PROSPECTUS Dated June 13, 2003

# AKZO NOBEL N.V.

(Incorporated in the Netherlands as a public company with limited liability having its corporate seat in Arnhem)

## EUR 750,000,000

## 4.25 per cent. Bonds 2003 due 2011

### Issue price: 99.220 per cent. for EUR 650,000,000 in aggregate principal amount and 99.535 per cent. for EUR 100,000,000 in aggregate principal amount

The effective yield to maturity of the EUR 750,000,000 4.25 per cent. Bonds 2003 due 2011 (the 'Bonds') is 4.3675 per cent. per annum at the issue price of 99.220 per cent. and 4.32 per cent. per annum at the issue price of 99.535 per cent.

Interest on the Bonds will accrue at the rate of 4.25 per cent. per annum beginning and including, June 13, 2003 to, but excluding, June 14, 2011 and be payable annually in arrears commencing on June 14, 2004 without withholding or deduction for or on account of Netherlands withholding taxes, unless the withholding or deduction of such Netherlands withholding taxes is required by law. See 'Terms and Conditions of the Bonds – Taxation'.

Unless previously redeemed or purchased and subsequently cancelled, each Bond will be redeemed at its principal amount on June 14, 2011. The Bonds are subject to redemption in whole, but not in part, at their principal amount together with accrued interest, if any, at the option of the Issuer at any time in the event of certain changes affecting taxes of the Netherlands or in the event that full payment of any amounts due under the Bonds by the Issuer is prevented by applicable law. See 'Terms and Conditions of the Bonds – Redemption and Purchase'.

Application has been made to list the Bonds on the Official Segment of the stock market of Euronext Amsterdam N.V. ("Euronext Amsterdam") and on the Luxembourg Stock Exchange.

The Bonds are expected to be assigned, on issue, a rating of A3 by Moody's Investors Service Limited ("Moody's"), and A- by Standard & Poor's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.

The Bonds will initially be represented by a temporary global bond (the "Temporary Global Bond") in bearer form, without interest coupons, which is expected to be deposited with Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") on or about June 13, 2003 (the 'Closing Date'). Interests in the Temporary Global Bond will be exchangeable for a permanent Global Bond (the "Permanent Global Bond"), without interest coupons not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond is exchangeable for definitive bonds ("Definitive Bonds") if (a) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or has announced an intention permanently to cease business or has in fact done so and no alternative clearing system is available; or (b) the Issuer has or will become obliged to pay additional amounts as provided for in Condition 7 which would not be required were the Bonds represented by a global bond in definitive form.

**Lead Managers**

**Citigroup** | **Deutsche Bank**

**Co-Lead Managers**

| | | |
|---|---|---|
| **ABN AMRO** | **Banca IMI** | **Barclays Capital** |
| **BNP PARIBAS** | **CSFB** | **Danske Bank** |
| **Dresdner Kleinwort Wasserstein** | **HSBC** | **ING** |
| **KBC International Group** | **Mizuho International plc** | **Rabobank International** |
| **SEB** | **SocGen** | **UBS Investment Bank** |

*Akzo Nobel N.V. (the 'lssuer' or the 'Company'), having made all reasonable enquiries, confirms that, to the best of its knowledge and belief as of the date hereof, (i) this Prospectus (hereafter referred to as 'this Prospectus') contains all information with regard to the Issuer and the Bonds which is material in the context of the issue of the Bonds, (ii) such information is in all material respects true, accurate and not misleading, (iii) the opinions and intentions expressed herein are honestly held, and (iv) there are no other facts the omission of which makes this Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading. The Issuer accepts responsibility accordingly.*

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

*The consolidated statement of income, consolidated balance sheet and consolidated statement of cash flows contained in this Prospectus have been derived from the consolidated financial statements of the Issuer which have been prepared in conformity with accounting principles generally accepted in the Netherlands ('Dutch G.A.A.P.').*

*In connection with the issue and offering of the Bonds, no person has been authorised to give any information or to make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers (as defined under 'Subscription and Sale'). Neither the delivery of this Prospectus, nor any sale made in connection herewith shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to its date.*

*The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.*

*This Prospectus does not constitute, and may not be used for purposes of an offer, invitation or solicitation by anyone in any jurisdiction or in any circumstances in which such offer, invitation or solicitation is not authorised or to any person to whom it is unlawful to make such offer, invitation or solicitation.*

*In connection with the issue of the Bonds, Deutsche Bank may (for its own account and not as an agent of the Issuer or any of the Managers) over-allot or effect transactions in the open market or otherwise in connection with the distribution of the Bonds with a view to stabilising or maintaining the price of the Bonds at levels other than those which might prevail in the open market. Such stabilising, if commenced, may be discontinued at any time and will be conducted in accordance with all applicable laws and regulations. Stabilisation transactions conducted on Euronext Amsterdam will be conducted by Deutsche Bank AG, Amsterdam Branch, a member of Euronext Amsterdam, in accordance with all applicable regulations including those of Euronext Amsterdam and Article 32 of the Further Regulations on Market Conduct Supervision of the Securities Trade 2002 (Nadere Regeling gedragstoezicht effectenverkeer 2002) and will, in any event, be discontinued within 30 days of the issue date of the Notes.*

*The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the 'Securities Act') and are Bonds in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on offers and sales of Bonds and on distribution of this Prospectus including restrictions under the laws of the United Kingdom, see 'Subscription and Sale'.*

*This Prospectus will be submitted to Euronext Amsterdam for the purposes of the listing and issuing rules of Euronext Amsterdam.*

*In this Prospectus all references to "U.S. dollars", "U.S.$", "USD" and "$" refer to the legal tender of the United States of America and those to "EUR" are to euro.*

*Incorporation by Reference*

*The audited annual reports of the Issuer for the financial years ended December 31, 2001 and 2002 are hereby incorporated by reference. Copies of these annual reports of the Issuer are available, free of charge, at the specified offices of the Fiscal Agent and the Paying Agents specified in the Terms and Conditions of the Bonds. The Articles of Association of the Issuer (last amended by deed of July 2, 2001) are also incorporated by reference for the purposes of the listing on Euronext Amsterdam. Copies thereof will also be available upon request, free of charge, at the specified offices of the Fiscal Agent and the Paying Agents as long as the Bonds are outstanding.*

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## TERMS AND CONDITIONS OF THE BONDS

*The following is the text of the Terms and Conditions of the Bonds to which (subject to amendment) the Bonds will be subject and which will be incorporated by reference into each Global Bond and which will be endorsed on each Definitive Bond in the standard euromarket form.*

The issue of the EUR 750,000,000 4.25 per cent. Bonds 2003 due 2011 (the "Bonds") was authorised by the Supervisory Board of Akzo Nobel N.V. (the "Issuer") on April 17, 2003 and by a resolution of the Board of Management of the Issuer passed on March 17, 2003. The Bonds will be issued pursuant to a fiscal agency agreement to be dated June 12, 2003 (the "Fiscal Agency Agreement") between the Issuer, Deutsche Bank AG London as the fiscal and principal paying agent (the "Fiscal Agent") and Deutsche Bank Luxembourg S.A., Deutsche Bank AG, Amsterdam Branch, as the paying agents (the "Paying Agents"). Copies of the Fiscal Agency Agreement (including the form of the Bonds and the Coupons (as defined below)) will be available for inspection at the specified office of the Fiscal Agent and each of the Paying Agents during regular business hours. The holders of the Bonds (the "Bondholders") and of the interest coupons (the "Couponholders") appertaining to the Bonds (the "Coupons") will be bound by, and will be deemed to have taken notice of, all the provisions of the Fiscal Agency Agreement. References to "Conditions" herein shall, unless the context otherwise requires, be to the numbered paragraphs below. Words and expressions defined in the Fiscal Agency Agreement shall have the same meanings where used in these Terms and Conditions unless the context otherwise requires or unless otherwise stated.

### 1. Form, Denomination and Title

The Bonds are issued in bearer form serially numbered with Coupons attached in the denominations of EUR 1,000, EUR 10,000 and EUR 100,000.

The holder of each Bond or Coupon in his capacity as such is subject to and bound by all the provisions contained in these Conditions. Under Netherlands law, the valid transfer of title to a bond or coupon requires – *inter alia* – delivery (*levering*) thereof. Except as ordered by a court of competent jurisdiction or as required by law or applicable regulations, the holder of any Bond and the holder of any Coupon may be treated as the absolute owner thereof (notwithstanding any notice to the contrary or writing thereon or notice of any previous loss or theft thereof and whether or not such Bond or such Coupon shall be overdue) for the purpose of receiving payment and for all other purposes.

The Bonds shall initially be represented by a temporary global bond (the "Temporary Global Bond"), without interest coupons which will be exchangeable for a permanent global bond (the "Permanent Global Bond"), without interest coupons attached, not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. The Permanent Global Bond is exchangeable for definitive bonds ("Definitive Bonds") in the limited circumstances as described in the Permanent Global Bond. Definitive Bonds will be issued with coupons attached, but will not be issued with receipts attached.

### 2. Status

The Bonds and the Coupons constitute unconditional, unsubordinated and (subject to "Negative Pledge" below) unsecured obligations of the Issuer and will rank *pari passu*, without any preference among themselves, with all other present or future unconditional, unsecured and unsubordinated obligations (other than obligations preferred by mandatory provisions of law) of the Issuer.

### 3. Negative Pledge

So long as any of the Bonds or Coupons remains outstanding, the Issuer will not secure any Public Debt (as hereinafter defined), then or thereafter existing, by any lien, pledge or other charge upon any of its present or future assets or revenues, unless the Bonds shall share in and be equally and rateably secured by such lien, pledge or other charge, and the instrument creating such lien, pledge or other charge shall expressly so provide, except that the foregoing shall not apply to any of the following:

(i) any security arising solely by mandatory operations of law; and

(ii) any security over or affecting any asset either (a) acquired by the Issuer after the date hereof and subject to which such asset is acquired or (b) comprised within the assets of any company merged with the Issuer after the date hereof where such security is created prior to the date of such merger; and

(iii) any security over assets arising pursuant to the "Algemene Voorwaarden" (General Terms and Conditions of the Dutch Bankers' Association), if and in so far as applicable.

For the purpose of the foregoing paragraph, 'Public Debt' means any loan, debt, guarantee or other obligation of the Issuer represented by or securing bonds, notes, debentures or any other publicly-issued debt securities which are, or are capable under the relevant regulatory provisions in force as at the date hereof of, being traded or listed on any stock exchange, over the counter or other recognised securities market and which by their terms have an initial stated maturity of more than twelve months.

## 4. Interest

The Bonds bear interest at the rate of 4.25 per cent. per annum beginning and including June 13, 2003 (the "Date of Issue") payable annually in arrears on June 14 of each year, the first Coupon falling due on June 14, 2004 (long first coupon). The Bonds will cease to bear interest from and including the due date for redemption or repayment unless, upon due presentation thereof, payment of principal is improperly withheld or refused or default is otherwise made in respect of payment thereof. In such event, interest will continue to accrue (after as well as before any judgement) up to but excluding the date on which, upon further presentation thereof, payment in full of the principal thereof is made or (if earlier) the seventh day after notice is duly given to the relevant Bondholder (either in accordance with Condition 11 or individually) that upon further presentation thereof such payment will be made, provided that upon presentation thereof such payment is in fact made. When interest is required to be calculated for a period of less than one year, it shall be calculated on the actual/actual (bond) basis set out by the International Securities Market Association ("**ISMA**") in rule 251, as amended by ISMA Circular no. 14 of 1997.

## 5. Payments

Payments of principal and interest will be made against surrender of the Bonds or the relevant Coupons, (a) in euro at the specified office of the Fiscal Agent or (b) at the option of the holder, at the specified office of the Fiscal Agent or any Paying Agent by a euro cheque drawn on a euro account, or by transfer to, a euro account maintained by the payee with a bank within the European Community, as Bondholders and Couponholders, as the case may be, may specify.

The names of the initial Paying Agents and their specified offices are set out below.

Additional or substitute Paying Agents may be appointed and the appointment of any Paying Agent or Fiscal Agent may be terminated in accordance with the Fiscal Agent in accordance with the provisions under Condition 11 below and that, as long as the Bonds are listed on the Official Segment of the stock market of Euronext Amsterdam N.V., the Issuer shall maintain a Paying Agent in Amsterdam and so long as the Bonds are Listed on the Luxembourg Stock Exchange, the Issuer shall maintain a Paying Agent with a specified office in Luxembourg. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days prior notice thereof shall have been given to the Bondholders in accordance with condition 11.

Each Bond presented for redemption is to be accompanied by all unmatured Coupons appertaining thereto, failing which the amount payable in respect of any missing unmatured Coupon shall be deducted from the sum due for payment and the amount so deducted will be paid upon surrender of the relevant missing Coupon(s) at any time in accordance with 'Prescription' below.

The Issuer unconditionally undertakes to pay interest on, and to redeem the principal of, the Bonds at the respective due dates without discrimination as to nationality or domicile of the Bondholders or Couponholders and without requiring the presentation of an affidavit of any kind or the fulfilment of any other formality, except as may be required by applicable laws or regulations in the country in which such payments is made.

If the due date for payment of any amount of any Bond is not a day on which banks and foreign exchange markets are open for business and carrying out transactions in Amsterdam (a 'Business Day') in the place where the relevant Bond or Coupon, as the case may be, is presented for payment and on which the Trans European Automated Real Time Gross Settlement Express Transfer System, (the "TARGET System") is operating, Bondholders and Couponholders, as the case may be, thereof shall not be entitled to payment in such place of the amount due until the next following Business Day or to further interest or other payment in respect of such delay. Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto.

## 6. Redemption and Purchase

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed by the Issuer at par on June 14, 2011.

If on the occasion of the next payment due in respect of the Bonds the Issuer would be required as a result of any change in the laws or regulations of The Netherlands or any authority or political subdivision therein or thereof having power of tax, or in or to the applications of such laws or regulations, to pay any additional amounts as provided or referred to in Condition 7, the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all the Bonds, but not some only, at their principal together with interest accrued to the date of such redemption.

The Issuer or any subsidiary of the Issuer may at any time purchase Bonds (provided that all unmatured Coupons appertaining thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. All Bonds which are redeemed or purchased by or on behalf of the Issuer or any subsidiary of the Issuer will forthwith be cancelled (together with all unmatured Coupons) and accordingly may not be reissued or resold.

## 7. Taxation

All payments of principal and interest by the Issuer will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of The Netherlands or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the holders of the Bonds and Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would have been received in respect of the Bonds, or, as the case may be, Coupons, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any payment in respect of any Bond or Coupon:

(i) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of his having some connection with The Netherlands other than the mere holding of the Bonds or Coupon; or

(ii) to, or to a third party on behalf of, a holder who would not be liable or subject to such withholding or deduction by making a declaration of non-residence or other similar claim for exemption or reduction as foreseen in Dutch national law or in the relevant treaties for the avoidance of double taxation to the relevant tax authorities; or

(iii) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to additional amounts on presenting the same for payment on the expiry of such period of 30 days; or

(iv) where such withholding or reduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusion of the ECOFIN Council Meeting on November 26-27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(v) to, or to a third party on behalf of, a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a member state of the EU.

As used herein the 'Relevant Date' means that date on which such payment first becomes due, except that, if the full amount of the money payable has not been received by the Fiscal Agent on or prior to such date, it means the date on which the full amount of such money having been so received, notice to that effect shall have been duly published in accordance with Condition 11. Any reference in these Terms and Conditions to the principal or interest shall be deemed also to refer to any additional amounts which may be payable under this provision.

## 8. Prescription

Claims against the Issuer for payment in respect of the Bonds and Coupons shall prescribe and become void unless made within five years of the date on which such payment first becomes due.

## 9. Events of Default

If any of the following events ('Events of Default') shall occur and shall be continuing, the holder of any Bond may, by written notice to the Fiscal Agent effective upon receipt thereof by the Fiscal Agent, declare the principal of, and all interest accrued on, such Bond to the date of payment to be forthwith due and payable, whereupon the same shall become immediately due and payable without further demand, protest or other notice of any kind, all of which the Issuer hereby expressly waives, anything contained in these Terms and Conditions to the contrary notwithstanding, unless prior to receipt by the Fiscal Agent of such notice, all Events of Default in respect of all the Bonds shall have been cured:

(i) If the Issuer defaults in any payment of principal of, or interest on, any Bond when and as the same shall become due and payable and such default shall not have been cured within 14 days after receipt by the Fiscal Agent of written notice of default given by the holder of a Bond;

(ii) If the Issuer defaults in the due performance of any other provision of the Bonds and such default is not cured within 30 days after receipt by the Fiscal Agent of written notice of default given by the holder of such Bond;

(iii) If the Issuer is dissolved or wound up prior to the redemption of all outstanding Bonds;

(iv) If the Issuer enters into a composition with its creditors, files a petition for a suspension of payments, admits in writing that it cannot pay its debts generally as they become due, initiates a proceeding in bankruptcy, or is adjudicated bankrupt;

(v) If the Issuer and/or one or more of its Major Subsidiaries (as defined below) defaults in the payment of the principal of, or interest on, any other obligation in respect of Borrowed Moneys (as defined below), of, assumed or guaranteed by, the Issuer and/or one or more of its Major Subsidiaries, as the case may be, when and as the same shall become due and payable, if such default shall continue for more than the period of grace, if any, applicable thereto and the time for payment of such interest, or principal, has not been effectively extended, or if any obligation in respect of Borrowed Moneys of, or assumed by, the Issuer and/or one or more of its Major Subsidiaries shall have become repayable before the due date thereof as a result of acceleration of maturity by reason of the occurrence of an event of default thereunder.

For the purpose of this sub paragraph (v), 'Major Subsidiaries' shall mean any company or entity of which the Issuer directly or indirectly has control and of which the total sales exceed 10 per cent. of the Issuer's consolidated sales.

For the purpose of this sub paragraph (v), 'Borrowed Moneys' shall mean any indebtedness for borrowed money having an original maturity of 12 months or more, the aggregate principal amount of which is greater than USD 25,000,000 or the equivalent thereof in any other currency or currencies;

(vi) If the Issuer merges or otherwise amalgamates with any other incorporated or unincorporated legal entity unless the legal entity surviving such merger or amalgamation expressly assumes all obligations of the Issuer with respect to the Bonds and has obtained all necessary authorisations therefor.

## 10. Replacement of Bonds and Coupons

In case of theft, loss or other involuntary dispossession or mutilation of any Bond or Coupon, application for replacement thereof is to be made at the specified office of the Fiscal Agent. Any such Bond or Coupon shall be replaced by the Issuer in compliance with such procedures and on such terms as to evidence and indemnity as the Fiscal Agent and the Issuer may require. All such costs as may be incurred in connection with the replacement of any such Bond or Coupon may be charged to the applicant. Mutilated Bonds or Coupons must be surrendered before replacements will be issued. Upon such issue the replaced Bonds or Coupons will become void. In case of theft, loss or other involuntary dispossession or mutilation of any Bond or Coupon, application for replacement thereof is to be made at the specified office of the Fiscal Agent and the Luxembourg Paying Agent.

## 11. Notices

Any notice regarding the Bonds shall be validly given if published in at least one daily newspaper of wide circulation in The Netherlands and, so long as the Bonds are listed on Euronext Amsterdam, in the Euronext Amsterdam Official Daily List (*Officiële Prijscourant*), in the case of Bonds admitted on the Luxembourg Stock Exchange (and as long as the rules of the Luxembourg Stock Exchange requires), all notices regarding a Bond listed on the Luxembourg Stock Exchange will be published in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxembourger Wort*). Any such notice shall be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

## 12. Governing Law and Jurisdiction

All matters relating to the Bonds and the Coupons appertaining thereto shall be governed by and construed in accordance with the laws of The Netherlands. The Issuer submits to the jurisdiction of the competent courts of Amsterdam, The Netherlands judging in first instance, and its appellate courts. The Issuer hereby chooses the address for all purposes of or in connection with the Bonds and Coupons at Velperweg 76, 6824 BM Arnhem, The Netherlands.

## 13. Further Issues

The Issuer may from time to time, without the consent of the holders of the Bonds and Coupons, create and issue further bonds having the same terms and conditions as the Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single issue with the outstanding Bonds.

The Issuer may also from time to time, without the consent of the holders of the Bonds and Coupons, consolidate the Bonds with one or more issues of other bonds issued by it, provided that such other bonds have, in respect of all periods subsequent to such consolidation, the same terms and conditions as the Bonds.

The relevant Fiscal Agency Agreement(s) and/or Paying Agency Agreement(s) will be amended accordingly.

## 14. Additional Obligations

As long as the Bonds are listed on the Official Daily List of the stock market of Euronext Amsterdam N.V., the Issuer undertakes to comply with the provisions of Schedule B, Article 2.1.20 of the Listing and Issuing Rules (*Fondsenreglement*) of Euronext Amsterdam N.V. as in force at the date of issue of the Bonds.

## USE OF PROCEEDS

The net proceeds to be received by the Issuer of the issue of the Bonds, amounting to approximately EUR 742 million will be used for general corporate purposes.

## DESCRIPTION OF AKZO NOBEL N.V.

### A. HISTORY, DEVELOPMENT OF THE COMPANY AND MANAGEMENT

The Company has subsidiaries in more than 80 countries, which employed 67,000 people in 2002. 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. The Company is a holding company registered in the Netherlands. Business activities are conducted by operating subsidiaries throughout the world.

Akzo was created in 1969, out of the merger between AKU N.V. ("AKU") and Koninklijke Zout-Organon N.V., and in 1994 it was renamed Akzo Nobel, after the merger with Nobel Industries AB ("Nobel"). AKU N.V. was founded in 1911 under the name of N.V. Nederlandsche Kunstzijdefabriek. Over the years this company grew into an international concern with interests in the field of cellulose fibers and, following the Second World War, synthetic textile and carpet fibers as well as industrial fibers. At the time of the 1969 merger, AKU's principal countries of operation were the Netherlands, Germany, the United States, the United Kingdom, Spain and several Latin American countries, where activities were often carried out through joint ventures with local partners.

Koninklijke Zout-Organon N.V. was set up in 1967 as a holding company in connection with the merger between Koninklijke Zout-Ketjen N.V. and N.V. Koninklijke Zwanenberg-Organon. Koninklijke Zout-Ketjen N.V. had interests in companies active in salt refining, basic chemicals, specialty chemicals and coatings. While these companies were mainly active in the Netherlands, they had built up major export positions at the time of the merger. N.V. Koninklijke Zwanenberg-Organon consisted of companies active in food/nonfood products and chemical products and of pharmaceutical companies producing brand-name drugs, nonprescription products and raw materials for the pharmaceutical industry.

Nobel was formed in 1984 through the merger of Bofors (established in 1646) and KemaNobel, founded in 1871. At the time of the merger with Akzo in 1994, Nobel was a leading European producer of chemicals (pulp and paper chemicals and surfactants) and coatings (paints for professional and consumer markets, industrial coatings and industrial products). Nobel had operations in more than 30 countries.

In July 1998, Akzo Nobel acquired Courtaulds plc ("Courtaulds"), an international chemical company with leading positions in high-tech industrial coatings and man-made fibers. Its best known brands, International Paints, Courtelle acrylic fibers, and Tencel®, a new cellulosic fiber, were included in the acquisition. Courtaulds, which was founded in 1816 as a silk weaving company, pioneered the global man-made fiber industry at the beginning of the 20th century. In the 1960s Courtaulds acquired International Paint and Pinchin Johnson. In November 1999, the Company acquired Hoechst Roussel Vet ("HR Vet"), the veterinary business of Hoechst AG. Through this acquisition, Intervet, the veterinary business of Akzo Nobel became a significant player in the veterinary business.

After the Courtaulds acquisition, the fibers operations of Akzo Nobel and Courtaulds were combined into a separate organization, named Acordis. At December 31, 1999, Acordis was sold to a newly established company. Akzo Nobel retained a 21 percent stake in this company.

In June 2001, Covance Biotechnology Services Inc (CBSI), North Carolina was acquired for EUR 223 million. Through this acquisition, Diosynth established the critical mass to play a leading role in the strongly developing biopharmaceutical market segment.

At the end of June 2001, the diagnostic business of Organon Teknika was divested to bioMérieux for EUR 334 million. In addition, the activities of the business unit Printing Inks were divested for EUR 75 million, effective October 31, 2001.

#### Recent Developments

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

At the end of September 2002, the liquid pharmaceuticals manufacturing business Rosemont Pharmaceuticals Ltd in the United Kingdom was divested for EUR 102 million, and effective September 2002, Ferro's powder coatings businesses in the Americas and Asia Pacific were acquired for EUR 70 million.

On May 15, 2003 Akzo Nobel announced that it has decided on a EUR 500 million divestment program, mainly in Chemicals. More details are to be announced later in the year.

On May 28, 2003 Akzo Nobel announced its intention to divest its impregnated paper business for EUR 114 million. The Company expects the transaction to be concluded by the end of June 2003.

**Results for the First Quarter 2003**

The unaudited financial statements of the Company for the first quarter of the year 2003 are incorporated herein on pages 38 to 52 below.

**Outlook for 2003**

During 2003 the Company will be confronted by the negative impact from weaker currencies, higher pension charges and generic competition for the drug Remeron®. Therefore, the Company expects that net income for 2003, excluding nonrecurring items (as defined on page 15 hereof), will be significantly below the level of 2002.

**Management**

| Supervisory Board | Principal Occupation | Served in such or similar Supervisory Board capacity since |
|---|---|---|
| Aarnout A. Loudon (1936, Dutch), Chairman | Former Chairman of the Board of Management of Akzo Nobel<br>Chairman of the Supervisory Board of ABN AMRO Bank<br>Member of the Supervisory Board of Royal Dutch Petroleum Company | 1994 |
| Frits H. Fentener van Vlissingen (1933, Dutch), Deputy Chairman | Managing Director of Flint Holding, the Netherlands<br>Advisory Director of Unilever<br>Deputy Chairman of the Supervisory Board of SHV Holdings, the Netherlands<br>Chairman of the Supervisory Board of Draka, the Netherlands<br>Member of the Supervisory Board of CSM, the Netherlands | 1984 |
| The Rt. Hon. Virginia Bottomley MP (1948, British) | Former Secretary of State for Health and Member of the British Cabinet<br>Governor of the London School of Economics<br>Partner of Odgers Ray & Berndtson | 2000 |
| Uwe-Ernst Bufe (1944, German) | Former Chief Executive Officer of Degussa A.G.<br>Member of the Supervisory Board of UBS Investment Bank AG | 2003 |
| Abraham E. Cohen (1936, American) | Former Senior Vice President of Merck & Co and President of Merck Sharp & Dohme International<br>Chairman of Vascomedical, New York, and Neurobiological Technologies, California<br>Nonexecutive Director of Smith Barney (Mutual Funds), New York, and Teva Pharmaceutical Industries, Israel | 1992 |
| Cees J.A. van Lede (1942, Dutch) | Former Chairman of the Board of Management of Akzo Nobel N.V.<br>Chairman of the Supervisory Board of De Nederlandsche Bank N.V.<br>Member of the Supervisory Board of Scania AB<br>Member of the Supervisory Board of Heineken N.V.<br>Member of the Board of Sara Lee<br>Member of the Supervisory Board of Koninklijke Phillips Electronics N.V.<br>Member of the Supervisory Board of Reed Elsevier N.V.<br>Member of the Supervisory Board of KLM<br>Member of the Board of l'Air Liquide | 2003 |
| Alain Mérieux (1938, French) | Chairman of bioMérieux<br>Director of WENDEL Investissement, Eurazeo, Rue Impériale de Lyon, Compagnie Plastic Omnium SA and Lazard LLC | 2002 |

| Supervisory Board | Principal Occupation | Served in such or similar Supervisory Board capacity since |
|---|---|---|
| Lars H. Thunell (1948, Swedish) | President and CEO of SEB Skandinaviska Enskilda Banken<br>Member of the Board of Swedish Bankers Association<br>Member of the Board of b-business partners B.V., the Netherlands<br>Member of the Board of the Swedish Industry and Commerce Stock Exchange Committee<br>Chairman of the Board of IBX, Integrated Business Exchange AB | 1999 |
| Maarten C. van Veen (1935, Dutch) | Former CEO of Koninklijke Hoogovens, the Netherlands<br>Chairman of the Supervisory Board of Koninklijke Volker Wessels Stevin, the Netherlands<br>Deputy Chairman of the Supervisory Board of ABN AMRO Bank<br>Deputy Chairman of the Supervisory Board of Imtech, the Netherlands<br>Nonexecutive Director of Corus Group | 1997 |
| Karel Vuursteen (1941, Dutch) | Former CEO of Heineken, the Netherlands<br>Member of the Supervisory Boards of Gucci Group, Heineken Holding, ING Group, Koninklijke Ahold, and Randstad Holding, the Netherlands<br>Member of the Supervisory Board of Henkel, Germany<br>Member of the Supervisory Board of Electrolux, Sweden<br>Vice Chairman of Nyenrode University, the Netherlands | 2002 |

| Board of Management | Position with Company | Served in such or similar capacity since |
|---|---|---|
| G.J. (Hans) Wijers (1951, Dutch) | Chairman | 2002 |
| Fritz W. Fröhlich (1942, German) | Deputy Chairman | 1993 |
| A.T.M. (Toon) Wilderbeek (1950, Dutch) | Pharma | 2002 |
| Rudy M.J. van der Meer (1945, Dutch) | Coatings | 1993 |
| Dag Strömqvist (1942, Swedish) | Chemicals | 2000 |

## B. BUSINESS OVERVIEW

Akzo Nobel has a two-layer organization, with the Board of Management as the highest executive authority. Operations are carried out in business units clustered in three groups on the basis of affinity between activities: Pharma, Coatings and Chemicals.

At the corporate level, key tasks are coordinated in the fields of strategy; finance and control; human resources; technology; legal affairs and intellectual property; communications; health, safety, and environment; information management; and risk and insurance management.

The business units and their main products (as at December 31, 2002) are summarized below:

### *PHARMA*

**Organon**

- Brand-name prescription pharmaceuticals in the fields of contraceptives and infertility treatment, hormone replacement therapy (HRT) and osteoporosis, antidepressants and antipsychotics, antithrombotics and muscle relaxants.

**Intervet**

- Veterinary products: vaccines, antiparasitics, and antiinfectives, specialty products for pets and livestock, and feed additives for livestock, endocrinological fertility products, corticosteroids, antibiotics and anti-mastitis products.

**Diosynth**

- Complex active pharmaceutical ingredients based on chemicals and biochemical processes and generic medicines.

### *COATINGS*

**Decorative Coatings**

- Coatings for decoration and protection of architectural structures for professional uses and the do-it-yourself sector.

**Industrial Coatings**

- Liquid coatings for industrial application; aerospace coatings.

As per 1 January 2003, the business unit Industrial Coatings has been dissolved. Aerospace activities have been transferred to Marine & Protective Coatings. Transportation Coatings were transferred to Car Refinishes.

**Industrial Finishes**

- Coatings for industrial applications on wood and sheet metal (coil coatings).

**Powder Coatings**

- Powder coatings for industrial application in architectural automotive, domestic appliance and other industrial markets such as coatings for pipes.

**Marine & Protective Coatings**

- Antifouling and other high-performance coatings for the shipbuilding, ship repair and yacht markets; protective coatings and fire-retardant products for heavy-duty applications, such as on oilrigs.

**Car Refinishes**

- Products and services for the automotive aftersales market and for commercial vehicles.

**Industrial Products**

- Industrial adhesives, resin-impregnated paper, and expandable microspheres.

### *CHEMICALS*

**Pulp and Paper Chemicals**

- Pulp bleaching chemicals, notably sodium chlorate and hydrogen peroxide; wet-end paper chemicals, such as sizing and retention agents and wet strength resins.

**Functional Chemicals**

- Monochloroacetic acid and derivatives, such as carboxymethyl cellulose; methyl amines, choline chloride; ethylene amines; chelates; organophosphorus-based derivatives, notably flame-retardants for plastics and hydraulic fluids; carbon disulfide and thiocyanates; acid chlorides and lubricant chemicals.

**Surface Chemistry**

- Cationic, nonionic, and anionic surfactants for detergents, biocides, wood preservation, personal care, and industrial cleaners; cellulosic surfactants for paint and concrete; asphalt additives, viscose agents, animal feed additives and fatty acids.

**Polymer Chemicals**

- Initiators such as organic peroxides, metal alkyls, and Ziegler-Natta catalysts for the production of polymers, optical monomers and polymer additives.

**Resins**

- Synthetic resins for coatings and printing inks.

**Catalysts**

- Refinery catalysts, technology and related services; catalysts for the petrochemical industry and custom-made catalysts.

**Base Chemicals**

- Electrolysis products: notably chlorine, hydrochloric acid, methylen chloride, chloroform. Other products: sulphur products and dimethylether.

**Salt**

- High quality salts for food processing, consumer, agriculture, water softening, pharmaceuticals, electrolysis, de-icing and other industries.

**Energy**

- Supply of energy (cogeneration) and other utilities.

## C. ACTIVITIES OF AKZO NOBEL

### Industry segment information

Akzo Nobel's financial reporting and industry segment information consists of results from the following groups: "Pharma", "Coatings" and "Chemicals". The information presented below illustrates the relative importance of the individual groups.

| | Net sales | | | Operating income before nonrecurring items | | | Operating income, after nonrecurring items | | |
|---|---|---|---|---|---|---|---|---|---|
| **In millions of euros** | **2002** | **2001** | **2000** | **2002** | **2001** | **2000** | **2002** | **2001** | **2000** |
| Pharma | 4,008 | 4,044 | 3,839 | 768 | 831 | 765 | 747 | 790 | 767 |
| Coatings | 5,521 | 5,591 | 5,568 | 465 | 426 | 447 | 446 | 226 | 434 |
| Chemicals | 4,598 | 4,604 | 4,740 | 344 | 340 | 445 | 248 | 122 | 368 |
| Miscellaneous products, intragroup deliveries, non-allocated items and eliminations | (125) | (129) | (144) | (85) | (26) | (16) | (79) | (16) | (12) |
| Total | 14,002 | 14,110 | 14,003 | 1,492 | 1,571 | 1,641 | 1,362 | 1,122 | 1,557 |

"Nonrecurring items" in the above table relate to income and expenses resulting from normal business operations, which, because of their size or nature, are disclosed separately to give a better understanding of the underlying result for the period. These include items such as restructuring and impairment charges, and significant gains and losses on the disposal of businesses, not meeting the requirements for extraordinary items.

## PHARMA

### Description of Pharma's business

Akzo Nobel's healthcare activities extend around the world. It engages in research, development, manufacturing, sales, and service in strategic areas of human and animal healthcare. These include prescription medicines, veterinary products, as well as complex active pharmaceutical ingredients.

| *Major Products Lines* | *Key Products/Applications* | *Competitive Position* |
|---|---|---|
| Prescription drugs, veterinary products, and complex active pharmaceutical ingredients. | • Contraceptives, infertility treatment, hormone replacement therapy (HRT), CNS products (antidepressants, antipsychotics), antithrombotics, and muscle relaxants | • Among top four suppliers of hormonal contraceptives, second largest in infertility products; among top five players in HRT; building up positions in CNS and osteoporosis. World leader in neuromuscular relaxation; entering the antithrombosis segment. |
| | • Veterinary vaccines, and pharmaceuticals | • The third largest world supplier of veterinary products; leading in veterinary vaccines. |
| | • Complex active pharmaceutical ingredients | • Leading supplier of steroids and industrial peptides, strong in heparins; oligosaccharides; and biopharmaceuticals. |

In relation to Akzo Nobel's competitive position please see the cautionary statement on page 2 hereof.

Akzo Nobel's business unit Organon has an international reputation based on quality products and innovative R&D. It is among a very few international companies conducting research into contraception. Sold as Desogen® in the United States, Marvelon® is one of the world's most prescribed contraceptive pills. However, sales of oral contraceptives have been adversely affected by generic competition in the United States. NuvaRing®, the Company's contraceptive vaginal ring, was launched in the United States and Europe in 2002. The Company also produces fertility products and medicines for the treatment of menopausal complaints and, as innovator in the field of psychiatric drugs, is marketing a new-generation antidepressant (Remeron®). However, in December 2002 an unfavorable court ruling in the Remeron® case paved the way for Company's competitors to produce and distribute in the United States generic versions of this important Organon product.

Together with Sanofi-Synthélabo, the Company developed the new antithrombotic (pentasaccharide) Arixtra®, which has been approved and launched in the U.S. and Europe. Arixtra® is currently approved for the prevention of thrombosis following hip and joint surgery. The process of hospital formulary approval for the introduction of Arixtra in the United States is time consuming. In March 2003, the FDA granted a six-month priority review for a supplemental new drug application for Arixtra® for Prophylaxis of deep venous thrombosis, which may lead to pulmonary embolism, in patients undergoing hip fracture surgery, including extended prophylaxis.

In the United States, additional data requests by the FDA regarding Variza™ (Gepirone ER) has delayed its registration.

Intervet focuses on the veterinary medicine market, with vaccines for cattle, pigs, sheep, horses, poultry, fish and pets, endocrine fertility products, corticosteroids and antibiotics, including injectors for treating mastitis and metritis. The acquisition of Hoechst Roussel Vet, in November 1999, complemented the product range with specialty medical products for both pets and livestock, and feed additives for livestock. Intervet has an international reputation and works closely with leading research institutes, universities, and other companies. In 2003, a new vaccine production facility near Kansas City is expected to be opened.

Diosynth is a leading manufacturer of complex active pharmaceutical ingredients, with production facilities in several countries. The company is active in biochemical extraction and purification, fermentation, industrial cell culture, and organic synthesis. Diosynth's main products are heparin, insulin, gonadotropic hormones, steroids, synthetic peptides, carbohydrates, and opiate analogs. Through the acquisition of CBSI, the Company believes that Diosynth now has sufficient size and products to play a leading role in the developing biopharmaceutical market segment.

In 2002, the Company also decided to enter the human vaccine business because it is a growth market and because the Company can benefit from its 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, however, are not anticipated until after 2007. In the interim, it is expected the facility will be able to produce certain vaccines for third parties.

The current research and development pipeline of Akzo Nobel Pharma is stated below. The content of the drug development portfolio will change over time as new compounds progress from research to development and from development to market. Owing to the nature of the drug development process, it is not unusual for some compounds, especially those in the early stages of investigation, to be terminated as they progress through development. The following is the current pipeline.

| | **Products in the pipeline** | **(Phase II and later)** | |
|---|---|---|---|
| **Project** | **Application** | **Phase** | |
| **Human healthcare** | | | |
| Implanon® | contraceptive implant | market | Europe |
| | | III | USA |
| Org 33628 | contraceptive | II | |
| Male contraception | contraceptive | II | |
| Puregon® Pen™ | infertility | market | Europe |
| | | filed | USA |
| FSH-CTP | infertility | II | |
| Livial™ | osteoporosis | III | |
| Andriol® Testocaps™ | male HRT | filed | Europe |
| | | II | USA |
| Variza™ (gepirone ER) | depression | filed | USA |
| | | III | 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** | Numerous new products (vaccines and pharmaceuticals) in various stages of development. | | |

| | |
|---|---|
| **Active pharmaceuticals ingredients** | Many products, in general on a contract manufacturing basis in the areas of biotechnology, synthetic peptides and steroids, in various stages of development. |

**Explanatory remarks**

| | |
|---|---|
| Phase II | Determination of close and initial evaluation of efficacy, conducted in a small number of patients. |
| Phase III | Large comparative study (compound versus placebo and/or established treatment) in patients to establish clinical benefit and safety. |
| Filed | Marketing authorization application (Europe) or new drug application (United States) filed with regulatory authorities. |
| Market | The product is approved by regulatory authorities and sold in the market. |

**Business review 2002**

Pharma's three business units each focus on a different segment of the pharmaceutical industry. Organon is a 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, Nobilon was established as a new activity 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 licenses 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 its competitors to produce and distribute in the United States generic versions of this important Organon product. In Japan, the Company's product licenses for Remeron® and Livial™ 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, Pharma was able to maintain Pharma's operating income at a level of EUR 768 million (2001: EUR 831 million). The Company remains confident of its capabilities and business plans. In 2002, the Company significantly increased R&D spending and invested in the launch of two new products, Arixtra® and NuvaRing®. 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 Akzo Nobel's partner Sanofi-Synthélabo. NuvaRing® is an intravaginal ring which releases a minimum amount of drug to prevent conception. The Company believes that 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 cost-saving measures are planned for 2003 to limit the financial impact.

Recent investments in downstream processing capacity at the Company's 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 is expected to 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. The Company believes that Intervet is now in a good position to continue its course of sustained growth in the veterinary market.

In 2002, the Company also decided to enter the human vaccine business because it is a growth market and because it can benefit from its 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.

## COATINGS

### Description of Coatings' business

Akzo Nobel is a leading producer of paints, finishes, stains, and synthetic resins for industrial applications, professional painters, and the do-it-yourself sector. Product areas are decorative/architectural paint, car refinishes, liquid and powder coatings for industrial use (on wood, plastics and metal), marine and yacht coatings, protective coatings, aerospace coatings, industrial and consumer adhesives and impregnated paper.

| *Major Products Lines* | *Key Products/Applications* | *Competitive Position* |
|---|---|---|
| *Coatings and related products* | • Coatings for decoration and protection of architectural structures | • Market leader in Europe. |
| | • Industrial coatings such as powder coatings, coatings for wood, metal, coil, and plastics, and non-stick coatings e.g. for construction and products for building components, automotive, aircraft, appliances, furniture, mirrors, cookware, and agricultural equipment | • World leader in selected markets |
| | • 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 |
| | • 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, etc. | • Leader in selected market niches |

In relation to Akzo Nobel's competitive position please see the cautionary statement on page 2 hereof.

Akzo Nobel's global strategy for its coatings business is to extend leading positions in clearly defined product areas and specialist niche markets, which demand high levels of technical expertise and customer service. Major acquisitions in the last few years, combined with organic growth, lifted Coatings to the world's number one position. Coatings aims 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 exist in emerging markets and in technology switches often driven by environmental considerations. In the fragmented worldwide coatings market, Akzo Nobel as the world leader, only represents 8 percent. This market is in a process of consolidation, and the Company believes that its global positions in many fields will enable it to play a leading role.

The Company supports the international initiative of Coatings Care® – a program for continuous improvement in Safety, Health, and the Environment – and is constantly seeking optimal ways to match the principles of eco-efficiency with those of high performance.

Within the field of decorative coatings, Akzo Nobel has a number of top-quality professional and do-it-yourself brands, which target national markets (e.g. Crown® (United Kingdom) and Flexa® (the Netherlands)), multinational markets (e.g. Nordsjö® and Trimetal®) and truly international markets (e.g. Sikkens®, Levis®, and Sadolin®). The strength of these brands reflects the Company's color know-how and customer orientation, as well as the excellent performance and high environmental profile of its waterborne and high-solids paints.

Another prominent area is industrial coatings, especially volatile organic compounds ("VOC") – compliant waterborne paints, high solids, and powder coatings, which are used to beautify and protect metal, plastic, and wooden substrates. Applications range from home appliances to wooden furniture and heavy-duty goods vehicles. The Company is the market leader in powder coatings and is strong in industrial wood finishes, coil coatings, and plastic coatings.

The Car Refinishes business includes the car repair and commercial vehicles sector. With Sikkens®, Akzo Nobel Coatings has been a world market leader for years, ensuring a fast, efficient, and top-quality result for every type of repair. Combined worldwide expertise enables it to develop new technologies and products of the highest quality continually. The Company also offers the equipment and expertise to go with these products, such as the revolutionary Automatchic system, which permits bodyshops to measure and match colors on the spot, or the CarInfo II system, which automates administrative processes in the bodyshop and produces a wealth of management information that can greatly improve bodyshop profitability.

The Company offers a wide range of VOC-compliant coatings and other products qualified by the world's major aircraft manufacturers and used for aircraft maintenance.

The Company is an international market leader in marine, yacht, and protective coatings for heavy-duty applications, such as oil rigs. The Company's tradename International® is well known all over the world. The Company supplies antifouling coatings that keep ships' and yachts' hulls free of barnacles, making it easier for them to travel through the water thereby saving fuel costs for owners. The Company also provides paints for ships' superstructures, such as Interfine®, which transforms rust stains into colorless deposits.

Under the tradename Casco®, the Company produces resin-impregnated papers for markets around the world. These are mostly used as decorative surfacing materials for kitchen cabinets, laminated floors, and furniture made from particleboard. In addition, the Company supplies adhesives and resins to the woodworking industry (for furniture, parquet flooring, and laminated beams). It also supplies world markets with Expancel® microspheres, additives that reduce the weight and improve the properties of printing inks, nonwoven fabrics, paper, polyester, and underbody coating.

**Business review 2002**

The aim of Coatings remains to grow and strengthen its world leading positions through a combination of organic growth and selective bolt-on acquisitions. Coatings will continue to play a leading role in the consolidation of the still fragmented world coatings market in which the Company, as a world leaders has only 8 percent market share.

Since growth in the (mature) industrialized markets is limited to around GDP, most of the Company's efforts are geared toward emerging markets, especially Asia. In 2002, the Company increased ownership in its marine coatings joint venture in Korea to 60 percent, 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 percent-owned decorative coatings joint venture in Indonesia. Furthermore, Coatings is building another two grassroots wood coatings sites in China and is investing in a nonstick coatings facility in Dongguan City. During the year, Coatings opened its first decorative coatings factory in Moscow as well as a new building adhesives factory in Germany.

The Company again stepped up its R&D efforts: expenditures rose 4 percent to EUR 166 million, reaching for the first time 3.0 percent 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. The Company started preparing for the construction of a new Car Refinishes Research Center in Pontiac, Michigan, and an extensive renovation of its 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, the Company continued its 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 the Company's shareholding in the Greek decorative coatings joint venture Vivechrom to 76 percent. Akzo Nobel also strengthened its position in the Korean marine coatings market by acquiring the Chilseo manufacturing site and at the same time increasing its shareholding in the marine coatings joint venture IPK to 60 percent. By acquiring the Ferro Powder Coatings activities in the Americas the Company was able to resolve a major strategic gap. Moreover, it fortified its global leadership market position in powder coatings with the Ferro businesses in Korea and China, the formation of a 50 percent joint venture in Mexico, and the expansion of Akzo Nobel's 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, tha Company has 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 percent from 2001. Return on sales increased to 8.4 percent, against 7.6 percent in 2001. Return on investment, met the 20 percent threshold; 20.0 percent compared to 18.1 percent in 2001. Operating working capital (on a quarterly moving average basis) dropped from 24.8 percent to 23.0 percent of sales, while capital expenditures of EUR 131 million were only 87 percent of depreciation.

## CHEMICALS

### Description of Chemicals' business

The portfolio of Akzo Nobel Chemicals is a mix of specialty, functional, and commodity chemicals based upon leading positions in selected segments of the chemical industry.

| *Major Products Lines* | *Key Products/Applications* | *Competitive Position* |
|---|---|---|
| *Specification, functional and speciality 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 such as 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 |

| *Major Products Lines* | *Key Products/Applications* | *Competitive Position* |
| --- | --- | --- |
| | • 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 |
| | • 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 |
| | • Resins for coatings and printing inks | • Leading in selected market niches |
| | • Chlorine and caustic soda for industrial applications | • Leading positions in NorthwestEurope |
| | • Salt for electrolysis, other chemical industries, food applications and consumer use | • Leading position in Northwest Europe, and global leader in vacuum salt |
| | • Catalysts for the oil refining and chemical industries | • Leading global supplier of the most extensive range of refinery catalysts |

In relation to Akzo Nobel's competitive position please see the cautionary statement on page 2 hereof.

Akzo Nobel is a leader in environmentally compatible pulp bleaching chemicals, notably with sodium chlorate worldwide, and is strong in hydrogen peroxide. The Company is also a prominent producer of chemicals for the wet-end manufacture of paper and board, notably retention and drainage agents, wet-strength resins, and sizing agents.

The Company is the market leader in polymerization catalysts and additives for the processing and manufacturing of plastics worldwide. It produces organic peroxides for thermosetting and cross-linking applications, UV Cure Chemicals for the Graphic Arts, coatings and other industries, and polysulphide chemicals for the aerospace, marine and construction industries. The Company's catalysts are used in petroleum refining and petrochemical processes, and in hydroprocessing and fluid cracking catalysts, Akzo Nobel ranks among the top three suppliers of these products in the world.

In surfactants, Akzo Nobel is the market leader in cationic (fatty amine-based) surfactants in Europe and a major producer of non-ionic ethylene oxide-based surfactants. The Company also makes specialty cellulose-based rheology additives for paint and building applications.

Akzo Nobel is strong in functional chemicals. It is the world's principal producer of chelates, which deliver micronutrients to plants, and make organophosphorus-based fire retardants for plastics and hydraulic fluids. In addition, Akzo Nobel is a leading global producer of ethylene amines.

Akzo Nobel is the largest producer of salt for electrolysis in Northwest Europe, and manufactures high-quality evaporated salt with strong consumer brands such as JOZO®. The production and electrolysis of salt both require a great deal of energy. By operating in joint ventures with Dutch electricity distribution companies, the Company is able to make use of combined heat and power (cogeneration). The Company has been active in cogeneration since the 1930s.

Akzo Nobel produces and markets specialty resins for the coatings and printing ink industries, including a broad range of alkyds, polyesters, melamines, acrylics, and waterborne products. End uses range from automotive coatings to industrial coatings for plastics, wood, and metal. The resins are used internally and are also sold outside the Company.

Other key products include monochloroacetic acid, in which the Company leads the worldwide market, as well as carboxymethyl cellulose, which serve as water-soluble thickening agents, and choline chloride, a food and feed additive.

In addition, the Company has established a strong presence, both globally and regionally, through joint ventures. Joint ventures include Flexsys, with Solutia (number one worldwide in the production of rubber processing chemicals).

**Business review 2002**

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 Akzo Nobel's major customer segments, faced volume and/or intensified price competition, which negatively impacted the Company's 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 the Company's earnings.

During 2002 the Company implemented either growth-based or cash flow-based management for its various business segments, following an earlier strategic review. Simultaneously, the Company started a program to further inspire and develop its employees. 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 the Company made some selective acquisitions. In acquiring the Industrial Specialties from Crompton it boosted its North American position and improved its presence in Asia, while providing a platform for further product development and business growth. Mochem, a small start-up company, was acquired to strengthen its 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 percent share. Further portfolio changes included the divestment of the lead stabilizer business and the Company's carbon disulfide plant in Indonesia.

As a consequence of the strategic review the Company 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 the Company's 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. The Company's 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, Akzo Nobel decided to expand Ethylene Amines capacity in Sweden. To satisfy growing demand from pipeline customers in Rotterdam, Akzo Nobel is 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 percent to EUR 344 million, which is 7.5 percent of sales (2001: 7.4 percent).

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 percent over the cost of capital, which corresponds to a return on investment of about 17 percent.

## CONSOLIDATED FINANCIAL FIGURES

**Selected consolidated financial data for the years ended December 31**

| In millions of euros, except per share amounts | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|
| **Consolidated Income data:** | | | | | |
| Net sales .. .. .. .. .. .. .. | 14,002 | 14,110 | 14,003 | 14,432 | 12,482 |
| Operating income before nonrecurring items .. | 1,492 | 1,571 | 1,641 | 1,238 | 1,147 |
| Operating income, after nonrecurring items .. | 1,362 | 1,122 | 1,557 | 1,197 | 982 |
| Earnings from normal operations after taxes .. | 927 | 966 | 999 | 722 | 677 |
| Extraordinary and nonrecurring items after taxes | (74) | (259) | (9) | (508) | (129) |
| Net income .. .. .. .. .. .. .. | 818 | 671 | 947 | 189 | 532 |
| Basic earnings per share, in EUR .. .. .. | 2.86 | 2.35 | 3.31 | 0.66 | 1.86 |
| **Consolidated Balance Sheet data (December 31):** | | | | | |
| Total assets .. .. .. .. .. .. .. | 12,789 | 12,925 | 12,707 | 12,643 | 12,528 |
| Long-term borrowings .. .. .. .. .. | 2,797 | 2,235 | 2,729 | 2,678 | 2,672 |
| Shareholders' equity .. .. .. .. .. | 2,098 | 2,878 | 2,694 | 2,082 | 2,101 |

The figures in this table for previous years were restated for change in accounting principles (see Changes in Accounting Principles on page 36 hereof).

**Consolidated Statement of Income**

| In millions of euro | 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 | 53 | | 64 | |
| | | (5,209) | | (5,146) |
| *Operating income before nonrecurring items* | | 1,492 | | 1,571 |
| Nonrecurring items | | (130) | | (449) |
| *Operating income after nonrecurring items* | | 1,362 | | 1,122 |
| Financing charges | | (204) | | (257) |
| *Operating income less financing charges* | | 1,158 | | 865 |
| Taxes | | (335) | | (281) |
| *Earnings of consolidated companies after taxes* | | 823 | | 584 |
| Earnings from nonconsolidated companies | 38 | | 69 | |
| Nonrecurring items nonconsolidated companies | (8) | | (14) | |
| | | 30 | | 55 |
| *Earnings before minority interest* | | 853 | | 639 |
| Minority interest | | (35) | | (31) |
| *Net income before extraordinary items* | | 818 | | 608 |
| Extraordinary items after taxes | | | | 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 |

**Consolidated Balance Sheet**
before allocation of profit

| In millions of euros, December 31 | 2002 | | 2001 | |
|---|---|---|---|---|
| **Assets** | | | | |
| *Noncurrent assets* | | | | |
| Intangible assets | | 629 | | 508 |
| Property, plant and equipment | | 4,402 | | 4,568 |
| Financial noncurrent assets: | | | | |
| – nonconsolidated companies | 491 | | 575 | |
| – deferred tax assets | 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 | 2,206 | | 2,270 | |
| Receivables | 2,815 | | 3,229 | |
| Cash and cash equivalents | 520 | | 455 | |
| | | 5,541 | | 5,954 |
| Total | | 12,789 | | 12,925 |
| **Equity and liabilities** | | | | |
| *Equity* | | | | |
| 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*(1) | | 4,368 | | 2,960 |
| *Long-term borrowings* | | 2,797 | | 2,235 |
| *Short-term debt* | | | | |
| Short-term borrowings | 979 | | 2,267 | |
| Current liabilities | 2,410 | | 2,447 | |
| | | 3,389 | | 4,714 |
| Total | | 12,789 | | 12,925 |

Figures for 2001 were restated for change in accounting principles (see Changes in Accounting Principles on page 36 hereof).

**Note:**
(1) 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**

| In millions of euros | 2002 | | 2001 | |
|---|---|---|---|---|
| Total earnings before minority interest .. .. .. .. | 853 | | 702 | |
| Depreciation and amortisation.. .. .. .. .. .. | 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 |

**Notes:**

(1) Net of cash of acquired or divested interests.

(2) Excluding deferred tax assets and accrued prepaid pension costs.

## CONSOLIDATED CAPITALISATION

There has been no material change in the Consolidated Capitalisation of Akzo Nobel N.V. since December 31, 2002 other than disclosed in the note below.

| **In millions of euros** | **As at December 31, 2002** |
|---|---|
| Short-term borrowings | |
| Commercial paper | 396 |
| Other borrowings | 583 |
| **Total short-term borrowings** | 979 |
| Long-term borrowings | |
| Debentures[1] | 2,600 |
| Other borrowings | 197 |
| **Total long-term borrowings** | 2,797 |
| **Minority interest** | 137 |
| Shareholders' equity | |
| The authorized share capital of the issuer of EUR 1,600,019,200 is constituted by: | |
| Priority shares: | |
| 48 shares authorized and outstanding of EUR 400 par value; | — |
| Cumulative preferred shares | |
| 200,000,000 shares of EUR 2 par value authorized and 0 outstanding | |
| Common shares: | |
| 600,000,000 common shares of EUR 2 par value authorized and 286,147,260 outstanding | 572 |
| Additional paid-in capital | 1,803 |
| Statutory reserves | 82 |
| Cumulative translation differences | (896) |
| Other reserves | 1,655 |
| Capital and reserves | 3,216 |
| Minimum pension liability | (1,118) |
| **Shareholders' equity** | 2,098 |
| **Total consolidated capitalisation** | 6,011 |

Notes

(1) Debentures will increase by EUR 750 million as a result of the bond issue to a total of EUR 3,350 million. The proceeds will be used for general corporate purposes including the redemption of other borrowings.

## STATEMENT OF THE AUDITORS

**Auditors' Report as referred to in section 395, para 2, Book 2 of the Netherlands Civil Code**

We have audited the accompanying consolidated statement of income, consolidated balance sheet and consolidated statement of cash flows, as included on pages 24, 25 and 26 in this prospectus, which are derived from the 2002 financial statements of Akzo Nobel N.V. as audited by us. We issued an unqualified auditors' report on these financial statements on February 10, 2003.

The statements and balance sheet referred to before are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements and balance sheet based on our audit.

In our opinion, these statements and balance sheet correspond in all material respects with the financial statements from which they are derived.

For a more comprehensive view of the financial position and the results of the Company and the scope of our audit, these statements and balance sheet should be read in conjunction with the complete financial statements from which they are derived and the auditors' report we issued thereon.

Arnhem, June 13, 2003

KPMG Accountants N.V.

# NETHERLANDS TAXATION

*The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Prospectus and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Bond, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rules. Save as otherwise indicated, this summary only addresses the position of investors who do not have any connection with The Netherlands other than the holding of the Notes. Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of the Bonds under the laws of their country of citizenship, residence, domicile or incorporation.*

## 1. Withholding Tax

All payments by the Issuer of interest and principal under the Bonds can be made free of withholding or deduction for, or on account of, any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

## 2. Taxes on Income and Capital Gains

A holder of a Bond who derives income from a Bond or who realises a gain on the disposal or redemption of a Bond will not be subject to Dutch taxation on such income or capital gains unless:

(i) the holder is, or is treated as, resident of The Netherlands; or

(ii) such income or gain is attributable to a (deemed) enterprise or part thereof which is carried on through a (deemed) permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands; or

(iii) the holder has, directly or indirectly, a substantial interest (*aanmerkelijk belang*) or a deemed substantial interest in the Company and the holder is an individual or such interest does not form part of the assets of an enterprise; or

(iv) the holder is an individual and such income or gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Dutch Income Tax Act 2001 (*Wet inkomstenbelasting 2001*).

## 3. Gift, Estate or Inheritance Taxes

Dutch gift, estate or inheritance taxes will not be levied on the occasion of the transfer of a Bond by way of gift by, or on the death of, a holder, unless:

(i) the holder is, or is treated as, resident of The Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or as a gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be, resident of The Netherlands for the purpose of the relevant provisions; or

(iii) such Bond is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in The Netherlands.

## 4. Value Added Tax

There is no Dutch value added tax payable by a holder of a Bond in respect of payments in consideration for the issue of the Bond or in respect of the payment of interest or principal under the Bonds, or the transfer of the Bonds.

## 5. Other Taxes and Duties

There is no Dutch registration tax, stamp duty or any other similar tax or duty payable in The Netherlands by a holder of a Bond in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgement in the courts of The Netherlands) of the Bonds or the performance of the Issuer's obligations under the Bonds.

## 6. Residence

A holder of a Bond will not be treated as resident of The Netherlands by reason only of the holding of a Bond or the execution, performance, delivery and/or enforcement of the Bonds.

## EU SAVINGS DIRECTIVE

On June 3, 2003 the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by Member States from January 1, 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive each Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State; however, Austria, Belgium and Luxembourg may instead apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

## SUBSCRIPTION AND SALE

Citigroup Global Markets Limited and Deutsche Bank AG London (together the 'Joint Lead Managers'), ABN AMRO Bank N.V., Banca IMI S.p.A., Barclays Bank PLC, BNP Paribas, Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., Credit Suisse First Boston (Europe) Limited, Danske Bank A/S, Dresdner Bank AG London Branch, HSBC Bank plc, ING Belgium SA/NV, KBC Bank NV, Mizuho International plc, Skandinaviska Enskilda Banken AB (publ), Société Générale and UBS Limited (together with the Joint Lead Managers, the 'Managers') have agreed with the Issuer, pursuant to a Subscription Agreement dated on June 12, 2003 to subscribe and pay for the Bonds in an aggregate principal amount of EUR 750,000,000 at the issue price of 99.220 per cent. for Euro 650,000,000 of such principal amount and at the issue price of 99.535 for Euro 100,000,000 of such principal amount. The Issuer has agreed to pay to the Managers total commissions of 0.35 per cent. of the aggregate principal amount of the Bonds. The Managers are entitled to terminate the Subscription Agreement in certain circumstances prior to the payment to the Issuer. The Issuer has agreed to pay certain expenses relating to the issue of the Bonds to the Joint Lead Managers.

The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted; persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds.

### General

No action, other than the listing of the Bonds on the Official Segment of Euronext Amsterdam's Stock Exchange and the Luxembourg Stock Exchange has been taken by the Issuer that would permit an offer of the Bonds or the distribution of the Prospectus in any jurisdiction, other than the Netherlands or Luxembourg, where action for that purpose is required. Accordingly, each Manager has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, any Bonds, and that it has not distributed and will not distribute the Prospectus, except in circumstances that will, to the best of its knowledge and belief, result in compliance with all applicable laws and regulations.

### United States

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the 'Securities Act') and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds, (i) as part of their distribution at any time or, (ii) otherwise until 40 days after the later of the commencement of the offering or the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, any offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has agreed that:

(i) it has not offered or sold and, prior to the expiry of the period of six months from the issue date of the Bonds, will not offer or sell any such Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue of the Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

**Germany**

In connection with the initial placement of the Bonds in Germany, each Manager has represented and agreed that it will offer and sell Bonds only in compliance with the provisions of the German Securities Prospectus Act (*Wertpapierverkaufsprospectgesetz*) of December 13, 1990 as amended or any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

**Japan**

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and each Manager has agreed that it will not offer or sell any Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for the re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except pursuant to an exemption which will result in compliance with the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

## GENERAL INFORMATION

### General

The present issue of EUR 750,000,000 4.25 per cent. Bonds 2003 due 2011 issued by Akzo Nobel N.V., the Terms and Conditions of which are set forth in this Prospectus, has been duly authorised by the Issuer pursuant to a resolution of the Board of Management of the Issuer adopted on March 17, 2003, which decision was approved by its Supervisory Board on April 17, 2003.

The Fiscal Agency Agreement with respect to the Bonds will be available for inspection at the specified offices of the Fiscal Agent and the Paying Agents (as such terms are defined in the Terms and Conditions of the Bonds).

As long as any of the Bonds are outstanding, copies of the most recent annual report and published unaudited half-yearly and quarterly interim consolidated financial statements of the Issuer will be made available, free of charge, at the specified office of the Fiscal Agent and the Paying Agents.

In connection with the application to list the Notes on the Luxembourg Stock Exchange, the articles of association of the Issuer and the legal notice relating to the issue of the Notes have been lodged with the Registre du Commerce et des Société in Luxembourg where such documents may be examined and copies thereof may be obtained on request

### Clearing

The Bonds have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The Common Code is 017026534, the ISIN Code is XS0170265341 and the German Securities Code (WKN) is 874037.

### Contingent Liabilities

*Environmental Matters*

The Company is subject to extensive European Union, national and local laws and regulations governing discharges to the air and water as well as the handling and disposal of solid and hazardous wastes. In addition, the Company is subject to regulatory requirements governing the remediation of environmental contamination associated with past releases of hazardous substances. Governmental authorities have the power to enforce compliance with these requirements, and violators may be subject to civil or criminal penalties, injunctions, or both. Third parties also may have the right to sue to enforce compliance. The Company is involved in (legal) proceedings with regulatory authorities in various countries that may require the Company to pay fines relating to violations of environmental laws and regulations, comply with more rigorous standards or other requirements, and incur capital and operating expenses to meet such obligations.

The Company is subject to hazardous substance cleanup laws in various countries that impose liability for the costs of cleaning up contamination resulting from past spills, disposal or other releases of hazardous substances. In particular, the Company may be subject to liability under the United States Comprehensive Environmental Response, Compensation and Liability Act (''CERCLA'' or ''Superfund'') and similar laws that impose liability-without a showing of fault, negligence or regulatory violation-on the generator of hazardous substances that have caused, or may cause, environmental contamination.

Pursuant to CERCLA, in certain circumstances, the United States Environmental Protection Agency (''EPA'') may order one or more potentially responsible parties (''PRPs'') to clean up environmental contamination. In other cases, the EPA may clean up a site and then seek reimbursement of expenditures of federal funds from PRPs. Courts have interpreted CERCLA generally to impose joint and several liability without regard to fault for cleanup (and certain other) costs on all PRPs. This means that each PRP conceivably could be held liable for the entire amount of necessary cleanup costs. As a practical matter, however, liability is often apportioned among PRPs based on the volume and/or toxicity of the wastes disposed by each PRP.

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.

In accordance with the aforementioned policies, as of December 31, 2002, the aggregate environmental related long-term liabilities and accruals accounted for amounted to EUR 204 million (December 31, 2001: EUR 211 million).

Although the Company believes that over the years it and its predecessors utilized operating practices that were standard in the relevant industry and were in compliance with existing environmental regulations, hazardous materials may have been released in or under currently or previously operated sites. Consequently, the Company may be required to remediate contamination at some of these sites. Although the Company does not have sufficient information to estimate its potential liability in connection with any potential future remediation, it believes that if any such remediation is required, it will occur over an extended period of time. The Company anticipates that there may be a need for future provisions for environmental costs which, in management's opinion based on information currently available, would not have a material adverse effect on the Company's financial position and liquidity, but could be materially adverse to the Company's results of operations in any one accounting period. 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.

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 a number of 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 numerous 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. 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 – at December 31, 2002, the Company had a provision amounting to EUR 102 million (2001: EUR 111 million).

However, it should be understood, that in light of future developments such as – by way of example only – (a) the outcome of the investigations of the various antitrust authorities, (b) potential additional lawsuits by direct and/or 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, present and future 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.

With regard to Flexsys, a 50/50 joint venture with Solutia Inc. for rubber chemicals, authorities in the USA, Canada and Europe are investigating past commercial practices in this industry. The Company has been informed by Flexsys management that it is fully cooperating with the authorities and will continue to do so. The Company is also aware of a number of purported class actions that have been filed against Flexsys in various courts in the United States, one of which is filed also against the joint venture parents.

*Other Litigation (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, the management of the Company 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.

**Pension Liabilities**

The Company has a number of defined benefit pension plans, covering the majority of its employees. Plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. The performance of stock markets could have a material impact on the Company's financial statements as some 40 percent of plan assets are equity securities. The poor performance of the stock markets in 2001 and 2002 had a negative influence on the investment results of Akzo Nobel's pension funds, resulting in additional pension charges, pension premiums and payments to such funds. The pension charges in 2002 were EUR 80 million higher than in 2001, while pension charges for 2003 will be EUR 130 million higher than in 2002. Furthermore, the Company recognized an additional minimum unfunded pension liability of approximately EUR 1.8 billion (pre-tax), at December 31, 2002.

**No Material Adverse Change**

There has been no material adverse change in the context of the issue of the Bonds in the financial position of the Issuer since December 31, 2002.

**Auditors**

The consolidated financial figures for 2002, 2001, 2000, 1999 and 1998 as included in this Prospectus have been derived from the financial statements for the respective years that have been audited by KPMG Accountants N.V. The financial figures for earlier years than 2002 have been restated to reflect the changes in accounting principles as set forth in the paragraph below.

**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. 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. 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.

**Payment of Final Dividend for 2002**

On May 5, 2003, the Company paid the final dividend for 2002 amounting to EUR 257 million, which was charged against shareholders' equity.

**Commercial Register and Company address**

The Issuer is registered with the Commercial Register of the Chamber of Commerce in Arnhem under number 09007809.

The Issuer's company address is at Velperweg 76, 6824 BM Arnhem, the Netherlands, telephone +31 (026) 366 4433, fax +31 (026) 366 3250.

The Corporate website of the Company on the Internet can be accessed at:

http://www.akzonobel.com. Information on the Issuer's website does not form part of this Prospectus and may not be relied upon in connection with any decision to invest in any Bonds.

For further press releases, please refer to the Company's website.

## UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2003

### Key figures

| Millions of euros (EUR) | 1st quarter 2003 | 1st quarter 2002 | △% |
|---|---|---|---|
| Net income[1] | 164 | 234 | (30) |
| – per share, in EUR | 0.57 | 0.82 | |
| *Sales* | | | |
| Pharma | 884 | 1,009 | (12) |
| Coatings | 1,282 | 1,337 | (4) |
| Chemicals | 1,155 | 1,176 | (2) |
| Other | (34) | (34) | |
| Total | 3,287 | 3,488 | (6) |
| *Operating income[1] (EBIT)* | | | |
| Pharma | 141 | 210 | (33) |
| Coatings | 75 | 87 | (14) |
| Chemicals | 92 | 102 | (10) |
| Other | (34) | (14) | |
| Total | 274 | 385 | (29) |
| Return on sales[1], in % | 8.3 | 11.0 | |
| Interest coverage | 7.2 | 7.3 | |
| Gearing | 1.33 | 1.46[2] | |
| Number of employees | 67,500 | 67,900[2] | |

**Net income severely impacted by currencies, pensions, and Pharma – further restructurings in preparation**

- Net income[1] – down 30%
- Pension and currency impact of EUR 76 million on operating income
- Pharma – performance under pressure
- Coatings – solid autonomous growth offset by currencies
- Chemicals – robust performance in tough business climate
- Net borrowings – further down by EUR 0.1 billion
- Outlook – net income[1] significantly below 2002

(1) Excluding nonrecurring items.
(2) At December 31.

## UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2003

The report for the 2nd quarter of 2003 will be published on July 18, 2003.

**Note**

The data in this report are unaudited.

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

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

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

**Safe Harbor Statement(*)**

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

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

## UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2003

### CONDENSED CONSOLIDATED STATEMENT OF INCOME

| | 1st quarter | | |
|---|---|---|---|
| **Millions of euros** | **2003** | **2002** | △% |
| Sales | 3,287 | 3,488 | (6) |
| Operating costs | (3,013) | (3,103) | |
| Operating income[1] (EBIT) | 274 | 385 | (29) |
| Financing charges | (38) | (53) | |
| Operating income[1] less financing charges | 236 | 332 | |
| Taxes | (68) | (103) | |
| Earnings[1] of consolidated companies, after taxes | 168 | 229 | (27) |
| Earnings from nonconsolidated companies | 6 | 13 | |
| Earnings[1] before minority interest | 174 | 242 | |
| Minority interest | (10) | (8) | |
| Net income excluding nonrecurring items | 164 | 234 | (30) |
| Nonrecurring items, after taxes and minority interest | (25) | | |
| Net income | 139 | 234 | |
| Return on sales[1], *in %* | 8.3 | 11.0 | |
| Interest coverage | 7.2 | 7.3 | |
| Basic/diluted net income excluding nonrecurring items per share, *in EUR* | 0.57 | 0.82 | |
| Basic/diluted net income per share, *in EUR* | 0.49 | 0.82 | |
| EBITDA | 437 | 554 | (21) |
| Capital expenditures | 113 | 155 | |
| Depreciation | 152 | 159 | |

(1) Excluding nonrecurring items.

**Net income[1] down 30%**

*Net income excluding nonrecurring items* declined 30% to EUR 164 million. Net income[1] per share was EUR 0.57 (2002: EUR 0.82).

Including net nonrecurring losses of EUR 25 million, first-quarter net income was EUR 139 million (2002: EUR 234 million).

**Earnings impacted by weaker currencies, higher pension charges, and generic competition at Pharma**

*Sales* of EUR 3.3 billion were down 6% on last year. Sales development breaks down as follows:

| In % | Total | Volume | Price | Currency translation | Acquisitions/ divestments |
|---|---|---|---|---|---|
| Pharma | (12) | (1) | 1 | (11) | (1) |
| Coatings | (4) | 2 | 2 | (10) | 2 |
| Chemicals | (2) | 2 | 2 | (9) | 3 |
| **Akzo Nobel** | (6) | 1 | 2 | (10) | 1 |

*Operating income* declined 29%, due to weakening key currencies, higher pension charges, and the drop in earnings at Pharma. Excluding the pension and currency impact, Coatings and Chemicals operating income improved on last year, reflecting the results of drastic cost-saving and restructuring programs already implemented. Further restructurings are in preparation, in particular at Pharma. Earnings developed as follows:

| | | Change from 1st quarter of 2002 | | | |
|---|---|---|---|---|---|
| **Millions of euros** | **Operating income[1] for 1st quarter of 2003** | **Total** | **Operational performance** | **Currency translation** | **Increased pension charges** |
| Pharma | 141 | (69) | (38) | (23) | (8) |
| Coatings | 75 | (12) | 9 | (13) | (8) |
| Chemicals | 92 | (10) | 5 | (7) | (8) |
| Other | (34) | (20) | (11) | — | (9) |
| **Akzo Nobel** | 274 | (111) | (35) | (43) | (33) |

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

*Return on sales* was 8.3%, against 11.0% in the first quarter of 2002.

*Financing charges* decreased substantially, as a result of reduced net borrowings and lower foreign currency exchange rates. Interest coverage in the first quarter was virtually unchanged at 7.2.

The *income tax charge* decreased to 29% (2002: 31%), reflecting changes in the geographic distribution of the Company's results.

*Earnings from nonconsolidated companies* decreased from EUR 13 million to EUR 6 million, mainly attributable to lower results for Acordis, Eka Polymer Latex, and Flexsys, while earnings of Methanor improved.

**Nonrecurring items**

In the first quarter the Company registered net nonrecurring losses of EUR 25 million, which break down as follows:

| **Millions of euros** | **Gross** | **Taxes** | **Minority interest** | **Net** |
|---|---|---|---|---|
| Pharma | (15) | 5 | | (10) |
| Coatings | | | (9) | (9) |
| Chemicals | (10) | 4 | | (6) |
| **Akzo Nobel** | (25) | 9 | (9) | (25) |

Pharma's nonrecurring losses concern workforce reductions at Organon in the United States, Japan, the United Kingdom, and the Netherlands. At Coatings, a catch-up adjustment was recognized in respect of a joint venture in Asia. Chemicals' charges relate to the restructuring at the Resins site in Dunston, United Kingdom, involving 115 jobs.

**Workforce – down 700 from restructurings**

At the end of the first quarter of 2003, the Company had 67,500 employees, compared with 67,900 at year-end 2002. Restructuring and cost-saving measures at all three groups caused a decrease of 700 in the first quarter of 2003, while growth of certain businesses, seasonal influences, and acquisitions expanded the workforce by 300.

**Outlook – net income[(1)] significantly below 2002**

We expect that net income for 2003, excluding nonrecurring items, will be significantly below the level of 2002.

(1) Excluding nonrecurring items.

**Pharma – performance under pressure**

| | 1st quarter | | |
|---|---|---|---|
| **Millions of euros** | **2003** | **2002** | △% |
| *Sales* | | | |
| Organon | 564 | 648 | |
| Intervet | 253 | 275 | |
| Diosynth | 105 | 126 | |
| Intragroup sales/other | (38) | (40) | |
| Total | 884 | 1,009 | (12) |
| Operating income(1) (EBIT) | 141 | 210 | (33) |
| Return on sales(1), in % | 16.0 | 20.8 | |
| R&D expenses as % of sales | 16.3 | 14.2 | |
| EBITDA | 184 | 253 | (27) |
| Capital expenditures | 51 | 68 | |
| Invested capital | 2,554 | 2,475(2) | |
| Number of employees | 21,700 | 21,800(2) | |

(1) Excluding nonrecurring items.
(2) At December 31.

- Autonomous growth flat – negative currency effect 11%
- Operating income excluding impact currencies and pensions – down EUR 38 million
- Management change at Organon
- Further restructurings in preparation
- Remeron®:
  - generic competition in U.S. increasing
  - SolTab holding up
  - growth in rest of the world
- Arixtra® – priority review by FDA for supplemental application
- NuvaRing® – launched in Europe
- Co-promotion with Ligand for their AVINZA®
- Diosynth's acquisition of production facility in Montrose, U.K., cancelled

Pharma sales decreased 12% to EUR 0.9 billion, while operating income declined 33% to EUR 141 million. Return on sales was 16.0% (2002: 20.8%). Pharma's earnings were especially affected by weakening key currencies, higher pension charges, and generic competition in the United States for Remeron® and contraceptives. On balance, autonomous sales growth was flat. R&D expenses were unchanged at EUR 144 million, which is 16.3% of sales (2002: 14.2%).

Cost-saving measures are actively pursued and significant further restructurings are in preparation.

The main products in Human Healthcare developed as follows:

| | **Sales** | | |
|---|---|---|---|
| **Millions of euros** | **1st quarter 2003** | **△% 2002** | **Of which currency, %** |
| Remeron® in U.S. | 78 | (29) | (10) |
| Remeron® in rest of world | 71 | 18 | (1) |
| Contraceptives | 118 | (10) | (11) |
| Puregon® | 86 | (13) | (7) |
| Livial® | 47 | (6) | (7) |

The antidepressant Remeron® encountered severe generic competition in the United States after the loss of the patent court case in December 2002, while Remeron SolTab is holding up. In the rest of the world, Remeron sales grew 18%.

Sales for NuvaRing® (contraceptive ring) in the first quarter amounted to EUR 5 million. NuvaRing is now also being introduced in Europe.

The introduction of the antithrombotic Arixtra® is progressing slowly, with sales of EUR 1 million in the first quarter of 2003. The FDA has granted a six-month priority review for a supplemental new drug application for Arixtra.

In the first quarter, Organon started a co-promotion with Ligand for Ligand's AVINZA®, the first true once-daily opioid for chronic, moderate-to-severe pain.

Animal healthcare activities were under pressure from weak key currencies and soft business conditions.

Diosynth's acquisition of a production facility in Montrose, United Kingdom, was canceled due to changed economic circumstances for the Company's pharmaceutical activities.

**Coatings – solid autonomous growth offset by currencies**

| | 1st quarter | | |
|---|---|---|---|
| **Millions of euros** | **2003** | **2002[1]** | **△%** |
| *Sales* | | | |
| Decorative Coatings | 418 | 428 | |
| Industrial activities | 323 | 314 | |
| Car Refinishes | 218 | 235 | |
| Marine & Protective Coatings | 204 | 211 | |
| Industrial Products | 134 | 137 | |
| Intragroup sales/other | (15) | 12 | |
| Total | 1,282 | 1,337 | (4) |
| Operating income (EBIT) | 75 | 87 | (14) |
| Return on sales, in % | 5.9 | 6.5 | |
| EBITDA | 115 | 128 | (10) |
| Capital expenditures | 23 | 25 | |
| Invested capital | 2,382 | 2,264[2] | |
| Number of employees | 29,800 | 29,800[2] | |

(1) 2002 sales figures per business unit have been adjusted for a slight regrouping of activities.
(2) At December 31.

- Autonomous growth 4% – negative currency effect 10%
- Operating income excluding impact currencies and pensions – up EUR 9 million
- Upward pressure raw material prices
- Decorative Coatings – negative impact Turkey
- Marine & Protective Coatings – going strong
- Industrial activities – holding up well
- Opening of powder coatings plant in Vietnam

Coatings sales decreased 4% to EUR 1.3 billion. Autonomous sales growth was 4%, due to volume and price increases of 2% each. The negative currency impact was 10%, while acquisitions and divestments, on balance, added 2%.

Operating income went down 14% to EUR 75 million. Return on sales was 5.9% (2002: 6.5%). The contributions from improved margins and cost savings were more than offset by the negative impact of weaker key currencies and higher pension charges. Excluding the impact of currencies and pension charges, operating income grew EUR 9 million.

The restructuring programs are progressing according to schedule, resulting in a workforce reduction of 200 in the first quarter of 2003. In growth areas, like Eastern Europe and Asia, and due to seasonal influences the workforce expanded by 200.

Performance of Decorative Coatings was under pressure from the weak economy in Turkey. Marine & Protective Coatings sustained the positive trend of last year. The industrial activities held up well despite soft business conditions. Powder Coatings is reaping the benefits of restructuring programs and the acquisition of Ferro's powder activities.

Raw material prices show an upward trend.

Capital expenditures were decreased slightly to EUR 23 million.

Akzo Nobel opened a powder coatings factory in Ho Chi Minh City, Vietnam, the latest in a series of strategic investments by Coatings in the Asia Pacific region. This new production facility further strengthens the Company's leadership position in the Asian powder coatings market.

**Chemicals – robust performance in tough business climate**

| Millions of euros | 1st quarter 2003 | 2002(1) | △% |
|---|---|---|---|
| *Sales* | | | |
| Pulp & Paper Chemicals | 250 | 251 | |
| Functional Chemicals | 208 | 212 | |
| Surface Chemistry | 204 | 193 | |
| Base Chemicals | 134 | 107 | |
| Polymer Chemicals | 130 | 152 | |
| Resins | 99 | 102 | |
| Catalysts | 91 | 107 | |
| Salt | 77 | 70 | |
| Energy | 43 | 39 | |
| Intragroup sales/other | (81) | (57) | |
| Total | 1,155 | 1,176 | (2) |
| Operating income(2) (EBIT) | 92 | 102 | (10) |
| Return on sales(2), *in %* | 8.0 | 8.7 | |
| EBITDA | 170 | 183 | (7) |
| Capital expenditures | 36 | 60 | |
| Invested capital | 2,783 | 2,850(3) | |
| Number of employees | 14,800 | 15,100(3) | |

(1) 2002 sales figures per business unit have been adjusted for a slight regrouping of activities.
(2) Excluding nonrecurring items.
(3) At December 31.

- Autonomous growth 4% – negative currency effect 9%
- Operating income excluding impact currencies and pensions – up EUR 5 million
- Cost-saving programs – progressing well and contributing
- Raw material prices – slight upward trend
- Catalysts, Salt and Base Chemicals – strong operational performance
- Pulp & Paper Chemicals – volumes picking up
- Surface Chemistry and Polymer Chemicals – operational performance still under pressure
- Polymer Chemicals acquisition CIRS, Italy – completed
- Pulp & Paper Chemicals joint venture in Chile

Chemicals' first-quarter sales of EUR 1.2 billion were slightly below last year. Operating income was down 10% to EUR 92 million. Return on sales was 8.0% (2002: 8.7%).

The contributions by 4% autonomous growth and cost savings were more than offset by the negative effects of weaker key currencies, increased pension charges, and slightly higher raw material and energy prices. Excluding the impact of currencies and pension charges, operating income grew EUR 5 million. The major cost-saving programs are progressing well and resulted in a workforce decrease of 300 in the first quarter of 2003.

Catalysts and Salt did better, while Base Chemicals also benefited from the acquisition of ECI Elektro-Chemie. Sales volumes at Pulp & Paper Chemicals started to pick up. Polymer Chemicals and Surface Chemistry continued to suffer from weak market conditions.

Capital expenditures were substantially reduced to EUR 36 million, which is 48% of depreciation.

In March 2003, Polymer Chemicals strengthened its position as a supplier to the PVC industry with the acquisition of CIRS SpA. This Italian company manufactures two strategic raw materials for the production of PVC: antifouling agents and secondary suspending agents. Since 1999, Polymer Chemicals has held exclusive rights to sell CIRS products on a worldwide basis. The success of this partnership and the strategic fit have led to this acquisition.

Akzo Nobel's Pulp & Paper Chemicals business is set to become the largest sodium chlorate producer in Latin America after the agreement to form a joint venture with Chilean company Celulosa Arauco y Constitución S.A.

Akzo Nobel Salt is to expand salt production capacity at its Hengelo site in the Netherlands by 300,000 to 500,000 tons.

## CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

| | 1st quarter | | | |
|---|---|---|---|---|
| **Millions of euros** | **2003** | | **2002** | |
| Total earnings before minority interest | 158 | | 242 | |
| Depreciation and amortization | 163 | | 169 | |
| Cash flow | 321 | | 411 | |
| Changes in working capital | (138) | | (198) | |
| Changes in provisions and deferred tax assets | 23 | | 42 | |
| Other changes | (2) | | 11 | |
| Net cash provided by operations | | 204 | | 266 |
| Capital expenditures | (113) | | (155) | |
| Acquisitions | (84) | | (11) | |
| Proceeds from divestments | 20 | | 66 | |
| Other changes | 18 | | 17 | |
| Net cash used for investing activities | | (159) | | (83) |
| Dividends paid | | (4) | | (2) |
| Funds balance | | 41 | | 181 |
| Net cash used for financing activities | | (173) | | (221) |
| Effect of exchange rate changes on cash and cash equivalents | | (8) | | — |
| Change in cash and cash equivalents | | (140) | | (40) |

**Operational cash flow lower due to decline in earnings**

The first-quarter funds balance decreased from EUR 181 million to EUR 41 million.

Cash flow from operations went down EUR 62 million, particularly due to the decline in earnings, partially offset by the result of better control over working capital.

As a result of the Company's focus on cash, capital expenditures were reduced to EUR 113 million (2002: EUR 155 million), which is 74% of depreciation.

Acquisition expenditures mainly related to CIRS and the final settlement for the acquisitions in 2002 of ECI Elektro-Chemie and Crompton's Industrial Specialties.

Proceeds from divestments were generated through the sale of idle office buildings and several relatively small activities. In last year's first quarter, the Company received the proceeds from the sale of Printing Inks.

Net cash used by financing activities predominantly concerned the redemption of short-term borrowings.

## CONDENSED CONSOLIDATED BALANCE SHEET

| Millions of euros | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Intangible assets[1] | 652 | 629 |
| Property, plant and equipment | 4,242 | 4,402 |
| Deferred tax assets | 387 | 405 |
| Deferred tax asset minimum pension liability | 483 | 503 |
| Other financial noncurrent assets | 1,248 | 1,309 |
| Inventories | 2,219 | 2,206 |
| Receivables | 3,136 | 2,815 |
| Cash and cash equivalents | 380 | 520 |
| Total | 12,747 | 12,789 |
| Capital and reserves | 3,295 | 3,216 |
| Minimum pension liability | (1,072) | (1,118) |
| Akzo Nobel N.V. shareholders' equity | 2,223 | 2,098 |
| Minority interest | 145 | 137 |
| Equity | 2,368 | 2,235 |
| Provisions | 2,556 | 2,574 |
| Minimum pension liability | 1,728 | 1,794 |
| Long-term borrowings | 2,739 | 2,797 |
| Short-term borrowings | 796 | 979 |
| Current liabilities | 2,560 | 2,410 |
| Total | 12,747 | 12,789 |
| Gearing | 1.33 | 1.46 |
| Shareholders' equity per share, in EUR | 7.78 | 7.34 |
| Number of shares outstanding, in millions | 285.7 | 285.7 |

(1) Intangible assets include capitalized prior service costs related to the minimum pension liability of EUR 173 million.

**CHANGES IN EQUITY**

| Millions of euros | Capital and reserves | Minimum pension liability | Shareholders' equity | Minority interest | Equity |
|---|---|---|---|---|---|
| Situation at December 31, 2002 .. .. .. .. | 3,216 | (1,118) | 2,098 | 137 | 2,235 |
| Income .. .. .. .. | 139 | | 139 | 19 | 158 |
| Dividends .. .. .. .. | | | | (4) | (4) |
| Changes in exchange rates .. | (60) | 46 | (14) | (3) | (17) |
| Changes in minority interest in subsidiaries .. .. | | | | (4) | (4) |
| Situation at March 31, 2003 | 3,295 | (1,072) | 2,223 | 145 | 2,368 |

**Balance sheet – net borrowings further down by EUR 0.1 billion**

Invested capital at March 31, 2003 amounted to EUR 9.3 billion, virtually unchanged from December 31, 2002. Acquisitions and the seasonal increase of working capital each resulted in and increase of EUR 0.1 billion, while currency translation caused a decrease of EUR 0.2 billion.

Equity increased EUR 0.1 billion mainly due to first-quarter income, while net interest-bearing borrowings were reduced by EUR 0.1 billion. Gearing improved to 1.33 (December 31, 2002: 1.46). It is the Company's ambition to reduce net borrowings in 2003 by some EUR 250 million.

In the first quarter, Moody's lowered the Company's long-term credit rating to A3 with a negative outlook, while the short-term credit rating was set at P2. Standard & Poor's adjusted the outlook for the long-term A- credit rating from positive to negative, while the short-term credit rating of A2 remained unchanged.

Arnhem, April 16, 2003 The Board of Management

**REGISTERED OFFICE OF THE ISSUER**

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6824 BM Arnhem
The Netherlands

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|---|---|
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