Annual Report 1996

PROFILE

Akzo Nobel, headquartered in the Netherlands, is a market-driven and technology-based company, serving customers throughout the world with healthcare products, coatings, chemicals, and fibers. The company employs approximately 70,000 people and has activities in more than 50 countries. In 1996, consolidated sales aggregated NLG 22.4 billion and capital expenditures NLG 1.8 billion.

Akzo Nobel has a two-layer organization: the Board of Management and business units, supported by service units. At the corporate level, key tasks are coordinated in the fields of strategy and technology, finance and control, communications, human resources, and health, safety, and environment.

AKZO NOBEL

CONTENTS

AGENDA

Agenda for the Annual Meeting of Stockholders of Akzo Nobel N.V. to be held in Musis Sacrum, Velperbuitensingel, Arnhem, the Netherlands, on Friday, April 25, 1997, at 2:00 p.m.

1 Opening

2 Report of the Board of Management for the fiscal year 1996

3 Approval of the 1996 financial statements of Akzo Nobel N.V. and of the dividend

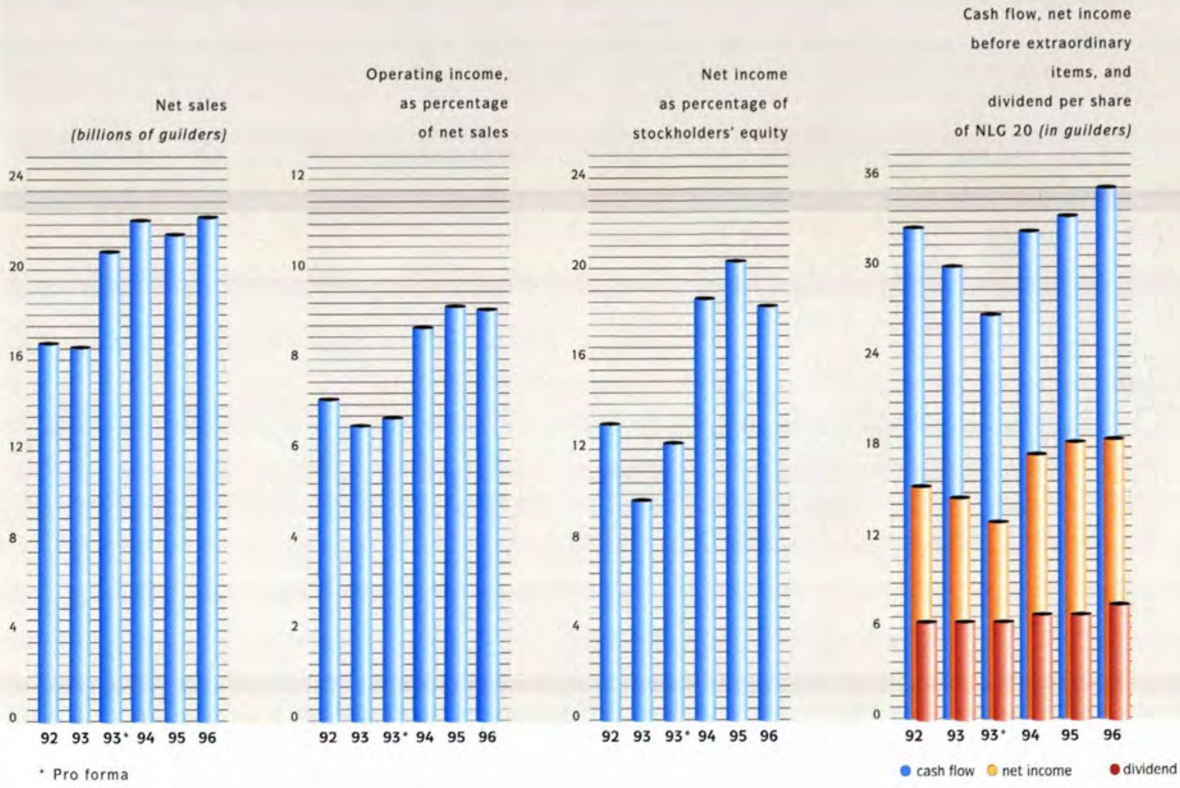
4 Determination of the number of members of the Supervisory Board and appointments to the Supervisory Board

5 Proposal to authorize the Board of Management to issue shares and to restrict or disregard the preemptive rights of stockholders

6 Proposal to authorize the Board of Management to acquire shares of the Company on behalf of the Company

7 Any other business

FINANCIAL HIGHLIGHTS[1]



Millions of Netherlands guilders (NLG)	**1996**	1995
Net sales	**22,438**	21,488
Operating income	**2,031**	1,973
Net income	**1,318**	1,314
Cash flow	**2,559**	2,449
Stockholders' equity	**7,703**	6,605
Property, plant and equipment		
– expenditures	**1,843**	1,652
– depreciation	**1,183**	1,076
Per share of NLG 20, in NLG		
Net income	**18.54**	18.49
Cash flow	**35.25**	33.57
Dividend	**7.50**	7.00
Stockholders' equity	**108.24**	92.92
Key ratios		
Operating income, as % of net sales	**9.1**	9.2
Operating income, as % of invested capital	**15.2**	16.0
Net income, as % of stockholders' equity	**18.4**	20.4
Interest coverage	**7.7**	7.6
Equity/net debt	**0.69**	0.61
Number of employees at year end	**70,700**	69,800

[1] *For definitions of certain financial ratios and concepts see back cover foldout.*

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to report a profit of NLG 18.54 per share for the year 1996, which corresponds to a return on equity of 18.4 percent. This profit is of the same order of magnitude as realized in the record year 1995 and in line with the expectations expressed in our previous Annual Report. We are equally pleased to propose to the General Meeting an increase in the dividend per share from NLG 7.00 to NLG 7.50.

Our results in 1996 were achieved in a weaker economic climate than originally foreseen, especially in Europe—our most important market. The slow start of the economy kept us long in suspense, and more than in other years it was the last quarter that determined the final outcome. The United States—our second most important market—showed remarkably stable growth throughout the year. Economic conditions in Latin America and Asia were good, although the level of activity was less buoyant than in 1995. The strengthening of most currencies against the Deutschmark and the Netherlands guilder had a positive effect on our income.

1996 was also the year in which the full impact of the scientific dispute surrounding third-generation oral contraceptives was felt. This has cost us a great deal of income and caused a temporary setback for one of our major growth products. But on the whole we seem to have weathered the storm reasonably well. In fact, Akzo Nobel comes out much stronger from 1996: significant improvements were made in the portfolio, the merger between Akzo and Nobel was completed, and our balance sheet strengthened.

We started the year having divested our packaging resins operations, which no longer fitted our core business. But more significant was the decision we made later in the year to sell Salt America, undoing a long history of a business which is core in Europe and constitutes one of the founding fathers of Akzo.
On the other hand, we also expanded our portfolio. Here, I single out the acquisition of Nobiles—the third largest coatings company in Poland—as particularly important. This acquisition illustrates our leadership in coatings and our determination to actively develop the growth potential of the Central European states.

We closed the Akzo Nobel merger book even earlier than planned. An integrated organization is now in place, eager to further expand its activities. Now that no longer time needs to be spent on setting up new structures, all our energy can be devoted to further development of the business. We are already enjoying the positive effects on operating income.

Lack of volume growth and the impact of the pill debate made 1996 something of a stop-go year.
The emphasis of our actions in 1997 will be to relaunch growth. The economic indicators seem to be in our favor. We foresee continued moderate and fairly stable growth in our most important markets. In our other markets we expect economic conditions to remain substantially the same. Based on this scenario, we expect a higher net income. Sales will be at approximately the same level, despite some important deconsolidations in 1997, including Salt America.

Our Pharma businesses have the best growth prospects. They operate in a globally fast growing industry and also provide us with the best returns. Apart from major industry restructurings which may always take place, we foresee next to Pharma the strongest development for our Coatings and Chemicals activities, followed by Fibers. It is therefore in this sequence that we will henceforth report to you on our activities.

A second obvious way to accelerate growth is to focus our efforts more on rapidly growing economies. To this end we have taken special measures to stimulate and assist our business units to further develop their business in the People's Republic of China. In addition, we are setting up Singapore as a launching base for the surrounding ASEAN countries. The Central European countries will not be forgotten either, but initially they can be served and directed from our base in Western Europe.

Of course, we cannot expect immediate results from these geographic expansions as we start from a limited presence in these areas.

In 1996, we rephrased the Akzo Nobel Company Statement, which you will find elsewhere in this report. It is the formal conclusion of the integration process of Akzo and Nobel, blending the values of the two formerly independent companies into one new single identity. In fact, the merger process has proven that we are strong in dealing with diversity in backgrounds and cultures. Today we have a diversified, yet well-focused company.

Our focus is certainly brought about by our two-layer organizational structure. Twenty-six business units, fully responsible for developing and operating their distinct businesses within corporate guidelines, report directly to the Board of Management. Communication lines are short, and decision-making is fast. Our groups of activities—Pharma, Coatings, Chemicals, Fibers—do not constitute a separate organizational layer. They do not have separate staff other than a Group Director, especially for technology coordination. Over the business unit level we maintain a limited Corporate staff of only 200 positions.

Where the Company Statement mentions leadership positions, this refers to the individual business units. Each of them is constantly evaluated on three criteria: market and technological leadership, structural profitability, and critical mass. These criteria continue to be the cornerstones of our strategy and will lead to a constant improvement in the portfolio. 1996 was no exception in this respect, which is demonstrated by divestments and acquisitions alike. We will continue to play a role in the restructuring of industries in which we operate. Basically we will maintain our present portfolio and risk profile and do not intend to split up the Company.

Naturally, shareholder value is a key element of our policy, as is reflected in the Company Statement. Clearly, the shareholders' interests are structurally best served by a consistent, sound financial performance but also by a transparent presentation of our activities. For this purpose we have adapted the format of the Report of the Board of Management in this Annual Report. The general section confines itself to overall performance and corporate functions. The following four sections on our business units in Pharma, Coatings, Chemicals, and Fibers give more comprehensive financial as well as descriptive information on their activities and orientation on the future. It should enable you to get a better grasp of our businesses and give the financial community a better base for their valuation of our Company.

As we state in the Company Statement, people are our most important resource. In the final analysis, it is their work which delivers the results. We are most grateful for their dedication and understanding, which have brought about the improvements in Akzo Nobel and strengthened our Company for further growth in 1997.

Cees J.A. van Lede

MANAGEMENT AND SUPERVISION

Supervisory Board

Aarnout A. Loudon (1936), *Chairman* [1]
Frits H. Fentener van Vlissingen (1933), *Deputy Chairman* [1,2]
Abraham E. Cohen (1936) [2]
Jean G.A. Gandois (1930)
Hilmar Kopper (1935) [2]
Jan E. Kvarnström (1948) [2]
Lars V. Kylberg (1940)
Lo C. van Wachem (1931) [1]
Dieter Wendelstadt (1929) [1]

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

Board of Management

Cees J.A. van Lede (1942), *Chairman*
Herman A. van Karnebeek (1938), *Deputy Chairman*
Paul K. Brons (1941), *Pharma*
Fritz W. Fröhlich (1942), *Fibers*
Ove Mattsson (1940), *Coatings*
Rudy M.J. van der Meer (1945), *Chemicals*

Secretary

Bart C.M.I. Beusmans (1940)

Management Council

The Management Council is composed of the Board of Management and the following Executive Vice Presidents:

Peter J. Baart (1935), *Human Resources and Chairman of Akzo Nobel Nederland B.V.*
Syb Bergsma (1936), *Financial Affairs* [*]
Jean den Hoed (1937), *Control and Administration*
Joop F. Sistermans (1942), *Strategy and Technology*

[*] *Effective January 1, 1997, succeeded by Mr. den Hoed as Executive Vice President – Finance and Control*

REPORT OF THE SUPERVISORY BOARD

Changes in the Supervisory Board

At the Annual Meeting of Stockholders of April 25, 1996, Lars V. Kylberg was appointed a member of the Supervisory Board. He succeeded Lars H. Thunell, who resigned from the Board effective the same date. Jean G.A. Gandois and Dieter Wendelstadt, whose terms of office expired at the end of the Annual Meeting of Stockholders, were reappointed. We are grateful to Mr. Thunell for his contribution to the Company, especially for his role in the merger between Akzo and Nobel.

We were shocked by the death of Harry H. van den Kroonenberg on August 2, 1996. We will hold him in respectful remembrance for the many valuable contributions he made to the Company as a member of the Supervisory Board, which he joined in 1990. Mr. van den Kroonenberg was also a member of the supervisory board of Akzo Nobel Nederland B.V.

At the Annual Meeting of Stockholders to be held on April 25, 1997, Aarnout A. Loudon and Hilmar Kopper will resign from the Supervisory Board as their terms of office are expiring. They will be recommended for reappointment. At the same meeting we will propose that membership of the Supervisory Board be increased by one and fixed at eleven. We will recommend that L. Paul Bremer, III and Maarten C. van Veen be appointed to the Supervisory Board to fill the vacancy thus created and the vacancy caused by Mr. van den Kroonenberg's death.

Changes in the Board of Management

On May 1, 1996, after a forty-year career with the Company, Alexander G. Vermeeren resigned as Deputy Chairman of the Board of Management, having reached the mandatory retirement age. We are greatly indebted to him for his outstanding contributions to the Company, particularly to Pharma.
Herman A. van Karnebeek succeeded Mr. Vermeeren as Deputy Chairman. On May 1, 1996, Ove Mattsson assumed responsibility for all Coatings activities.

Changes in the Management Council

After more than thirty years with the Company, Syb Bergsma, Executive Vice President – Financial Affairs, resigned at year-end 1996 to become Professor of Financial Management at the University of Amsterdam. He served the Company in various positions and was a member of the Management Council from 1982 onwards. We are very grateful to have had the benefit of his great expertise and dedication. Appointed Executive Vice President – Finance and Control, Jean den Hoed assumed additional responsibility for the functional area of Finance effective January 1, 1997, and as such succeeded Mr. Bergsma.

Supervision

During the year, the Supervisory Board regularly received reports on the Company's business and consulted periodically with the Board of Management on such issues as strategy, human resources, financial planning, investments, acquisitions, and divestments. The Audit Committee and the Nomination and Remuneration Committee met several times. The Audit Committee held consultations with the Board of Management, the Executive Vice Presidents for Financial Affairs and Control and Administration, the internal auditor, and the external auditor on the Company's financial statements, administrative organization, and internal control.

Financial statements and dividend proposal

We herewith submit for stockholders' approval at the Annual Meeting of April 25, 1997, the financial statements of Akzo Nobel N.V. for 1996 as prepared by the Board of Management. These financial statements have been audited by KPMG Accountants N.V. Their report appears on page 72.

We have approved these financial statements as well as the Board of Management's proposal made therein with regard to the allocation of profit, and the dividend proposal as stated in the Report of the Board of Management on page 9. We recommend that stockholders adopt the financial statements, thus discharging the members of the Board of Management of their responsibility for their conduct of the business, and the members of the Supervisory Board for their supervision.

Arnhem, February 26, 1997

The Supervisory Board

General financial performance

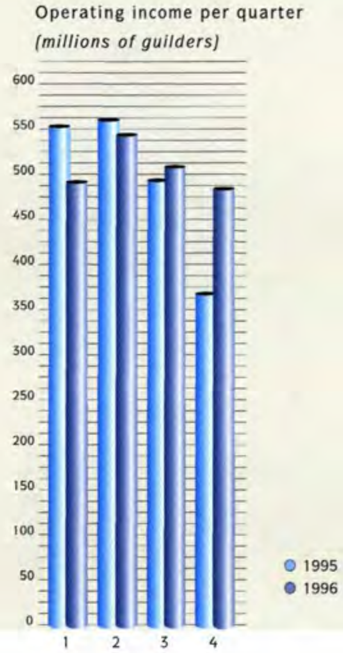
Results of operations

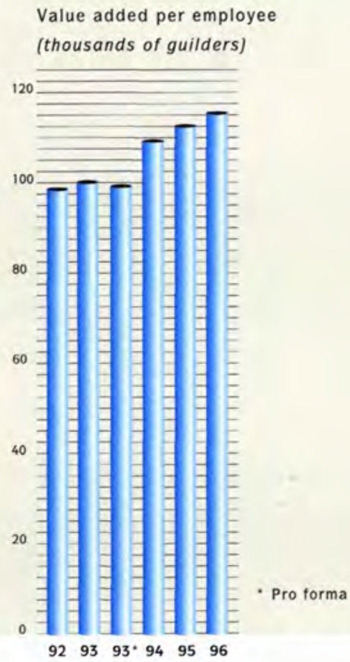
Akzo Nobel's 1996 net income was NLG 1,318 million, slightly up from NLG 1,314 million in 1995. Earnings of consolidated companies were up 4 percent, which was virtually offset by a considerable decline in earnings from nonconsolidated companies.

Although later than anticipated, the economy showed some recovery in the second half of the year. Pharma did better than in 1995, despite extra costs for new product launches, while the full impact of the previous year's scientific dispute on oral contraceptives was felt. Coatings' results clearly exceeded the prior year's level, reflecting positive merger effects and restored margins. Results of Chemicals and Fibers were down from the 1995 level due to the late pickup of the economy and market softness. Currency exchange rates, which were generally higher than in 1995, had a positive effect on earnings.

Condensed statement of income

Millions of guilders	**1996**	1995
Net sales	**22,438**	21,488
Cost of sales	**(13,684)**	(13,159)
Gross margin	**8,754**	8,329
Selling, R&D, and G&A expenses	**(6,723)**	(6,356)
Operating income	**2,031**	1,973
Financing charges	**(263)**	(260)
	1,768	1,713
Taxes	**(507)**	(495)
Earnings of consolidated companies	**1,261**	1,218
Earnings from non-consolidated companies	**91**	137
	1,352	1,355
Minority interest	**(34)**	(43)
Net income before extraordinary items	**1,318**	1,312
Extraordinary items		2
Net income	**1,318**	1,314





Sales rose 4 percent to NLG 22.4 billion in 1996, largely due to a 3 percent positive currency translation effect. Volumes were 1 percent higher, while selling prices, on average, were practically unchanged from 1995. The net effect of acquisitions and divestments was virtually nil.

Operating income went up from NLG 1,973 million to NLG 2,031 million in 1996. Lower income in the first half of the year was offset by improvements in the second half, particularly in the last quarter. Costs of a number of raw materials, notably for Coatings and Fibers, decreased from the high 1995 level, and efficiency measures further reduced production costs. However, unfavorable market conditions for several products adversely affected results of Fibers and Chemicals. Operating income was 9.1 percent of sales, almost equal to the 1995 figure of 9.2 percent.

Value added, defined as the sum of labor costs and operating income, totaled NLG 8.1 billion, against NLG 7.9 billion in 1995.

Financing charges of NLG 263 million increased by NLG 3 million, due to a negative funds balance in the first half of 1996, mainly as a result of financing requirements for working capital. This was partly offset by generally lower interest rates.

Taxes, expressed as a percentage of the balance of operating income and financing charges, were unchanged from 1995, at 29 percent. The average tax rate remained relatively low due to benefits arising from the use of tax loss carryforwards, particularly in Sweden.

Earnings from nonconsolidated companies decreased from NLG 137 million in 1995 to NLG 91 million in 1996. The decline was principally due to the Chemicals joint venture Methanor and the Fibers joint ventures Enka de Colombia and Kuagtextil. Flexsys, the rubber chemicals joint venture, recorded a distinct improvement. Overall results of the other nonconsolidated companies were practically level with the previous year.

Dividend proposal

Net income per share was NLG 18.54, against NLG 18.49 in 1995.

At the Annual Meeting of Stockholders of April 25, 1997, we will propose that the 1996 dividend be fixed at NLG 7.50 per share of common stock. An interim dividend of NLG 1.50 was declared and made payable in November 1996. If the dividend proposal is adopted, NLG 534 million of net income will be allocated for dividend payment.

Cash flows, capital investments, and financial position

Funds generated and used

Millions of guilders	1996	
Cash flow		2,559
Other items		73
Divestments		127
Funds generated		2,759
Expenditures for:		
– property, plant and equipment	(1,843)	
– other noncurrent assets	(177)	
– acquisitions	(161)	
Change in working capital	(78)	
Funds used		(2,259)
		500
Dividends paid		(513)
Funds balance		(13)

Condensed balance sheet

Millions of guilders	Dec. 31, 1996	Dec. 31, 1995
Noncurrent assets	10,036	8,893
Current assets	8,244	7,834
Current liabilities	(4,302)	(4,061)
Invested capital of consolidated companies	13,978	12,666
Nonconsolidated companies	1,236	1,157
Cash and cash equivalents	891	699
	16,105	14,522
Equity	7,941	6,798
Provisions	3,531	3,387
Interest-bearing debt	4,633	4,337
	16,105	14,522

In 1996, financing requirements for capital investments and working capital, together with dividend payments, totaling NLG 2,772 million, were slightly higher than funds generated of NLG 2,759 million.

Expenditures for property, plant and equipment aggregated NLG 1,843 million in 1996, against NLG 1,652 million in the previous year. The increase was principally due to large investment projects at Chemicals. Project authorizations totaled NLG 1.2 billion (1995: NLG 1.9 billion). Depreciation was NLG 1,183 million, compared with NLG 1,076 million in 1995.

The balance sheet structure improved, given a NLG 1.1 billion higher equity, while net debt rose only NLG 0.5 billion. This is reflected in an increase in the equity/net debt ratio from 0.61 in 1995 to 0.69 at year-end 1996[1]. Interest coverage was 7.7 in 1996, against 7.6 in 1995.

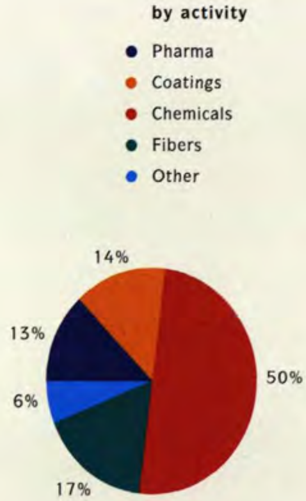
Financing

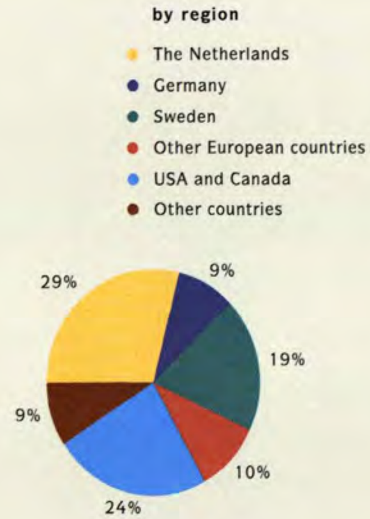
In the first quarter of the year two private loans in the aggregate amount of NLG 198 million were prepaid and refinanced at lower cost in the form of a five-year bond issue for an amount of NLG 300 million with a coupon rate of 5¾ percent. The 4⅝ percent CHF 100 million 1988/98 bond issue was also prepaid and refinanced in the money market at substantially lower cost. In anticipation of the proceeds from the sale of Salt America no further long-term borrowings were made.

During the year, financing requirements—mainly for working capital—were covered by short-term borrowings, including funds generated by active utilization of the U.S. Commercial Paper Program. In January 1997, the Euro Commercial Paper Program was reactivated in anticipation of developments in the European markets for short-term borrowings induced by the forthcoming European Monetary Union.

[1] *Gearing (interest-bearing net debt/equity) went down from 0.54 to 0.47.*

1996 expenditures for property, plant and equipment (total NLG 1,843 million)





In view of the increased use of short-term financial instruments the long-term standby credit facility with a syndicate of our relationship banks was renegotiated. The amount was increased from USD 700 million to USD 1 billion, and maturity was extended to November 2003.

Pages 12 through 48 give further details on the Company's corporate functions and business activities. They form an integral part of the Report of the Board of Management.

Outlook for 1997

The emphasis of our actions in 1997 will be to relaunch growth. The economic indicators seem to be in our favor. We foresee continued moderate and fairly stable growth in our most important markets. In our other markets we expect economic conditions to remain substantially the same. Based on this scenario, we expect a higher net income. Sales will be at approximately the same level, despite some important deconsolidations in 1997, including Salt America.

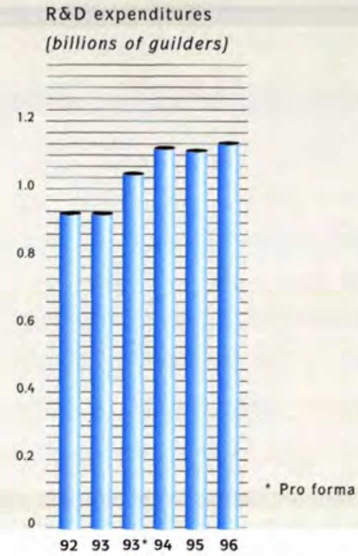
After completion of a number of major investment projects at Chemicals, expenditures for property, plant and equipment in 1997 are expected to be some NLG 0.2 billion lower, at NLG 1.6 billion.

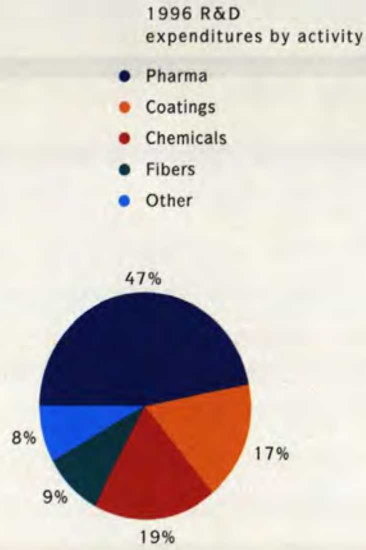
As 1997 is expected to bring a financial surplus, no additional funds will have to be raised for ongoing operations.

Exclusive of divestments and acquisitions, the number of employees is not expected to change materially in 1997. Slight increases for Pharma and Coatings are likely to be offset by a further reduction for Fibers.

Arnhem, February 26, 1997

The Board of Management





Corporate functions

The corporate Management Holding performs such key functions as Research & Technology coordination, Human Resources, and Health, Safety, and Environment, which will be reviewed in this section.

Research and Technology

Our two-layer management structure gives business units direct responsibility for more than 90 percent of R&D expenditure. R&D is seen as a major instrument for the accomplishment of Akzo Nobel's business objectives, including the stimulation of internal growth.

At NLG 1,137 million, R&D expenditures were slightly higher than the 1995 figure of NLG 1,112 million. Expressed as a percentage of sales, they were 5.1 percent in 1996, against 5.2 percent in 1995. Pharma continued to account for approximately half of total expenditures. Total R&D staff was down 6 percent to 6,100.

In line with Akzo Nobel's R&D policy, the business units conduct research in their own laboratories or outsource research activities to Central Research or external institutions. This practice has been successful for many business units and has increased the flexibility and efficiency of the Company's research efforts. Collaboration with universities in the Netherlands and abroad is an integral part of the outsourcing policy.

The corporate funded research program has as its objective to chart potential growth paths outside the business units' ordinary fields of activity. The program comprises exploratory research in core technologies such as catalysis, polymerization, surface chemistry, and process technology, as well as an active monitoring function in the area of biotechnology. Trends in society and industry are determining factors in planning the corporate program to ensure that it continues to generate new strategic potential. The Corporate Business Development Department helps translate these trends into new business areas and provides direction for corporate funded projects.

In 1996, corporate research focuses were:

- Advanced polymerization initiators;
  this polymerization technology leads to new classes of functional polymers for a wide variety of applications.
- Catalytic conversion of renewable resources;
  Akzo Nobel strives for a strong position in areas of sustainable technology.
- High-performance polymers;
  these polymers are applied in areas such as the electronics industry, the coatings industry, and the transport sector.
- Advanced membrane-based separation processes;
  membrane separation technology is increasingly replacing conventional separation processes.

In the context of new business development, a pilot plant was built at the Kleefse Waard site in Arnhem for the production of linear laminates for the printed wiring board industry. The facility came on stream in 1996 and will begin to deliver marketable quantities in 1997.

Key developments and new technologies in the domain of the business units are discussed in the respective business unit sections of this annual report.

Photonics (an example of a corporate development project)

Building on its expertise in the design, synthesis, and processing of polymers, Akzo Nobel has developed photonic components for controlling traffic in telecommunication networks. To cope with today's vast information flows, these networks consist of glass fibers carrying light beams between telephone exchanges. Currently the light signals have to be converted into electric signals for switching. However, the processing capacity of electronic switches is lower than the carrying capacity of the glass fiber networks and hence constitutes a bottleneck. Photonic switches directly manipulating the light signals eliminate this bottleneck.

Exclusively for this application Akzo Nobel is developing a set of high performance optical polymers with unique properties and high stability under varying conditions. Processing techniques derived from the integrated circuit industry are used to efficiently manufacture so-called optochips from the polymers, which contain the required microstructures for manipulating the light signals.

Marketing of the first prototype optical switches under the brand name BeamBox™ started in 1996. The switches are used by key telecom equipment manufacturers and network operators to bypass severed telephone connections or to reconfigure the network in response to demand fluctuations

Photonic components enable network operators to maximize the capacity, flexibility, and reliability of their infrastructure and yet contain costs.

Akzo Nobel Science Award

The 1996 Akzo Nobel Science Award was conferred on professor W.R. van Zwet of the University of Leiden, the Netherlands, for his outstanding research contribution to mathematical statistics.

Human Resources

Akzo Nobel's Human Resources Management (HRM) policy focuses on the commitments and ambitions expressed in the Company Statement, which was introduced in 1996.

Our HRM policy is based on the view that:

- individual and professional development motivates people and contributes to a flexible organization with a highly qualified workforce;
- knowledge, attitude, and skills of our employees are the most important assets to realize our ambitions;
- performance-related remuneration contributes to the motivation of our employees and to our appeal as an employer.

HRM is an integral part of our business strategy and a line responsibility. Consequently, all Akzo Nobel managers must ensure that the corporate HRM policy is implemented in their units.

The corporate programs in the fields of Management & Personnel Development, Recruitment, Education & Training, and Compensation & Benefits have been adapted to comply with this policy. Special attention is given to strengthening commercial and market orientation of management. The recruitment and training of young graduates and experienced professionals, notably for postings in Southeast Asia and the People's Republic of China, are matters of continuous attention.

In the context of a directive of the European Council on employee information and consultation, discussions were started with employee delegates in order to establish an Akzo Nobel European Forum. The Forum was formally inaugurated in early 1997.

The number of employees was 70,700 at year-end 1996, compared with 69,800 at the end of 1995. Consolidations, principally those of Infar, India (Pharma), and Nobiles, Poland (Coatings), resulted in an increase of 2,200, which was partly offset by personnel reductions at Fibers and Chemicals.

Number of employees	**Dec. 31, 1996**	Dec. 31, 1995
Pharma	**15,300**	14,400
Coatings	**22,800**	21,400
Chemicals	**14,700**	15,100
Fibers	**14,100**	15,100
Other units	**3,800**	3,800
Total	**70,700**	69,800
The Netherlands	**17,800**	18,400
Germany	**11,200**	11,700
Sweden	**4,700**	4,800
Other European countries	**16,000**	14,900
USA and Canada	**11,100**	11,400
Other countries	**9,900**	8,600
Total	**70,700**	69,800

Health, Safety, and Environment

Concern for health, safety, and environment is an integral part of Akzo Nobel's business policy. The Company strives for continuous improvement in all three areas.

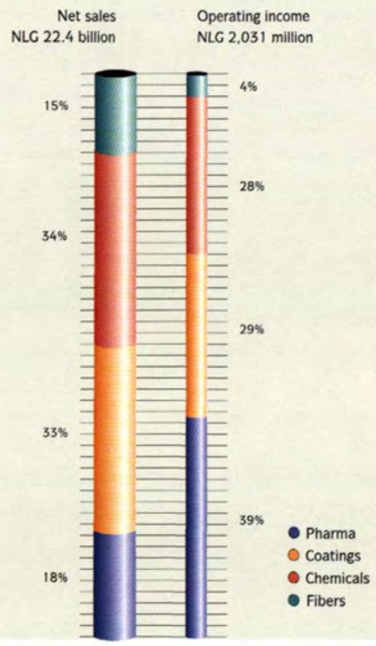
In September 1996, Akzo Nobel presented its third Corporate Environmental Report at Fibers' Elsterberg plant in Germany. This was the first report to show not only the release and emission figures for the Company as a whole, but also the development in these figures over time. It also stated environmental and safety targets for the year 2000. Most of the trends are in the right direction. Especially noteworthy is a major reduction in releases of heavy metals into water, much of which reduction is attributable to the Elsterberg site.

The Company is making progress in introducing ISO 14001 as the environmental management standard at all locations.

Safety performance is on track but further improvement is needed before it can be rated as "good" throughout the Company.

In the context of the corporate Health, Safety, and Environment Audit Program, under which each site is regularly audited, some fifty audits were conducted. The percentage of sites where audits resulted in improvements being urgently required showed a substantial decline.

Breakdown of 1996 net sales and operating income



BUSINESS ACTIVITIES

Akzo Nobel's businesses are grouped in four fields of activity:

PHARMA

COATINGS

CHEMICALS

FIBERS

Business activities

Millions of guilders	Net sales 1996	Net sales 1995	Operating income 1996	Operating income 1995	Invested capital, December 31 1996	Invested capital, December 31 1995	Property, plant and equipment: Expenditures 1996	Expenditures 1995	Depreciation 1996	Depreciation 1995
Pharma	**3,952**	3,774	**795**	750	**2,392**	1,973	**236**	273	**163**	141
Coatings	**7,436**	6,840	**592**	474	**3,120**	2,972	**254**	254	**219**	201
Chemicals	**7,695**	7,342	**576**	608	**5,705**	5,111	**932**	753	**496**	442
Fibers	**3,393**	3,584	**82**	158	**2,546**	2,554	**318**	309	**221**	223
Other activities, intercompany deliveries, and nonallocated items	**(38)**	(52)	**(14)**	(17)	**215**	56	**103**	63	**84**	69
Total	**22,438**	21,488	**2,031**	1,973	**13,978**	12,666	**1,843**	1,652	**1,183**	1,076

Ratios	Operating income as % of net sales 1996	1995	Operating income as % of invested capital 1996	1995	Net sales/ invested capital ratio 1996	1995	Capital expenditures/ depreciation ratio 1996	1995
Pharma	**20.1**	19.9	**36.4**	39.7	**1.81**	2.00	**1.4**	1.9
Coatings	**8.0**	6.9	**19.4**	16.4	**2.44**	2.37	**1.2**	1.3
Chemicals	**7.5**	8.3	**10.7**	11.8	**1.42**	1.43	**1.9**	1.7
Fibers	**2.4**	4.4	**3.2**	6.8	**1.33**	1.53	**1.4**	1.4
Overall ratio	**9.1**	9.2	**15.2**	16.0	**1.68**	1.75	**1.6**	1.5

The terms and conditions for intercompany deliveries are negotiated at arm's length and are therefore, in principle, identical with the ones used in transactions with third parties.

International intercompany deliveries are made in accordance with standard procedures that take due account of tax, currency, and pricing regulations in effect in the countries concerned.

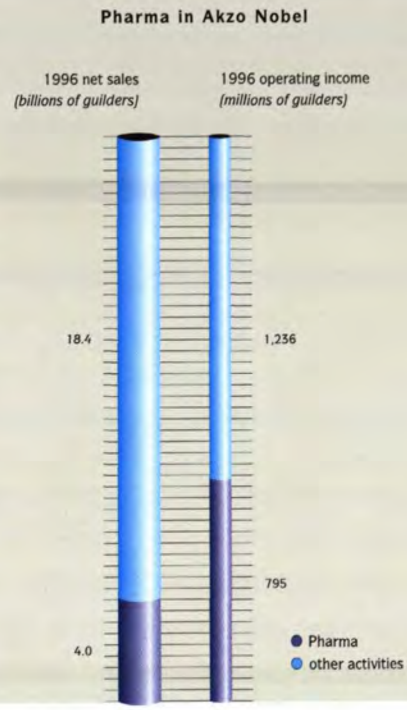
Responsible in Board of Management:
Paul K. Brons
Rudy M.J. van der Meer (alternate)

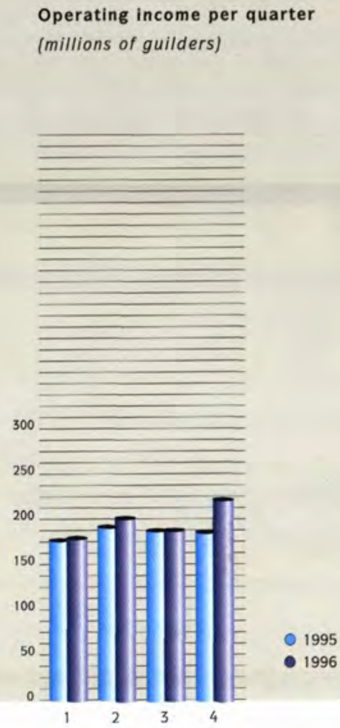
Group Director Technology:
Koen Wiedhaup

Business Units:	General Managers:
Organon	*Tjeerd Kalff*
Organon Teknika	*R.R.M. (Bob) Salsmans*
Intervet	*A.T.M. (Toon) Wilderbeek*
Diosynth	*Johan C.C.B. Evers*
Chefaro	*A.H.J.M. (Ton) Scheepens*

PHARMA

PHARMA



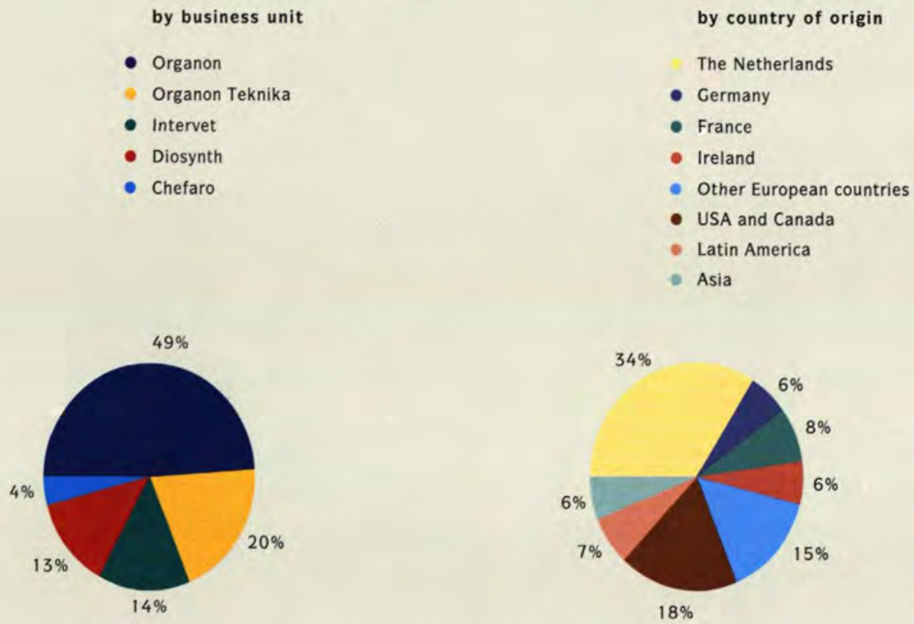


Millions of guilders	1996	1995
Net sales	**3,952**	3,774
Operating income	**795**	750
Depreciation and amortization	**176**	150
Gross cash flow	**971**	900
Expenditures for PP&E	**236**	273
Invested capital at year end	**2,392**	1,973
Key ratios		
Operating income as percent of:		
– net sales	**20.1**	19.9
– invested capital	**36.4**	39.7
Net sales/ invested capital	**1.81**	2.00
Expenditures for PP&E/ depreciation	**1.4**	1.9
Number of employees at year end	**15,300**	14,400

Sales and income

Pharma's sales were up 5 percent from NLG 3,774 million in 1995 to NLG 3,952 million in 1996. Average selling prices were 2 percent higher, currency translation effects accounted for 2 percent, while acquisitions caused a 1 percent increase. Volumes were practically at the 1995 level. Operating income continued its upward trend, gaining 6 percent from NLG 750 million in 1995 to NLG 795 million in 1996. Lower results of oral contraceptives and the extra costs of new product launches caused Organon's results to remain below the previous year's level, but the decline was more than offset by higher contributions of the other Pharma business units. Intervet (veterinary products) and Diosynth (specialized raw materials for the pharmaceutical industry) particularly exceeded the previous year's figures, mainly as a result of volume increases. Pharma's operating income as a percentage of sales for 1996 was 20.1 percent, against 19.9 percent in 1995.

1996 net sales (total NLG 4.0 billion)



Business review

The operations of the Pharma business units typically originate from shared fields of scientific know-how. All of these units have meanwhile achieved strong product positions in their own sectors of the healthcare market. Over the years their focus on innovation and internal growth has deepened the know-how and honed the skills needed to serve these different market sectors efficiently and with concentrated expertise.

In 1996, we experienced the considerable negative impact on our business results of the scientific debate on the safety of oral contraceptives—for several years one of the key contributors to Pharma's growth. Even so, Pharma reported higher earnings than in the previous year. This performance demonstrates the successful diversification into highly specialized business units, which cover different markets and allow pursuit of a broad range of business challenges and the spreading of business risks.

While being confronted with the oral contraceptives debate, Organon continued to energetically develop its other business opportunities. The other Pharma units, notably Intervet and Diosynth, were able to increase their contributions to overall results, aided by gains in volume and earnings.

Anticipating the changes in the healthcare environment, the business units are strongly committed to streamlining, improving, and expanding their worldwide R&D, distribution, and marketing capabilities. Their high degree of specialization and strong business focus will aid them in these efforts and give them the flexibility to develop new business concepts and approaches.

In the next several years, emphasis will primarily be on internal growth as the product of Pharma's solid core competences. In addition, we will aggressively seek alliances or other forms of cooperation in the further pursuit of our innovation-based strategy.

Developments in the Pharma business units

Organon – Prescription drugs

1996 will go down in Organon's annals as a turbulent year, with as its chief feature, the scientific debate with health agencies on the allegedly higher risk of venous thrombosis of third-generation oral contraceptives (OCs). The scientific evidence supports our belief that Marvelon®, Mercilon®, and Gracial® can be as safely prescribed as the other OCs. Fortunately, almost all health agencies in Europe and abroad concur in this view. Even so, Organon's OC sales in the United Kingdom and Germany were more than 50 percent down from the previous year's level. However, there were two positive events to compensate for this negative development. In the last few months of 1996, Puregon®, Organon's recombinant FSH fertility product was introduced in New Zealand, Scandinavia, Germany, the United Kingdom, and the Netherlands. Remeron®, a new antidepressant, was launched in the United States, Scandinavia, Germany, Italy, and Brazil. As a result of these product launches and growth achieved in Hormone Replacement Therapy products, Organon's sales were up slightly from 1995, despite reduced sales in the OC market. Earnings remained below the 1995 level, due to a lower contribution from OCs and introduction costs for Remeron® and Puregon®.

Two major issues are currently dominating the pharmaceutical industry: the need to discover and develop truly innovative drugs, and increased pricing pressure and reimbursement limitations. These two issues reinforced the need to reduce development time and maximize the patent protection period in the marketing phase.

The formation of interdisciplinary Discovery Teams has already contributed to stimulating creativity in target-oriented innovation. In addition, the policy of increased collaboration with dedicated research companies to obtain rapid access to new technologies has been successfully pursued. As a result, major alliances were concluded in 1996 in the field of combinatorial chemistry with the U.S. companies Pharmacopeia of Princeton, New Jersey, and Chiron of Emeryville, California.

R&D agreements have also been signed with Signal Pharmaceuticals, San Diego, California, for the discovery of tissue specific molecular targets and with Anergen, Redwood City, California, for testing Organon's discovery of a promising protein to treat rheumatoid arthritis. For 1997, Organon's new activities will focus on the network in genomics and bioinformatics. Successful R&D alliances have also been established in recent years with pharmaceutical companies like Sanofi, Boehringer Mannheim, and Hoffmann-La Roche.

Given the need to speed up development time, innovations in Organon's development process include the reengineering of workflows within the clinical development and regulatory affairs departments in Europe and the United States. In this context the preclinical development process has also been restructured. Global development has been strengthened by setting up International Project Teams.

These efforts to shorten development time are complemented by efforts to improve efficiency. Further integration of Organon's development organization in Japan is part of the same policy.

Organon's R&D pipeline is well filled. Several products are in the final stages of clinical testing or registration. Nevertheless, the process of pharmaceutical innovation remains one of considerable and unpredictable risks. Some new brand names are Implanon®, a single rod long-term contraceptive implant; Liseta®, a desogestrel-based HRT (hormone replacement therapy) product; and Trimiron® a triphasic oral contraceptive pill.

New products in mid-clinical development include a synthetic "heparin-like" antithrombotic agent (in codevelopment with the French pharmaceutical company Sanofi), a new selective progestogen for contraceptive and HRT applications, a new compound in the treatment of infertility, new antidepressants, and a contraceptive pill containing natural estradiol.

Efforts to concentrate production in a number of key locations were continued. In Swords, Ireland—one of these key locations—ground was broken for the construction of a dedicated production facility for a class of tablets containing natural estrogens. Marketing activities in the United States were strengthened and extended. New sales organizations were established in several Eastern European and Asian countries. In India, Organon increased the stake in Infar Ltd., its production and sales organization, to a majority participation.

Organon Teknika – Hospital supplies

Organon Teknika specializes in R&D and in the manufacture and sale of advanced systems and products for hospitals, laboratories, and blood banks. The business unit recently extended its exploratory research in anesthesiology products and continued new product development in muscle relaxants. Dedicated R&D efforts remained focused on the strategic fields of bacteriology, hemostasis, blood bank screening, and on the emerging growth area of nucleic acid amplification based diagnostics. Through these efforts Organon Teknika expects to further strengthen its position in the market segments of hospital pharmaceuticals and diagnostics.

Concentration and continued cost cutting in the hospital and laboratory supplies markets in North America and Europe affected Organon Teknika's 1996 volume and revenue. In the United States there was an additional adverse effect from generics on sales of Norcuron® muscle relaxant. Despite these unfavorable market conditions, Organon Teknika managed to achieve volume gains in Europe, East and Southeast Asia, and Latin America. Overall results of the business unit exceeded the previous year's level.

Within the pharmaceutical segment, strong growth in sales of the new muscle relaxant Esmeron® was achieved. In 1996, twenty additional registrations were obtained for Esmeron®, which is now available for surgical use in more than thirty countries. Organon Teknika's market position should benefit accordingly.

The diagnostics segment showed strong volume growth for BacT/Alert® automated blood culture systems and NASBA® nucleic acid amplification based diagnostics for quantitative and qualitative HIV-RNA detection. Organon Teknika's quantitative HIV-RNA test was selected for monitoring viral HIV in the international Delta investigation of various new therapies for AIDS patients. The results of this investigation are expected by early 1997. The introduction of the automated MDA™ - 180 system for the testing of blood clotting factors made less headway than expected. Sizable further market introduction efforts are planned, especially in Europe, pending completion of the final development of the system for European market requirements. Organon Teknika's MicroELISA tests, typically used to screen donor blood for infectious diseases, maintained their market position, aided by an improved geographic spread and a special focus on Latin America and East and Southeast Asia, which regions have the highest growth potential.

Rationalization and restructuring of the product portfolio by such means as divestment of some noncore activities contributed considerably to the earnings gain. Organon Teknika and bioMérieux (North America) signed a cooperation agreement to combine our BacT/Alert® and their Vitek systems to identify bacterial infections and susceptibility to antibiotic treatment. This should further strengthen our position in North America.

Court decisions in the Netherlands and Germany in the patent dispute over NASBA® were favorable for Organon Teknika. They give confidence in the ultimate outcome, even though the battle continues in the United States and elsewhere.

Intervet – Veterinary products

Intervet's product range includes vaccines for use in cattle, sheep, horses, poultry, and pets; endocrinological fertility products; corticosteroids; antibiotics; and drugs for treating mastitis.

In 1996, the business unit continued to post substantial volume growth and achieved a considerable increase in sales and income.

A new production facility for powders and tablets came on stream in Dublin, Ireland. The new R&D laboratory in Japan reported its first success, having obtained registration for Nobilis®Gumboro D78 poultry vaccine. In January 1996, Intervet's NobiVac®Porcoli® hog vaccine was the first veterinary product to achieve central registration in Europe by EMEA (the European Agency for the Evaluation of Medicinal Products).

In Hungary, the Philippines, Brazil, and Colombia new Intervet companies became operational, and representative offices were strengthened in Poland, Russia, and Thailand. Market penetration efforts were undertaken by the business unit's local organizations in Egypt and Austria. In the United States, Ambico Inc. was acquired to gain access to the hog vaccine market in that country. In India, Intervet bought a local production facility for poultry vaccines.

Intervet's strategy is aimed at maintaining substantial growth by further strengthening its position in biologicals, endocrinological products, and specialty antibiotics. This is to be achieved by the introduction of new products resulting from high quality research and development as well as improvement of the geo mix, with emphasis on the Americas, Asia, and Eastern Europe. Intervet will continue to seek further improvements in production efficiency and to this end will keep the organizational structure lean and flexible. The company will continue its policy aimed at selective acquisitions.

Highly effective R&D is essential for improving market positions with innovative products. Intervet's R&D organization is flexible, globally integrated, and linked with outside institutes and universities through a large network of contacts. On the strength of this infrastructure, Intervet should be able to provide solutions for various existing and newly identified animal diseases.

Diosynth – Specialized raw materials for the pharmaceutical industry

Diosynth is a leading manufacturer of active ingredients for the pharmaceutical industry. Technical expertise, experience, and reliability are the basis of Diosynth's strength. The company has production facilities in several countries, allowing it to anticipate and respond rapidly and efficiently to market needs. Diosynth consists of a biochemical and a chemical product group, each with state-of-the-art laboratories, pilot plants, and production facilities. To be innovative in terms of new entities and processes Diosynth has a well-equipped R&D organization. Focal points are biotechnology, steroids, and peptides.

Aided by increased sales and high capacity utilization, Diosynth's earnings were up substantially. Heparins, gonadotrophins, and particularly recombinant FSH, estrogens, and progestogens recorded sales gains, while sales of desogestrel were down from 1995. HSE and c-GMP (current Good Manufacturing Practice) compliance systems and resources were further fine-tuned. Efficiency improvement and cost awareness continued to be major themes in 1996.

During the year, the activities of the former Rosemont business unit (generics) were integrated into Diosynth. Much effort has been put into streamlining the portfolio of the solid dosage operation in Denver, Colorado, and slimming that facility and organization to match actual workloads. In the United Kingdom, Rosemont Leeds performed well.

In October 1996, Diosynth's new chemical production facility at Oss, the Netherlands, was inaugurated as planned. Commissioning and validation will take until mid-1997, when the plant will be fully operational. The increased production capacity enables Diosynth to further improve its sales potential in current markets. It also allows the business unit to pursue its strategy of broadening its portfolio of off-patent products–possibly through partnerships–and of expanding in fields where it has a leading position, notably in all types of steroid compounds.

Chefaro – Nonprescription products

The nonprescription healthcare market is rapidly gaining in importance. The debate on health economics and the most appropriate allocation of limited government financial resources has accelerated the process of switching healthcare products from "reimbursed prescription only" to "self-medication OTC (over-the-counter)" status. The consumer is offered an increasing number of products with proven efficacy and safety, allowing for an expansion of responsible self-medication.

It is Chefaro's mission to fully participate in this revitalized OTC market. Chefaro benefits from its well-established European marketing infrastructure and its marketing know-how in building strong consumer brands.

Its growing product range comprises products like Davitamon® (vitamins), Ibutop® and Tantum® (topical analgesics), Azaron® (topical treatment of pain and itching after insect bites), and plant-based medicines such as Jouvence®. In the area of home pregnancy tests Predictor® is one of the leading brands in the world. In research and development–in particular for home diagnostics–Chefaro draws on the know-how and experience of other Pharma business units.

In 1996, Chefaro's sales and earnings increased substantially. In France, the position of Jouvence® continued to show strong improvement. In the field of topical analgesics, Chefaro's position was strengthened by a substantial increase in market share in Germany and the successful introduction of Ibutop® in France and Tantum® in the Netherlands. The relatively cool summer in Europe had a negative impact on several of Chefaro's summer season products. However, this negative effect was more than offset by the favorable results in other sectors.

Positive developments were also achieved in the European market for home pregnancy tests, where Chefaro further improved its prominent position with Femtest® and Predictor®, although competition remained strong.

Responsible in Board of Management:
Ove Mattsson
Fritz W. Fröhlich (alternate)

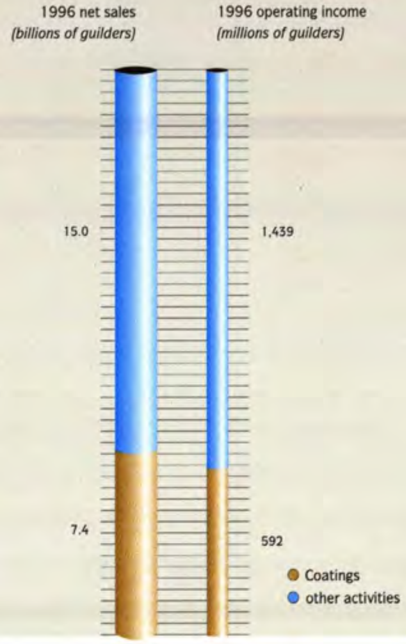
Group Director Technology:
J. (Hans) D. Remijnse

Business Units:	General Managers:
Decorative Coatings:	
– South	*M. (Rinus) Rooseboom*
– North	*Jan Andersson*
Industrial Coatings:	
– Europe	*Göran Jönsson*
– North America	*Robert J. Torba*
Car Refinishes	*Cor J.L.M. de Grauw*
Industrial Products	*Lars-Erik Thomsgård*
Resins	*Klaas Hielkema*

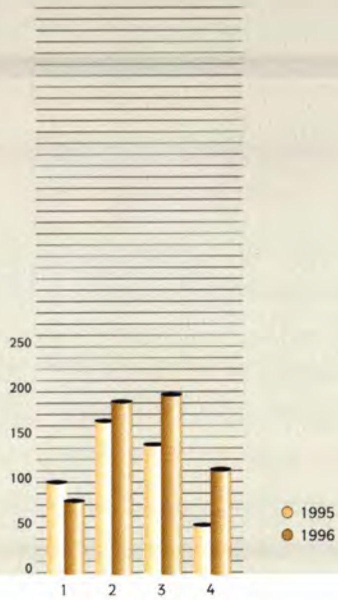
COATINGS

COATINGS

Coatings in Akzo Nobel



Operating income per quarter
(millions of guilders)



Millions of guilders	**1996**	1995
Net sales	**7,436**	6,840
Operating income	**592**	474
Depreciation and amortization	**219**	201
Gross cash flow	**811**	675
Expenditures for PP&E	**254**	254
Invested capital at year end	**3,120**	2,972
Key ratios		
Operating income as percent of:		
– net sales	**8.0**	6.9
– invested capital	**19.4**	16.4
Net sales/ invested capital	**2.44**	2.37
Expenditures for PP&E/ depreciation	**1.2**	1.3
Number of employees at year end	**22,800**	21,400

Sales and income

Coatings' sales of NLG 7,436 million were up 9 percent from 1995 sales of NLG 6,840 million, principally due to positive currency translation effects (4 percent) and to higher selling prices (2 percent), while acquisitions caused a 3 percent increase. During 1996, raw material prices were down from the very high 1995 level. Volumes were unchanged or slightly lower than in 1995, reflecting weak markets in many areas. Improved margins and merger effects, combined with significant cost savings and favorable currency translation effects, resulted in a substantial improvement in operating income from NLG 474 million in 1995 to NLG 592 million in 1996. Decorative Coatings maintained the 1995 earnings level. The other business units, particularly Car Refinishes and Industrial Coatings, did better than in 1995. These developments are also reflected in Coatings' return on sales, which rose from 6.9 percent in 1995 to 8.0 percent in 1996.

Business review

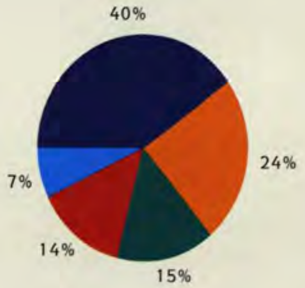
As a major producer of coatings and some related products for industrial applications, professional users, and the do-it-yourself sector, we are being confronted with continued strong concentration in the coatings industry, resulting in fewer international competitors who focus on special market segments. 1996 again saw a number of major acquisitions in the industry.

We are one of the three leading coatings suppliers in the world, with a global market share of around 8 percent in terms of sales, but the bulk of our operations is European-

1996 net sales (total NLG 7.4 billion)

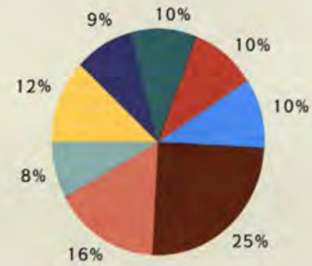
by business unit

- Decorative Coatings
- Industrial Coatings
- Car Refinishes
- Industrial Products
- Resins



by country of origin

- The Netherlands
- Germany
- Sweden
- France
- United Kingdom
- Other European countries
- USA and Canada
- Other countries



based. Akzo Nobel's position in the North American market is significant in car refinishes and a number of industrial coatings. In order to participate in the ongoing concentration process in the coatings industry it is imperative that we continue making acquisitions. Notably in Eastern Europe and Asia, they will assist further internal growth.

Akzo Nobel assigns priority to the following market segments:

- decorative coatings, adhesives, and sealants for trade and retail;
- car refinishes;
- industrial segments, including such key sectors as wood coatings, wood adhesives, resin-impregnated paper, coil coatings, plastics coatings, powder coatings, printing inks, and general industrial coatings.

Akzo Nobel is also a significant producer of resins that are used captively and sold in the open market.

There are many opportunities for Coatings to grow geographically. Priority is currently being given to Eastern Europe, East and Southeast Asia, and South America. Further consolidation of Coatings' position in Western Europe is also necessary.

Following the integration of the coatings activities of Akzo and Nobel, the Company now has the critical mass to effectively develop new coating concepts. Instances of such concepts, which have brought significant improvements in market share, are the support and service package provided by Car Refinishes to bodyshops and the wood gluing systems with companion application equipment marketed by Industrial Products. Such developments require commitment, a long-term perspective, and an international approach.

As a result of the environmental awareness of customers and the public at large, product lines are being changed from solvent-based to waterborne, high solids, or powder-based products. This development, combined with greater efficiency in the use of coating products, has led to a decline in volume in the mature part of the industry's product portfolio.

Coatings has a large number of production sites due to its history of many acquisitions and mergers. Over the past several years measures have been taken to concentrate sites and reduce overcapacity. The introduction of the business unit organization also resulted in the formation of dedicated sites, with fewer specialized product lines being produced. Aimed at rationalization and improvements in logistics, this policy has significantly increased efficiency. However, continued efforts are needed to advance cost competitiveness.

With the coatings activities of Akzo and Nobel fully integrated, the Company is now well placed to participate actively and successfully in the continued restructuring of the coatings industry.

Developments in the Coatings business units

In 1996, the coatings activities in Brazil and Argentina, which were previously discussed under the heading "South America," were integrated into the business unit structure.

Decorative Coatings

The decorative coatings activities are organized in two allied business units which cooperate closely. Raw materials purchasing, research and development, brand policy, and color mixing systems are typical aspects of such cooperation.

Decorative Coatings North is responsible for operations in the United Kingdom, Ireland, the Nordic countries, Hungary, Poland, and Turkey, the German adhesives business and the Vivechrom joint venture in Greece. In addition, the business unit has the strategic assignment to further develop the Central and Eastern European markets.

Decorative Coatings South is responsible for the paint operations in Germany and the other European countries, Morocco, and North and South America, and business development in East Asia.

In both units the quality of health, safety, and environment is a special concern. Typical items reflecting this concern include waterborne and high-solids paints, which require less organic solvent and nevertheless do an excellent job in terms of user friendliness, esthetics, and durability. Both units successfully introduced new products with these characteristics.

The innovative research program made substantial progress on both the high solids and waterborne concepts. It became clear that, besides oxidative drying, a second curing mechanism is needed to achieve results that are superior to those of the present solvent-based products. Waterborne concepts have been developed whose performance in application comes close to that of solvent-based products. The development of a new Novatop® translucent topcoat and a Permeaflex wall paint specifically intended for heat insulated walls was successfully concluded. These products confirm the business units' role as innovators in the decorative market.

Decorative Coatings South

After a difficult first quarter, with volumes, sales, and earnings below the 1995 level, the business unit turned in a good performance. Although volume for the full year trailed the 1995 figure, sales and earnings remained at the previous year's satisfactory level. Better margins and positive integration and synergy effects contributed to this development.

The problems in the first quarter were largely attributable to the unusually severe winter weather. In the absence of any significant structural growth, the business unit is confronted with increasingly intense competition, especially in the professional paints market. Programs that add value for the customer are therefore emphasized for the competitive edge they offer.

Extension of business in developing markets in Asia/Pacific was achieved through the joint ventures with Beijing Red Lion Coatings Corporation Ltd. in the People's Republic of China and with Sapina Denzo Saigon Company Ltd. in Vietnam.

Commercial distribution is crucial for both the professional and do-it-yourself markets. The distribution network in France was substantially improved by the acquisition of several wholesale traders. A new logistic center to be built in that country is expected to boost efficiency.

Restructuring programs under way at the Groot-Ammers and Wapenveld sites in the Netherlands, and completed at the Machelen and Vilvoorde sites in Belgium will also improve efficiency.

Decorative Coatings North

In the first half of 1996, volume remained below the previous year's level but picked up in the second half. The market left very little room for price increases, but margins improved as raw material costs dropped. Earnings were on a par with the 1995 figure. Notable improvements were made in Hungary and in the Baltic states.

The acquisition of Nobiles, Kujawska Paints & Lacquers Factory in Wloclawek, Poland, was an important step in the buildup of business in Central and Eastern Europe. Nobiles is one of the three leading Polish coatings producers. The company has strong brand and market positions and efficient production facilities, affording an excellent platform for further development. In line with the strategy to expand in Eastern Europe, the alkyd resins production capacity in Estonia was doubled. In Tiszaûjváros, Hungary, the facilities of Akzo Nobel Coatings Rt were modernized to be in compliance with higher environmental standards.

Work continued on a capital expenditure program in adhesives production for Schönox GmbH, at Rosendahl, Germany. A new raw material warehouse was completed, and construction of an office building was started.

Nordsjö AB in Malmö, Sweden, has begun construction of a new Esthetic Center for customer support. The Center is an element in the customer-driven marketing strategy for Nordsjö brand products, which enjoy high recognition in the Nordic countries.

The business unit introduced a color mixing system in the Hungarian market and launched several new powder adhesives in Germany.

Several products from the unit's R&D were launched in 1996. New colorants which are free of volatile organic compounds and do not contain alkylphenol ethoxylate were introduced for use in the Tintorama® system. The business unit granted the first license for its advanced loop reactor for high-pressure emulsion polymerization to a producer in India. This reactor has meanwhile been fully commissioned. In the Nordic countries, a new wood protection product using high solids alkyd technology was introduced.

Industrial Coatings

The industrial coatings activities are organized in two business units, Industrial Coatings Europe and Industrial Coatings North America. Jointly, these two business units are engaged in developing markets outside Europe and North America, principally in the Middle East, Asia/Pacific, and South America. Industrial Coatings Europe focuses particularly on the wood coatings business in the Middle East and powder coatings in the People's Republic of China, whereas Industrial Coatings North America has the development of wood and coil coatings activities in Asia/Pacific and South America as a special focus.

Industrial Coatings Europe

Business had a slow start, but later in the year market conditions showed some recovery. Cost savings, efficiency improvement programs, and lower raw material costs all helped to achieve substantially higher earnings than in 1995. Plastics coatings in Western Europe, sales to Russia, and operations in Turkey, Hungary, and the People's Republic of China made the highest contributions to improved earnings. Wood finishes also did appreciably better than in the previous year.

Following the major efforts devoted to the integration of Akzo and Nobel, the business unit was able to pay more attention to marketing in Eastern Europe, the Middle East, and the People's Republic of China.

The market- and target-oriented organization meets the needs of end users of metal and wood coatings, coil coatings, and coatings for plastics. Preparatory to further expansion, the activities in the field of metal coatings were assigned to two separate units: one for the fast-growing world market for powders, and one for liquid coatings.

After divestment of the automotive OEM business to PPG, the Stuttgart (Germany) site was restructured to convert it into a dedicated metal and plastics coatings site. The Spanish industrial coatings operations were relocated in 1996 to achieve concentration at a single site.

R&D efforts during the year were targeted at solvent and emission free paint concepts based on nontoxic chemistry. This work led to patent applications and several product improvements. In particular, a new concept based on proprietary chemistry and a combination of powder paint and liquid paint technologies emerged, which is expected to have a major impact on competitiveness in the longer term. A new Technology Center has been established in Malmö, Sweden, to assist work on this development.

Industrial Coatings North America

The business unit achieved substantially higher sales and operating income than in 1995. Wood Coatings turned in a good performance, clearly raising its sales and earnings over disappointing 1995 figures. Higher margins and earnings in Southeast Asia and cost savings were contributing factors in this improvement.

Coil coatings also achieved distinctly better results in spite of increased competition. Early in 1997, a new, world-class coil coatings plant in Columbus, Ohio, will come on stream, which will greatly enhance product quality and service.

1996 was a difficult year for specialty coatings. Declining sales of large trucks hit transportation coatings, and sales growth in can coatings continues to be slow.

Consumer demand for superior product performance, cost advantages, and environmentally friendly coatings continue to drive R&D. Constant endeavors to meet this challenge provide the unit with the innovative products needed to make its competitive position stronger.

Car Refinishes

Car Refinishes produced distinctly better results in all geographic regions and closed the year with results well ahead of the previous year.

In Europe, margins recovered from the 1995 squeeze exerted by high raw material prices, and encouraging progress was made both in new product launches and in market segments targeted for growth. 1996 also saw the completion of a major logistics project initiated some year ago to reduce operational costs and improve the quality of customer service. Deliveries are now made directly from the Sassenheim plant in the Netherlands to distributors all over Europe.

Results in North America were substantially better, and the business unit consolidated its position in the United States and Canada, where new product launches progressed satisfactorily and logistics were improved. In the first full year of its existence the joint venture with Comex, Mexico, registered promising volume sales.

In Asia/Pacific double-digit sales growth was achieved. Good progress was made in building the regional business infrastructure, with production facilities and laboratories in Indonesia, and a regional office and warehousing facilities in Singapore. The business unit also acquired the activities of Sun Ling Apac Trading Ltd., based in Hong Kong. Well established as an importer into the People's Republic of China, this company provides an excellent platform for further development in this fast-growing market.

Intensified R&D efforts over the last few years are beginning to show results. Autowave®, the waterborne basecoat system, was well received in the market and clearly demonstrated the business unit's readiness to meet future changes in environmental requirements. An entirely new generation of solid color topcoats was launched in Europe under the brand name Autocryl® PLUS. This topcoat line is largely the result of recent research into pigment dispersion, the principal process step in the paint industry. Using a molecular design process, a series of pigment dispersants with specific anchoring and stabilization groups was formulated. By characterizing the surface of each pigment fed into the mixing machine, researchers were able to identify the optimal anchoring and stabilization groups, and hence the optimal dispersant for each pigment used. Autocryl® PLUS stands out thanks to its high gloss, excellent color stability and accuracy, optimal hiding power, and color strength. The initial response from the market is very positive and suggests that Autocryl® PLUS could generate strong future growth.

In North America, Colorbuild™, a new tinted priming filler, was introduced. This innovative product combines modern polyol/isocyanate crosslinking technology with advanced color technology. Available in six color variations, it enables the car repairer to mix a priming filler in a color that closely matches the color of the original topcoat, resulting in fast final repair with a perfect color match and low labor and materials costs. Market response so far has been enthusiastic.

Aerospace Finishes

The joint venture AD Aerospace Finishes covers the aerospace market outside the Americas. It realized distinctly higher sales volume in the high growth aircraft maintenance market, and achieved promising growth in Eastern Europe and Asia/Pacific. Benefiting customers, further improvements in the venture's logistics contributed substantially to higher 1996 results.

Industrial Products

In the beginning of the year the business unit, which conducts most of its activities under the name Casco Products, was confronted with weak market conditions, which carried over from 1995. As a result, competition became stiffer, and volume suffered. However, the second half of the year showed a strong recovery in terms of both volume and margins, and earnings for the full year exceeded the 1995 figure. Overall, the business unit strengthened its market positions by a combination of new product offerings, geographical expansion of sales efforts, and the provision of more technical support.

In line with its globalization policy for resin-impregnated paper, the business unit acquired Kampasten Industries Sdn. Bhd., Malaysia, and the impregnated paper operations of Borden Inc., United States. Sales in North America and Asia developed positively during the year, and a separate organization was set up in Kuala Lumpur, Malaysia, to further improve the market position. Sales of impregnated paper to South America also developed well. During the year, new types of shuttering films were developed and launched. So were improved qualities of impregnated paper for laminated floors.

The adhesives business climate was generally favorable in North America, Southeast Asia, and the People's Republic of China, due to increased activity in these regions. Several new sales offices were started in Southeast Asia and the People's Republic of China, and technical support facilities there were expanded. In Europe, and particularly in Eastern Europe, the sales and technical service potential was also increased. During the year, sales of wood adhesives and companion application systems commenced in the United States. A promising new generation of adhesives for laminated wood beams was developed, and improved particle board resins were launched.

In the United Kingdom, the business unit acquired its printing inks distributor Harper. In the face of severe competition, the market shares for inks in the Nordic countries were successfully defended; in the Eastern European countries and Russia market shares improved. The position for label inks in North America also improved.

Environmental issues are an increasingly important consideration in new product development, as is illustrated by the recent addition of a waterborne flexoprint pigment concentrate to the line of printing inks. A new range of UV curing inks for label printing was also introduced. Significant resources were allocated to printing ink sales and technical support.

Sales of Expancel® microspheres increased with the addition of new grades, particularly intended for use in explosives and in vehicle underbody coatings.

Resins

The business unit achieved considerably better results than in 1995, especially in automotive OEM (Original Equipment Manufacturer) resins and the industrial market. Margin improvements accounted for a major part of the earnings gain.

Resins increased its focus on external markets. By reinforcing its R&D potential and sales force, it built a stronger platform for the commercialization of its products.

In R&D, resins for environmentally friendlier coatings were emphasized. In the area of waterbased resins, research targeted on applications in the Deco/do-it-yourself markets and two-component coatings for the general industry. A new product line for waterborne industrial applications was launched during the year, bringing important advantages in terms of ease of application for manufacturers and end users.

For the automotive industry a new line of rheologically modified resins (with sag control agent) was introduced. The resins have a low solvent content and possess excellent flow characteristics. Together with Car Refinishes, resins for the new car repair system Autocryl® PLUS were developed.

P.T. Akzo Nobel Raung Resins in Indonesia, a joint venture in which Akzo Nobel has an 80-percent participation, was successfully integrated into the business unit's operations. Current investments aim at clean and efficient production and at the development of products tailored to Indonesian market needs.

Marketing efforts were stepped up in Southeast Asia, the People's Republic of China, and South America.

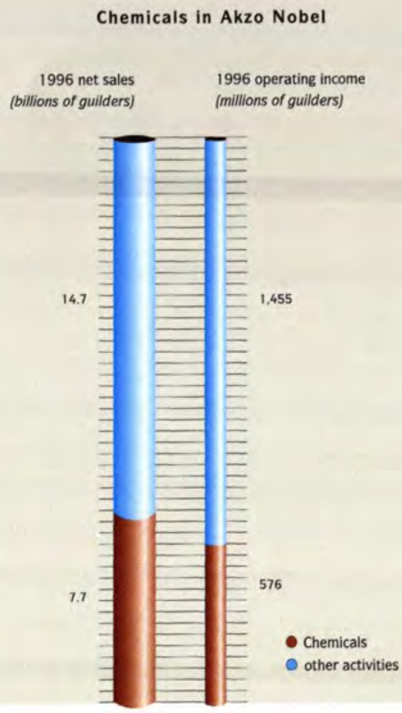
Responsible in Board of Management:
Rudy M.J. van der Meer
Ove Mattsson (alternate)

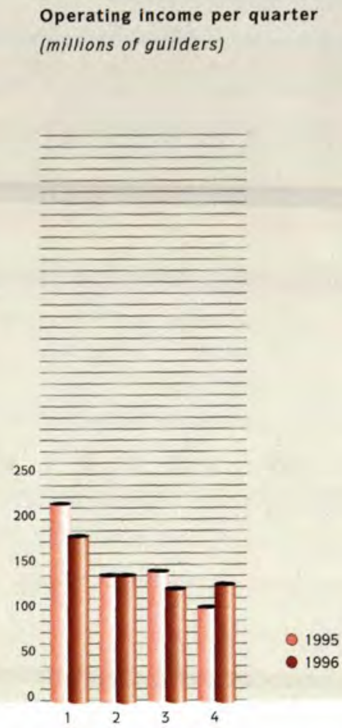
Group Director Technology:
Conrad S. Kent

Business Units:	General Managers:
Pulp and Paper Chemicals	*Dag Strömqvist*
Functional Chemicals	*Simon J. Vogelaar*
Base Chemicals	*H.C.J. (René) Scheffers*
Surface Chemistry	*Jan Svärd*
Polymer Chemicals	*Arend-Jan Kortenhorst*
Salt Europe	*Floris A. Bierman*
Catalysts	*W.W. (Jon) Meijnen*
Salt America	*Harry A. Burns*
Energy	*Gert N. van Ingen*

CHEMICALS

CHEMICALS





Millions of guilders	**1996**	1995
Net sales	**7,695**	7,342
Operating income	**576**	608
Depreciation and amortization	**505**	447
Gross cash flow	**1,081**	1,055
Expenditures for PP&E	**932**	753
Invested capital at year end	**5,705**	5,111
Key ratios		
Operating income as percent of:		
– net sales	**7.5**	8.3
– invested capital	**10.7**	11.8
Net sales/ invested capital	**1.42**	1.43
Expenditures for PP&E/ depreciation	**1.9**	1.7
Number of employees at year end	**14,700**	15,100

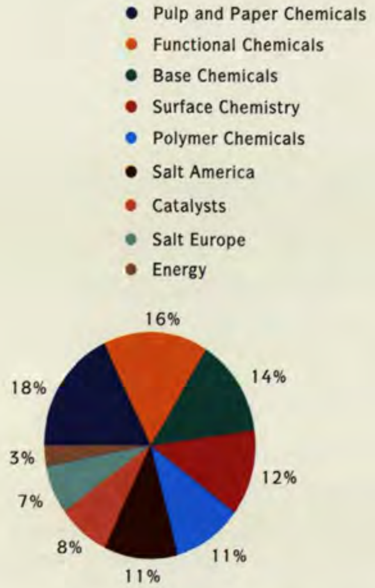
Sales and income

Sales of Chemicals in 1996, totaling NLG 7,695 million, were up 5 percent from the 1995 level of NLG 7,342 million. This increase was caused by positive currency translation effects (4 percent) and 2 percent higher volumes, while average selling prices were 1 percent below the 1995 level. Polymer Chemicals, Catalysts, Functional Chemicals, and Salt America registered substantial gains in sales. Operating income of NLG 576 million remained 5 percent below the 1995 figure of NLG 608 million. The decline was mainly attributable to a lower contribution from the VCM/PVC activities, due to the stagnant European PVC market. Results of Surface Chemistry were also significantly lower, while those of fluid cracking catalysts remained disappointing. These adverse effects were partly offset by higher earnings of the chlor-alkali activities and Functional Chemicals. As a consequence, operating income expressed as a percentage of sales decreased from 8.3 percent in 1995 to 7.5 percent in 1996.

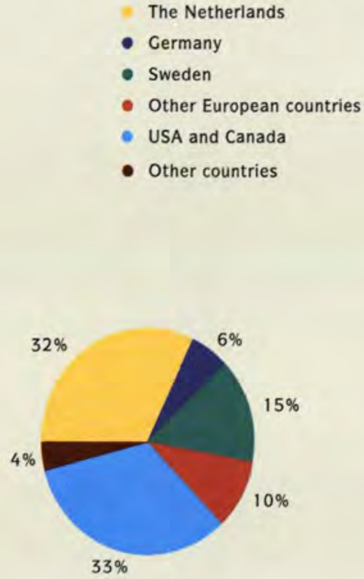
Sales of the nonconsolidated companies, on a 100-percent basis, amounted to NLG 3,730 million in 1996 (1995: NLG 3,540 million). Chemicals' share in earnings of these companies decreased from NLG 135 million in 1995 to NLG 111 million in 1996, mainly as a result of a lower contribution from the Methanor joint venture.

1996 net sales (total NLG 7.7 billion)

by business unit



by country of origin



Business review

Akzo Nobel is a leading producer of specialty, functional, and commodity chemicals. Products include catalysts and additives for the manufacturing and processing of polymers and elastomers; catalysts for the oil refining industry; surfactants; bleaching chemicals for the pulp industry; wet end paper chemicals; fire retardant additives; chelates; ethylene amines; methylamines and choline chloride; salt, chlorine, and alkali products; monochloroacetic acid and carboxymethyl cellulose; and cellulose ethers as special thickening agents for concrete and paints.

Most of the product/market combinations are based upon strong (worldwide) positions in their respective fields. Many of these positions are held by alliances formed throughout the world. Almost all of these joint ventures are directly linked to business units; notable exceptions are Flexsys (rubber chemicals) and Akcros Chemicals (PVC processing chemicals, UV radiation curing chemicals).

Although Western Europe is still the main manufacturing base, the activities in North America represent a significant share of the totality of Chemicals. Furthermore, positions are increasingly being built up or extended in Asia, e.g. fatty acids in Malaysia, paper chemicals in Indonesia and Thailand, organic peroxides in India, and choline chloride, ethylene amines, and organic peroxides in the People's Republic of China.

Major events in 1996 include the decision to divest the total business unit Salt America, Surface Chemistry's restructuring of the European cationic surfactants business, and the decision to invest in a major revamp of the specialty surfactant facilities in Sweden.

Expenditures for property, plant and equipment were at an all-time high level. Most investments are either geared to reducing costs (worldwide renovation program for FCC and HPC catalysts; alpha ketene dimer [AKD] wax plant, Sweden) or to improving our market position (metal alkyls plant in the Netherlands, ethylene oxide expansion and cellulose ethers plant in Sweden, and hydrogen peroxides expansion in Sweden, the United States, and Venezuela).

Chemicals' priorities remain focused on improving profitability by delivering on major investment programs and on growing in selected business areas with the emphasis on Asia, while not neglecting North America.

Developments in the Chemicals business units

Pulp and Paper Chemicals

Results for the business unit–operating under the name Eka Chemicals–were satisfactory, though lower than in 1995. The worldwide slowdown in the pulp and paper industry that began in the last quarter of 1995 was totally misread by the industry, which originally expected it to be a short period of inventory adjustment. In reality, printers found themselves under price pressure and began hoarding paper. This in turn triggered increased demand for pulp from paper makers, which conveyed the impression of natural growth in the market. In consequence, prices climbed steeply in the first half, only to drop all the more in the second. These developments, occurring as they did in a brief time span, put pressure on price levels for bleaching chemicals.

Sodium chlorate and hydrogen peroxide are used for bleaching pulp for the woodfree paper sector, which chiefly comprises printing and writing paper. Increased competition worldwide and lower demand for totally chlorine-free pulp resulted in lower growth of the hydrogen peroxide business, particularly in Europe and North America. The South American and Asia/Pacific markets developed satisfactorily. Hydrogen peroxide expansions in Sweden (Bohus), the United States (Columbus, Mississippi), and Venezuela (Santa Cruz de Aragua) came on stream during 1996. Sodium chlorate volumes in Europe and North America were basically static; continued growth is reported in South America.

The paper industry, like the pulp industry, operated at lower levels in 1996 than in the previous year. This was reflected in lower paper chemicals earnings in Europe and North America, with competition in Europe getting tougher. The Asia/Pacific area showed further improvements in results, notably in the paper sizing business. During 1996, a paper chemicals plant in Surabaya, Indonesia, came on stream, providing an important foothold in this fast growing market. A plant in Trollhättan, Sweden, using an Akzo Nobel developed, solvent-free process for the production of AKD wax–a strategic raw material for paper sizing chemicals–came on stream last fall.

In 1996, Eka Chemicals filed patent applications for 24 separate inventions.

Akzo PQ Silica, the 50 percent joint venture with PQ Corporation, performed below the 1995 earnings figure, mainly due to a deterioration in the price level for sodium metasilicate and lower demand for sodium disilicate.

Functional Chemicals

Functional Chemicals' results improved again this year, in line with expectations. Most business segments recorded higher earnings.

The monochloroacetic acid (MCA) business recovered from its low 1995 results, aided by the integration of MCA activities in the Netherlands and Sweden. Denak Co. Ltd., the MCA joint venture in Japan, also reported higher earnings, due to lower raw material prices.

The carboxymethyl cellulose (CMC) unit continued to optimize the product mix in favor of higher-margin pure CMC grades, exploiting synergies with Pulp and Paper Chemicals in the paper industry and Surface Chemistry in the paint and building industries.

By mid-1996, the crop protection chemicals business was transferred to Nufarm, a leading company in this market segment. This divestment was in line with the focus on core activities.

The performance of methylamines improved further. Choline chloride, an animal feed additive based on trimethylamine, is becoming more and more important. The ambition to become a global player in this segment was reinforced by the start of a new joint venture in Yixing (Jiangsu Province) in the People's Republic of China, named Yixing Akzo Nobel Sanyuan Chemicals Company. The company will serve the growing demand for choline chloride in that part of the world.

The strategy of focusing efforts in chelates on more attractive market segments, such as micronutrients and pulp bleaching, was successfully pursued, resulting in higher earnings. Integration of the sequestering agents and micronutrient businesses acquired in 1995 is on track.

The carbon disulfide business registered somewhat lower results in Europe, mainly due to stagnation in the Western European rayon industry.

Fierce competition in the organophosphorus chemicals segment, especially in flame retardants for polymers and hydraulic fluids, put results under pressure.

Competition in ethylene amines intensified during 1996. Work on the preproject for a proposed ethanol amines and ethylene amines joint venture in the People's Republic of China with Shanghai Petrochemical Company is in progress. In Stenungsund, Sweden, a major expansion of ethylene diamine capacity is under way, and the new ammonia terminal will become operational by mid-1997.

Base Chemicals

Results for chlor-alkali improved relative to 1995 as there were no major maintenance shutdowns during the year. Overall, chlor-alkali production in Western Europe was slightly below the previous year, while the European PVC market remained stagnant due to a depressed building industry. Very low PVC prices adversely affected results of ROVIN.

A major project for the supply of chlorine to ICI and the reprocessing of hydrochloric acid in the VCM process is well under way at the Rotterdam Botlek site in the Netherlands. This project will be completed by mid-1997.

An unstable market situation for caustic, coupled with lower demand from the aluminum and pulp and paper industries, resulted in lower selling prices. Despite some modest price improvements, earnings from soda ash were still disappointing.

Income from chloromethanes improved, mainly as a result of higher volumes than in the previous year. Dimethyl ether earnings were positively influenced by lower methanol prices.

The chlorinated waste incinerator in Rotterdam Botlek was among the first processing installations within Akzo Nobel to receive an ISO 14001 environmental certificate.

The results of the Methanor v.o.f. joint venture in Delfzijl, the Netherlands, came down considerably from 1995.

Surface Chemistry

Surface Chemistry's sales in 1996 were slightly down from 1995, while operating income was significantly lower. This was due primarily to the competitive environment in the surfactants business in Europe.

During the year, Surface Chemistry carried out some major restructuring, which resulted in a considerably simplified organization and a sizable reduction in costs. As a result, the business and manufacturing structures for cationic surfactants are now both among the most competitive in Europe. In North America, the surfactants business continued to perform well and showed healthy growth in most applications.

Sales of surfactants to the niche markets of asphalt applications, mining, viscose chemistry, feed additives, products for institutional and industrial applications, and personal care in Scandinavia continued to grow.

The global cellulose ether based rheology additives business for paint and building applications showed continued growth during 1996. Major expansion of the plant in Örnsköldsvik, Sweden, continued, with added capacity becoming available in early 1997.

In nonionic surfactants, a major revamp of the Stenungsund (Sweden) plant was started to enable further growth in sales of specialty surfactants. A new production line for sugar-based surfactants, for which there is growing demand in several applications, is part of this project.

Expansion of the ethylene oxide plant in Stenungsund was completed on schedule and started up by year end. This investment meets increased demand for this key raw material in the manufacture of both specialty surfactants and cellulose derivatives in Surface Chemistry, and of ethylene amines in Functional Chemicals.

Joint ventures for cationic surfactants in Japan (Lion Akzo Company Ltd.) and for fatty acids (Akzo Nobel Oleochemicals Sdn. Bhd.) in Malaysia continued to perform satisfactorily. Plant capacity of the latter joint venture is to be doubled.

Polymer Chemicals

Polymer Chemicals earnings were just level with 1995 despite considerably higher sales. First observed in 1995, a deterioration in results, reflecting a general slowdown in the polymer industry in Western Europe, continued during the year under review.

The organic peroxides business in Europe suffered from a general lack of growth in the polymer industry. The construction and automotive industries had a very slow start of the year, most notably in Germany. North American volumes were good, but margins were impacted by aggressive competition. The new multipurpose plant in Pasadena, Texas, performed satisfactorily.

In the People's Republic of China, plant construction for a majority-owned joint venture, Tianjin Akzo Nobel Peroxides Co. Ltd., is in full swing, and start-up is expected before mid-1997. The Centak Chemicals Ltd. (India) joint venture did well, but the Kayaku Akzo Corporation Ltd. (Japan) joint venture continued to suffer somewhat from the depressed Japanese economy, which held results down at the previous year's level. In Russia, the economy was slow in the beginning of the year. However, marketing joint venture A.O. Ankorit did well in this difficult business environment.

The start-up of a new, state-of-the-art metal alkyls facility in Rotterdam was one of the year's highlights. The project strengthens this business in Europe and frees up capacity in Deer Park, Texas, for exports to the rapidly growing Asia/Pacific market. The metal alkyls joint venture Tosoh Akzo Corporation Ltd. (Japan) had a satisfactory year. Polymer Chemicals' 1996 Metal Alkyls Symposium drew excellent participation from customers throughout the world. Among the symposium's topics, exciting new developments in single-site catalysis and improvements in metal alkyl based cocatalysts generated special interest. An investment to increase manufacturing capacity at Deer Park, Texas, particularly in the cocatalyst area, was announced. Start-up of this extra capacity by late 1997 will enable the business unit to participate fully in this new technology.

The polymerization catalysts business had a fairly good year. Various exciting developments are taking place, in both conventional Ziegler-Natta technology and single-site metallocene technology. These developments will enable Polymer Chemicals to share in the new proprietary catalyst market.

The optical monomers business had a mixed year, as some customers in the United States shifted their production to cheap-labor countries in Asia and South America.

The marketing center in Singapore is now firmly established, enabling the business unit to fully benefit from the healthy growth of the polymer industry in this dynamic area. Results significantly exceeded those of the previous year.

Salt Europe

Salt Europe registered good results in 1996, almost equaling the level of the previous year. Businesswise, the first half was very strong generally, supported by a winter season which called for much snow and ice control. However, oversupply in all market segments caused a slowdown in the second half.

Salt sales to the chemical industry held steady. The business unit's leadership, based on high product quality and strong logistic performance, remained basically secure. Market share was maintained through ongoing productivity increases and cost reductions.

In salt specialties, market share was successfully defended, in line with the business unit's policy. In this market, the approach is one of continuously exploiting niches. The low-sodium salt segment is such a niche, which the new Jozo®Vitaal® product will fill comfortably. High quality low nitrite salt suffered from a slump in the European meat industry. However, overall, the specialties market was reasonably stable.

Catalysts

Catalysts' results continued to be disappointing. Fluid cracking catalyst (FCC) results were weak, depressing total Catalysts' earnings. Results for the second major product line, hydroprocessing catalysts (HPCs), were much higher than expected for the second year running but were insufficient to offset the weak FCC performance.

Market conditions in the petroleum refining industry, the most important market supplied, did not deviate much from those in 1995. The continued abundant availability of light crudes caused the difference in price for light and heavy crudes to dwindle further and resulted in a persistent gasoline glut and structurally low refinery margins. As a consequence, FCC consumption was lower than anticipated in the early nineties when the potential to add value to heavy crudes was still considerable and believed to be growing. Moreover, refining light crude requires less of a less sophisticated catalyst. This explains today's overcapacity for FCCs. The situation keeps prices for FCCs under very high pressure.

Major capital investment projects in the Netherlands (Amsterdam) and the United States (Pasadena, Texas, and Los Angeles, California) were completed during the year. These projects are expected to contribute substantially to improvements in cost structure and 1997 financial results.

FCC–Fábrica Carioca de Catalisadores S.A., the Brazilian joint venture producing fluid cracking catalysts mainly for the Brazilian market, performed satisfactorily. Market development in various other South American countries was healthy.

The HPC capacity expansion project at the Amsterdam plant and debottlenecking of the HPC plant in Pasadena helped achieve earnings in this field that were considerably higher than in 1995. Steady growth is discernible in this market in which environmental impact is an important driver.

The Japanese joint venture for HPCs, Nippon Ketjen Company Ltd., did quite well. Earnings were distinctly above the previous year's level despite price pressure in Japan due to liberalization in the local refined products market.

Overall, the Eurecat group of companies turned in a reasonably good performance. Regeneration of spent HPCs was the more profitable activity.

The relatively small chemical process catalysts business performed much better than in 1995.

Salt America

Salt America continued to make progress in its efforts to achieve greater profitability. The positive effects of severe winter weather in the 1995/96 season, which produced satisfactory results in the highway salt sector in the first quarter, were in part canceled out by disappointing results in the Industrial/Grocery sector. This is attributable to production outages and an overall industry downturn, both of which impacted basic sales levels.

Implementation of restructuring measures and investment programs to increase plant reliability are expected to improve performance. The evaporation plant in Manistee, Michigan, was sold in January 1996 to Ambar Inc.

1996 was a significant year for Salt America, with major events affecting all aspects of the business. Following careful evaluation, it was decided not to invest in the construction of a new mine to replace the inundated Retsof mine, which was shut down in September 1995. Subsequently, the decision to divest Salt America was made, and an agreement to sell the business unit's operating assets to Cargill Inc. was reached. The United States Justice Department has begun its review of the sale under Federal antitrust regulations.

Energy

Throughout 1996, the business unit continued its energy efficiency drive at large sites in the Netherlands. Energy reliability audits were carried out at Ede, Arnhem (Kleefse Waard), and Emmen, all in the Netherlands, and at Enka, North Carolina, in the United States.

In Obernburg, Germany, the new 60-megawatt cogeneration plant was inaugurated in 1996.

Other activities

The Akcros Chemicals joint venture was faced with a sluggish market for its PVC stabilizers in Europe during most of 1996, especially because of slackness in the important housing and industrial construction sectors in Germany. The result was lower volumes and earnings. Akcros undertook a major restructuring program for its rigid PVC stabilizer manufacturing base in Europe and also closed down a tin stabilizer facility in Blois, France, concentrating production at Greiz, Germany. In New Brunswick, New Jersey, construction has commenced on a production facility for UV radiation curing chemicals to serve the North American market.

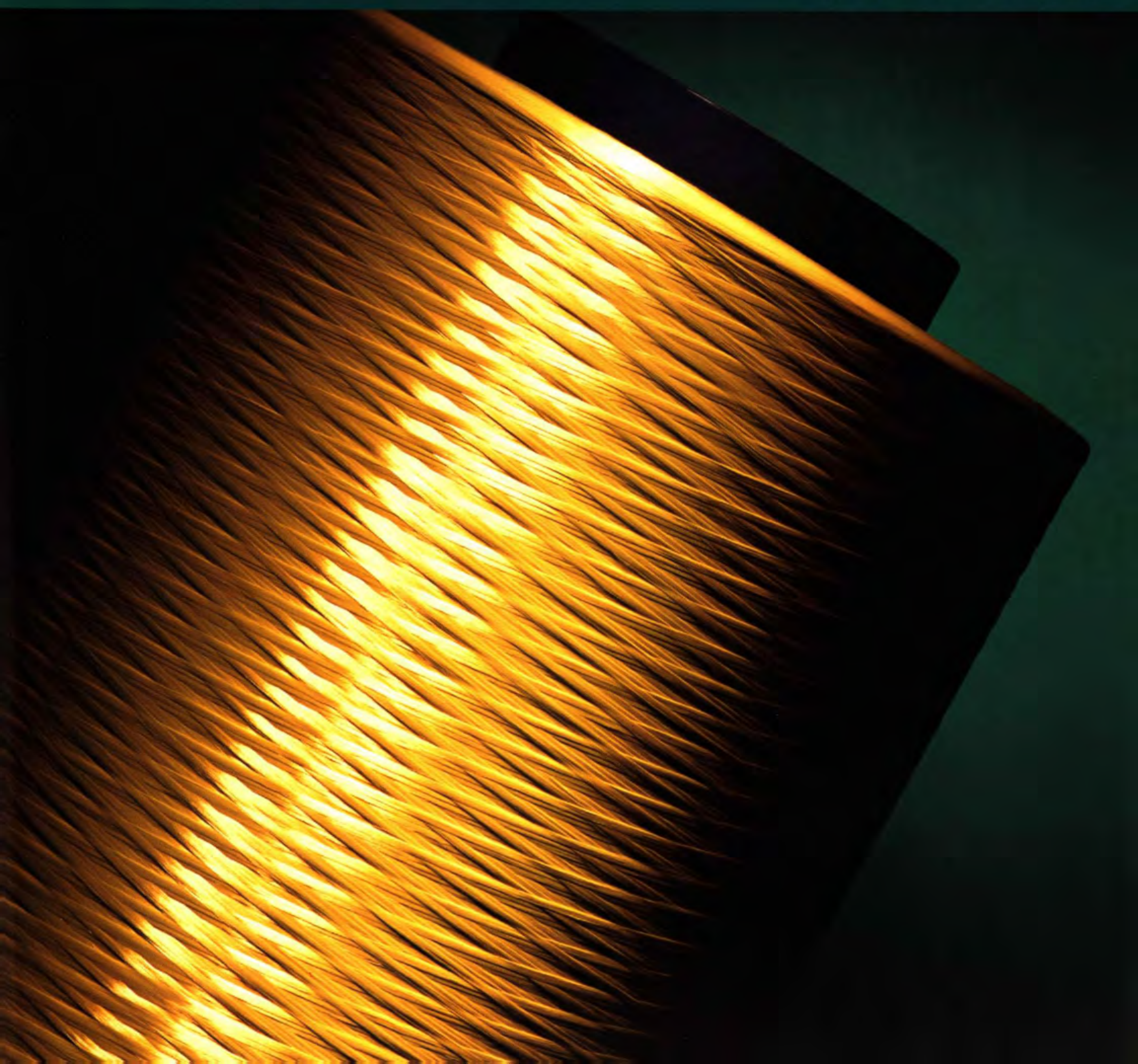
The joint venture Flexsys consolidated its position as global leader in rubber chemicals, with sales running at roughly one third of the total world market. Given modest improvement in price levels and benefits from earlier plant closures, results in 1996 were ahead of the prior year. A major new investment was announced for the production of 4-aminodiphenylamine (4-ADPA), a key intermediate used in the manufacture of antidegradants. To be located at Antwerp, Belgium, the plant will utilize unique, environmentally friendly technology.

Responsible in Board of Management:
Fritz W. Fröhlich
Paul K. Brons (alternate)

Group Director Technology:
E. (Henk) Molenaar

Business Units:	**General Managers:**
Industrial Fibers	*Folkert B. Blaisse*
Textile Fibers	*Peter Wack*
Aramid Products	*Willem H. Meyberg*
Nonwovens	*Leo Janse*
Membrana	*Günther H. Vitzthum*

FIBERS



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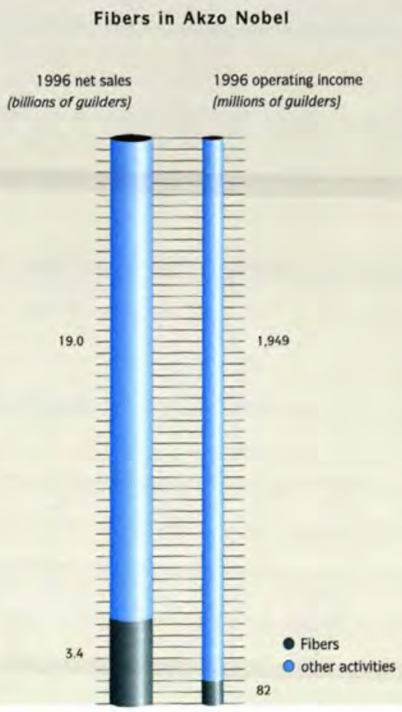


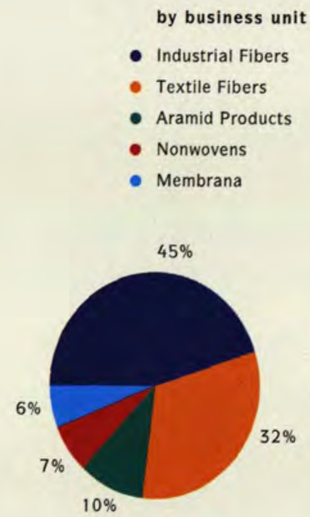
Millions of guilders	**1996**	1995
Net sales	**3,393**	3,584
Operating income	**82**	158
Depreciation and amortization	**223**	225
Gross cash flow	**305**	383
Expenditures for PP&E	**318**	309
Invested capital at year end	**2,546**	2,554
Key ratios		
Operating income as percent of:		
– net sales	**2.4**	4.4
– invested capital	**3.2**	6.8
Net sales/ invested capital	**1.33**	1.53
Expenditures for PP&E/ depreciation	**1.4**	1.4
Number of employees at year end	**14,100**	15,100

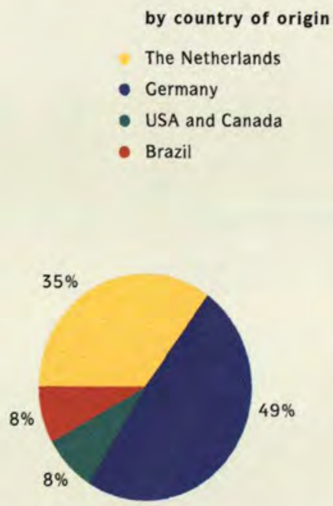
Sales and income

Fibers' performance was affected by a very weak business climate, especially in Europe, where the fiber industry suffered a volume decline of about 10 percent, resulting in lower capacity utilization and reduced selling prices. Fibers held its ground under these adverse business conditions and even posted volume gains in some segments. Altogether, volume was 3 percent higher. Excluding the 4 percent effect of the divestment of the packaging resins business, sales were down 1 percent to NLG 3,393 million in 1996. Average selling prices came down 5 percent. Major efforts were made to absorb the negative effect on operating income by implementing additional measures, but a decrease in operating income from NLG 158 million in 1995 to NLG 82 million in 1996 could not be avoided. However, results remained in the black during all four quarters. A considerable decline in performance was posted for Textile Fibers, principally due to viscose textile. Industrial Fibers also trailed the 1995 level, which was largely attributable to the Brazilian operations. Nonwovens' results were affected by adverse developments in the roofing sector. Aramid Products and Membrana exceeded the previous year's income figures. Fibers' return on sales deteriorated from 4.4 percent in 1995 to 2.4 percent in 1996.

Sales of the nonconsolidated companies, on a 100-percent basis, amounted to NLG 1,560 million in 1996, compared to NLG 1,500 million in 1995. The share of Fibers in earnings of these companies decreased from NLG 34 million in 1995 to NLG 3 million negative in 1996, mainly because of deterioration in the results of Enka de Colombia and Kuagtextil.

1996 Net sales (total NLG 3.4 billion)





Business review

The Fibers business units cover a selective portfolio of fibers used in industrial and textile applications, as well as membranes and nonwovens. In most areas, Fibers has a leading position, supported by an excellent technology base. Fibers pursues a strategy of creating value through restructuring and innovation. A major cornerstone of this strategy is to focus our business on leading positions with a high margin potential. In this context, the packaging resins activities were sold to Wellman Inc. effective January 1, 1996.

Also in line with this strategy, energetic efforts were made to boost productivity, mainly by reducing labor costs. Production of Cordenka® industrial viscose yarn was concentrated in Obernburg, Germany, after the shutdown of the Kleefse Waard plant in Arnhem. The first steps were taken to relocate the labor-intensive aftertreatment of Enka® textile viscose from three plants in Germany and the Netherlands to Gorzow in Poland. This move will result in significantly lower labor costs. In 1996, the headcount was reduced by 1,000, including effects of restructuring programs implemented over the past several years.

The technology base was further strengthened by commissioning state-of-the-art equipment for the manufacture of tire yarns and airbag yarns in the United States and Brazil, and for a number of new high-tech membranes in Germany. The development of the highly innovative NewCell® textile fiber made major progress, and a go/no-go decision will be made in 1997.

Fibers' firm determination to implement its strategy successfully is reflected in the progress made in portfolio restructuring, its productivity-boosting programs, aggressive marketing, and introduction of highly advanced processes and products.

Developments in the Fibers business units

Industrial Fibers

Akzo Nobel is the world's largest producer of industrial fibers. Its chief products are polyester, polyamide 6 and 66, and viscose for technical applications. Manufactured in Europe, the United States, and Brazil, these fibers are used worldwide as reinforcing materials in tires, conveyor belts, V-belts, and hoses. Akzo Nobel is also market leader in broad and narrow gauge fabrics (for airbags, car seat belts, transport, and storage) and in fibers for ropes, nets, and sewing applications.

1996 was a difficult year for Industrial Fibers worldwide, notably in Brazil. Despite far-reaching measures, a decrease in operating income could not be avoided.

To align capacity with demand, the production of Cordenka® industrial viscose at the Arnhem Kleefse Waard plant was discontinued in August. Viscose production is now concentrated in Obernburg, Germany. Market and quality leadership, combined with major cost reduction programs, will enable the business unit to continue serving its customers, notably the tire industry, in the years ahead.

Demand for industrial polyester yarns in Western Europe was virtually unchanged from the previous year. While raw material costs declined, pressure on prices affected earnings. The squeeze on margins was partly offset by volume gains and productivity improvements.

In the polyester plant in Scottsboro, Alabama, highly advanced machines were installed to produce HMLS (High Modulus Low Shrinkage) tire yarns. A new machine for the production of polyamide 66 airbag yarn was successfully commissioned to supply the growing U.S. airbag market.

In Europe, demand for polyamide 66 airbag yarn also continued to grow strongly, but margins were depressed, as the first signs of overcapacity in Europe became apparent.

COBAFI S.A., the Brazilian subsidiary, turned in a very disappointing performance, which was in part due to the sudden and drastic reduction of the import duty on yarn, without a corresponding reduction of duties payable on imported raw materials. A new machine for the production of high quality polyester tire yarn was recently started up. This, combined with restructuring measures, should improve results.

An agreement was signed with the Chinese company, Wuxi Taiji, Wuxi City, to investigate the viability of a joint venture for the production of polyester fibers in the People's Republic of China for technical and tire applications, a sector which shows strong growth.

Textile Fibers

The core business of Textile Fibers is viscose textile filament yarn, which is sold under the brand name Enka®. Akzo Nobel is the world's largest producer and quality leader with production sites in Germany and the Netherlands, and since January 1997 also in Poland. The business unit's strategy is to defend this leading position. The adverse business climate for textiles prevailing in Europe, America, and Asia, as well as increasing competition from Eastern Europe, had a negative impact on volume and prices, resulting in an operating loss for the viscose business. This decline in performance triggered a serious setback in the operating results of Textile Fibers as a whole. However, the business unit managed to produce positive results.

In order to increase cost competitiveness, the labor-intensive textile aftertreatment is presently being relocated to a new plant in Gorzow in Poland, which could ultimately affect some 1,700 jobs in Germany and the Netherlands over the next several years. Further cost reduction programs have been initiated and should begin to deliver benefits in 1997. Development of the highly innovative filament yarn NewCell® has made fine progress. Based on the outcome of a feasibility study, a decision to invest in a full-fledged plant will be made in consultation with development partner Courtaulds in the first half of 1997.

Business development of the breathable and waterproof Sympatex® membrane was excellent. Starting from the present leading position in German speaking countries, an active brand policy—combined with the development of new geographic markets and new applications—should secure further growth.

Polyester spinning chips, and spinnerets, components, and testing instruments (Enka tecnica) performed reasonably well.

Polyenka S.A., Brazil, had a difficult year, but improved its performance in the second half through a major cost reduction program.

Fibras Químicas S.A., the minority participation in Mexico, achieved excellent results; the creation of NAFTA has opened up a promising export market. All other nonconsolidated activities, mainly in the textile polyester filament field, suffered from worldwide overcapacities. Enka de Colombia S.A., Enkador S.A., Ecuador, and Kuagtextil GmbH, Germany, have started comprehensive cost cutting programs, which should improve results in 1997. Century Enka Ltd., India, where capacity expansions are under way, held its ground. Rajashree Polyfil Ltd., India, successfully started up at the end of 1996 and will supply the fast growing Indian market with polyester filament based on the latest technology.

Aramid Products

Aramid Products produces Twaron®, a high performance fiber whose applications include optical fiber cable reinforcement, tires, specialty hoses, transmission belts, ballistic fabrics, and special composites for the aerospace industry. An important outlet for Twaron® is pulp for use as an abrasion resistant filling material in brake linings, clutch facings, and seals and gaskets.

Twaron® is at the beginning of its life cycle and is expected to show strong growth, as is underscored by the recent capacity expansion to more than 10,000 metric tons per annum.

Comprehensive R&D programs are currently being carried out, especially in the field of specialty yarns with waterblocking properties for application in optical fiber cable.

Earnings of Aramid Products improved compared to 1995. Volume gains were reported for virtually all applications and geographic areas.

An investigation has been started to look into the possibility of reducing lead times and speeding up communication processes. The more flexible organization that would result would be able to respond quickly to changes in the marketplace, thus strengthening relations with customers.

During the year, work was started on the construction of a special unit for the processing of spinning residues into reusable polymer. The new facility in Emmen, the Netherlands, is expected to come on stream by mid-1997.

In 1996, the U.S. authorities fixed the antidumping duty on Twaron® imports over the period from year-end 1993 to mid-1995 at about one third of the provisional duty fixed in 1994. The petitioner in this antidumping case has appealed the lower duty decision before the U.S. Court of International Trade in New York.

Fortafil Fibers Inc.—the carbon fiber activity in the United States—continued to expand its strong market position. The first phase of the planned capacity expansion (700 metric tons per annum) came on stream in March. With market growth accelerating, the second phase (also providing for 700 metric tons per annum) was taken into use by the end of the year. Further capacity expansion is expected.

Nonwovens

Nonwovens is a supplier of nonwoven fabrics, composites, and three-dimensional products for high-performance industrial applications and civil engineering. Activities are largely concentrated in Europe; footholds in North America and the Asia/Pacific region are rapidly being expanded. Depending on application and geographic area, market positions are solid to leading.

Results of the business unit were below the level of 1995. In two of the three main markets (carpet, civil engineering, and roofing) performance came up to expectations. Despite the weak market situation in the carpet sector, sales of Colback® remained strong, demonstrating the success of the strategy to concentrate on specialty products for carpet tiles and car carpets.

The civil engineering business did well, aided by the balanced geographic spread of the activities. Declines in Europe due to reduced government spending were balanced by growth in the Asia/Pacific region.

Overall performance of Nonwovens was greatly affected by rapidly declining prices in the roofing market for Colback® and Coltron® products due to overcapacity, softness in the building industry, and severe winter conditions.

The development of new Colmelt® products for air filtration was gratifying. The first sales in face masks were realized. The other main events were the integration of geosynthetics and Colback® operations in Asheville, North Carolina, where three offices were integrated, and the start of the construction of a second Colback® line (spinning and fleecing), also at Asheville. Scheduled to come on stream early in 1997, this new facility will enhance Nonwovens' ability to meet growing demand.

With the comprehensive development programs that are currently being carried out in the fields of product application and production technology, Nonwovens will strengthen its position for the years ahead.

Membrana

Membrana is the world's largest producer and supplier of membranes and porous materials for use in hemodialysis (blood purification for kidney patients), microfiltration (e.g. for artificial lungs, plasma separation, and diverse industrial usages) and Accurel® Systems (additive concentrates for the plastics industry and for environmental cleanup). The business unit operates in a high-tech environment and defends its leading position by using and providing flexible and state-of-the-art processes, high productivity, challenging quality standards, and a broad product range.

In the difficult field of healthcare with mounting pressure on prices everywhere, Membrana was able to improve its results through additional measures to increase productivity. The markets for all of Membrana's medical membranes (dialysis, blood oxygenation, plasma separation) continued to grow, resulting in significantly higher shipments and rapidly increasing utilization rates for new products.

MicroPES membranes for industrial usages (e.g. beverage and water filtration) showed gratifying volume gains. The earnings base of Accurel®Systems was further broadened as new markets and applications were added.

Membrana is energetically continuing its efforts to improve earnings by implementing cost cutting measures and exploring new business opportunities.

GEOGRAPHIC INFORMATION

Consolidated companies

Millions of guilders	Net sales, by destination 1996	1995	Net sales, by origin 1996	1995	Operating income 1996	1995	Invested capital, December 31 1996	1995	Expenditures for property, plant and equipment 1996	1995
The Netherlands	**1,761**	1,640	**5,912**	5,968	**539**	484	**3,817**	3,722	**527**	671
Germany	**2,789**	2,959	**3,038**	3,065	**156**	235	**1,546**	1,473	**174**	179
Sweden	**1,091**	1,056	**1,912**	1,863	**181**	261	**1,389**	1,110	**343**	159
Other European countries	**8,076**	7,882	**5,108**	4,602	**660**	498	**2,536**	2,253	**185**	153
USA and Canada	**5,066**	4,599	**4,715**	4,326	**314**	311	**3,402**	3,051	**451**	358
Other countries	**3,655**	3,352	**1,753**	1,664	**181**	184	**1,288**	1,057	**163**	132
Total	**22,438**	21,488	**22,438**	21,488	**2,031**	1,973	**13,978**	12,666	**1,843**	1,652

The geographic information is influenced by translation of foreign currencies into Netherlands guilders. The principal changes compared to 1995 relate to the Swedish krona and the U.S. dollar, whose average exchange rates were, respectively, 12 percent and 5 percent higher than in 1995.

Declines in operating income in Germany (mainly due to Fibers) and Sweden (principally caused by Chemicals) were offset by income gains in the Netherlands and the other European countries.

Expenditures for property, plant and equipment were considerably higher, which was primarily due to major investment projects of Chemicals in Sweden and of Fibers in the United States.

Nonconsolidated companies

A breakdown by relevant geographic area of net sales, invested capital, and number of employees of the nonconsolidated companies, on a 100-percent basis, is given below.

Millions of guilders	Net sales, by origin 1996	1995	Invested capital, December 31 1996	1995	Number of employees, December 31 1996	1995
Europe	**2,740**	2,630	**1,610**	1,620	**3,500**	3,800
North America	**460**	490	**300**	300	**700**	800
Latin America	**1,030**	890	**950**	840	**4,500**	4,600
Other regions	**1,110**	1,250	**850**	620	**4,300**	4,700
Total	**5,340**	5,260	**3,710**	3,380	**13,000**	13,900

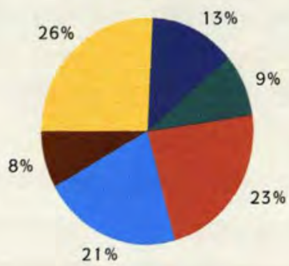
COUNTRIES WITH CONSOLIDATED AND NONCONSOLIDATED COMPANIES

at December 31, 1996

1996 consolidated net sales (total NLG 22.4 billion)

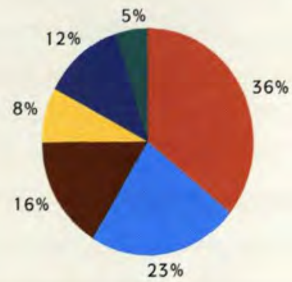
by country of origin

- The Netherlands
- Germany
- Sweden
- Other European countries
- USA and Canada
- Other countries



by country of destination

- The Netherlands
- Germany
- Sweden
- Other European countries
- USA and Canada
- Other countries



- Pharma
- Coatings
- Chemicals
- Fibers
- Other [1]

Europe

	Pharma	Coatings	Chemicals	Fibers	Other
Netherlands	●	●	●	●	●
Germany	●	●	●	●	●
Sweden	●	●	●		●
Austria	●	●	●		
Belgium	●	●	●		●
Croatia	●				
Cyprus	●	●			
Czech Republic	●				
Denmark	●	●	●		●
Estonia		●			
Finland	●	●	●		
France	●	●	●	●	●
Greece	●	●	●		
Hungary	●	●			●
Ireland	●	●			
Italy	●	●	●	●	●
Lithuania		●			
Luxembourg					●
Norway	●	●	●		
Poland	●	●			
Portugal	●		●	●	
Russia		●	●		●
Serbia	●				
Spain	●	●	●		
Switzerland	●	●	●	●	●
Turkey	●	●			
Ukraine	●				
United Kingdom	●	●	●	●	●

North America

	Pharma	Coatings	Chemicals	Fibers	Other
United States	●	●	●	●	●
Canada	●	●	●		●

Latin America

	Pharma	Coatings	Chemicals	Fibers	Other
Brazil	●	●	●	●	●
Argentina	●	●	●		●
Chile	●		●		
Colombia	●		●	●	
Ecuador	●			●	
Mexico	●	●	●	●	
Netherlands Antilles			●		●
Venezuela	●		●		

Asia

	Pharma	Coatings	Chemicals	Fibers	Other
Japan	●	●	●	●	
Bangladesh	●				
China	●	●	●		●
Hong Kong	●	●			●
India	●		●	●	
Indonesia	●	●	●		
Lebanon	●				
Malaysia	●	●	●		
Pakistan	●				
Philippines	●				
Singapore	●	●	●		
South Korea	●				●
Taiwan	●		●		
Thailand	●	●	●		
Vietnam	●	●			

Africa

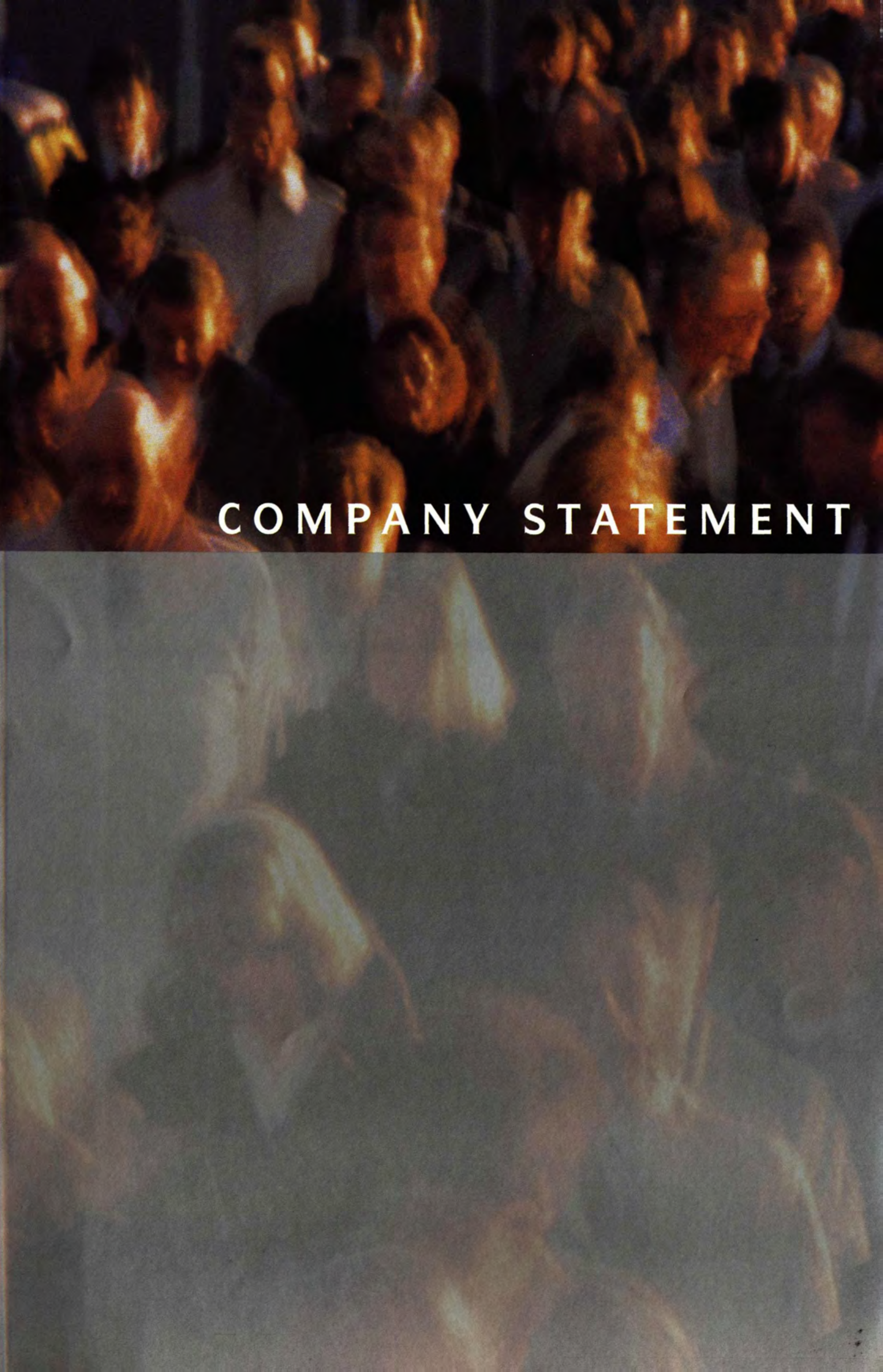
	Pharma	Coatings	Chemicals	Fibers	Other
Algeria	●		●		
Egypt	●				
Ivory Coast		●			
Morocco	●	●			
Nigeria	●				
South Africa	●				

Australia/Oceania

	Pharma	Coatings	Chemicals	Fibers	Other
Australia	●		●		
New Zealand			●		

[1] *including R&D and country organizations*

COMPANY STATEMENT



Diosynth's advanced production facilities at Oss, the Netherlands. (1)

Product processing at Organon, Oss. (2)

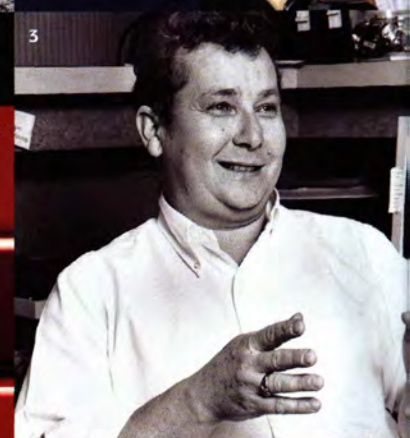
Excellent products and services make satisfied customers. Car refinishes (3) and geosynthetics. (4)

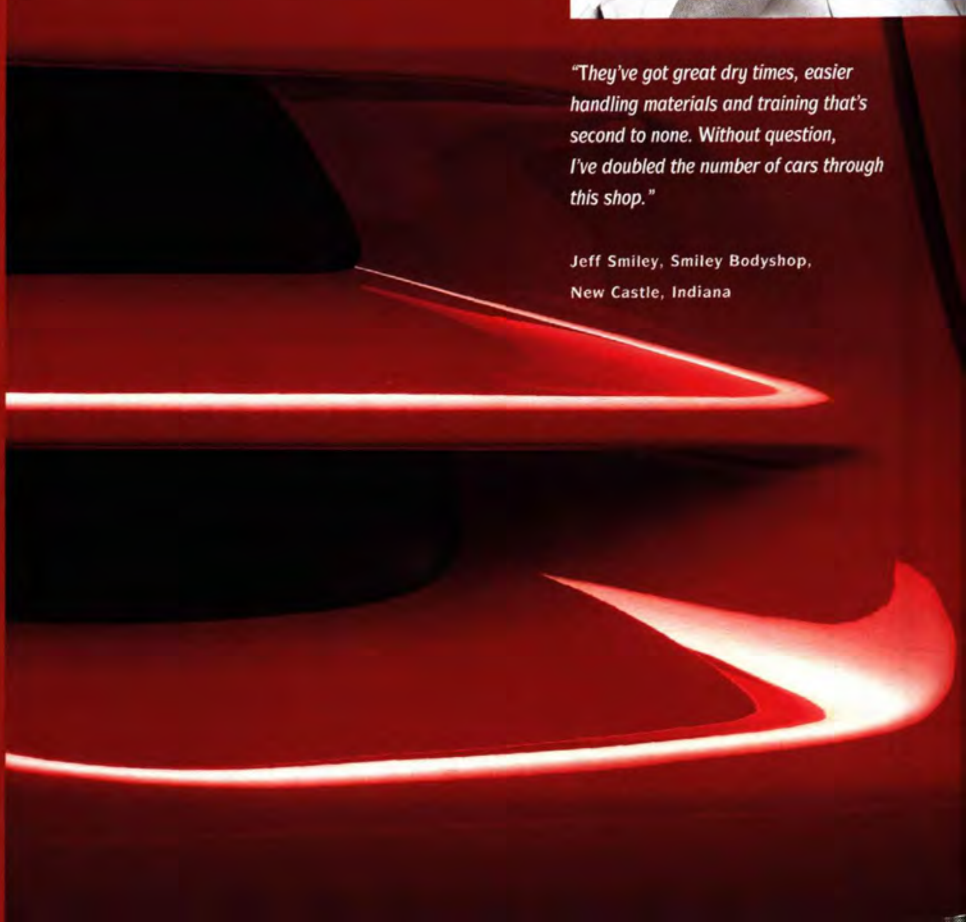
OUR COMPANY

Akzo Nobel is a multicultural company. We are market-driven and technology-based, serving customers throughout the world with healthcare products, coatings, chemicals, and fibers.

Akzo Nobel conducts its diversified activities through Business Units, which report directly to the Board of Management.

We maintain a product portfolio with leading positions in important market segments.





"They've got great dry times, easier handling materials and training that's second to none. Without question, I've doubled the number of cars through this shop."

Jeff Smiley, Smiley Bodyshop, New Castle, Indiana

4

5

6

6

Viscose fabrics make for class and distinction in women's wear. (5)

Vinyl chloride monomer storage at the Rotterdam site. (6)

OUR PEOPLE

Akzo Nobel regards people as its most important resource. We foster leadership, individual accountability, and teamwork.

Our employees are professionals whose entrepreneurial behavior is result-oriented and guided by personal integrity. They strive for the success of their own units in the interest of Akzo Nobel as a global company.

In return, our employees can count on opportunities for individual and professional development in an international working environment. We offer them rewarding and challenging assignments with room for initiative.

7

8

Akzo Nobel fosters teamwork. (7)

Puregon®, a new fertility drug, promises higher pregnancy rates. (8)

Kid's Colors® for the children's rooms. (9)

Shareholder value is a key element of our policy. (10)

OUR COMMITMENTS

9

10

We will focus our efforts on the success of our customers.
We will provide competitive returns on our shareholders' investments.
We will create an attractive working environment for our employees.
We will conduct our activities in a socially responsible manner.

11

12

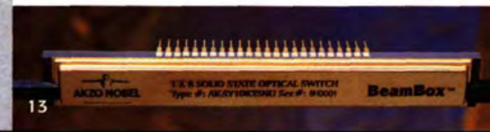
The Akzo Nobel Art Foundation, an artistic link with society. (11)

Twaron® reinforces pleasure craft. (12)

The Beambox® optical switch. (13)

Purification system using macroporous polymer (MPP) technology. (14)

Decorative paints, for color and better protection. (15)



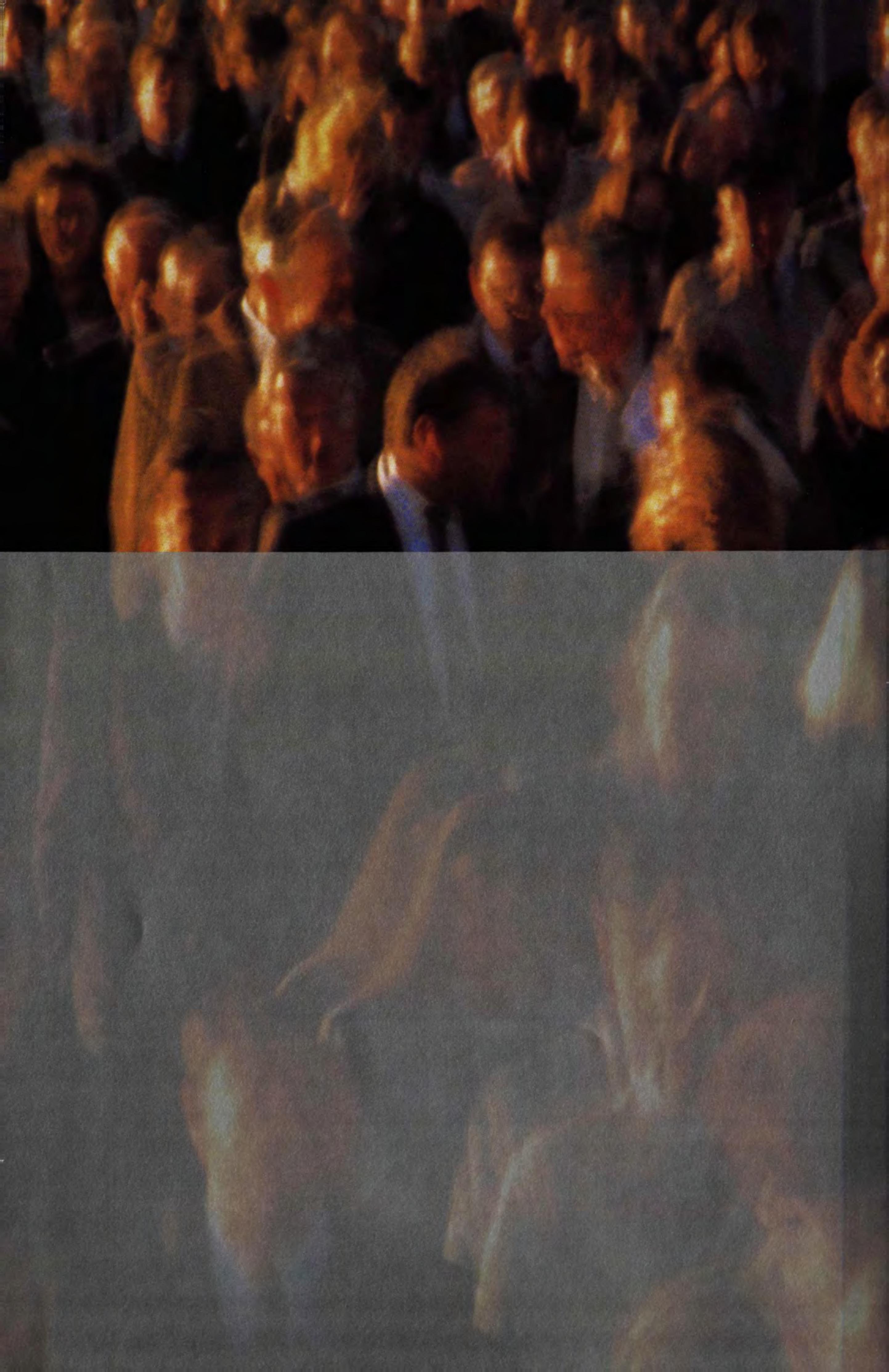
13

14

OUR AMBITION

15

To be the first choice of customers, shareholders and employees, and to be a respected member of society.



FINANCIAL STATEMENTS

Summary of significant accounting policies

Consolidation

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

Valuation

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

Translation of foreign currencies

In the balance sheet, amounts in foreign currencies are translated into guilders at year-end exchange rates. Where currency hedging contracts have been concluded, translation is based on the exchange rates stated in these contracts.
Statements of income in foreign currencies are translated into Netherlands guilders at average exchange rates.
Foreign exchange differences are included in income, except for foreign exchange differences resulting from translation into guilders of intercompany loans and of stockholders' equities of affiliated companies outside the Netherlands; the latter differences are directly added to, or deducted from, equity.
Before being consolidated, the financial statements of affiliated companies established in hyperinflationary countries are adjusted for the effects of changing prices.

Exchange rates of key currencies

The principal exchange rates against the Netherlands guilder (NLG) used in drawing up the balance sheet and the statement of income are:

	Balance sheet		Statement of income	
	1996	1995	**1996***	1995*
USD	**1.74**	1.60	**1.69**	1.61
DEM	**1.12**	1.12	**1.12**	1.12
SEK	**0.25**	0.24	**0.25**	0.23
GBP	**2.96**	2.47	**2.66**	2.52

** Average rates.*

Principles of valuation of assets and liabilities

Intangible assets
Purchased goodwill is charged directly against equity. Other intangible assets–if acquired separately from third parties–are capitalized and amortized on a straight-line basis over their estimated useful life, which in the majority of cases is 10 years.
Preparation and start-up expenses of large investment projects are capitalized and, after the facilities concerned have been put into service, are amortized on a straight-line basis over the estimated useful lives of such facilities.

Property, plant and equipment
Property, plant and equipment are valued at cost less depreciation.
Cost includes the financing charges of capital investment projects under construction.
Capital investment grants are deducted from property, plant and equipment.
Depreciation is computed by the straight-line method based on estimated useful life, which in the majority of cases is 10 years for plant equipment and machinery, and which ranges from 20 to 30 years for buildings.
In cases where the book value so computed permanently exceeds the value to the business additional write-downs are made.

Financial noncurrent assets
Investments in nonconsolidated companies are stated at the amount of Akzo Nobel's share in stockholders' equity. The calculation of stockholders' equity is based as much as possible on the Akzo Nobel principles of valuation.
Loans to nonconsolidated companies are carried at face value less such provisions as are considered necessary. Other financial noncurrent assets are stated at face value, at cost, or at lower market value.

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

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

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

Provisions
Provisions are stated at face value, except for provisions in respect of pension obligations and other such obligations, which are generally computed on an actuarial basis.
Provisions for deferred taxes are based on timing differences between the valuation of assets and liabilities for accounting purposes and the valuation for tax purposes, at current rates. Nonrefundable dividend taxes are taken into account in the determination of provisions for deferred taxes to the extent of earnings expected to be distributed by affiliated companies.
Provisions for environmental cleanup costs are recorded when it is probable that a liability has been incurred, and the amount involved is reasonably estimable.

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

Principles of determination of income

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

- Net sales is defined as the revenue from the sale and delivery of goods and services, net of rebates, discounts, and similar allowances, and net of sales tax.
- Cost of sales comprises the manufacturing cost of the goods and services sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing cost includes such items as:
  - the cost of raw materials and supplies, energy, and other materials;
  - depreciation and the cost of maintenance of the assets used in production;
  - salaries, wages, and social charges for the personnel involved in manufacturing.
- Interest on currency and interest swaps is included in the statement of income under financing charges.
- Taxes on income comprise both current and deferred taxes. No tax deductions are made from income to the extent that this income can be offset against losses incurred in prior years.
  From losses, taxes are deducted to the extent that they can be offset against taxes charged to income in previous years.
- Income from nonconsolidated companies consists of Akzo Nobel's equity in earnings of these companies and interest on loans granted to them, with due allowance being made for taxes relating to these items.

Consolidated statement of income

Millions of guilders	Note	1996		1995	
Net sales	1		**22,438**		21,488
Cost of sales			**(13,684)**		(13,159)
Gross margin			**8,754**		8,329
Selling expenses		**(4,591)**		(4,247)	
Research and development expenses		**(1,137)**		(1,112)	
General and administrative expenses		**(1,083)**		(1,086)	
Miscellaneous revenue from operations		**88**		89	
			(6,723)		(6,356)
Operating income			**2,031**		1,973
Financing charges	2		**(263)**		(260)
Operating income less financing charges			**1,768**		1,713
Taxes	3		**(507)**		(495)
Earnings of consolidated companies from normal operations, after taxes			**1,261**		1,218
Earnings from nonconsolidated companies	4		**91**		137
Earnings from normal operations, after taxes			**1,352**		1,355
Extraordinary items after taxes	5				2
Earnings before minority interest			**1,352**		1,357
Minority interest			**(34)**		(43)
Net income			**1,318**		1,314

See notes on pages 61 and 62.

Consolidated balance sheet

AFTER ALLOCATION OF PROFIT

Millions of guilders, December 31	NOTE	1996		1995	
Assets					
Noncurrent assets					
Intangible assets	7		**167**		146
Property, plant and equipment	8		**9,486**		8,479
Financial noncurrent assets:	9				
– nonconsolidated companies		**1,236**		1,157	
– other financial noncurrent assets		**383**		268	
			1,619		1,425
			11,272		10,050
Current assets					
Inventories	10	**3,878**		3,632	
Receivables	11	**4,366**		4,202	
Cash and cash equivalents	12	**891**		699	
			9,135		8,533
Total			**20,407**		18,583
Equity and liabilities					
Equity	13				
Akzo Nobel N.V. stockholders' equity		**7,703**		6,605	
Minority interest		**238**		193	
			7,941		6,798
Provisions	14		**3,531**		3,387
Long-term debt	15		**2,148**		2,718
Short-term debt					
Short-term borrowings	16	**2,485**		1,619	
Current liabilities	17	**4,302**		4,061	
			6,787		5,680
Total			**20,407**		18,583

See notes on pages 62 through 67.

Consolidated statement of cash flows

Millions of guilders	**1996**		1995	
Earnings before minority interest	**1,352**		1,357	
Depreciation and amortization	**1,207**		1,092	
Cash flow		**2,559**		2,449
Other adjustments to reconcile earnings to cash provided by operations:				
– additional write-downs			84	
– result on sale of interests			(146)	
– equity in earnings of nonconsolidated companies	**(109)**		(153)	
– dividends from nonconsolidated companies	**87**		113	
– changes in provisions	**62**		218	
– other changes	**33**		128	
		73		244
Change in working capital*		**(78)**		(567)
Net cash provided by operations		**2,554**		2,126
Purchase of intangible assets	**(37)**		(100)	
Expenditures for property, plant and equipment	**(1,843)**		(1,652)	
Investments in nonconsolidated companies	**(35)**		(58)	
Acquisition of consolidated companies**	**(161)**		(202)	
Proceeds from sale of interests**	**127**		294	
Changes in other financial noncurrent assets	**(105)**		(68)	
Net cash used for investments		**(2,054)**		(1,786)
		500		340
Issuance of stock	**18**		2	
New long-term debt	**425**		621	
Repayment of long-term debt	**(1,024)**		(1,051)	
Changes in short-term borrowings	**754**		588	
Net cash provided by financing activities		**173**		160
		673		500
Dividends paid		**(513)**		(512)
		160		(12)
Effect of exchange rate changes on cash and cash equivalents		**32**		(17)
Change in cash and cash equivalents		**192**		(29)
Cash and cash equivalents at beginning of year		**699**		728
Cash and cash equivalents at end of year		**891**		699

See note on page 67.

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

** *Net of cash of the acquired or divested interests.*

GENERAL

Affiliated companies

A list of affiliated companies and offices, drawn up in conformity with sections 379, 392, and 414 of Book 2 of the Netherlands Civil Code, has been filed with the Trade Registry of Arnhem.

Changes in consolidated interests

During 1996, Akzo Nobel acquired and divested various businesses, none of which were significant to the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

note [1]

Net sales

By activity

Millions of guilders	**1996**	1995
Pharma	**3,952**	3,774
Coatings	**7,436**	6,840
Chemicals	**7,695**	7,342
Fibers	**3,393**	3,584
Other activities and intercompany deliveries*	**(38)**	(52)
	22,438	21,488

* *Given the minor importance of other activities (1996 sales: NLG 141 million; 1995 sales: NLG 122 million), they have been combined with intercompany deliveries.*

By destination

Millions of guilders	**1996**	1995
The Netherlands	**1,761**	1,640
Germany	**2,789**	2,959
Sweden	**1,091**	1,056
Other European countries	**8,076**	7,882
USA and Canada	**5,066**	4,599
Other countries	**3,655**	3,352
	22,438	21,488

note [2]

Financing charges

Millions of guilders	**1996**	1995
Interest received and similar income	**70**	76
Interest paid and similar expenses	**(333)**	(336)
	(263)	(260)

Interest paid was reduced by NLG 37 million (1995: NLG 31 million) due to the capitalization of financing expenses of capital investment projects under construction.

note [3]

Taxes on operating income less financing charges

Income taxes averaged 29% (1995: 29%).
Taxes were reduced by an amount of NLG 90 million (1995: NLG 110 million) due to the utilization of loss carryforwards from prior years. Income taxes were further reduced by an amount of NLG 40 million (1995: NLG 50 million) due to tax exempt income elements. On the other hand, the effect of nondeductible expenses was an increase of the tax charge by NLG 30 million (1995: NLG 40 million). At December 31, 1996, operating loss carryforwards for tax purposes amounted to NLG 1.3 billion, of which NLG 0.1 billion will expire within five years. For an amount of NLG 1.1 billion of losses there is no expiration date.

note [4]

Earnings from nonconsolidated companies

Earnings from nonconsolidated companies are net of a tax charge of NLG 19 million (1995: NLG 18 million).

note [5]

Extraordinary items after taxes

In 1996, no extraordinary items were recorded.
On balance, 1995 extraordinary items after taxes were a positive amount of NLG 2 million.

note [6]

Salaries, wages, and social charges

Millions of guilders	**1996**	1995
Salaries and wages	**4,879**	4,732
Pension costs	**331**	376
Other social charges	**850**	810
	6,060	5,918

Employees

Average number of employees	**1996**	1995
Pharma	**15,100**	14,300
Coatings	**21,800**	21,500
Chemicals	**14,900**	15,300
Fibers	**14,500**	15,200
Other units	**3,800**	3,800
	70,100	70,100
Number of employees at December 31	**70,700**	69,800

CONSOLIDATED BALANCE SHEET

note [7]

Intangible assets

Millions of guilders	Total	Intellectual property rights	Preparation and start-up expenses
Situation at December 31, 1995			
Cost of acquisition	170	150	20
Amortization	(24)	(20)	(4)
Book value	146	130	16
Changes in book value			
Investments	37	19	18
Amortization	(24)	(19)	(5)
Changes in exchange rates	8	8	–
Total changes	21	8	13
Situation at December 31, 1996			
Cost of acquisition	214	175	39
Amortization	(47)	(37)	(10)
Book value	**167**	**138**	**29**

note [8]

Property, plant and equipment

Millions of guilders	Total	Buildings and land	Plant equipment and machinery	Other equipment	Construction in progress and prepayments on projects	Assets not used in the production process
Situation at December 31, 1995						
Cost of acquisition	18,624	4,455	11,014	1,725	1,043	387
Depreciation	(10,145)	(1,836)	(6,885)	(1,250)		(174)
Book value	8,479	2,619	4,129	475	1,043	213
Changes in book value						
Acquisitions and disposal of interests	29	29	3	–	(3)	
Capital expenditures	1,843	250	1,095	190	307	1
Depreciation	(1,183)	(186)	(829)	(162)		(6)
Disinvestments	(53)	(14)	(26)	(6)		(7)
Changes in exchange rates	364	133	200	15		16
Other changes	7	(18)	65	(39)		(1)
Total changes	1,007	194	508	(2)	304	3
Situation at December 31, 1996						
Cost of acquisition	20,486	4,752	12,225	1,818	1,347	344
Depreciation	(11,000)	(1,939)	(7,588)	(1,345)		(128)
Book value	**9,486**	**2,813**	**4,637**	**473**	**1,347**	**216**

The book value of property, plant and equipment financed by installment buying and leasing was NLG 47 million at December 31, 1996 (at December 31, 1995: NLG 49 million).

The book value of property, plant and equipment on the basis of current value is NLG 0.8 billion higher. This difference principally relates to land.

note [9]

Financial noncurrent assets

Millions of guilders	Total	Nonconsolidated companies: Share in capital	Nonconsolidated companies: Loans	Other financial noncurrent assets
Situation at December 31, 1995	1,425	1,081	76	268
Deconsolidations/investments	245	29	64	152
Consolidations/divestitures	(127)	(37)	(43)	(47)
Equity in earnings	109	109		
Dividends received	(87)	(87)		
Changes in exchange rates	54	43	1	10
Situation at December 31, 1996	**1,619**	**1,138**	**98**	**383**

Some Akzo Nobel companies are general partners in a number of partnerships that are included in the balance sheet under nonconsolidated companies.
Akzo Nobel's equity in the capital of these partnerships was NLG 368 million at year-end 1996 (at December 31, 1995: NLG 348 million). Equity in 1996 earnings was NLG 47 million, against NLG 64 million in 1995.

note [10]

Inventories

Millions of guilders	1996	1995
Raw materials and supplies	**1,115**	1,096
Work in process	**631**	597
Finished products and goods for resale	**2,126**	1,930
Inventory prepayments	**6**	9
	3,878	3,632

note [11]

Receivables

Millions of guilders	1996	1995
Trade receivables	**3,591**	3,296
Receivables from non-consolidated companies	**249**	203
Other receivables	**638**	824
	4,478	4,323
Discounted portion	**(112)**	(121)
	4,366	4,202

note [12]

Cash and cash equivalents

Millions of guilders	1996	1995
Short-term investments	**254**	220
Cash on hand and in banks	**637**	479
	891	699

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings, and debentures immediately convertible into cash. At December 31, 1996, as at December 31, 1995, the amount of cash and cash equivalents was freely available.

note [13]

Equity

Millions of guilders	Akzo Nobel N.V. stockholders' equity	Minority interest
Situation at December 31, 1995	6,605	193
Issuance of stock	18	
Retained earnings	784	21
Changes in minority interest in subsidiaries		17
Goodwill	(93)	
Changes in exchange rates	389	7
Situation at December 31, 1996	**7,703**	**238**

For details on the changes in Akzo Nobel N.V. stockholders' equity see note f to the balance sheet of Akzo Nobel N.V.

note [14]

Provisions

Millions of guilders	1996	1995
Deferred taxes	**532**	454
Pension obligations	**1,705**	1,549
Restructuring of activities	**479**	579
Environmental costs	**456**	453
Other	**359**	352
	3,531	3,387

The current portion of provisions amounted to NLG 671 million (at December 31, 1995: NLG 578 million).

Provisions for pension obligations

Most subsidiaries have established pension plans for their employees in accordance with local legal requirements and customs.

At December 31, 1996, as at December 31, 1995, the accumulated pension benefits were, on balance, fully covered by independent pension funds, insurances, and provisions in respect of pension obligations.

Provisions for environmental costs

For an elucidation of environmental exposures reference is made to note 18.

Other provisions

Other provisions relate to a great variety of risks and commitments.

note [15]

Long-term debt

Millions of guilders	**1996**	1995
Debentures:		
– issued by Akzo Nobel N.V.	**1,400**	1,439
– issued by consolidated companies	**29**	34
Private borrowings	**65**	278
Debt to credit institutions	**324**	601
Other borrowings	**330**	366
	2,148	2,718

The total amount of long-term credit facilities arranged by Akzo Nobel but not utilized was USD 1.0 billion (NLG 1.7 billion) at December 31, 1996.
At December 31, 1995 this, amount was USD 0.7 billion (NLG 1.1 billion).

Aggregate maturities of long-term debt are as follows:

Millions of guilders	1997	1998/ 2001	after 2001
Debentures:			
– issued by Akzo Nobel N.V.			1,400
– issued by consolidated companies	–	29	–
Private borrowings	7	20	38
Debt to credit institutions	191	126	7
Other borrowings	55	176	99
	253	351	1,544

In 1996 the average interest rate was 6.6% (1995: 6.7%).
Private borrowings and debt to credit institutions have been secured to an aggregate amount of NLG 67 million (at December 31, 1995: NLG 84 million) by means of mortgages, etc.

For details on debentures issued by Akzo Nobel N.V. see note g to the balance sheet of Akzo Nobel N.V.

For details on financial instruments reference is made to note 19.

note [16]

Short-term borrowings

Millions of guilders	**1996**	1995
Commercial paper	**1,122**	700
Debt to credit institutions	**1,312**	832
Borrowings from nonconsolidated companies	**51**	87
	2,485	1,619

Commercial paper relates to Akzo Nobel's commercial paper program in the United States, which at December 31, 1996 had a maximum of USD 700 million (NLG 1,218 million). At December 31, 1995, this maximum was USD 550 million (NLG 880 million).

For details on financial instruments reference is made to note 19.

note [17]

Current liabilities

Millions of guilders	**1996**	1995
Prepayments by customers	**44**	34
Suppliers	**2,178**	1,973
Debt to non-consolidated companies	**45**	80
Taxes and social security contributions	**671**	564
Dividends	**430**	396
Pensions	**23**	13
Other liabilities	**911**	1,001
	4,302	4,061

note [18]

Commitments and contingent liabilities

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

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

As stated in note 14, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated NLG 456 million at December 31, 1996 (at December 31, 1995: NLG 453 million).

While it is not feasible to predict the outcome of all pending environmental exposures, it is reasonably possible that there will be a need for future provisions for environmental costs which, in management's opinion based on information currently available, would not have a material effect on the Company's financial position but could be material to the Company's results of operations in any one accounting period.

There are pending against Akzo Nobel N.V. and its subsidiaries a number of other claims, all of which are contested. While the results of litigation cannot be predicted with certainty, management believes, based upon legal advice and information received, that the final outcome of such litigation will not materially affect the consolidated financial position.

Purchase commitments for property, plant and equipment aggregated NLG 187 million at December 31, 1996. At December 31, 1995, these commitments totaled NLG 292 million. In addition, the Company has purchase commitments for raw materials and supplies incident to the ordinary conduct of business.

Long-term liabilities contracted in respect of leasehold, rental, operational leases, etc., aggregated NLG 1,007 million at December 31, 1996 (at December 31, 1995: NLG 878 million). Payments due within one year amount to NLG 263 million (1995: NLG 232 million); payments due after more than five years amount to NLG 332 million (1995: NLG 245 million).

Guarantees relating to nonconsolidated companies totaled NLG 55 million (at December 31, 1995: NLG 67 million).

As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 1996, the risk ensuing from these liabilities was NLG 323 million (at December 31, 1995: NLG 285 million).

note [19]

Financial instruments

Foreign exchange and interest risk management

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

At December 31, 1996, outstanding contracts to buy currencies totaled NLG 0.7 billion (at December 31, 1995: NLG 0.9 billion), while contracts to sell currencies totaled NLG 1.9 billion (at December 31, 1995: NLG 2.2 billion). These contracts mainly relate to U.S. dollars, pounds sterling, French francs, Deutschmarks, Swedish kronor, and Danish kroner.

The Company does not use financial instruments to hedge the translation risk related to equity and earnings of foreign subsidiaries and nonconsolidated companies.

In principle, the Company manages interest risk by financing noncurrent assets and a certain portion of current assets with equity, provisions, and long-term debt with fixed interest rates. The remainder of current assets is financed with short-term debt, including floating rate short-term borrowings.

A major part of the funding in Netherlands guilders has been arranged on the basis of fixed rate interest. To create a more balanced situation, the Company has swapped fixed rate liabilities with floating rate AIBOR-related liabilities for an amount of NLG 320 million and a remaining maturity of 9 years.

Akzo Nobel has swap agreements related to a 9% pound sterling loan with an outstanding amount of NLG 192 million at December 31, 1996. Under the terms of these agreements Akzo Nobel will pay to financial institutions the Netherlands guilders equivalent of the original amount of the loan and interest on such amount at a fixed rate of 7.6% in exchange for its obligations under this loan agreement. The financing requirements in the United States are almost entirely covered by loans on a floating rate basis. Through interest rate swap contracts, Akzo Nobel has fixed the interest costs for a volume of USD 200 million at a level of 5.8% until the end of 2005.

Furthermore, the Company has concluded interest rate cap agreements with a cap rate of 8½% for an amount of USD 200 million to protect itself against the risk of excessive increases in interest rates on short-term U.S. dollar borrowings. These contracts will expire in 2003.

Finally, the Company has concluded a cross currency swap expiring in 1998, which converts NLG 138 million AIBOR-related liabilities into CHF 100 million liabilities with a fixed interest rate of 2.67%. This cross currency swap replaces the 4⅝% 1988/1998 CHF 100 million debenture loan, which was prepaid in 1996.

Credit risk

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

CONSOLIDATED STATEMENT OF CASH FLOWS

note [20]

The consolidated statement of cash flows is based on a comparison of initial and final balance sheet amounts, in which currency translation differences, changes in investments in affiliated companies, etc., are eliminated.

For some items the elimination can be derived directly from the notes to the balance sheet. For certain other items the elimination is shown below.

Millions of guilders	Working capital*	Provisions	Long-term borrowings	Short-term borrowings
Changes in 1996 balance sheet items	203	144	(570)	866
Eliminations:				
– changes in exchange rates	(199)	(66)	(28)	(96)
– changes in consolidation	74	(16)	(1)	(16)
Changes in 1996 financial position	78	62	(599)	754

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

Akzo Nobel N.V. statement of income

Millions of guilders	Note	1996	1995
Net income from affiliated companies	a	1,361	1,321
Other net income		(43)	(7)
Net income		1,318	1,314

See notes on page 69.

Akzo Nobel N.V. balance sheet

AFTER ALLOCATION OF PROFIT

Millions of guilders, December 31	Note	1996		1995	
Assets					
Noncurrent assets					
Financial noncurrent assets	c		12,821		11,535
Current assets					
Receivables	d	202		112	
Cash and cash equivalents	e	213		192	
			415		304
Total			13,236		11,839
Stockholders' equity and liabilities					
Stockholders' equity	f				
Subscribed stock		1,423		1,422	
Additional paid-in capital		5,716		5,699	
Statutory reserves		–		–	
Cumulative currency translation differences		(1,715)		(2,104)	
Other reserves		2,279		1,588	
			7,703		6,605
Long-term debt	g		4,531		4,324
Short-term debt	h		1,002		910
Total			13,236		11,839

See notes on pages 69 through 71.

Notes to Akzo Nobel N.V. statement of income and balance sheet

GENERAL

Foreign currency has been translated, assets and liabilities have been valued, and net income has been determined, in accordance with the principles of valuation and determination of income given on pages 56 and 57. Thus net income and stockholders' equity are equal to net income and stockholders' equity as shown in the consolidated financial statements on pages 58 and 59. As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with Book 2 of the Netherlands Civil Code, section 402.

STATEMENT OF INCOME

note [a]

Net income from affiliated companies

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

note [b]

Remuneration of members of the Board of Management and of the Supervisory Board of Akzo Nobel N.V.

In 1996, remuneration including pension expense, amounting to NLG 12,499,000 (1995: NLG 11,812,000) for members and former members of the Board of Management, and to NLG 943,000 (1995: NLG 1,087,000) for members and former members of the Supervisory Board, was charged to Akzo Nobel N.V. and its subsidiaries.

BALANCE SHEET

note [c]

Financial noncurrent assets

		Consolidated companies		Nonconsolidated companies		Other financial noncurrent assets
Millions of guilders	Total	Share in capital	Loans*	Share in capital	Loans*	
Situation at December 31, 1995	11,535	5,952	5,453	100		30
Investments/divestitures	251	251				
Equity in earnings	1,361	1,338		23		
Dividends received	(1,169)	(1,167)		(2)		
Loans granted	1,119		1,062		53	4
Repayment of loans	(572)		(567)			(5)
Changes in exchange rates	389	400	(5)	(6)		
Goodwill	(93)	(93)				
Situation at December 31, 1996	**12,821**	**6,681**	**5,943**	**115**	**53**	**29**

note [d]

Receivables

Millions of guilders	**1996**	1995
Receivables from consolidated companies	**142**	80
Other receivables	**60**	32
	202	112

note [e]

Cash and cash equivalents

Millions of guilders	**1996**	1995
Short-term investments	**20**	12
Cash on hand and in banks	**193**	180
	213	192

** Loans to companies have no fixed repayment schedule.*

note [f]

Stockholders' equity

Millions of guilders	Subscribed stock	Additional paid-in capital	Statutory reserves	Cumulative translation differences	Other reserves	Stock-holders' equity
Situation at December 31, 1995	1,422	5,699	–	(2,104)	1,588	6,605
Issue of common stock	1	17				18
Retained earnings					784	784
Goodwill					(93)	(93)
Changes in exchange rates in respect of affiliated companies				389		389
Situation at December 31, 1996	**1,423**	**5,716**	–	**(1,715)**	**2,279**	**7,703**

Subscribed stock

Authorized capital stock of Akzo Nobel N.V. is NLG 2,000,048,000 and consists of 48 shares of priority stock of NLG 1,000 and 100 million shares of common stock of NLG 20. Subscribed stock consists of 48 shares of priority stock and 71,164,500 shares of common stock.

In 1996, 84,758 shares of common stock were issued in connection with the exercise of options.

Stock options

Options to purchase shares of Akzo Nobel N.V. common stock have been granted to key employees under the Company's stock option plan. One option entitles its holder to acquire one share of common stock of NLG 20. In 1996, 268 options lapsed (1995: 231).

Additional paid-in capital

At least NLG 2,523 million of additional paid-in capital (at December 31, 1995: NLG 2,506 million) can be considered free from income tax within the meaning of the Netherlands 1964 Income Tax Law.

Statutory reserves

This item includes the statutory reserves relating to the earnings retained by affiliated companies after 1983. Goodwill paid by affiliated companies is deducted from the statutory reserves. The statutory reserves have been calculated by the so-called collective method.

Stock options

Expiry date	Year of issue	Number of options granted	Options outstanding at December 31, **1996**	Options outstanding at December 31, 1995	Exercise price in NLG
April 29, 1996	1991	58,607		1,887	115.10
May 6, 1997	1992	46,897	**3,378**	16,928	164.50
May 6, 1998	1993	55,027	**7,239**	20,019	148.80
May 6, 1999	1994	48,314	**41,295**	47,741	223.50
April 28, 2000	1995	79,478	**39,797**	73,762	180.00
April 26, 2001	1996	83,340	**65,185**		198.00
			156,894	160,337	

note [g]

Long-term debt

Millions of guilders	**1996**	1995
Debentures	**1,400**	1,439
Debt to consolidated companies	**3,125**	2,873
Other borrowings	**6**	12
	4,531	4,324

Debentures

Millions of guilders	**1996**	1995
4⅝% 1988/98 (CHF)		139
6% 1988/96		200
8% 1992/02	**300**	300
6⅜% 1993/03	**300**	300
7% 1995/05	**500**	500
5¾% 1996/01	**300**	
	1,400	1,439

Debt to consolidated companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 4.1% in 1996 (1995: 5.8%).

Other borrowings

The portion to be repaid in 1997 amounts to NLG 4 million. The portion due after 5 years relates to the remaining NLG 2 million.

The average rate of interest was 3.2% (1995: 6.3%).

note [h]

Short-term debt

Millions of guilders	**1996**	1995
Debt to credit institutions	**361**	175
Taxes and social security contributions	**72**	152
Debt to consolidated companies	**46**	58
Borrowings from nonconsolidated companies	**35**	66
Dividend	**430**	394
Other liabilities	**58**	65
	1,002	910

note [i]

Liabilities not shown in the balance sheet

Joint and several liability; guarantees

Akzo Nobel N.V. has declared in writing that it accepts joint and several liability for contractual debts of Dutch consolidated companies. These debts, at December 31, 1996 aggregating approximately NLG 1.9 billion (December 31, 1995: approximately NLG 2.2 billion), are included in the consolidated balance sheet.

Additionally, guarantees were issued in behalf of consolidated companies in the amount of NLG 2.1 billion (1995: NLG 1.4 billion), including guarantees issued by Akzo Nobel N.V. in relation to the exemption of Organon Teknika Limited, Organon Ireland Limited, Nourypharma Ireland Limited, Intervet Ireland Limited, and Mycofarm Ireland Limited under section 17 of the Companies (Amendment) Act 1986 Ireland.

Guarantees relating to nonconsolidated companies amounted to NLG 55 million (1995: NLG 67 million).

Arnhem, February 26, 1997

The Board of Management

C.J.A. van Lede
H.A. van Karnebeek
P.K. Brons
F.W. Fröhlich
O. Mattsson
R.M.J. van der Meer

The Supervisory Board

A.A. Loudon
F.H. Fentener van Vlissingen
A.E. Cohen
J.G.A. Gandois
H. Kopper
J.E. Kvarnström
L.V. Kylberg
L.C. van Wachem
D. Wendelstadt

OTHER INFORMATION

AUDITORS' REPORT

We have audited the 1996 financial statements of Akzo Nobel N.V., Arnhem, as included in this report. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1996, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code.

Arnhem, February 26, 1997

KPMG Accountants N.V.

PROVISIONS OF THE ARTICLES OF ASSOCIATION WITH REGARD TO PROFIT ALLOCATION

Article 37

1

The Board of Management shall be authorized to determine, with the approval of the Supervisory Council*, how great a share of profit as shown by the approved statement of income shall be carried to reserves; the general meeting of stockholders may utilize such reserves only on the proposal of the Board of Management approved by the Supervisory Council. The remaining profit shall be placed at the disposal of the general meeting of stockholders, with due observance of the provisions of paragraph 2.

2

The remaining profit shall, to the extent possible, be allocated as follows:

a

to the holders of priority stock:
six percent per share or the statutory interest referred to in article 8, paragraph 1, whichever is lower, plus any accrued and unpaid dividends;

b

to the holders of common stock:
a dividend of such an amount per share as the remaining profit, less the aforesaid payment and less such amounts as the general meeting of stockholders may decide to carry to reserves, shall permit.

3

The holders of common stock are, to the exclusion of everyone else, entitled to allocations made from reserves accrued by virtue of the provision of paragraph 2b.

4

The right to receive dividends and interim dividends shall lapse six years after such dividends and interim dividends have been made payable.

PROPOSAL FOR PROFIT ALLOCATION

Amounts in guilders	1996	
Net income		1,318,000,000
With due observance of article 37, paragraph 2, of the articles of association, it is proposed that this amount be allocated as follows:		
To be distributed:		
dividend on priority stock	2,880	
dividend on common stock	533,627,249	
		533,630,129
To be carried to other reserves		784,369,871

Following the acceptance of this proposal, the holders of common stock will receive a dividend of NLG 7.50 per share of NLG 20, of which NLG 1.50 was paid earlier as an interim dividend.
The final dividend of NLG 6.00 will be made available on dividend coupon No. 48 from May 12, 1997.

SPECIAL RIGHTS TO HOLDERS OF PRIORITY STOCK

The priority stock is held by "AKZO NOBEL STICHTING" (Akzo Nobel Foundation), whose board is composed of the members of the Supervisory Board and the Board of Management.
The meeting of holders of priority stock has the right to draw up binding lists of nominees for appointment to the Supervisory Board and the Board of Management. Amendments of the Articles of Association are subject to the approval of this meeting.

* *Renamed Supervisory Board.*

TEN-YEAR FINANCIAL SUMMARY

For definitions of financial ratios and concepts (including 1993 pro forma consolidation) see back cover foldout.

Consolidated statement of income

Millions of guilders	**1996**	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988	1987
Net sales	**22,438**	21,488	22,208	*20,874*	16,509	16,713	16,851	17,246	18,736	16,581	15,535
Operating income	**2,031**	1,973	1,932	*1,404*	1,071	1,189	1,156	1,261	1,713	1,424	1,181
Financing charges	**(263)**	(260)	(285)	*(276)*	(218)	(239)	(277)	(368)	(324)	(255)	(147)
Taxes on operating income less financing charges	**(507)**	(495)	(458)	*(269)*	(236)	(285)	(264)	(280)	(507)	(409)	(367)
Earnings from nonconsolidated companies	**91**	137	102	*84*	81	66	64	103	86	123	53
Earnings from normal operations, after taxes	**1,352**	1,355	1,291	*943*	698	731	679	716	968	883	720
Extraordinary items after taxes		2	(75)	*(144)*	(144)	(66)	(111)	(64)	12	(11)	273
Earnings before minority interest	**1,352**	1,357	1,216	*799*	554	665	568	652	980	872	993
Minority interest	**(34)**	(43)	(38)	*(9)*	(5)	(19)	12	11	(26)	(29)	(51)
Net income	**1,318**	1,314	1,178	*790*	549	646	580	663	954	843	942
Common stock, in thousands of shares of NLG 20 at December 31	**71,165**	71,080	71,070	*71,023*	53,968	45,996	45,961	44,421	43,324	40,241	40,208
Dividend	**534**	498	497		339	299	299	289	347 *	302 *	265
Per share of common stock of NLG 20, in guilders											
Net income	**18.54**	18.49	16.58	*11.12*	11.67	14.06	12.89	15.06	23.05	20.96	23.46
Dividend	**7.50**	7.00	7.00	*6.50* **	6.50 **	6.50	6.50	6.50	8.00	7.50	6.60
Stockholders' equity	**108.24**	92.92	88.04	*89.69*	113.99	110.40	103.62	104.50	103.84	106.61	94.80
Adjusted for common stock issues											
Net income	**18.54**	18.49	16.58	*11.12*	11.67	14.06	12.89	15.06	23.00	20.85	23.34
Dividend	**7.50**	7.00	7.00	*6.50* **	6.50 **	6.50	6.50	6.50	7.98	7.46	6.57
Stockholders' equity	**108.24**	92.92	88.04	*89.69*	113.99	110.40	103.62	104.50	103.62	106.06	94.31
Number of employees at December 31	**70,700**	69,800	70,400	*73,400*	60,700	62,500	65,200	69,800	70,900	71,100	67,400
Salaries, wages, and social charges	**6,060**	5,918	6,028	*6,015*	5,082	5,079	5,092	5,068	5,308	4,889	4,627
Ditto, as % of net sales	**27.0**	27.5	27.1	*28.8*	30.8	30.4	30.2	29.4	28.3	29.5	29.8
Ratios											
Operating income, as percentage of net sales	**9.1**	9.2	8.7	*6.7*	6.5	7.1	6.9	7.3	9.1	8.6	7.6
Operating income, as percentage of invested capital	**15.2**	16.0	15.7	*11.5*	11.5	13.2	12.7	13.7	18.9	17.4	16.1
Net income, as percentage of stockholders' equity	**18.4**	20.4	18.7	*12.3*	9.8	13.1	12.3	14.5	21.7	20.8	23.2

* *Of which NLG 222 million in cash in 1989 and NLG 82 million in 1988.*

** *Holders of the 7.9 millon shares of common stock placed in November 1993 were only entitled to the final dividend of NLG 5.00 per share.*

Consolidated balance sheet

Millions of guilders	1996	1995	1994	*pro forma* 1993	1993	1992	1991	1990	1989	1988	1987
Intangible assets	**167**	146	67	*1*	1						
Property, plant and equipment	**9,486**	8,479	8,391	*8,648*	6,359	5,853	5,864	5,884	5,911	5,558	4,795
Financial noncurrent assets	**1,619**	1,425	1,300	*1,210*	1,128	1,358	1,002	959	852	847	792
Noncurrent assets	**11,272**	10,050	9,758	*9,859*	7,488	7,211	6,866	6,843	6,763	6,405	5,587
Inventories	**3,878**	3,632	3,395	*3,553*	2,903	2,797	2,789	2,865	2,952	2,997	2,568
Receivables	**4,366**	4,202	4,111	*4,131*	3,148	2,956	3,117	3,157	3,684	3,125	2,733
Cash and cash equivalents	**891**	699	728	*1,591*	1,863	659	812	816	885	951	926
Current assets	**9,135**	8,533	8,234	*9,275*	7,914	6,412	6,718	6,838	7,521	7,073	6,227
Total assets	**20,407**	18,583	17,992	*19,134*	15,402	13,623	13,584	13,681	14,284	13,478	11,814
Stockholders' equity	**7,703**	6,605	6,257	*6,370*	6,152	5,078	4,762	4,642	4,499	4,290	3,812
Minority interest	**238**	193	184	*175*	154	141	142	192	232	235	217
Equity	**7,941**	6,798	6,441	*6,545*	6,306	5,219	4,904	4,834	4,731	4,525	4,029
Provisions	**3,531**	3,387	3,091	*2,875*	2,374	2,425	2,426	2,537	2,303	2,207	2,266
Long-term debt	**2,148**	2,718	3,139	*4,179*	2,339	1,800	1,818	2,083	2,425	2,229	1,339
Short-term borrowings	**2,485**	1,619	1,101	*1,714*	1,417	1,406	1,642	1,167	1,535	1,436	1,525
Current liabilities	**4,302**	4,061	4,220	*3,821*	2,966	2,773	2,794	3,060	3,290	3,081	2,655
Short-term debt	**6,787**	5,680	5,321	*5,535*	4,383	4,179	4,436	4,227	4,825	4,517	4,180
Total equity and liabilities	**20,407**	18,583	17,992	*19,134*	15,402	13,623	13,584	13,681	14,284	13,478	11,814
Invested capital											
Of consolidated companies	**13,978**	12,666	11,951	*12,700*	9,609	8,952	9,116	9,026	9,410	8,743	7,603
In nonconsolidated companies	**1,236**	1,157	1,093	*1,022*	964	1,239	862	779	699	703	630
Total	**15,214**	13,823	13,044	*13,722*	10,573	10,191	9,978	9,805	10,109	9,446	8,233
Property, plant and equipment											
Capital expenditures	**1,843**	1,652	1,633	*1,410*	1,170	933	1,007	1,129	1,297	1,270	1,095
Depreciation	**1,183**	1,076	1,137	*1,141*	885	871	878	867	852	751	668
Ratios											
Net sales/invested capital	**1.68**	1.75	1.80	*1.71*	1.78	1.85	1.86	1.87	2.06	2.03	2.12
Equity/net debt	**0.69**	0.61	0.60	*0.60*	0.87	0.67	0.62	0.60	0.55	0.57	0.59
Equity/noncurrent assets	**0.70**	0.68	0.66	*0.66*	0.84	0.72	0.71	0.71	0.70	0.71	0.72
Inventories and receivables/ current liabilities	**1.92**	1.93	1.78	*2.01*	2.04	2.07	2.11	1.97	2.02	1.99	2.00

Business segment statistics

Millions of guilders	1996	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988	1987
Pharma											
Net sales	3,952	3,774	3,669	3,421	3,421	3,246	3,064	2,775	2,647	2,412	2,218
Operating income	795	750	655	590	590	532	514	429	383	335	330
Invested capital*	2,392	1,973	1,803	1,780	1,780	1,616	1,484	1,338	1,330	1,390	1,152
Operating income, as percentage of net sales	20.1	19.9	17.9	17.2	17.2	16.4	16.8	15.5	14.5	13.9	14.9
Operating income, as percentage of invested capital	36.4	39.7	36.6	34.7	34.7	34.3	36.4	32.2	28.2	26.4	29.7
Gross cash flow	971	900	796	711	711	641	616	525	472	408	396
Expenditures for PP&E	236	273	238	226	226	195	178	147	149	159	152
Average number of employees	15,100	14,300	14,100	14,000	14,000	13,600	13,200	12,800	12,500	12,300	11,800
Coatings											
Net sales	7,436	6,840	6,887	6,503	4,024	4,062	3,851	3,929	3,659	2,794	2,415
Operating income	592	474	521	398	199	203	221	251	281	210	164
Invested capital*	3,120	2,972	2,798	2,970	1,873	1,903	1,879	1,683	1,708	1,291	1,089
Operating income, as percentage of net sales	8.0	6.9	7.6	6.1	4.9	5.0	5.7	6.4	7.7	7.5	6.8
Operating income, as percentage of invested capital	19.4	16.4	18.1	13.4	10.5	10.7	12.4	14.8	18.7	17.6	15.2
Gross cash flow	811	675	729	601	321	325	334	355	373	286	232
Expenditures for PP&E	254	254	233	270	172	143	169	170	170	158	140
Average number of employees	21,800	21,500	21,900	22,600	14,200	15,000	14,500	15,300	14,000	12,100	10,800
Chemicals											
Net sales	7,695	7,342	7,902	7,525	5,816	5,671	5,737	5,760	6,420	6,020	4,651
Operating income	576	608	712	478	351	359	328	379	703	700	470
Invested capital*	5,705	5,111	5,180	5,220	3,476	3,406	3,476	3,461	3,607	3,455	2,765
Operating income, as percentage of net sales	7.5	8.3	9.0	6.4	6.0	6.3	5.7	6.6	11.0	11.6	10.1
Operating income, as percentage of invested capital	10.7	11.8	13.7	9.3	10.2	10.4	9.5	10.7	19.9	22.5	18.2
Gross cash flow	1,081	1,055	1,212	998	712	719	685	725	1,043	1,016	736
Expenditures for PP&E	932	753	733	545	423	309	341	450	516	423	355
Average number of employees	14,900	15,300	16,000	16,900	12,900	13,400	14,400	14,700	14,500	13,800	12,000
Fibers											
Net sales	3,393	3,584	3,626	3,239	3,239	3,762	4,262	4,852	5,210	4,678	4,291
Operating income	82	158	80	(21)	(21)	127	102	218	268	195	129
Invested capital*	2,546	2,554	2,117	2,653	2,653	2,193	2,372	2,735	2,750	2,464	2,329
Operating income, as percentage of net sales	2.4	4.4	2.2	(0.6)	(0.6)	3.4	2.4	4.5	5.1	4.2	3.0
Operating income, as percentage of invested capital	3.2	6.8	3.4	(0.9)	(0.9)	5.6	4.0	7.9	10.3	8.1	5.8
Gross cash flow	305	383	314	225	225	380	384	516	552	438	336
Expenditures for PP&E	318	309	321	311	311	250	261	294	368	470	358
Average number of employees	14,500	15,200	16,700	18,500	18,500	20,100	23,500	26,200	26,900	26,400	26,300

* *At December 31.*

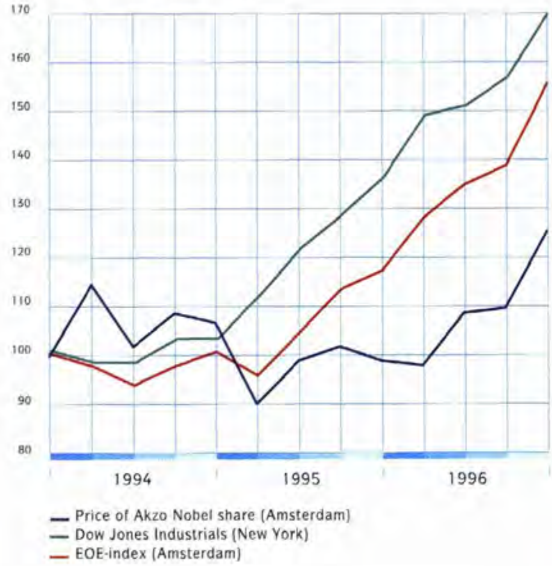
Regional statistics

Millions of guilders	**1996**	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988	1987
The Netherlands											
Net sales by destination	**1,761**	1,640	1,526	*1,451*	1,366	1,467	1,517	1,532	1,612	1,706	1,948
Net sales by origin	**5,912**	5,968	5,734	*5,371*	5,252	5,446	5,720	5,809	6,156	6,022	5,763
Operating income	**539**	484	434	*289*	277	331	430	411	605	601	496
Expenditures for PP&E	**527**	671	632	*490*	485	392	499	524	493	465	451
Invested capital*	**3,817**	3,722	3,420	*3,460*	3,420	3,064	3,115	3,185	2,853	2,902	2,783
Number of employees*	**17,800**	18,400	18,700	*19,300*	19,100	19,900	20,500	22,100	22,300	22,700	22,500
Germany											
Net sales by destination	**2,789**	2,959	2,937	*2,858*	2,598	2,853	2,867	2,957	2,894	2,692	2,613
Net sales by origin	**3,038**	3,065	3,292	*3,255*	3,025	3,489	3,446	3,602	4,595	4,179	3,959
Operating income	**156**	235	159	*90*	78	231	169	209	341	261	240
Expenditures for PP&E	**174**	179	196	*170*	156	178	165	195	309	282	232
Invested capital*	**1,546**	1,473	1,191	*1,730*	1,655	1,681	1,726	1,651	2,022	1,785	1,714
Number of employees*	**11,200**	11,700	11,800	*13,700*	13,300	13,800	14,800	15,300	16,000	19,700	19,600
Sweden											
Net sales by destination	**1,091**	1,056	1,022	*907*	176	201	188	195	199	185	192
Net sales by origin	**1,912**	1,863	1,785	*1,317*	19	43	56	55	49	44	58
Operating income	**181**	261	239	*130*	1	3	3	–	2	3	–
Expenditures for PP&E	**343**	159	130	*75*	1	1	1	1	1	1	3
Invested capital*	**1,389**	1,110	970	*1,150*	8	8	14	13	17	16	12
Number of employees*	**4,700**	4,800	4,600	*4,700*	100	100	100	100	100	100	100
Other European countries											
Net sales by destination	**8,076**	7,882	8,052	*7,561*	5,288	5,808	5,947	6,180	6,632	5,940	6,212
Net sales by origin	**5,108**	4,602	4,884	*4,711*	2,738	2,828	2,798	3,040	2,959	2,522	3,036
Operating income	**660**	498	468	*370*	240	237	187	233	268	260	266
Expenditures for PP&E	**185**	153	193	*235*	146	115	145	171	173	208	160
Invested capital*	**2,536**	2,253	2,388	*2,450*	1,439	1,453	1,686	1,731	1,723	1,488	1,279
Number of employees*	**16,000**	14,900	15,400	*15,500*	9,300	9,700	10,600	12,400	12,600	11,600	11,500
USA and Canada											
Net sales by destination	**5,066**	4,599	5,238	*4,957*	4,401	3,865	3,783	3,700	4,016	3,128	2,333
Net sales by origin	**4,715**	4,326	4,834	*4,710*	4,169	3,732	3,577	3,446	3,487	2,664	2,014
Operating income	**314**	311	435	*390*	365	284	242	277	258	150	86
Expenditures for PP&E	**451**	358	393	*350*	321	203	142	160	197	251	209
Invested capital*	**3,402**	3,051	3,021	*2,930*	2,333	2,061	1,943	1,805	2,133	1,983	1,367
Number of employees*	**11,100**	11,400	11,600	*11,400*	10,700	10,700	10,600	10,500	10,500	8,900	7,500
Other countries											
Net sales by destination	**3,655**	3,352	3,433	*3,140*	2,680	2,519	2,549	2,682	3,383	2,930	2,237
Net sales by origin	**1,753**	1,664	1,679	*1,510*	1,306	1,175	1,254	1,294	1,490	1,150	705
Operating income	**181**	184	197	*135*	110	103	125	131	239	149	93
Expenditures for PP&E	**163**	132	89	*90*	61	44	55	78	124	63	40
Invested capital*	**1,288**	1,057	961	*980*	754	685	632	641	662	569	448
Number of employees*	**9,900**	8,600	8,300	*8,800*	8,200	8,300	8,600	9,400	9,400	8,100	6,200

* *At December 31.*

ADDITIONAL INFORMATION FOR STOCKHOLDERS

Price of Akzo Nobel share relative to Amsterdam/New York stock exchange indices (year-end 1993 = 100)



Akzo Nobel common stock is listed on the following stock exchanges:

The Netherlands:	Amsterdam
United Kingdom:	London
United States:	NASDAQ, as American Depositary Receipts
Austria:	Vienna
Belgium:	Brussels and Antwerp
France:	Paris
Germany:	Frankfurt am Main
Sweden:	Stockholm, as Swedish Depositary Receipts
Switzerland:	SWISS EXCHANGE

FINANCIAL CALENDAR 1997

- Annual Meeting of Stockholders
  April 25
- Report for the 1st quarter
  April 25
- Quotation ex 1996 final dividend
  April 29
- Payment of 1996 final dividend
  May 12
- Report for the 2nd quarter
  July 31
- Report for the 3rd quarter
  October 30
- Quotation ex 1997 interim dividend
  October 31
- Payment of interim dividend
  November 17

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	1996	1995	1994	1993	1992
Dividend in % of net income	**41**	38	42	55 *	46
Dividend, in % of net income, before extraordinary items	**41**	38	40	43 *	42
Number of shares of common stock outstanding at year end (in thousands)	**71,165**	71,080	71,070	53,968	45,996
Akzo Nobel shares sold (in millions)					
Amsterdam	**63**	43	38	30	26
London	**7**	15	22	17	14
NASDAQ (USA)	**3**	3	4	6	6

Amounts in guilders	**1996**	1995	1994	1993	1992
Net income per share**	**18.54**	18.49	16.58	11.67	14.06
Dividend per share	**7.50**	7.00	7.00	6.50	6.50
Stockholders' equity per share	**108.24**	92.92	88.04	113.99	110.40
Highest share price	**237.90**	209.70	229.00	200.70	166.20
Lowest share price	**176.00**	164.00	187.60	134.50	123.70
Year-end price	**236.00**	185.60	200.40	188.00	140.10

Quarterly net income**

Amounts in guilders	**1996**	1995	1994	1993	1992
1st quarter	**4.67**	5.70	3.96	3.43	4.48
2nd quarter	**5.16**	5.40	4.05	3.30	4.75
3rd quarter	**4.61**	4.56	4.53	2.47	3.52
4th quarter	**4.09**	2.83	4.04	2.50	1.31

At November 30, 1996, about 10 percent of common stock was owned by private investors and about 90 percent by institutional investors.

* *Exclusive of the final dividend of NLG 39 million on the 7.9 million shares of common stock placed in November 1993.*
** *On the basis of the average number of shares of outstanding common stock.*

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The collective terms "Akzo Nobel" and "the Company" are sometimes used for convenience where reference is made to Akzo Nobel N.V. and its consolidated companies in general. These terms are also used if no useful purpose is served by identifying the particular company or companies.

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Gross cash flow
Operating income plus depreciation of property, plant and equipment and amortization of intangible assets

Cash flow per share
Net income plus depreciation of property, plant and equipment, and amortization of intangible assets, divided by the average number of shares of common stock outstanding

Net income per share
Net income divided by the average number of shares of common stock outstanding

Stockholders' equity per share
Akzo Nobel N.V. stockholders' equity divided by the number of shares of common stock outstanding at December 31

Working capital
Inventories and receivables less current liabilities, exclusive of dividends

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

Equity
Akzo Nobel N.V. stockholders' equity plus minority interest

Net debt
Provisions plus long-term and short-term debt less cash and cash equivalents

Interest coverage
Operating income divided by financing charges

In the computation of ratios, the amounts used for invested capital and stockholders' equity represent averages of the amounts at the beginning and the end of the year.
For 1994 the 1993 pro forma figures have been used to calculate the average.

The 1993 pro forma figures included in this report are based on a pro forma consolidation of the figures of Akzo N.V. and Nobel Industries AB, which have been derived from the respective 1993 financial statements of the two companies.

Definitions of certain financial ratios and concepts used in this Annual Report (PTO)