**	**2,098**	**137**	**2,235**

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, 2001	2,960	560	1,474	400	211	315
Amounts recognized as income/expense	484	(17)	253	147	22	79
Acquisitions	20		20			
Divestiture	(3)		(3)			
Utilization	(704)		(404)	(201)	(21)	(78)
Changes in minimum pension liability	1,701		1,701			
Changes in exchange rates	(122)	(30)	(60)	(14)	(8)	(10)
Other changes	32					32
Situation at December 31, 2002	**4,368**	**513**	**2,981**	**332**	**204**	**338**

The current portion of provisions amounted to EUR 539 million (at December 31, 2001: EUR 530 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, quoted equity securities, and real estate.

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

Below a table is provided with a summary of the changes in the pension benefit obligations and plan assets for 2002 and 2001. Also provided is a table with a summary of the changes in the accumulated postretirement benefit obligations and plan assets for 2002 and 2001.

	Pensions		Other postretirement benefits	
	2002	2001	**2002**	2001
Benefit obligation				
Balance at beginning of year	**(7,950)**	(7,507)	**(412)**	(334)
Acquisitions	**(38)**	(1)	**(10)**	
Divestments/curtailments	**37**	26	**1**	13
Service costs	**(238)**	(250)	**(15)**	(13)
Interest costs	**(448)**	(449)	**(28)**	(25)
Plan amendments	**3**	(1)		(10)
Benefits paid	**436**	416	**23**	21
Actuarial gains and losses	**(436)**	(107)	**(142)**	(50)
Changes in exchange rates	**279**	(77)	**59**	(14)
Balance at end of year	**(8,355)**	(7,950)	**(524)**	(412)
Plan assets				
Balance at beginning of year	**6,707**	7,380	**2**	2
Acquisitions	**31**	–		
Divestments/curtailments	**(10)**	(6)		
Contribution by employer	**340**	145		
Contribution by employees	**12**	23		
Benefits paid	**(393)**	(361)	**–**	–
Actual return on plan assets	**(477)**	(556)	**–**	–
Changes in exchange rates	**(228)**	82	**–**	–
Balance at end of year	**5,982**	6,707	**2**	2
Funded status	**(2,373)**	(1,243)	**(522)**	(410)
Unrecognized net loss/(gain)	**2,179**	916	**127**	(9)
Unrecognized prior service costs	**170**	203	**11**	5
Unrecognized net transition obligation	**–**	(2)		
Minimum pension liability	**(1,794)**	(93)		
Net balances	**(1,818)**	(219)	**(384)**	(414)

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

	2002	2001
Prepaid pension costs (under other financial noncurrent assets)	**579**	656
Provisions for pensions and other postretirement benefits (under provisions)	**(2,397)**	(875)
	(1,818)	(219)

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

Percent	2002	2001
Discount rate	**5.6**	6.0
Rate of compensation increase	**3.6**	3.8
Expected return on plan assets	**6.8**	7.2

The 2002 and 2001 net periodic pension costs for the defined benefit pension plans were as follows:

	2002	2001
Service costs for benefits earned during the period	**226**	227
Interest costs on projected benefit obligation	**448**	449
Expected return on plan assets	**(460)**	(521)
Net amortization of unrecognized net transition obligation	**–**	–
Amortization of prior service costs	**16**	20
Net actuarial (gain)/loss recognized	**36**	(2)
Settlement/curtailment loss	**1**	–
	267	173

The principal defined benefit plans referred to above cover approximately 60% of Akzo Nobel's employees. The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 31 million in 2002, and EUR 48 million in 2001.

Due to the substantial decline in stock markets, at December 31, 2002, the accumulated benefit obligation for all pension plans exceeded the value of plan assets. As a consequence, the Company recognized additional provisions for minimum pension liabilities in 2002 of EUR 1,701 million, through a direct charge against shareholders' equity of EUR 1,555 million (EUR 1,078 million after taxes) and of intangible assets for prior service costs of EUR 146 million. The situation at December 31, 2001, resulted in additional provisions in 2001 of EUR 62 million, which were recognized by means of charge against shareholders' equity of EUR 53 million (EUR 32 million after taxes) and as intangible assets for prior service costs of EUR 9 million.

Net periodic other postretirement benefit costs are as follows:

	2002	2001
Service costs for benefits allocated to the period	**15**	13
Interest costs on accumulated postretirement obligation	**28**	25
Amortization of prior service costs	**–**	(1)
Net actuarial (gain)/loss recognized	**–**	(3)
Curtailment (gain)/loss	**1**	(13)
	44	21

For postretirement healthcare benefit plans in the United States, representing approximately 70% of the obligations, accruals have been calculated using a healthcare cost increase rate of 10.0% decreasing gradually to 5.0% over the next 4 years and remaining at that level thereafter (at December 31, 2001: 7.5% decreasing gradually to 5.5% over the next 4 years and remaining at that level thereafter). The discount rate was 6.75% at December 31, 2002, and 7.5% at December 31, 2001.

For the plans in the Netherlands a healthcare cost increase rate of 4% per year was used with a 5.25% discount rate at December 31, 2002 (at December 31, 2001: 4% and 5.5%, respectively).

A 1% increase in the assumed healthcare cost increase rate would have increased the 2002 postretirement healthcare costs by EUR 7 million and the accumulated benefit obligation at December 31, 2002 by EUR 60 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 102 million. Reference is made to note 20.

Note [17]

Long-Term Borrowings

	2002	2001
Debentures:		
– issued by Akzo Nobel N.V.	**1,799**	1,011
– issued by consolidated companies	**801**	959
Private borrowings	**28**	21
Debt to credit institutions	**87**	153
Other borrowings	**82**	91
	2,797	2,235

The total amount of credit facilities arranged by Akzo Nobel was USD 1.0 billion (at December 31, 2002: EUR 1.0 billion; at December 31, 2001: EUR 1.1 billion), expiring on October 15, 2003. Both at the end of 2002 and 2001 the facilities were not used. Furthermore, the Company has a EUR 1.0 billion back-up facility, expiring on November 28, 2003.

Aggregate maturities of long-term borrowings are as follows:

	2003	2004/2007	after 2007
Debentures:			
– issued by Akzo Nobel N.V.	136	227	1,436
– issued by consolidated companies	547	105	149
Private borrowings	19	7	2
Debt to credit institutions	16	45	26
Other borrowings	16	25	41
	734	409	1,654

During 2002, the average interest rate was 5.9% (2001: 6.1%).

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, 2002: EUR 478 million; at December 31, 2001: EUR 568 million).

Debt to credit institutions was secured to an aggregate amount of EUR 7 million (at December 31, 2001: EUR 10 million) by means of mortgages, etc.

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

Note [18]

Short-Term Borrowings

	2002	2001
Commercial paper	**396**	1,455
Debt to credit institutions	**517**	704
Borrowings from nonconsolidated companies	**66**	108
	979	2,267

Commercial paper relates to Akzo Nobel's commercial paper program in the United States, which at December 31, 2002, as at December 31, 2001, had a maximum of USD 1.0 billion (year-end 2002: EUR 1.0 billion; year-end 2001: EUR 1.1 billion), and to Akzo Nobel's Euro commercial paper program, which at December 31, 2002, as at December 31, 2001, had a maximum of EUR 1.5 billion.

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

Note [19]

Current Liabilities

	2002	2001
Prepayments by customers	21	23
Suppliers	1,277	1,411
Debt to nonconsolidated companies	5	6
Taxes and social security contributions	350	302
Amounts payable to employees	351	301
Dividends	2	5
Pensions	12	12
Other liabilities	392	387
	2,410	2,447

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 204 million at December 31, 2002 (at December 31, 2001: EUR 211 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 2002 in connection with these cases amounted to EUR 9 million (2001: EUR 59 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 102 million (2001: EUR 111 million); 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 (including Remeron® Cases)

The Company brought claims against certain generic drug manufacturers in the United States under the U.S. Hatch-Waxman Act, alleging infringement by such manufacturers of the Company's U.S. patent protecting the use of mirtazapine (Remeron®) in combination with one or more SSRI's for the treatment of depression. In two of the patent infringement cases brought by the Company, the Court granted summary judgment of noninfringement in favor of the defendants. In light of recent new case law in an unrelated case providing guidance regarding inducement to infringe issue under the Hatch-Waxman Act, the Company has decided not to further pursue any actions and to withdraw all pending cases based on infringement of the above reference patent against the generic drug manufacturers.

Some generic drug manufacturers sued by the Company have brought antitrust counterclaims against the Company in the United States. In addition, antitrust claims have been filed against the Company in the United States on behalf of classes of (in)direct purchasers of Remeron®. The Company is aggressively defending these claims.

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 127 million at December 31, 2002. At December 31, 2001, these commitments totaled EUR 140 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 647 million at December 31, 2002 (at December 31, 2001: EUR 561 million). Payments due within one year amount to EUR 188 million (2001: EUR 141 million); payments due after more than five years amount to EUR 99 million (2001: EUR 167 million).

Guarantees related to nonconsolidated companies totaled EUR 9 million (at December 31, 2001: EUR 11 million). As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 2002, the risk ensuing from these liabilities was EUR 159 million (at December 31, 2001: EUR 156 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, 2002, outstanding contracts to buy currencies totaled EUR 1.0 billion (at December 31, 2001: EUR 0.8 billion), while contracts to sell currencies totaled EUR 2.1 billion (at December 31, 2001: EUR 2.2 billion). These contracts mainly relate to pounds sterling, U.S. dollars, Canadian dollars, Swedish kronor, and Japanese yen.

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

Interest Risk Management

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

The Company swapped EUR 500 million fixed rate liabilities with an interest rate of 5.625% with floating rate LIBOR-related liabilities of USD 445 million and a remaining maturity of 6 years.

The Company concluded forward rate agreements covering USD 440 million whereby interest percentages are fixed in a range from 1.895% to 2.176% for the period January 1 - November 7, 2003, and covering EUR 50 million with an interest percentage of 3.17% for the period January 1 - March 6, 2003 and of 3.05% for May 6 - August 6, 2003.

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 3 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 3 years.

The Company has entered into interest rate cap agreements with a cap rate of 8.5% for an amount of USD 200 million (year-end 2002: EUR 191 million; year-end 2001: EUR 227 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 7 million at December 31, 2002. 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 an accumulating swap for 100,000 barrels of petroleum for each month of 2003, whereby the price per barrel is fixed at USD 21.00, but only in case the market price is below USD 27.00.

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, 2002		December 31, 2001	
Asset/(liability)	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Foreign currency contracts	108	113	(35)	(30)
Interest rate currency swaps	76	131		
Interest swap contracts	–	4	–	6
Interest rate cap contracts	–	–	1	–
Forward rate agreements	–	(1)		
Long-term borrowings	(2,797)	(2,947)	(2,220)	(2,262)
Petroleum swap	–	–	–	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	Long-term borrowings	Short-term borrowings
Changes in 2002 balance sheet items	(441)	562	(1,288)
Eliminations:			
– changes in exchange rates	264	277	174
– changes in consolidation	60	(8)	(7)
Changes in 2002 financial position	(117)	831	(1,121)

Akzo Nobel N.V. Statement of Income

Millions of euros	NOTE	2002	2001
Net income from affiliated companies	a	828	689
Other net income		(10)	(18)
Net income		818	671

Akzo Nobel N.V. Balance Sheet

Millions of euros, December 31	NOTE	2002		2001 [1]	
Assets					
Noncurrent assets					
Financial noncurrent assets	c		7,648		8,361
Current assets					
Receivables	d	170		175	
Cash and cash equivalents	e	167		34	
			337		209
Total			7,985		8,570
Shareholders' Equity and Liabilities					
Shareholders' equity	f				
Subscribed share capital		572		572	
Additional paid-in capital		1,803		1,799	
Statutory reserves		82		83	
Cumulative currency translation differences		(896)		(721)	
Other reserves		1,655		1,185	
Capital and reserves		3,216		2,918	
Minimum pension liability		(1,118)		(40)	
			2,098		2,878
Long-term borrowings	g		5,533		4,617
Short-term debt	h		354		1,075
Total			7,985		8,570

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

[1] *Restated for change in accounting principles. Reference is made to Changes in Accounting Principles on page 70.*

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 71 through 73. Thus net income and shareholders' equity are equal to net income and shareholders' equity as shown in the consolidated financial statements on pages 74 and 75. 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**

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

Supervisory Board

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

Euros	**2002**	2001
Aarnout A. Loudon, *Chairman*[1]	**52,000**	52,000
Frits H. Fentener van Vlissingen, *Deputy Chairman*[1] [2]	**45,500**	45,500
Virginia Bottomley	**41,000**	41,000
L. Paul Bremer, III[3]	**42,100**	41,000
Abraham E. Cohen[2]	**45,500**	45,500
Hilmar Kopper[2]	**45,500**	45,500
Alain Mérieux, from May 1, 2002	**27,300**	
Lars H. Thunell[2]	**45,500**	45,500
Maarten C. van Veen[1]	**45,500**	45,500
Karel Vuursteen, from May 1, 2002	**27,300**	
Lo C. van Wachem, till May 1, 2002[1]	**15,200**	45,500

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

Except for the following common shares the members of the Supervisory Board did not hold any other Akzo Nobel N.V. securities:

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
Karel Vuursteen	400

1) *Member of the Nomination and Remuneration Committee.*
2) *Member of the Audit Committee.*
3) *From October 1, 2002, member of the Nomination and Remuneration Committee.*

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; this component is primarily dependent on the Economic Value Added realized.

The salaries of the members of the Board of Management were increased by 4% on April 1, 2002 (the previous adjustment was made on January 1, 2001). The members of the Board of Management received the following salaries, performance-related bonuses and other emoluments[1]:

Euros	**2002**	2001
Cees J.A. van Lede, *Chairman*		
Salary	**623,100**	605,000
Bonus	**377,200**	447,700
Other emoluments	**5,600**	5,700
Fritz W. Fröhlich, *Deputy Chairman*		
Salary	**533,500**	525,900
Bonus	**316,700**	370,800
Other emoluments	**7,800**	7,900
Rudy M.J. van der Meer		
Salary	**445,000**	432,000
Bonus	**261,400**	303,800
Other emoluments	**5,600**	5,700
Dag Strömqvist		
Salary	**445,000**	432,000
Bonus	**261,400**	303,800
Other emoluments	**5,200**	5,300
Paul K. Brons, till July 1, 2002		
Salary	**220,300**	432,000
Bonus	**130,700**	303,800
Other emoluments	**3,000**	5,300
A.T.M. (Toon) Wilderbeek, from July 1, 2002		
Salary	**224,600**	
Bonus	**127,800**	
Other emoluments	**2,600**	
G.J. (Hans) Wijers, from October 1, 2002		
Salary	**134,700**	
Bonus	**76,600**	
Other emoluments	**1,500**	

1) *Employers' charges (social contributions and healthcare insurance contributions).*

Pension Plan

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

For the incumbent members on January 1, 2002, accrued pension benefits are based on length of service and membership of the Board of Management. As from January 1, 2002, the pension benefits for newly appointed members are based on an income- and age-related defined contribution plan, which duly takes account of the pension benefits accrued in the past. As a consequence, additional provisions were made in the amount of EUR 485,800 for Mr. Wijers and in the amount of EUR 584,600 for Mr. Wilderbeek.

Besides the aforementioned provisions and after deduction of any contributions paid by the board members, pension expenses were as follows:

Euros	
Cees J.A. van Lede	**455,900**
Fritz W. Fröhlich	**465,500**
Rudy M.J. van der Meer	**402,700**
Dag Strömqvist	**277,100**
Paul K. Brons	**118,500**
A.T.M. (Toon) Wilderbeek	**47,500**
G.J. (Hans) Wijers	**36,800**

Arrangements

Effective July 1, 2002, Mr. Brons retired ten months before the retirement age of 62.
Mr. van Lede will retire early on May 1, 2003. As a consequence, salary and pension provisions were made in the amount of EUR 448,400 at June 30, 2002, and in the amount of EUR 844,200 at December 31, 2002.

Of the allowance paid in 2000 to Mr. Strömqvist in connection with his relocation from Sweden to the Netherlands, an amount of EUR 30,500 was charged to income in 2002.

Former Members of the Board of Management

Charges relating to former members of the Board of Management amounted to EUR 274,200, mainly due to pension expenses.

Stock Options [1)]

The conditional options granted in 2002 to members of the Board of Management have an exercise price of EUR 46.53 and the expiry date is April 25, 2012. After three years, the number of options granted can be decreased by a maximum percentage of 50, if specific performance criteria are not or not sufficiently met.

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

Number of options	Year of issue	Exercise price in EUR	Outstanding at December 31, 2001	Granted in 2002	Exercised in 2002	Outstanding at December 31, 2002	Expiry date
Cees J.A. van Lede	1997	28.10	11,592		11,592		
	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
	2002	46.53		39,600		39,600	April 25, 2012
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
	2002	46.53		29,700		29,700	April 25, 2012
Rudy M.J. van der Meer	1997	28.10	10,060		10,060		
	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
	2002	46.53		26,400		26,400	April 25, 2012
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
	2002	46.53		26,400		26,400	April 25, 2012
A.T.M. (Toon) Wilderbeek	1998	47.40	4,400			4,400	April 28, 2003
	1999	42.50	4,500			4,500	April 25, 2004
	2000	44.82	6,600			6,600	April 27, 2005
	2001	46.75	6,600			6,600	April 30, 2006
	2002	46.53		3,300		3,300	April 25, 2009
	2002	46.53		13,200		13,200	April 25, 2012
G.J. (Hans) Wijers	2002	46.53		14,850		14,850	April 25, 2012
Paul K. Brons[2)]	1997	28.10	5,060		5,060		
	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
	2002	46.53		26,400		26,400	April 25, 2012

All options with an expiry date after the year 2004 are conditional options; the remainder is unconditional.

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

2) *In early retirement at July 1, 2002.*

At December 31, 2002, the members of the Board of Management held Akzo Nobel N.V. common shares. The specification is as follows:

Number of shares	
Cees J.A. van Lede	3,000
Fritz W. Fröhlich	1,000
Rudy M.J. van der Meer	1,168
Dag Strömqvist	5,200
G.J. (Hans) Wijers	1,600

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 Akzo Nobel N.V. common shares are conditionally granted and vest after three years. In 2002, 5 shares were granted (2001: 6 shares).

BALANCE SHEET

Note [c]

Financial Noncurrent Assets

		Consolidated companies		
	Total	Share in capital	Loans[1]	Other financial noncurrent assets
Situation at December 31, 2001	8,361	2,444	5,910	7
Investments/disinvestments	89	81		8
Equity in earnings	828	828		
Dividends received	(636)	(636)		
Loans granted	987		987	
Repayment of loans	(728)		(725)	(3)
Change related to minimum pension liability	(1,078)	(1,078)		
Changes in exchange rates	(175)	(160)	(15)	
Situation at December 31, 2002	**7,648**	**1,479**	**6,157**	**12**

Note [d]

Receivables

	2002	2001
Receivables from consolidated companies	**29**	35
Receivables from nonconsolidated companies	**25**	16
Taxes	**21**	105
Other receivables	**95**	19
	170	175

Note [e]

Cash and Cash Equivalents

	2002	2001
Short-term investments	**152**	9
Cash on hand and in banks	**15**	25
	167	34

At December 31, 2002, 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	Capital and reserves	Minimum pension liability	Share-holders' equity
Situation at December 31, 2000	649	1,796	–	(616)	873	**2,702**	(8)	**2,694**
Issue of common shares	–	3				**3**		**3**
Purchase of common shares – net					(10)	**(10)**		**(10)**
Reduction of par value	(77)		77			**–**		–
Net income					671	**671**		**671**
Dividend					(343)	**(343)**		**(343)**
Capitalized development cost			6		(6)	**–**		**–**
Changes related to minimum pension liability							(32)	**(32)**
Changes in exchange rates in respect of affiliated companies				(105)		**(105)**		**(105)**
Situation at December 31, 2001	572	1,799	83	(721)	1,185	**2,918**	(40)	**2,878**
Issue of common shares		4				**4**		**4**
Purchase of common shares – net					(6)	**(6)**		**(6)**
Net income					818	**818**		**818**
Dividend					(343)	**(343)**		**(343)**
Capitalized development cost			(1)		1	–		–
Changes related to minimum pension liability							(1,078)	**(1,078)**
Changes in exchange rates in respect of affiliated companies				(175)		**(175)**		**(175)**
Situation at December 31, 2002	**572**	**1,803**	**82**	**(896)**	**1,655**	**3,216**	**(1,118)**	**2,098**

Subscribed Share Capital

Authorized capital stock of Akzo Nobel N.V. is EUR 1,600,019,200 and consists of 48 priority shares of EUR 400, 600 million common shares of EUR 2 and 200 million cumulative preferred shares of EUR 2. Subscribed share capital consists of 48 priority shares, 286,147,260 common shares, and no preferred shares. In 2002, 102,960 common shares were issued in connection with the exercise of options.

In connection with Akzo Nobel's Employee Share Plan and stock option plan, the Company has purchased 295,479 common shares in 8 blocks during the period May-August 2002, at the prevailing stock market price at that time, which averaged EUR 34.55. During 2002, in total 29,663 common shares were transferred to outside trust funds of Akzo Nobel's employees in the United Kingdom and Denmark. Taking into account the 189,487 common shares, which the Company held at December 31, 2001, the Company held 455,303 common shares at December 31, 2002.

Stock Options

Options are granted to all members of the Board of Management, Senior Vice Presidents and Executives. The number of participants was approximately 775 in 2002 (2001: 760). The options for Senior Vice Presidents and Executives expire after five years; as options granted from 2002 expire after seven years. Options (conditional) granted to members of the Board of Management as from 2000 expire after ten years. The options issued under the plan in 1998 were excercisible immediately upon grant. Options issued as from 1999 cannot be excercised during the first three years.

No financing facilities exist for option rights or tax payable thereon. One option entitles the holder thereof to buy one Akzo Nobel N.V. common share of EUR 2 or one American Depositary Share (ADS). The exercise price is the Euronext Amsterdam opening price on the first day that the Akzo Nobel share is quoted ex dividend, or the opening price for an ADS on NASDAQ/NMS on the first day that the Akzo Nobel ADS is quoted ex dividend.

Outstanding Option Rights (including Board of Management)

Year of issue	Exercise price in EUR	Outstanding at December 31, 2001	Granted in 2002	Exercised in 2002	Lapsed in 2002	Outstanding at December 31, 2002	Expiry date
Unconditional options							
1997	28.10	50,256		50,256			
1998	47.40	434,900		21,200	2,200	411,500	April 28, 2003
1999	42.50	1,089,800		34,600	8,000	1,047,200	April 25, 2004
		1,574,956		106,056	10,200	1,458,700	
Conditional options							
2000	44.82	891,540			14,960	876,580	April 27, 2005
2000	44.82	148,500				148,500	April 27, 2010
2001	46.75	895,180			16,720	878,460	April 30, 2006
2001	46.75	148,500				148,500	April 30, 2011
2002	46.53		887,420			887,420	April 25, 2009
2002	46.53		176,550			176,550	April 25, 2012
		2,083,720	1,063,970		31,680	3,116,010	
	in USD						
American Depositary Shares							
2001	41.69	148,170			1,760	146,410	April 30, 2006
2002	42.05		153,450		880	152,570	April 25, 2009
		148,170	153,450		2,640	298,980	
Total		3,806,846	1,217,420	106,056	44,520	4,873,690	

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. Generally, these rights vest if the employee has remained in the Company's service for a period of three years. The number of shares granted varies from country to country. At December 31, 2002, the following conditional rights on shares were outstanding:

Year of issue	Outstanding conditional rights on shares	Date unconditional
2001	214,000	May 1, 2004
2002	215,000	Various dates during 2005

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 5 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**

	2002	2001
Debentures	**1,799**	1,011
Debt to consolidated companies	**3,733**	3,602
Other borrowings	**1**	4
	5,533	4,617

Debentures

	2002	2001
8% 1992/02		136
6⅜% 1993/03	**136**	136
7% 1995/05	**227**	227
5⅜% 1998/08	**512**	512
5⅝% 2002/09	**924**	
	1,799	1,011

Debt to Consolidated Companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 3.2% in 2002 (2001: 3.4%).

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

	2002	2001
Debt to credit institutions	**40**	127
Commercial paper	**240**	874
Debt to consolidated companies	**4**	20
Borrowings from nonconsolidated companies	**9**	3
Other liabilities	**61**	51
	354	1,075

Commercial paper relates to Akzo Nobel's Euro commercial paper program, which at December 31, 2002, had a maximum of EUR 1.5 billion (at December 31, 2001: 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, 2002, aggregating EUR 1.8 billion (at December 31, 2001: EUR 1.3 billion), are included in the consolidated balance sheet.

Additionally, at December 31, 2002, guarantees were issued in behalf of consolidated companies in the amount of EUR 2.4 billion (at December 31, 2001: EUR 3.2 billion), including guarantees issued by Akzo Nobel N.V. in relation to the exemption of certain Irish companies[1], under section 5(c) of the

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

Companies (Amendment) Act 1986 Ireland. The debts and liabilities of the consolidated companies underlying these guarantees are included in the Consolidated Balance Sheet or in the amount of long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., as disclosed in Commitments in Note 20 of the Notes to the Consolidated Financial Statements.

Guarantees relating to nonconsolidated companies amounted to EUR 9 million (2001: EUR 11 million).

Arnhem, February 10, 2003

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

The Supervisory Board
Aarnout A. Loudon
Frits H. Fentener van Vlissingen
Virginia Bottomley
L. Paul Bremer, III
Abraham E. Cohen
Hilmar Kopper
Alain Mérieux
Lars H. Thunell
Maarten C. van Veen
Karel Vuursteen

OTHER INFORMATION

AUDITORS' REPORT

We have audited the 2002 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, 2002, 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 10, 2003

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 475 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 5, 2003.

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	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Net sales	**14,002**	14,110	14,003	14,432	12,482	10,914	10,182	9,751	10,078	7,491
Operating income before nonrecurring items	**1,492**	1,571	1,641	1,238	1,147	1,041	846	850	838	432
Financing charges	**(204)**	(257)	(245)	(245)	(179)	(93)	(88)	(87)	(99)	(74)
Taxes	**(399)**	(417)	(462)	(323)	(336)	(316)	(251)	(266)	(220)	(112)
Earnings from nonconsolidated companies	**38**	69	65	52	45	54	41	62	46	37
Earnings from normal operations, after taxes	**927**	966	999	722	677	686	548	559	565	283
Minority interest	**(35)**	(36)	(43)	(25)	(16)	(17)	(16)	(20)	(17)	(2)
Net income excluding extraordinary and nonrecurring items	**892**	930	956	697	661	669	532	539	548	281
Extraordinary and nonrecurring items, after taxes	**(74)**	(259)	(9)	(508)	(129)	15		(16)	(36)	(183)
Net income	**818**	671	947	189	532	684	532	523	512	98
EBITDA	**2,173**	2,245	2,305	2,009	1,825	1,638	1,392	1,345	1,359	834
Common shares, in millions at December 31	**285.7**	285.9	285.9	285.9	285.3	285.2	284.7	284.3	284.3	215.9
Dividend	**343**	343	343	286	278	275	242	226	226	154
Dividend in % of net income excluding extraordinary and nonrecurring items	**38**	37	36	41	42	41	45	42	41	55
Per common share, in EUR										
Net income	**2.86**	2.35	3.31	0.66	1.86	2.40	1.87	1.83	1.80	0.52
Net income excluding extraordinary and nonrecurring items	**3.12**	3.25	3.34	2.44	2.32	2.35	1.87	1.89	1.93	1.49
Dividend	**1.20**	1.20	1.20	1.00	0.98	0.97	0.85	0.79	0.79	0.74[2]
Shareholders' equity	**7.34**	10.07	9.42	7.28	7.36	14.58	12.54	10.85	10.46	12.80
Number of employees at December 31	**67,900**	66,300	68,400	68,000	85,900	68,900	70,700	69,800	70,400	60,700
Salaries, wages, and social charges	**3,552**	3,416	3,285	3,777	3,368	2,969	2,820	2,725	2,772	2,360
Ditto, as % of net sales	**25.4**	24.2	23.5	26.2	27.0	27.2	27.7	27.9	27.5	31.5
Ratios										
Operating income before nonrecurring items as percentage of net sales	**10.7**	11.1	11.7	8.6	9.2	9.5	8.3	8.7	8.3	5.8
Operating income before nonrecurring items as percentage of invested capital	**16.5**	16.8	18.4	12.8	14.1	15.2	13.2	14.2	14.1	9.8
Net income excluding extraordinary and nonrecurring items as percentage of shareholders' equity	**35.9**	33.4	40.0	33.3	21.1	17.3	16.0	17.8	18.6	10.9
Interest coverage	**7.3**	6.1	6.7	5.1	6.4	11.2	9.6	9.8	8.5	5.8
EBITDA coverage	**10.7**	8.7	9.4	8.2	10.2	17.6	15.8	15.5	13.7	11.3
Share price										
Highest	**54.50**	57.85	59.15	52.40	58.58	42.84	26.99	23.79	25.98	22.77
Lowest	**27.25**	33.73	37.30	30.00	25.87	26.29	19.97	18.60	21.28	15.26
Year end	**30.23**	50.15	57.20	49.80	38.80	39.66	26.77	21.06	22.73	21.33

1) *Restated for change in accounting principles. Reference is made to Changes in Accounting Principles on page 70.*

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 foldout.

Consolidated Balance Sheet[1]

Millions of euros, December 31	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Intangible assets	**629**	508	388	326	166	133	134	168	137	64
Property, plant and equipment	**4,402**	4,568	4,501	4,435	5,311	4,420	4,304	3,848	3,808	2,886
Financial noncurrent assets	**2,217**	1,895	2,000	1,878	1,401	880	846	752	749	583
Noncurrent assets	**7,248**	6,971	6,889	6,639	6,878	5,433	5,284	4,768	4,694	3,533
Inventories	**2,206**	2,270	2,267	2,091	2,291	1,835	1,760	1,648	1,541	1,317
Receivables	**2,815**	3,229	3,135	2,981	2,823	2,267	1,981	1,907	1,865	1,429
Cash and cash equivalents	**520**	455	416	932	536	317	404	317	330	845
Current assets	**5,541**	5,954	5,818	6,004	5,650	4,419	4,145	3,872	3,736	3,591
Total assets	**12,789**	12,925	12,707	12,643	12,528	9,852	9,429	8,640	8,430	7,124
Capital and reserves	**3,216**	2,918	2,702	2,086	2,112	4,163	3,575	3,091	2,974	2,764
Minimum pension liability	**(1,118)**	(40)	(8)	(4)	(11)	(5)	(6)	(6)		
Shareholders' equity	**2,098**	2,878	2,694	2,082	2,101	4,158	3,569	3,085	2,974	2,764
Minority interest	**137**	138	159	154	190	118	108	88	83	70
Equity	**2,235**	3,016	2,853	2,236	2,291	4,276	3,677	3,173	3,057	2,834
Provisions	**4,368**	2,960	2,797	2,432	2,582	1,963	1,891	1,834	1,712	1,363
Long-term borrowings	**2,797**	2,235	2,729	2,678	2,672	914	975	1,233	1,424	1,061
Short-term borrowings	**979**	2,267	1,967	2,803	2,663	778	1,128	735	500	643
Current liabilities	**2,410**	2,447	2,361	2,494	2,320	1,921	1,758	1,665	1,737	1,223
Short-term debt	**3,389**	4,714	4,328	5,297	4,983	2,699	2,886	2,400	2,237	1,866
Total equity and liabilities	**12,789**	12,925	12,707	12,643	12,528	9,852	9,429	8,640	8,430	7,124
Invested capital										
Of consolidated companies	**8,693**	9,395	9,257	8,573	9,206	7,035	6,706	6,133	5,867	4,619
In nonconsolidated companies	**491**	575	673	644	466	579	561	525	496	437
Total	**9,184**	9,970	9,930	9,217	9,672	7,614	7,267	6,658	6,363	5,056
Property, plant and equipment										
Capital expenditures	**689**	822	725	797	819	641	836	750	741	531
Depreciation	**622**	635	631	740	661	587	537	488	516	402
Ratios										
Net sales/invested capital	**1.55**	1.51	1.57	1.50	1.54	1.59	1.59	1.63	1.69	1.70
Gearing	**1.46**	1.34	1.50	2.03	2.09	0.32	0.46	0.52	0.52	0.30
Equity/noncurrent assets	**0.31**	0.43	0.41	0.34	0.33	0.79	0.70	0.67	0.65	0.80
Inventories and receivables/current liabilities	**2.08**	2.25	2.29	2.03	2.20	2.14	2.13	2.14	1.96	2.25

[1] *Restated for change in accounting principles. Reference is made to Changes in Accounting Principles on page 70.*

Business Segment Statistics[1]

Millions of euros	**2002**	2001	2000	1999	1998	1997	1996	1995	1994	1993
Pharma										
Net sales	**4,008**	4,044	3,839	2,865	2,323	2,094	1,793	1,713	1,665	1,552
Operating income[2]	**768**	831	765	577	461	409	348	336	293	260
Invested capital[3]	**2,475**	2,558	2,367	2,081	1,399	1,243	1,083	894	818	808
Operating income[2]										
– as percentage of net sales	**19.2**	20.5	19.9	20.1	19.8	19.5	19.4	19.6	17.6	16.8
– as percentage of invested capital	**30.5**	33.7	34.4	35.4	34.9	35.2	35.2	39.3	36.0	33.7
EBITDA	**948**	995	932	717	566	499	428	404	357	315
Capital expenditures	**297**	317	214	199	173	107	107	124	108	103
Average number of employees	**21,700**	21,000	21,200	18,300	16,200	15,500	15,100	14,300	14,100	14,000
Coatings										
Net sales	**5,521**	5,591	5,568	5,266	4,570	3,618	3,218	2,960	2,989	1,697
Operating income[2]	**465**	426	447	425	369	319	252	203	221	75
Invested capital[3]	**2,264**	2,395	2,323	2,196	2,167	1,436	1,324	1,254	1,191	778
Operating income[2]										
– as percentage of net sales	**8.4**	7.6	8.0	8.0	8.1	8.8	7.8	6.9	7.4	4.4
– as percentage of invested capital	**20.0**	18.1	19.8	19.5	20.5	23.1	19.6	16.6	17.9	9.6
EBITDA	**623**	588	598	573	492	419	343	286	308	124
Capital expenditures	**131**	181	170	155	181	120	106	101	95	67
Average number of employees	**29,200**	30,100	30,100	30,400	27,500	21,900	20,800	20,600	21,000	13,300
Chemicals										
Net sales	**4,598**	4,604	4,740	4,154	3,670	3,706	3,726	3,559	3,804	2,845
Operating income[2]	**344**	340	445	368	318	334	261	278	330	161
Invested capital[3]	**2,850**	3,132	3,064	2,803	2,669	2,749	2,678	2,413	2,429	1,649
Operating income[2]										
– as percentage of net sales	**7.5**	7.4	9.4	8.9	8.7	9.0	7.0	7.8	8.7	5.7
– as percentage of invested capital	**11.5**	11.0	15.2	13.5	11.7	12.3	10.3	11.5	13.6	9.8
EBITDA	**672**	676	778	665	590	592	498	489	565	332
Capital expenditures	**248**	310	329	311	291	273	432	356	344	203
Average number of employees	**14,900**	15,400	15,600	15,000	14,400	14,700	15,900	16,200	16,900	13,800
Acordis/Fibers										
Net sales				2,242	1,947	1,606	1,540	1,626	1,645	1,470
Operating income[2]				(110)	20	(2)	(2)	45	12	(41)
Invested capital[3]					1,682	1,144	1,155	1,156	960	1,204
Operating income[2]										
– as percentage of net sales				(4.9)	1.0	(0.1)	(0.1)	2.8	0.7	(2.8)
– as percentage of invested capital				(6.4)	1.4	(0.2)	(0.2)	4.3	1.1	(3.7)
EBITDA				48	152	108	98	146	118	71
Capital expenditures				107	135	83	144	140	146	141
Average number of employees				17,400	16,100	13,700	14,500	15,200	16,700	18,500

1) *Restated for change in accounting principles. Reference is made to Changes in Accounting Principles on page 70.*
2) *Before nonrecurring items.*
3) *At December 31.*

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

Regional Statistics[1)]

Millions of euros	2002	2001	2000	1999	1998
The Netherlands					
Net sales by destination	**816**	720	787	862	797
Net sales by origin	**2,662**	2,533	2,214	2,583	2,556
Operating income[2)]	**191**	219	360	264	220
Capital expenditures	**197**	235	156	214	196
Invested capital[3)]	**2,062**	1,821	2,231	2,114	2,180
Number of employees[3)]	**13,000**	12,700	12,800	12,900	18,100
Germany					
Net sales by destination	**1,084**	1,052	1,064	1,436	1,339
Net sales by origin	**1,051**	1,070	1,134	1,944	1,627
Operating income[2)]	**78**	82	83	24	75
Capital expenditures	**36**	52	51	68	74
Invested capital[3)]	**642**	687	570	151	859
Number of employees[3)]	**4,700**	4,200	4,700	5,100	12,000
Sweden					
Net sales by destination	**517**	512	538	524	518
Net sales by origin	**1,184**	1,088	1,268	1,003	984
Operating income[2)]	**89**	67	79	63	94
Capital expenditures	**36**	71	74	70	80
Invested capital[3)]	**585**	716	734	863	783
Number of employees[3)]	**4,500**	4,500	4,700	4,700	4,900
United Kingdom					
Net sales by destination	**963**	1,036	1,052	1,164	1,000
Net sales by origin	**911**	924	966	1,406	955
Operating income[2)]	**13**	38	55	7	66
Capital expenditures	**25**	36	56	69	89
Invested capital[3)]	**947**	1,232	1,194	1,255	1,579
Number of employees[3)]	**4,900**	5,200	5,600	5,700	9,600
Other European countries					
Net sales by destination	**3,951**	3,964	3,879	4,327	3,915
Net sales by origin	**3,016**	3,266	3,025	2,814	2,607
Operating income[2)]	**654**	712	558	498	405
Capital expenditures	**136**	104	96	121	147
Invested capital[3)]	**1,220**	1,178	1,316	1,649	1,273
Number of employees[3)]	**14,400**	14,800	15,300	15,400	16,000

Millions of euros	2002	2001	2000	1999	1998
USA and Canada					
Net sales by destination	**3,723**	3,802	3,596	3,382	2,850
Net sales by origin	**3,318**	3,263	3,198	3,162	2,620
Operating income[2)]	**149**	190	237	248	203
Capital expenditures	**177**	220	193	144	149
Invested capital[3)]	**2,158**	2,542	2,034	1,516	1,671
Number of employees[3)]	**10,600**	10,300	10,600	10,100	12,600
Latin America					
Net sales by destination	**767**	917	944	841	790
Net sales by origin	**506**	660	704	566	565
Operating income[2)]	**99**	104	91	53	43
Capital expenditures	**31**	33	35	36	31
Invested capital[3)]	**266**	429	419	415	451
Number of employees[3)]	**4,700**	4,500	4,700	4,500	5,100
Asia					
Net sales by destination	**1,513**	1,429	1,466	1,223	756
Net sales by origin	**1,064**	1,039	1,132	687	398
Operating income[2)]	**161**	113	122	54	20
Capital expenditures	**41**	54	35	35	38
Invested capital[3)]	**598**	560	553	448	296
Number of employees[3)]	**8,800**	7,900	7,600	7,700	6,000
Other regions					
Net sales by destination	**668**	678	677	673	517
Net sales by origin	**290**	267	362	267	170
Operating income[2)]	**58**	46	56	27	21
Capital expenditures	**10**	17	29	40	15
Invested capital[3)]	**215**	230	206	162	114
Number of employees[3)]	**2,300**	2,200	2,400	1,900	1,600

1) *Restated for change in accounting principles. Reference is made to Changes in Accounting Principles on page 70.*
2) *Before nonrecurring items.*
3) *At December 31.*

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FINANCIAL CALENDAR

- Report for the 1st quarter 2003
  April 16, 2003
- Annual Meeting of Shareholders
  April 17, 2003
- Quotation ex 2002 final dividend
  April 23, 2003
- Payment of 2002 final dividend
  May 5, 2003
- Report for the 2nd quarter 2003
  July 18, 2003
- Report for the 3rd quarter 2003
  October 17, 2003
- Quotation ex 2003 interim dividend
  October 20, 2003
- Payment of 2003 interim dividend
  November 3, 2003
- Report for the year 2003
  February 3, 2004 (target)
- Annual Meeting of Shareholders
  April 22, 2004

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