Annual Report 1997

AKZO NOBEL

PROFILE

Akzo Nobel, headquartered in the Netherlands, is a multinational company which produces and markets healthcare products, coatings, chemicals, and fibers. The company employs approximately 69,000 people and has activities in more than 60 countries. In 1997, consolidated sales aggregated NLG 24.1 billion and capital expenditures NLG 1.4 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.

COMPANY STATEMENT
(please turn over)

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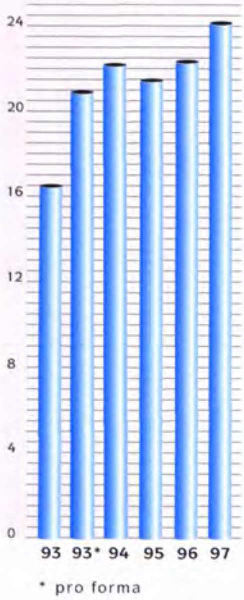
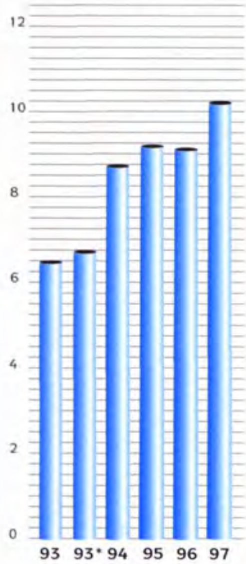
FINANCIAL HIGHLIGHTS

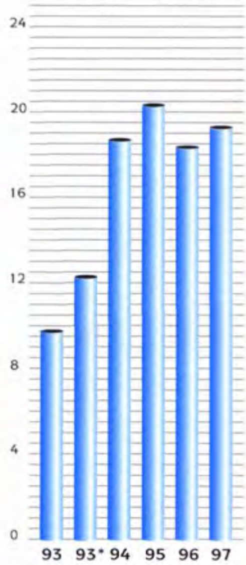
Net sales
(billions of guilders)



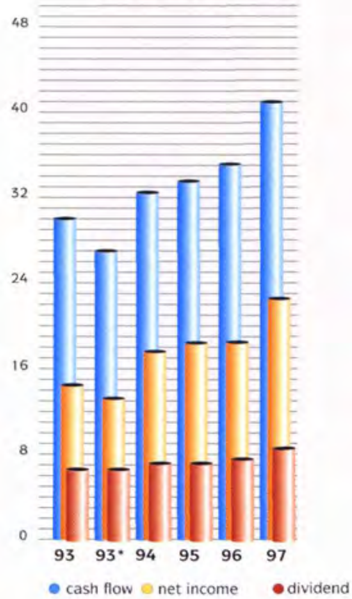
Operating income
as percentage
of net sales



Net income
as percentage of
stockholders' equity



Cash flow, net income
before extraordinary
items, and
dividend per share
of NLG 20 *(in guilders)*



Millions of Netherlands guilders (NLG)	**1997**	1996
Net sales	**24,052**	22,438
Operating income	**2,465**	2,031
Net income	**1,615**	1,318
Cash flow	**2,978**	2,559
Stockholders' equity	**9,035**	7,703
Property, plant and equipment		
– expenditures	**1,412**	1,843
– depreciation	**1,293**	1,183
Per share of NLG 20, in NLG		
Net income	**22.67**	18.54
Cash flow	**41.04**	35.25
Dividend	**8.50**	7.50
Stockholders' equity	**126.71**	108.24
Key ratios		
Operating income as % of net sales	**10.2**	9.1
Operating income as % of invested capital	**17.1**	15.2
Net income as % of stockholders' equity	**19.3**	18.4
Interest coverage	**9.0**	7.7
Gearing	**0.33**	0.47
Equity/net debt	**0.81**	0.69
Number of employees at year end	**68,900**	70,700

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

Nineteen ninety-seven was the year in which we set out to relaunch growth of our activities, and we are happy to report that we have surpassed our targets in this respect. Sales increased 7 percent, while operating income rose by as much as 21 percent.

Return on sales reached a record level of over 10 percent. Our performance has resulted in earnings per share of NLG 22.67, up 22 percent from 1996. We are, therefore, pleased to propose to the annual meeting of shareholders a dividend increase to NLG 8.50 per share. Unquestionably, these sound results were realized in a healthy economic climate. A favorable influence was also exerted by positive currency translation effects, which accounted for 6 percentage points of the gain in operating income.

In Europe—our most important market—the economy showed a mixed picture: growth was generally strong in the Nordic countries and the Benelux as well as in the United Kingdom and Spain, but only moderate in Germany, France, and Italy. The United States—our second most important market—continued its unprecedented long period of high growth, low inflation, and low unemployment.

Most Asian countries started the year at their usual high growth rates but were soon affected by severe confidence crises in their financial systems. At the time of writing this Annual Report growth prospects for Asia overall are moderate, and it is still unclear when the crises will bottom out and confidence in the financial systems will be restored. We believe, however, that the underlying economic conditions in Asia are fundamentally sound. Most countries have a hard working, increasingly well-trained labor force with a high propensity to save and eager to improve their standards of living. Therefore, we will continue a policy of prudent expansion in Asia.

Latin America is also heavily affected by the Asian developments, although thus far the most important countries have been able to keep their financial systems and exchange rates reasonably intact.

During 1997, most of our business units managed to expand more rapidly than their markets and have almost all surpassed their own growth targets. Only a few remained at their 1996 levels. Overall, we had a slow start in the first quarter with hardly any increase in volumes, but the following quarters showed truly strong performances for almost all our activities.

Not only did the Company's market position improve but also its financial strength. As will be explained further in the Report of the Board of Management, we have come closer to meeting our internal financial targets, and our balance sheet has become stronger. In this context, we particularly refer to our waiver of the standstill agreement with Securum, allowing the secondary offering of a 10 percent participation in Akzo Nobel. The successful placement removed the limitations imposed under the agreement on the issuance of stock. It is appropriate at this place to thank Securum for the positive role they played as a temporary shareholder. Another key decision was the divestment of Salt America, which no longer fitted our activities in view of our changed priorities. This will structurally increase the return on sales of our chemical activities.

Our pharmaceutical company Organon achieved a turnaround. It managed to resume growth in third generation oral contraceptives, a business which was under pressure in 1996 as a result of the scientific debate that broke out in 1995 on the safety of the product. Not only did Organon resume growth in sales but also in volume. Organon's year was further characterized by rapid growth of Remeron® (an antidepressant) and Puregon® (a fertility product). Sales developments in the United States are particularly promising after a substantial sales force expansion.

Our strategy has remained unchanged: priority on growth in Pharma and Coatings, focus on profitability improvement in Chemicals, and active participation of Fibers in the restructuring of the fiber industry. As a result of this strategy we witnessed a 17 percent sales gain for our Pharma activities. Sales increases were registered not only in human healthcare but also in other segments, notably in our animal health business. Coatings came close to its profitability target with all business units contributing. During the year a number of small acquisitions were made. After completion of the merger process of Akzo and Nobel, Coatings is even more prepared to actively expand its leadership in the industry. Chemicals started to deliver on the large investments made in 1995 and 1996 to catch up on capital expenditures long overdue in several production locations. As the year progressed, Chemicals' activities showed healthy growth. Fibers again had to operate under difficult market conditions but managed to deliver a slightly better result than the year before.

The priorities we set for ourselves have been recognized by the investment community and stock market. We believe this has contributed to the appreciable increase in our P/E ratio. The present stock price level has induced us to propose a four-for-one stock split to the meeting of shareholders. At this meeting we will also propose other changes in the Articles of Association in the context of a general review of the position of shareholders. Notably, we propose that the limitation on your voting rights be canceled, as we believe this to be more in line with today's business practice.

Looking ahead, we have started the year 1998 from a sound basis for continued growth in our principal markets. However, the developments in Asia are creating a higher degree of uncertainty in the business climate than usual. Nevertheless, assuming there will be no further spillover into western or Latin American markets and no major changes in our key currency exchange rates, we expect a further increase in earnings of the ongoing operations.

As explained in more detail in the latest Health, Safety, and Environment Report—presented last year in the United States—Akzo Nobel is becoming increasingly clean and safe. We have made substantial strides forward but should not be satisfied before we have fully achieved our environmental targets and have come close to a zero accident rate. This is a shared conviction between employees and management.

In general, the dedication of our employees has brought many of our ambitions closer to realization. We are grateful for their efforts and contributions to the Company, which have been instrumental in realizing the return to you as shareholders.

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

BOARD OF MANAGEMENT

	Served in such or similar capacity since
Cees J.A. van Lede (1942), *Chairman*	1991
Herman A. van Karnebeek (1938), *Deputy Chairman*	1993
Paul K. Brons (1941), *Pharma*	1994
Fritz W. Fröhlich (1942), *Fibers*	1993
Ove Mattsson (1940), *Coatings*	1994
Rudy M.J. van der Meer (1945), *Chemicals*	1993

Secretary

Bart C.M.I. Beusmans (1940)	1996

Executive Vice Presidents*

Jean den Hoed (1937), *Finance and Control*	1990
Joop F. Sistermans (1942), *Strategy and Technology*	1994

* *The Board of Management and the Executive Vice Presidents together constitute the* ***Executive Council***.

Senior Vice Presidents

Frits H. Hensel (1943), *Finance*	1997
Olle Werner (1944), *Human Resources*	1997

REPORT OF THE SUPERVISORY BOARD

Changes in the Supervisory Board
At the Annual Meeting of Stockholders of April 25, 1997, Ambassador L. Paul Bremer, III and Maarten C. van Veen were appointed members of the Supervisory Board. Jan E. Kvarnström and Lars V. Kylberg resigned after Securum sold a 10 percent participation in Akzo Nobel. We are grateful for their valuable contributions to the Company during the integration period after the merger of Akzo and Nobel. As a consequence of these changes and the death of Harry H. van den Kroonenberg in 1996, membership of the Supervisory Board was reduced from ten to nine. At the same meeting, Aarnout A. Loudon and Hilmar Kopper, who resigned from the Board as their terms of office were expiring, were reappointed.

At the Annual Meeting of Stockholders to be held on April 24, 1998, Abraham E. Cohen, Frits H. Fentener van Vlissingen, and Lo C. van Wachem will resign from the Board as their terms of office are expiring. They are proposed for reappointment.

Changes in the Board of Management
Effective May 1, 1998, Herman A. van Karnebeek will retire as Deputy Chairman of the Board of Management. During his career of more than thirty years with the Company, Mr. van Karnebeek has held numerous positions. He has been a member of the Board of Management since 1993 and was appointed Deputy Chairman in 1996. A member of the Management Council from 1990, he assumed responsibility for Akzo's Coatings activities in 1991. Prior to that he was Executive Vice President – Human Resources and held several management positions within Chemicals. We are very grateful for his wise counsel and many outstanding contributions to the development of our Company. Fritz W. Fröhlich will succeed him as Deputy Chairman. We propose that Folkert B. Blaisse, General Manager of Industrial Fibers, be appointed a member of the Board of Management to take over Mr. Fröhlich's responsibility for Akzo Nobel's Fibers activities.

Changes in the Executive Council*
Effective July 1, 1997, Peter J. Baart, Executive Vice President – Human Resources and Chairman of the Board of Akzo Nobel Nederland B.V., stepped down, having reached the mandatory retirement age. Mr. Baart was appointed a member of the Executive Council in 1994. He started his career in 1960 with Organon, where he held several management positions. In 1987, he joined Diosynth and became Chairman of its board in 1991. We are grateful to have had the benefit of his skills and dedication for so many years. Mr. Baart was succeeded by Olle Werner, who was appointed Senior Vice President – Human Resources as from July 1, 1997. At the same date, the Company Secretary, Bart C.M.I. Beusmans, was appointed Chairman of the Board of Akzo Nobel Nederland B.V.

After a career of almost thirty years with the Company, Jean den Hoed, Executive Vice President – Finance and Control and Chief Financial Officer (CFO), will retire effective July 1, 1998. Mr. den Hoed has been a member of the Executive Council since 1990. In 1977 he was appointed Vice President – Finance and Controller of Chemicals. He became Head of Corporate Control in 1985. We are greatly indebted to him for his innovative and stimulating contributions to the Company. As from July 1, 1998, Mr. Fröhlich will also assume responsibility for Finance and Control as Deputy Chairman and CFO.

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 President for Finance and Control, the internal auditor, and the external auditor on the Company's financial statements, administrative organization, internal control, the introduction of the euro, and the millennium issue. We believe that our supervision is adequately structured and properly exercised.

* *In 1997, the Management Council was renamed Executive Council.*

SUPERVISORY BOARD

The Supervisory Board extensively studied and discussed the Report of the Dutch Committee on Corporate Governance, published in June 1997, and the recommendations made therein. The report is considered a valuable contribution to the discussions on Corporate Governance, and the recommendations are largely being followed. It will also be an item on the agenda of the Annual Meeting of Stockholders of April 24, 1998, when we intend to give our views on the recommendations and discuss them with stockholders.

Elimination of restriction of voting rights
After extensive discussions the Supervisory Board and the Board of Management now hold the view that Akzo Nobel's stockholders should be able to exert influence in proportion to their holdings. It is therefore proposed that the restriction of voting rights be eliminated from the Company's Articles of Association at the Annual Meeting of Stockholders of April 24, 1998.

Financial statements and dividend proposal
We herewith submit for stockholders' approval at the Annual Meeting of April 24, 1998, the financial statements of Akzo Nobel N.V. for 1997 as prepared by the Board of Management. These financial statements have been audited by KPMG Accountants N.V. Their report appears on page 75.

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 and discharge the members of the Board of Management of their responsibility for the conduct of the business, and the members of the Supervisory Board for their supervision.

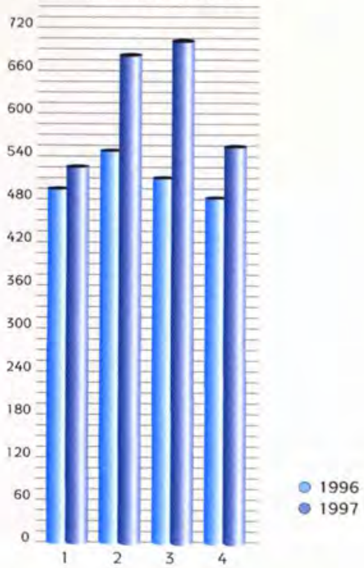
Arnhem, February 20, 1998

The Supervisory Board

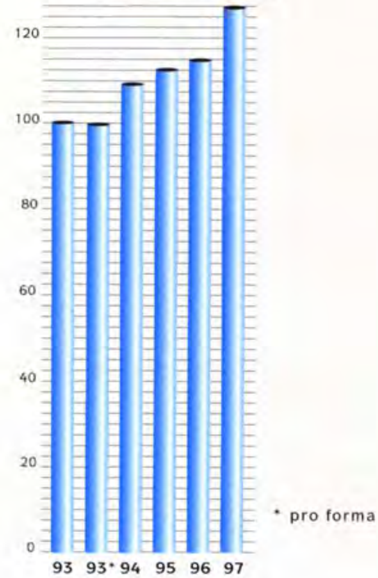
	Served in such or similar capacity since
Aarnout A. Loudon (1936) *Chairman* [1] *Former Chairman of the Board of Management of Akzo Nobel N.V.* *Member of the Dutch Upper House*	1994
Frits H. Fentener van Vlissingen (1933) *Deputy Chairman* [1,2] *Managing Director of Flint Holding N.V., the Netherlands*	1984
L. Paul Bremer, III (1941) *Former U.S. Ambassador to the Netherlands* *Managing Director of Kissinger Associates*	1997
Abraham E. Cohen (1936) [2] *Director on a number of Boards of U.S. corporations*	1992
Jean G.A. Gandois (1930) *Former President of the Conseil National du Patronat Français*	1989
Hilmar Kopper (1935) [2] *Chairman of the Supervisory Board of Deutsche Bank AG*	1990
Maarten C. van Veen (1935) *Chairman of the Board of Management of Koninklijke Hoogovens N.V., the Netherlands*	1997
Lo C. van Wachem (1931) [1] *Chairman of the Supervisory Board of Royal Dutch Petroleum Company*	1992
Dieter Wendelstadt (1929) [1] *Chairman of the Supervisory Board of Colonia Konzern AG, Germany*	1993

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

Operating income per quarter
(millions of guilders)



Value added per employee
(thousands of guilders)



GENERAL FINANCIAL PERFORMANCE

Results of operations

For Akzo Nobel 1997 was a year of growth.
Net income increased 23 percent, reaching an all-time high of NLG 1,615 million, against NLG 1,318 million in 1996. Net income per share rose by 22 percent from NLG 18.54 to NLG 22.67.

Return on stockholders' equity improved from 18.4 percent in 1996 to 19.3 percent in 1997.

Earnings of Pharma, Coatings, and Chemicals showed considerable growth during the year, while Fibers reported a moderate increase. As a consequence, 1997 operating income of NLG 2,465 million surpassed the prior year's figure of NLG 2,031 million by 21 percent. Almost all business units recorded higher results. Pharma's contribution increased 17 percent, favored by volume gains, notably for Organon, Intervet, and Diosynth. All Coatings business units achieved distinctly better results, causing Coatings' overall operating income to grow 27 percent. Especially the industrial business showed a strong improvement. Chemicals was also up 27 percent from the prior year, with major contributions being made by Surface Chemistry, Polymer Chemicals, and Functional Chemicals. Fibers continued to be affected by adverse market conditions for most of its products, but operating income was somewhat higher. After a weak first quarter, results were ahead of the previous year. Aramid Products and the Sympatex® activities did better than in 1996.

Condensed statement of income

Millions of guilders	**1997**	1996
Net sales	**24,052**	22,438
Cost of sales	**(14,159)**	(13,684)
Gross margin	**9,893**	8,754
Selling, R&D, and G&A expenses	**(7,428)**	(6,723)
Operating income	**2,465**	2,031
Financing charges	**(274)**	(263)
	2,191	1,768
Taxes	**(657)**	(507)
Earnings of consolidated companies after taxes	**1,534**	1,261
Earnings from non-consolidated companies	**119**	91
	1,653	1,352
Minority interest	**(38)**	(34)
Net income	**1,615**	1,318

Generally higher currency exchange rates—particularly for the U.S. dollar and the pound sterling—had a positive translation effect of NLG 115 million on operating income.

Operating costs include a number of nonrecurring items, which—on balance—amount to a loss of NLG 6 million. The settlement of the insurance claim regarding the 1994 water intrusion at the Retsof mine, New York, resulted in a gain of NLG 160 million. This gain was offset by losses relating to restructuring costs, mainly at Chemicals and Fibers.

At the end of April 1997, the activities of the business unit Salt America were divested to Cargill Inc., United States, for an amount of NLG 600 million, which approximates the book value.

The favorable developments are reflected in the return on sales figures shown below.

	1997	1996
Pharma	**20.2**	20.1
Coatings	**9.0**	8.0
Chemicals	**9.6**	7.5
Fibers	**2.6**	2.4
Akzo Nobel	**10.2**	9.1

Sales aggregated NLG 24.1 billion, up 7 percent from the previous year. Higher volumes accounted for 5 percent and positive currency translation effects for 6 percent. Average selling prices were slightly below the 1996 level, while acquisitions and deconsolidations resulted, on balance, in a 3 percent decrease.

Value added—the sum of labor costs and operating income—totaled NLG 8.9 billion, against NLG 8.1 billion in 1996. Value added per employee rose from NLG 115,400 to NLG 127,300.

The number of employees at year-end 1997 was 68,900, compared with 70,700 at the end of 1996. Divestments—mainly Salt America—caused a decrease of 2,100, while acquisitions added 600. Staff reductions for Fibers and Chemicals were partially offset by increases for Pharma and Coatings.

Financing charges were NLG 274 million in 1997, against NLG 263 million in 1996. Interest benefits resulting from the positive funds balance were offset by increases caused by foreign currency translation effects and somewhat higher short-term interest rates.

Taxes were slightly higher, averaging 30 percent in 1997, compared with 29 percent in 1996. Taxes were reduced by an amount of NLG 85 million (1996: NLG 90 million) due to utilization of tax loss carryforwards from prior years, mainly in Sweden.

Earnings from nonconsolidated companies rose from NLG 91 million in 1996 to NLG 119 million in 1997, spurred by strongly improved results of the Chemicals joint ventures Methanor (methanol) and Flexsys (rubber chemicals), as well as the inclusion of ROVIN (VCM/PVC). The results of the Fibers companies were lower, principally due to the sale of the participation in Fibras Químicas with effect from January 1, 1997.

Dividend proposal

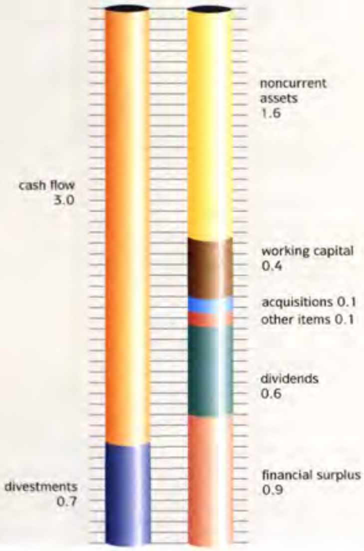
At the Annual Meeting of Stockholders of April 24, 1998, we will propose that the 1997 dividend be fixed at NLG 8.50 per share of common stock. An interim dividend of NLG 2.50 was declared and made payable in November 1997. If the dividend proposal is adopted, NLG 606 million of net income will be allocated for dividend payment.

Cash flows, capital investments, and financial position

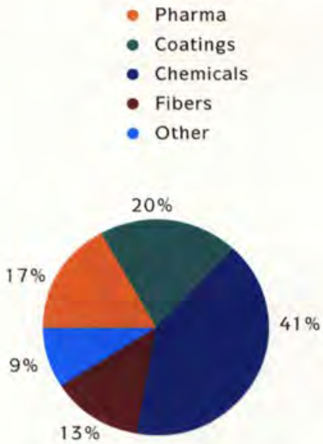
Cash inflow and funds used for operations worked out at a positive balance of NLG 0.8 billion, while proceeds from divestments added another NLG 0.7 billion. Dividend payments required an amount of NLG 0.6 billion, leaving a financial surplus of NLG 0.9 billion. In view of these developments, Akzo Nobel did not conclude any capital market transactions in 1997.

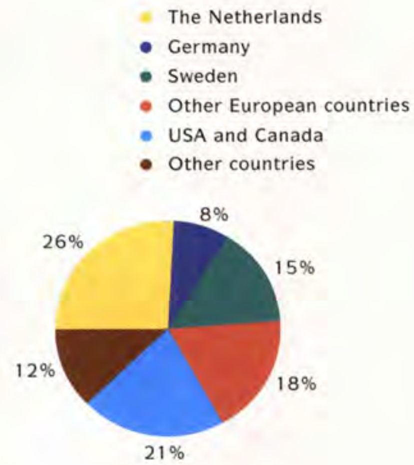
During the year we actively used our U.S. Commercial Paper and Euro Commercial Paper Programs. Placement of the paper is facilitated by our A1/P1 credit rating and the availability of unutilized committed credit lines in the aggregate amount of USD 1.0 billion.

Funds generated and used in 1997
(NLG billion)



1997 expenditures for property, plant and equipment (NLG 1,412 million)





As planned, expenditures for property, plant and equipment were down almost 25 percent from the high level of 1996 and aggregated NLG 1,412 million. Capital investments of Chemicals—where large projects were completed—and Fibers were significantly lower, while Pharma and Coatings remained close to the 1996 level. Authorizations for new investment projects totaled NLG 1.7 billion, exceeding prior year authorizations by NLG 0.5 billion. Depreciation amounted to NLG 1,293 million, compared with NLG 1,183 million in 1996.

Invested capital at year-end 1997 amounted to NLG 14.8 billion, compared with NLG 14.0 billion at the beginning of the year. Higher exchange rates led to an increase of NLG 0.7 billion, while acquisitions and deconsolidations, on balance, caused a decrease of NLG 0.5 billion. The remaining balance of NLG 0.6 billion mainly relates to working capital, reflecting the Company's higher activity level. Included in this figure is the insurance receivable of NLG 160 million in connection with the settlement of the Retsof claim.

At 1.67, the invested capital turnover was almost unchanged from the previous year. Working capital (excluding the Retsof insurance receivable) was 19.3 percent of sales, against 19.5 percent in 1996.

Condensed balance sheet

Millions of guilders	**Dec. 31, 1997**	Dec. 31, 1996
Noncurrent assets	**10,443**	10,036
Current assets	**9,040**	8,244
Current liabilities	**(4,660)**	(4,302)
Invested capital of consolidated companies	**14,823**	13,978
Nonconsolidated companies	**1,277**	1,236
Cash and cash equivalents	**699**	891
	16,799	16,105
Equity	**9,295**	7,941
Provisions	**3,775**	3,531
Interest-bearing debt	**3,729**	4,633
	16,799	16,105

In February 1997 we were approached by Securum AB to cooperate in the secondary offering of a 10 percent participation in Akzo Nobel N.V. We decided to comply with their request, given the favorable share market conditions at that moment and the opportunity to resolve the overhang of these shares in a controlled manner. The shares were placed at a price of NLG 279.20 per share.

Equity increased NLG 1.4 billion in 1997, while net debt decreased NLG 0.1 billion. As a consequence, equity/net debt went up from 0.69 to 0.81, and gearing improved from 0.47 to 0.33. Interest coverage rose from 7.7 in 1996 to 9.0 in 1997.

Euro

Akzo Nobel considers a smooth changeover to a single European currency to be of the utmost importance. Consequently, an inventory was made of the implications for all business and functional areas. To ensure proper monitoring and guidance during the transition period, a corporate steering committee and business unit task forces have been set up. As from January 1, 1999, Akzo Nobel intends to report externally and internally in euros. The Annual Report for the year 1998, to be published in March 1999, will still use Netherlands guilders. For readers' convenience the key figures will also be given in euros.

Millennium

Much attention is being focused on resolving "year 2000 issues" that could affect numerous computer systems for all business processes throughout Akzo Nobel. In this context a Millennium Committee and a Millennium Program Team were set up in 1996. We believe that our efforts in this area will permit a smooth transition to the next millennium.

Corporate Governance at Akzo Nobel

Corporate Governance is generally perceived to focus primarily on the accountability of the Board of Management of a company, especially toward its shareholders, and on the role and responsibilities of the Supervisory Board. However, Corporate Governance can only be exercised adequately if it is supported by a similar approach within the company. Akzo Nobel has a coherent internal structure of management and control which ensures proper management accountability. Corporate Governance is not limited to financial internal control but also relates to other issues such as integrity, adherence to internal and external rules and regulations, human resources and health, safety, and environment management, as well as assessment of financial, technological, social, and political risks. Corporate Governance also focuses on the effectiveness and efficiency of processes in general.

Throughout the Company, managers of operational and service units are required once a year to make a statement in what is known as the Letter of Representation. In this letter they explain how they have fulfilled their responsibilities relative to appropriate systems of internal control and proper conduct in relation to obligations set forth in the Company Statement. Such a Letter of Representation can only be submitted if day-to-day practice is based on continuous self-assessment by each manager and if the conditions for proper business control have been fulfilled.

Pages 12 through 14 address some corporate key functions, while pages 15 through 56 provide details on the Company's business activities. These sections form an integral part of the Report of the Board of Management.

Outlook for 1998

Looking ahead, we have started the year 1998 from a sound basis for continued growth in our principal markets. However, the developments in Asia are creating a higher degree of uncertainty in the business climate than usual. Nevertheless, assuming there will be no further spillover into western or Latin American markets and no major changes in our key currency exchange rates, we expect a further increase in earnings of the ongoing operations.

As a consequence of the increased level of authorizations for new investment projects, expenditures for property, plant and equipment are expected to increase from NLG 1.4 billion in 1997 to NLG 1.6 billion in 1998.

As for 1998 again a financial surplus is expected, no additional funds will have to be raised for ongoing operations.

Excluding potential deconsolidations and acquisitions, the number of employees is not expected to change materially in 1998.

Arnhem, February 20, 1998

The Board of Management

CORPORATE

In addition to corporate responsibilities for strategy, and finance and control, the corporate Management Holding coordinates overall policies in such key areas as Human Resources, Research and Technology, and Health, Safety and Environment, to be reviewed in this section. Implementation of these policies is a business unit responsibility.

Human Resources

"Our ambition is to be the first choice of our employees." This strong line from Akzo Nobel's Company Statement is at the very heart of our Human Resources policy. It is based on the conviction that no single stakeholder is more important than the next and that all stakeholders' interests are interrelated.
We aspire to be the first choice of our—present and future—employees, for proud, confident, and valued employees radiate strength and reliability to the credit of Akzo Nobel.

To be the first choice of our employees means we have to meet their needs, which go far beyond income and long-term employment. Employees want to develop, grow, broaden their horizons. It is our task to accommodate these needs, which go hand in hand with our business interests and are critical to Akzo Nobel's strategic objective to grow. An organization can only grow if it stimulates its individual members to grow.

Our decentralized two-layer structure, which has proven its value to the business, permits us to realize these ambitions because it is also preeminently suited to offer a broad scope to employees to develop their talents. This structure offers a wider span of control and delegates responsibility to all parts of the organization. During the last few years this has led to a shift from functional management to executives with full-scope business responsibilities.

To manage such a flat organization and optimally use its advantages we need to foster a specific managerial attitude: a frame of mind that feels challenged to achieve, even in adverse conditions. In other words, we are looking for bottom-line thinking and entrepreneurial spirit. We prefer personal drive and initiative over excessive focusing on procedures. We also give recognition to communicative and team-playing skills as critical success factors in running Akzo Nobel's diverse operations worldwide. Furthermore, to improve overall synergy our management concept places great weight on integrative and cooperative abilities in corporate and business unit staff.

Our corporate HRM tools—recruitment, education, management development, and compensation—are being attuned to this approach. For example, when there are openings for advancement, only those employees whose attitudes are in conformity with the qualities outlined above will be considered. Also, our internal educational and training programs are being remodeled to promote joint values and stimulate horizontal communication and networking across business units and national borders.

Our HRM policy especially focuses on the breeding ground for our future managers: our ability to attract and sign on bright, promising new employees. In 1997, we hired over 400 university graduates, particularly for the Pharma and Coatings business units. In 1998, our recruitment need will be at least of the same magnitude. Our redesigned, international recruitment approach based on the "New Employee Profile" will be instrumental in this regard. Candidates are not only judged on their suitability for an existing vacancy but also on their ability to measure up to more distant challenges. Their individual potential to grow largely determines the Company's overall growth.

In 1997 we again organized the Akzo Nobel Business Course, an intensive four-day introduction to the Company. The course, which is aimed at students from all over the world, seeks to profile Akzo Nobel as a multinational and multicultural company offering challenges to ambitious recent graduates. Such profiling is especially needed in countries outside the Netherlands to further realize internationalization of our management.

In February 1997, the Akzo Nobel European Forum was established. The Forum is a body for information and consultation on transnational Company issues.
It consists of 26 members representing employees of 15 European countries. Topics discussed during the first annual meeting in May included the Company's strategy and financial results. The discussions were held in an open and cooperative atmosphere, and the horizontal communication in the Forum was generally appreciated.

In the years ahead we will continue our HR policies as outlined above. A special focus will be placed on efforts to promote managers earlier in their careers, as we believe the Company stands to gain by a proper balance in its management force between experienced managers and new managers with a fresh approach.

Research and Technology

Expenditures for R&D amounted to NLG 1,260 million in 1997, against NLG 1,137 million in 1996. Pharma's activities account for roughly half of this amount. Expressed as a percentage of sales, research spending was 14 percent for the total of Pharma. For each of Coatings, Chemicals, and Fibers this ratio was approximately 3 percent. Total R&D staff was 6,300 at year-end 1997, up 3 percent from 1996.

R&D is of paramount importance to accomplish Akzo Nobel's business objectives and achieve internal growth. In the context of Akzo Nobel's two-layer structure the business units are directly responsible for 95 percent of the Company's R&D activities.

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

At Akzo Nobel the research activities can be distinguished into:

- specific business unit research conducted in the business units' own laboratories or in the Central Research institutes;
- multi-business unit programs carried out within the groups, notably Chemicals and Coatings;
- corporate-funded research aimed at activities across business units.

Outsourcing and cooperation with other parties, such as universities, scientific institutes, and customers, form an integral part of Akzo Nobel's R&D policy.

The corporate-funded program comprises exploratory research in core technologies. The main objective of the corporate research program is to encourage the exploration of internal growth opportunities. To that end the corporate funded program:

- assists and crosslinks business units in long-term objectives such as the development of new technologies for the existing business;
- supports business units and Corporate Business Development in creating new business, preferably close to existing activities;
- screens, channels, and provides direction for these developments in a structured manner.

A typical example of corporate R&D activities is the Cellulose Cluster project, which is not only of interest to Textile Fibers but also to Functional Chemicals, Pulp and Paper Chemicals, Surface Chemistry, and several Coatings business units. Another example is the Advanced Polymer Initiators project, which could create business for Polymer Chemicals, Car Refinishes, Industrial Coatings, Resins, Aramid Products, Surface Chemistry, and the joint venture Flexsys.

Health, Safety, and Environment

In August 1997, Akzo Nobel presented its 1996 Environmental Annual Report at the Carter Center in Atlanta, Georgia. Details on Akzo Nobel's HSE achievements can be found in this report.

Akzo Nobel has set global voluntary reduction targets for emissions and waste for the year 2000. The targets include a 10 percent reduction of releases of heavy metals into water, 15 percent less organic compounds released to air, and 15 percent less total waste. As set forth in the 1996 Environmental Annual Report, since the base year 1994 much progress has been made toward meeting these goals.

The number of Lost Time Injuries (LTIs) continues to show improvement. Educational and training programs, such as MTS (Managing Total Safety), contributed to the progress made. In 1997, the Chemicals site in Pasadena, Texas, was granted the Akzo Nobel Golden Safety Award for the second year running in recognition of its outstanding safety performance (more than 4 million LTI-free hours).

Akzo Nobel in society

The 1997 Akzo Nobel Science Award was conferred on Professor R. Krishna of the University of Amsterdam and Professor J.A. Wesselingh of the University of Groningen, the Netherlands, in recognition of their contributions to scientific inquiry in the field of multicomponent mass transfer and to process technology generally. Their work has led to the adoption worldwide of the Stefan-Maxwell description for multicomponent mass transfer.

The Education-Industry Partnership (EIP) program aims to enhance the interest of young students in science and technology through a closer collaboration between Akzo Nobel's Western European sites and the educational system. Most of the 60 projects that have started up in countries such as Italy, France, Ireland, the United Kingdom, Germany, Sweden, Belgium, and the Netherlands are being continued or have been modified for a broader audience.

Since its establishment three years ago, the Education Fund '94 has realized 16 projects in countries like Burkina Faso, Vietnam, Ecuador, India, Thailand, the Philippines, the People's Republic of China, and Indonesia. Educational projects in developing countries are financed not only by the Company but also by its employees. The funds are channeled through the aid organization Plan International, which is present in the field and exercises close control over the quality and efficiency of the projects. The funds are mainly used for building schools, providing furniture and materials, helping to develop curricula, and providing books. In 1997, two employees who contributed to the Fund were chosen by lot to visit one of the projects in India.

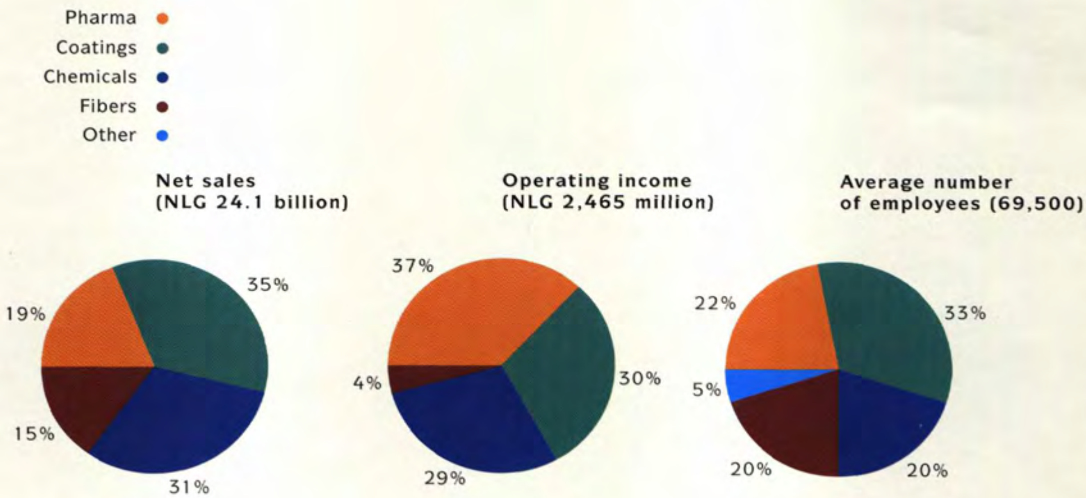
The Akzo Nobel for Young Talent program offers young winners of international music competitions the opportunity to perform in major cities in the world with renowned orchestras and conductors. UNESCO's International Music Council gave the project its patronage and approval. Since the start of the program in 1994, six young talented musicians have performed in the program in Brussels, Birmingham, Chicago, Stockholm, Beijing, Shanghai, Amsterdam, and The Hague.

The Akzo Nobel Art Foundation was established in 1996 to build up a balanced collection of contemporary, autonomous art that is to reflect the multitude of facets inherent in Akzo Nobel. In the year under review the Foundation made carefully considered purchases of works of art and organized at several sites exhibitions of works by primarily young artists of different nationalities.

India is one of the countries where educational projects are financed through the Education Fund '94.

The 19-year-old Rumanian Mihaele Ursuleasa was one of the young soloists in the Akzo Nobel for Young Talent program.

Breakdown of some 1997 figures by business activity



BUSINESS ACTIVITIES

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

PHARMA

COATINGS

CHEMICALS

FIBERS

BUSINESS ACTIVITIES

Millions of guilders	Net sales 1997	Net sales 1996	Operating income 1997	Operating income 1996	Invested capital, December 31 1997	Invested capital, December 31 1996	Property, plant and equipment: Expenditures 1997	Expenditures 1996	Depreciation 1997	Depreciation 1996
Pharma	**4,615**	3,952	**931**	795	**2,756**	2,392	**235**	236	**177**	163
Coatings	**8,382**	7,436	**751**	592	**3,393**	3,120	**287**	254	**241**	219
Chemicals	**7,575**	7,695	**730**	576	**5,850**	5,705	**579**	932	**544**	496
Fibers	**3,539**	3,393	**93**	82	**2,530**	2,546	**184**	318	**239**	221
Other*	**(59)**	(38)	**(40)**	(14)	**294**	215	**127**	103	**92**	84
Total	**24,052**	22,438	**2,465**	2,031	**14,823**	13,978	**1,412**	1,843	**1,293**	1,183

* *Other activities, intercompany deliveries, and nonrecurring and nonallocated items.*

Ratios	Operating income as % of net sales 1997	1996	Operating income as % of invested capital 1997	1996	Net sales/ invested capital 1997	1996	Capital expenditures/ depreciation 1997	1996
Pharma	**20.2**	20.1	**36.2**	36.4	**1.79**	1.81	**1.3**	1.4
Coatings	**9.0**	8.0	**23.1**	19.4	**2.57**	2.44	**1.2**	1.2
Chemicals	**9.6**	7.5	**12.6**	10.7	**1.31**	1.42	**1.1**	1.9
Fibers	**2.6**	2.4	**3.7**	3.2	**1.39**	1.33	**0.8**	1.4
Akzo Nobel	**10.2**	9.1	**17.1**	15.2	**1.67**	1.68	**1.1**	1.6

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.

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

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

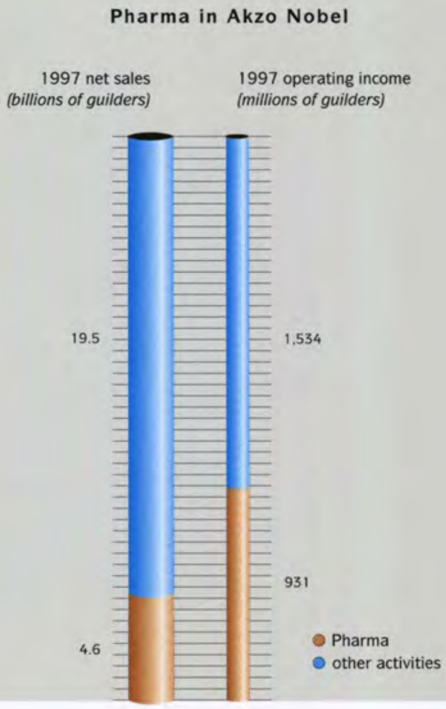
Group Director Technology:
Koen Wiedhaup

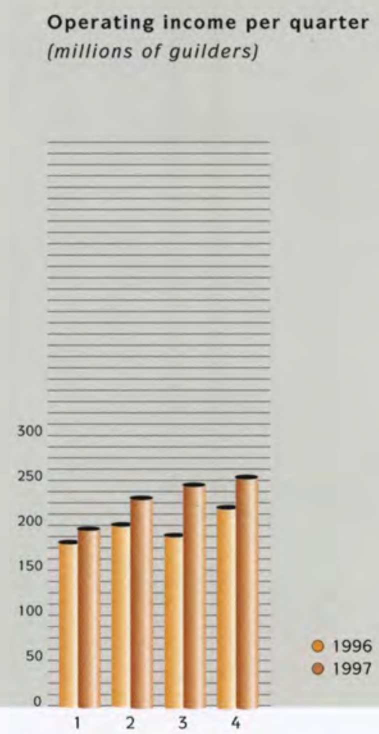
Business Units:
Organon
Organon Teknika
Intervet
Diosynth
Chefaro

General Managers:
Tjeerd Kalff
R.R.M. (Bob) Salsmans
A.T.M. (Toon) Wilderbeek
Johan C.C.B. Evers
A.H.J.M. (Ton) Scheepens

PHARMA

PHARMA





Millions of guilders	**1997**	1996
Business unit sales	**5,030**	4,350
Intragroup sales/other	**(415)**	(398)
Net sales	**4,615**	3,952
Operating income	**931**	795
Depreciation and amortization	**197**	176
Gross cash flow	**1,128**	971
Expenditures for PP&E	**235**	236
R&D expenditures	**641**	533
Invested capital at year end	**2,756**	2,392
Key ratios		
Operating income as percentage of:		
– net sales	**20.2**	20.1
– invested capital	**36.2**	36.4
Net sales/ invested capital	**1.79**	1.81
Expenditures for PP&E/ depreciation	**1.3**	1.4
Number of employees at year end	**15,700**	15,300

SALES AND INCOME

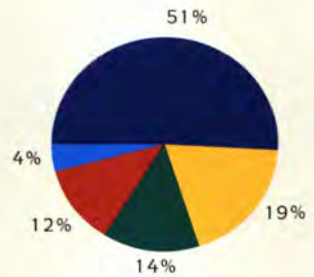
Pharma's sales aggregated NLG 4,615 million, up 17 percent from the previous year's level of NLG 3,952 million. Higher volumes accounted for 9 percent of the sales gain, while another 6 percent was caused by generally higher exchange rates against the Netherlands guilder. Average selling prices rose 1 percent, and acquisitions also led to an increase of 1 percent. Operating income of NLG 931 million surpassed the prior year's figure of NLG 795 million by 17 percent, spurred by sales gains at Organon (mainly for Remeron® and Puregon®), Intervet, and Diosynth. Organon Teknika's results were under pressure from generic competition for Norcuron® in the United States, partly offset by improvements for diagnostics. Results of Chefaro were slightly higher than in 1996.

In spite of our growth scenario and resulting higher upfront costs for geographic expansion, particularly in the United States and in newly emerging markets, operating income as a percentage of sales was maintained at more than 20 percent. Return on invested capital was 36.2 percent, relative to the long-term target of 40 percent.

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

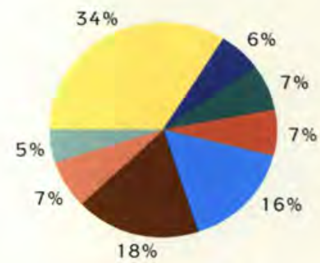
1997 business unit sales (NLG 5.0 billion)

- Organon
- Organon Teknika
- Intervet
- Diosynth
- Chefaro



1997 net sales by country of origin

- The Netherlands
- Germany
- France
- Ireland
- Other European countries
- USA and Canada
- Latin America
- Asia



BUSINESS REVIEW

In 1997, we aggressively pursued our primary goal of internal growth. First of all we had to compensate for the setbacks suffered by Organon in its oral contraceptive sales and by Organon Teknika with its substantial loss of Norcuron® sales to generic competition in the United States. As one of the world's leading companies in female healthcare, Organon has over the years gained invaluable experience in interpreting the many scientific and epidemiological aspects of oral contraception. It was therefore relatively well placed to cope with the extremely complex scientific debate on oral contraceptive safety, which had erupted at the end of 1995. While the impact of this debate has been considerable in some markets, it was gratifying to see confidence in our oral contraceptives—with their excellent previous track record—restored or reinforced by the recent detailed studies and reanalyses.

Organon Teknika suffered an even greater impact, as it lost most of its significant sales position in Norcuron®—a surgical muscle relaxant—in the United States. But it was able to reverse this trend and maintain its market leadership on account of the increasingly successful introduction of Zemuron®, the latest innovation from our R&D pipeline in this product area.

Hence, during the year the sales decline in both affected product segments was turned into a positive trend.

Meanwhile, partly as a result of sizable upfront marketing expenditures at the cost of operating margin, all Pharma business units managed to realize significant growth in other segments through new product launches and new business, which throughout the year resulted in substantially improved sales volume and—finally—operating income.

Indeed, our ability to deal successfully with a broad range of product challenges and market opportunities in different specialized know-how areas reflects the importance of our business unit structure, where R&D and market-oriented activities are carried out in focused, entrepreneurial, and profit responsible teams.

Electronic order picking system at Thiemann, an Organon company, Waltrop, Germany

FRAGI

Product storage using a hand-held data transmission terminal.

The process and inventories are being monitored from the control room.

Every shelf section has a multifunctional display which permits proper order picking and assembling of shipment boxes. All shipment boxes are individually registered so that they can be traced to the final customer.

Organon, our main Pharma business unit, specialized in human prescription drugs, apart from consolidating its oral contraceptive activities significantly expanded its positions in infertility drugs and in products for menopausal problems. With the innovative products from its broad female healthcare R&D program, it managed to strengthen its strategic position as a leading company in this field. In another product area, the introduction of the new antidepressant Remeron® contributed considerably to sales growth.

Organon Teknika achieved healthy growth in its key diagnostics business, while sales in pharmaceuticals held even.

Intervet, our animal health business unit, continued its excellent performance as a leading R&D-based innovator, specifically in vaccines.

Diosynth, a highly specialized quality producer in the pharmaceutical raw materials market, also contributed significantly to Pharma's improved performance.

Chefaro, our modest but "strategic window" on the OTC market, strengthened its Europe-based positions through several successful product launches and growth of its leading home-pregnancy test.

Although the outcome of product innovation efforts in the healthcare industry remains unpredictable, we believe there are ample opportunities for additional long-term growth based on the projects currently in the dedicated R&D pipelines of our Pharma business units.

While we are optimistic about the challenges and opportunities that lie ahead, we do pay attention to the concentration tendencies in the healthcare industry and their effects on our competitive strength. Therefore, in addition to focusing on growth through product launches, field force extensions, and geographic expansion, we have made considerable efforts to strengthen and streamline our operational efficiency, thus improving the financial platform for increasing our R&D efforts.

Measures were taken in the R&D organizations to shorten development times and adapt the process of innovation to increasing and new scientific challenges. The new alliances and investments made were also targeted at strengthening the process of product innovation. All of these actions will help us realize our ambition to increase our share in the innovative healthcare industry.

Developments in the Pharma business units

Organon — Prescription drugs

Sales 1997 NLG 2,540 million, 1996 NLG 2,140 million

With 19 percent sales growth and distinctly higher income, Organon made a good recovery from the difficult year 1996. The debate that broke out in 1995 on the risk of venous thrombosis of oral contraceptives (OCs) continued in 1997. However, with the findings of many scientists from all over the world, more and more evidence is provided which demonstrates that there is no difference between second and third generation oral contraceptive pills as far as the venous thrombosis risk is concerned. This opinion was confirmed in December 1997 by a German court in Berlin, which ruled that restrictions on the third generation pills had to be lifted immediately. Organon's oral contraceptives sales increased by 9 percent.

The introduction of two new key products, Remeron® antidepressant and Puregon® recombinant FSH (Follicle Stimulating Hormone) fertility product made good progress. Remeron® was approved for European registration in March 1996 and has since been introduced in 19 countries. These countries represent approximately 75 percent of the world market. In December 1997 the market share of Remeron® in the United States reached 1.5 percent. Over the whole year, sales in the United States were NLG 98 million. Organon expects Remeron® to be introduced in France in 1998, bringing coverage of the world market to over 80 percent. By the end of 1997, Puregon® (branded Follistim® in the United States) had been registered in 48 countries. Its market launch in the United States in October 1997 generated substantial additional sales.

In the HRT (Hormone Replacement Therapy) market, Organon registered a sales gain of more than 20 percent. Especially the most important HRT product Livial® did very well. In the coming years Organon hopes to get registrations for this product in Germany, France, the United States, and Japan.

Almost all countries where Organon has sales and marketing organizations registered increased sales. A top performer was the United States with a 48 percent increase. But sales gains of 20 percent or more were also recorded in countries such as Denmark, Finland, the Netherlands, Italy, Greece, Spain, the United Kingdom, Portugal, Russia, Poland, Turkey, Argentina, Canada, Chile, Mexico, Ecuador, Venezuela, the People's Republic of China, India, Indonesia, Malaysia, and Taiwan.

Implementation of the long-term program to concentrate production in a number of key sites continued. These efforts will help Organon to reduce production costs and remain competitive.

In R&D, the main focus was on "quality" and "speed." Organon's research organization was adjusted to attain a higher degree of innovation. In addition, contacts with third parties were intensified. New contracts were signed with the U.S.-based genomics and bioinformatics companies Incyte and Gene Logic, raising the third-party share in total research expenditures to almost 30 percent. In product development the Time Compression Initiative was implemented resulting in approximately 24 months shorter product development time. The product pipeline for the coming five years is well filled with new projects. Seven projects in oral contraception, four in HRT, and two in infertility are in various phases of development. For the period up to 2004 three new products in CNS (Central Nervous System) and two in atherothrombosis are in the pipeline. The activities of the Development Units in the United States and Europe have largely been integrated in line with Organon's policy to globalize product development. Integration plans are also under way for Japan.

In 1997, investment projects in the aggregate amount of approximately NLG 150 million were approved for a quality control building, development laboratory, and pilot plant (all in Oss, the Netherlands), and a chemistry building in Scotland.

Organon's principal objectives for the years to come are to maintain above market average sales growth and expand the organization in the United States and a number of emerging markets. Organon strives to be a leading innovator in the pharmaceutical industry.

Organon Teknika — Hospital supplies
Sales 1997 NLG 950 million, 1996 NLG 900 million

Organon Teknika manufactures and markets hospital pharmaceuticals—primarily surgical muscle relaxants—and diagnostic products and systems for use in clinical laboratories and bloodbanks. Its research and development activities are focused on the business area Pharmaceuticals, mainly anesthetics, and on four specific diagnostic business areas: Immunodiagnostics, Microbiology, Hemostasis, and Nucleic Acid Diagnostics. During the year, it started to merge its headquarters in Turnhout, Belgium, with its European R&D, manufacturing, and distribution facilities in Boxtel, the Netherlands, aiming at full integration before year-end 1998, after completion of additional facilities in Boxtel. These efforts will contribute to further improvement of operational efficiency in a process-oriented business area organization.

Despite sales stagnancy in Pharmaceuticals, total sales were well in excess of the 1996 figure, aided by strong overall growth for diagnostics and the positive development of currency exchange rates, especially for the U.S. dollar. Operating income was almost the same as in 1996.

Pharmaceuticals sales held even at the 1996 level in the face of fierce price competition, primarily in the United States, from generic versions of atracurium, the key competitor of Organon Teknika's muscle relaxants Norcuron® and Esmeron® (branded Zemuron® in North America). Positive currency exchange effects as well as further growth of Esmeron® and Zemuron® sales largely compensated for slightly lower overall volume in the United States. Aside from Japan, where the clinical development stage has not yet been completed, Esmeron® is now available in all major markets. Final development of Raplon®, a rapid onset, short duration muscle relaxant, is progressing according to plan, with NDA (New Drug Application) submission to the U.S. FDA (Food and Drug Administration) anticipated for 1998, followed by an expected market introduction in late 1999.

Sales of immunodiagnostics showed encouraging growth in the United States, Latin America, the Far East, and some Eastern European countries, more than offsetting declines in major European countries. Efforts to maintain the current market position basically rely on successful participation in government tenders and activities to ensure that product lines continue to be state of the art in terms of screening assays and automation.

Microbiology once again recorded substantial worldwide growth with its BacT/Alert® system for automated blood culture and the MB/BacT® system for automated mycobacterium testing. A next-generation system was recently completed and its launch, by mid-1998, is expected to contribute to further market penetration and a leading position of Organon Teknika in this field.

Despite pricing pressures in the highly competitive hemostasis market segment, substantial sales growth was achieved in the Hemostasis business area through further market penetration, with new placements for the MDA® 180 and Coag-A-Mate® MTX systems. It is anticipated that improved system features and full compatibility of the two systems will stimulate further growth of the installed base of hemostasis systems over the next few years.

Nucleic Acid Diagnostics sales—although still modest—more than trebled the 1996 figure. The product range, now trademarked NucliSens®, was recently extended to include a new CMV (cytomegalovirus) test and the NucliSens® Extractor, an automated system for the extraction of nucleic acids from patient samples. Improved HIV assays as well as a basic kit excluding analyte specific components, and assays for clinical research organizations will become available for market introduction in 1998. The international Delta investigation of various new therapies for AIDS patients added novel insights into, and confirmed the correlation between viral load testing, using the quantitative NucliSens® HIV-1 RNA test, and the clinical outcome of antiviral therapies.

Potential patent disputes on basic amplification technologies were resolved by the conclusion of agreements with Stanford University and Gen-Probe Inc., while the litigation initiated by Roche in 1995 was ended in 1997. With these agreements in place and affirming Organon Teknika's independent position in nucleic acid sequence based amplification (NASBA®), additional licensing agreements were concluded with Diagnocure for certain oncological applications and with Qiagen for research applications. Talks with potential partners for the development and commercialization of nucleic acid diagnostic systems are continuing.

Intervet — Veterinary products
Sales 1997 NLG 720 million, 1996 NLG 590 million

Intervet's product range comprises biologicals for use in farm animals, fish and pets, fertility products to enhance reproduction performance, corticosteroids, nonsteroidal anti-inflammatory drugs (NSAIDs), and antibiotics.

1997 turned out to be a very good year, in terms of sales and income as well as in terms of volume growth. Particularly, the business unit's comprehensive biological range of products contributed to the overall success. Sales of fish vaccines suffered from a volatile Norwegian market.

In order to increase market penetration, new Intervet subsidiaries were established in Argentina, the Czech Republic, and Cyprus. From Cyprus commercial activities in the Middle East region will be coordinated. A representative office was opened in Rumania.

A European (EU) central registration was obtained for Quadrisol® 100, an NSAID for use in horses. A new vaccine against Bovine Viral Diarrhea (BVD) was submitted for registration in Germany, this country acting as the EU reference member. Registration of this vaccine in other EU member states is expected to follow shortly. In spite of the strict quarantine policy adopted by the Australian veterinary authorities, Intervet Australia succeeded in registering two inactivated poultry vaccines.

In Japan, Intervet KK managed to introduce some additional products of a substantial range that are anticipated to be marketed within the next few years.

Porcilis® Pesti, a novel and breakthrough marker vaccine against Swine Fever (Hog Cholera) became available in 1997; the product could play an important role in controlling swine fever disease outbreaks.

Intervet's strategy remains unchanged and is aimed at maintaining substantial autonomous growth by strengthening its product portfolio, basically through R&D input, as well as its geo and distribution mix.

In 1997, a decision was made to establish a new R&D center in France for the development of pharmaceutical products. The new investment, which will be in the order of NLG 40 million, is in line with Intervet's strategy of gradually and consistently increasing its presence in the world animal health market.

Diosynth — Specialized raw materials for the pharmaceutical industry
Sales 1997 NLG 620 million, 1996 NLG 560 million

Diosynth is a leading supplier of specialized active ingredients to the pharmaceutical industry. The size of the world market for active pharmaceutical ingredients is estimated to be some USD 10 billion and is expected to grow at an annual rate of approximately 5 percent. The market consists of many small segments with more than 2,000 ingredients. Attracted by the presumed high earnings potential, many newcomers have entered this market place, eroding price levels of active pharmaceutical ingredients. In the near future, however, consolidation, if not reconfiguration, within the industry could well materialize. Since the main issues today are increasing c-GMP (current Good Manufacturing Practice) and HSE awareness and enforcement, customers will increasingly opt for the reliability, support, and commitment of their customary suppliers to minimize risks. Reliable, long-established suppliers should benefit and some of the smaller newcomers might be eliminated as a result. In 1997, Diosynth once again proved to be a recognized solid supplier, resulting in distinctly increased sales and earnings for chemicals and biochemicals.

The commissioning of Diosynth's new chemical production facility at Oss, the Netherlands, was completed. Due to the novelty of the project, which exceeds the standards of a traditional facility, and the necessity to discuss the project step by step with the authorities, the validation process takes longer than planned. While the new plant is technically operational, Diosynth expects that it will not be fully on stream until the second half of 1998.

The business unit's new biotechnology facility has been approved by the U.S. FDA (Food and Drug Administration) for the production of biotechnological active pharmaceutical ingredients.

Despite continuing stable growth over the last few years, additional growth from new products is required. To qualify for selection, such products must be in line with Diosynth's core competencies, which are complex chemical and biochemical synthesis and downstream processing. The key success factors are, besides an alert business development attitude, a specialized research organization and ample development capacity. These issues will continue to receive full attention in 1998.

In 1997, Diosynth's unit Rosemont Pharmaceuticals Ltd, Leeds, United Kingdom, also showed a steady development of sales and profitability. Its U.S. sister company, Rosemont Pharmaceuticals Corporation, Denver, Colorado, could not match this performance, as it was confronted with deteriorating prices for existing products and a shortage of profitable registrations. In light of the present research portfolio, 1998 will be crucial to the further development of this business.

Chefaro — Nonprescription products
Sales 1997 NLG 200 million, 1996 NLG 160 million

The nonprescription health market continues to show healthy growth. As the reimbursement of healthcare products is further restricted by government measures, the influx of former "prescription only" products into the self-medication (OTC) market is accelerating. Consumers are being offered an ever greater choice of high quality products with proven efficacy and safety. Healthcare companies are challenged to build their positions in this new competitive market environment, where the upfront costs of creating strong consumer brands are very high. Chefaro is committed to participate fully in this dynamic OTC market and benefits from its well-established European marketing infrastructure and its experience in building consumer brands.

Chefaro's growing product range covers various areas such as topical analgesics (Tantum®, Ibutop®), vitamins (Davitamon®), gastro/digestives (Proflora®, Equilon®), skin treatment (Septivon®, Multidermol®, Cremicort®, Azaron®, Previum®), plant-based medicines (Jouvence®), and diagnostics (Femtest®, Predictor®). Predictor® is one of the world's leading brands in the area of home pregnancy tests.

In 1997, Chefaro's sales were substantially higher. Results showed a small increase due to the costs of stepped up marketing efforts.

Chefaro's position in France was further strengthened by the acquisition of Septivon®, a leading skin treatment brand, and strong growth for Jouvence® and Ibutop®. All Chefaro companies registered higher market shares for topical analgesics. In the Netherlands, Tantum® turned out to be extremely successful, taking the brand to a leading position only one year after its introduction. Chefaro Belgium continued to show the highest growth rate in the Belgian OTC market, with successful campaigns for Ibutop®, Jouvence®, Proflora®, and Cremicort®. Chefaro Germany expanded its product range with several products, continuing its sales growth in a subdued German healthcare market. In the United Kingdom, Chefaro saw further growth for Predictor® and managed to improve its position in the insect repellent market by almost doubling sales of Jungle Formula®, lifting the brand to a leading position.

Positive developments were achieved in the European market for home pregnancy tests, where the prominent position held by Chefaro with Femtest® and Predictor® was strengthened in a very competitive market.

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

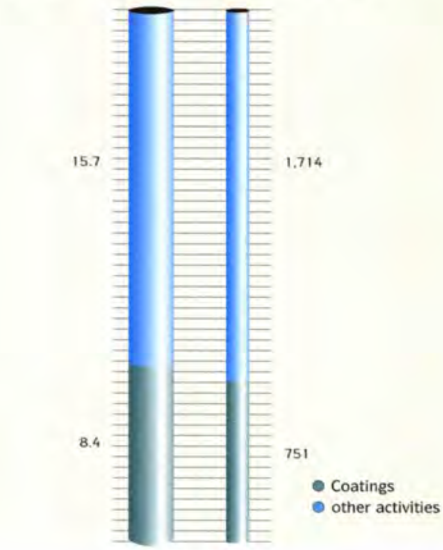
Group Director Technology:
J. (Hans) D. Remijnse

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*

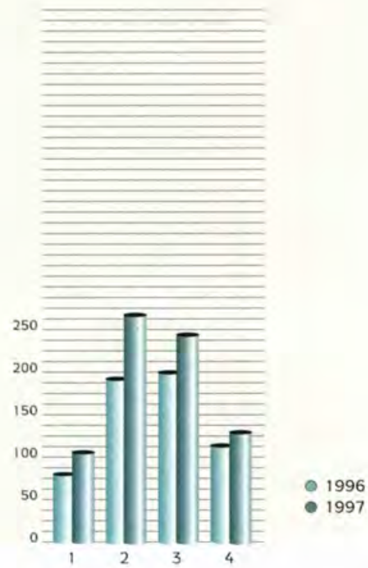
COATINGS

COATINGS

Coatings in Akzo Nobel



Operating income per quarter
(millions of guilders)

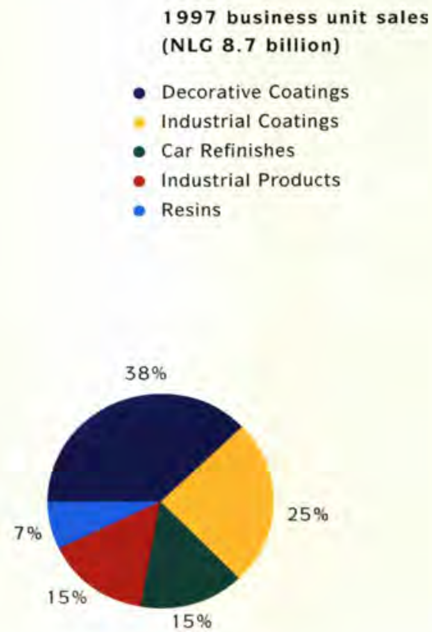


Millions of guilders	**1997**	1996
Business unit sales	**8,650**	7,590
Intragroup sales/other	**(268)**	(154)
Net sales	**8,382**	7,436
Operating income	**751**	592
Depreciation and amortization	**241**	219
Gross cash flow	**992**	811
Expenditures for PP&E	**287**	254
R&D expenditures	**209**	197
Invested capital at year end	**3,393**	3,120
Key ratios		
Operating income as percentage of:		
– net sales	**9.0**	8.0
– invested capital	**23.1**	19.4
Net sales/ invested capital	**2.57**	2.44
Expenditures for PP&E/ depreciation	**1.2**	1.2
Number of employees at year end	**23,100**	22,800

SALES AND INCOME

Coatings increased sales by 13 percent from NLG 7,436 million in 1996 to NLG 8,382 million in 1997. Volumes were up 6 percent. Currency translation also caused a 6 percent gain in sales, while acquisitions and divestments had a positive net effect of 1 percent. Aided by higher sales volumes and continued favorable cost developments, all business units achieved distinctly higher operating income figures than in 1996. Particularly the industrial business showed a strong improvement. As a consequence, Coatings' operating income rose substantially, from NLG 592 million in 1996 to NLG 751 million in 1997. Return on sales was 9.0 percent, against 8.0 percent in 1996. The profitability target for the business units and for the Coatings group as a whole has been set at 10 percent return on sales. A return on invested capital of 23.1 percent was achieved, compared to a long-term target of 25 percent.

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



BUSINESS REVIEW

Concentration and internationalization of the world's coatings industry continue at an accelerated pace. Having completed the integration of the Akzo and Nobel coatings activities, Akzo Nobel will again be at the forefront of these processes.

Akzo Nobel is a world leader in coatings, with a global market share of about 8 percent. In Europe, where the majority of our operations are located, the market share is about 12 percent. However, Akzo Nobel's strategic drive is not merely to be a big player but to achieve good, sustainable profitability through its selective product portfolio and geographic mix. The success of this approach is reflected in the positive development of the Coatings results in 1997. Given the many opportunities in the market, we focus on leadership in specific markets and niches. The business unit organization is well established, and continuous improvement of the efficiency of our operations is duly stressed. Operations have been streamlined and sizable investments have been made in R&D to provide customers with the best environmentally responsible technology. All business units meet or are very close to meeting performance targets.

Akzo Nobel is the true market leader in Europe for decorative coatings, supplying top-quality brands for both do-it-yourself and professional users. In the industrial coatings market, the Company has a leading position both in Europe and in North America in wood, plastic, and coil coatings. Akzo Nobel is also a world leader in the increasingly important area of powder coatings and a major supplier of a variety of liquid metal coatings. Expansion in car refinishes, primarily in Asia, South America, and Eastern Europe, has made our products, services, and innovative training programs available to a steadily increasing number of customers worldwide.

Industrial Products is the global market leader in resin-impregnated paper for the surface finishing of wood panels and one of the leading suppliers of woodworking adhesives. Akzo Nobel Resins is a sizable producer of resins for coatings, both for captive use and for sale in the open market.

Focus has been a motto throughout the year. Akzo Nobel's decentralized business unit organization allows management to work close to customers and focus on achieving optimal results in their business. In many business units, primarily those serving industrial customers, this means globalization of business to anticipate the needs of an increasingly global market. Much attention was paid to marketing, and this—together with a focus on restructuring and consolidation of recent acquisitions—has resulted in strong global organic growth.

However, to be successfully global, a company must know how to be truly local as well, with due regard for developments in different local or regional markets in terms of both technology and aesthetics.

1997 saw a further strengthening of the Technology Center organization for Coatings research, which operates R&D centers located at important sites in various countries and focuses on different fields of technical competence. By forging strong links between centers of specialist competence and local organizations, we expect to provide superior technology tailored to the needs of the market. The interface between new technology and local markets creates a great deal of synergy and constitutes an attractive working environment. Some areas targeted by the Technology Centers are new crosslinking chemistry for coatings, waterborne coatings, high-solids coatings, powder-based technologies, polymer synthesis, and pigment dispersing agents.

Geographically, emphasis is placed on expansion in Central and Eastern Europe and East Asia. We have already built strong positions in Central and Eastern Europe, a region where we see many interesting opportunities. In Western Europe and the United States, further acquisitions will be required to bolster our positions.

Akzo Nobel has a healthy track record of mergers and acquisitions. The cross-fertilization between various cultures, disciplines, and markets within our global organization creates the sort of added value that provides a sound basis for further focused growth.

Developments in the Coatings business units

Decorative Coatings

Sales 1997 NLG 3,350 million, 1996 NLG 3,030 million

Decorative coatings for the do-it-yourself and professional sectors account for almost 60 percent of the world demand for coatings. Decorative Coatings is the largest single business segment and is organized in two business units with different geographic responsibilities. These business units cooperate closely to benefit from joint activities, for instance in the areas of research and development, raw materials purchasing, brand management, and marketing competence.

Decorative Coatings South is responsible for operations in the Netherlands, Germany, France, Belgium, Italy, Spain, Portugal, Switzerland, Austria, Morocco, Tunisia, and North and South America. It is also responsible for business development in East Asia. Major brands include Sikkens®, Levis®, Astral®, Trimetal®, and Flexa®.

Decorative Coatings North is responsible for operations in the United Kingdom, Ireland, the Nordic countries, the Baltic states, Hungary, Poland, Turkey, the Schönox adhesives business in Germany, as well as the Vivechrom joint venture in Greece. The business unit has made significant headway in its strategic assignment to further develop the Central and Eastern European markets. Leading brands are Crown®, Nordsjö®, and Sadolin®.

Akzo Nobel's chosen position as a supplier of mainly top-quality brands requires leadership in technology. R&D focuses on premium quality coatings, combining excellent protection with minimum impact on the environment.

Decorative Coatings South

In spite of stagnating growth in the paint market in most of Western Europe, overall sales volume was higher than in 1996. Even though raw material prices showed an upward tendency in the second half of the year, results clearly improved, notably in the Netherlands, Spain, Italy, and Morocco.

The restructuring measures implemented in recent years have had the intended effect, improving efficiency and overall cost structure. In most of the countries where the business unit is active, steps were taken to further strengthen the commercial distribution network. The dedicated product range launched in 1996 to extend the outdoor painting season was well received. The leading position in Morocco was strengthened. Volume gains were achieved in South America, but price levels and overall profitability still need improvement.

R&D programs focused on improvement of the environmental compatibility of the product range. More specifically, solvent contents were reduced to meet market demand and comply with anticipated legislation.

In 1997, a regional office was opened in Singapore to create a platform for additional growth in Southeast Asia. A joint venture in the Shanghai area in the People's Republic of China became operational.

Decorative Coatings North

The business unit turned in a healthy performance in 1997. Sales and volumes were significantly higher than in 1996, resulting in strongly improved operating income. Even if business development was strong, further improvement of profitability is needed in some markets.

Activities in Central and Eastern Europe showed considerable growth, which promises well for the continued expansion in this area. The business unit is firmly committed to become a major player in this part of Europe, as is reflected in the establishment of new sales companies in the region and the continued expansion of the color mixing system. The business unit is also planning to strengthen its local presence in the area by investing heavily in distribution, warehousing, and production facilities, which efforts will bolster organic growth.

In 1997, a decisive step into the Russian market was taken with the signing of a letter of intent for the first greenfield investment in the coatings industry. In a joint venture with Russia's ZAO Roschimneft, a new plant for decorative coatings production will be built near Moscow. For the coatings company in Poland a new sales and marketing organization was set up, which will be fully operational in 1998. Distribution in Poland was secured by intensifying cooperation with retailers.

Restructuring in Ireland and the United Kingdom continued as price competition in the marketplace grew more vigorous. As part of the effort to increase efficiency, paint production in Ireland was closed down at the end of the year. A major highlight in the United Kingdom was the rollout of new products under the Crown® brand in late fall. Massive investments in marketing activities were made to support this launch.

In 1997, the business unit placed an enhanced focus on product stewardship. During the year initiatives were taken to stimulate entrepreneurship, creative problem solving, and the transfer of knowledge within the business unit. The Technology Center for Innovative Research in Darwen, United Kingdom, had its first operational year. The new Aesthetic Center in Malmö, Sweden, has begun its customer support activities for the Nordic countries.

Industrial Coatings

Sales 1997 NLG 2,180 million, 1996 NLG 1,840 million

Akzo Nobel is a leading supplier of liquid and powder coatings for industrial applications, both in Europe and North America. Industrial coatings are used to protect and beautify a large range of products made of wood, metal, and plastic. Coil coatings are applied to metal sheeting before it is bent into shape, which makes particularly high demands on the strength and flexibility of the paint.

The industrial coatings operations are organized in two business units. Industrial Coatings Europe focuses on European and Middle East markets, and on the development of powder coatings activities in Asia. Industrial Coatings North America is responsible for the Americas and also concentrates on the development of wood and coil coatings markets in Asia/Pacific.

Industrial Coatings Europe

Volume showed a healthy development throughout the year, principally in Eastern Europe, the Middle East, and Asia. Even though activity in the building and related industries in Western Europe continued at a low level, the business unit did better than anticipated. Combined with acceptable margin growth and continued restructuring, this led to substantially improved earnings.

Powder coatings production in Malmö, Sweden

Careful selection and weighing of raw materials followed by premixing.

After extrusion the crushed flakes are loaded into the mill.

..... and finally the finished product: powder coatings.

Köldbärare retur KB2

Köldbärare tillopp

TC091

LAGERPLATS PØ1

C

B

A

P34

SMÄLT TEMPERATU

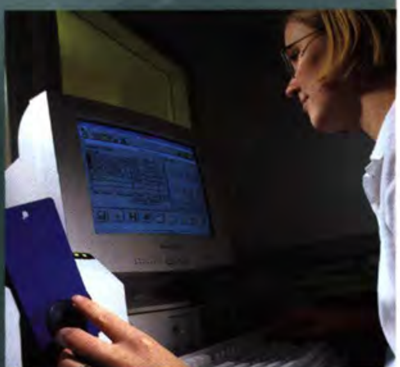
002 N

POLYDROX

83

TC082

25KG



Spraying and color matching during quality control.

The integration of the industrial coatings activities of Akzo and Nobel has been finalized, and a concept for growth has been set up. Early in 1997, a separate Powder unit was established. The market- and target-oriented organization of Industrial Coatings Europe today meets the needs of end-users of General Industrial, Wood, Coil, Plastic and Powder Coatings. During the year, Vêrilac S.A.—a specialized plastic coatings company in France—was acquired. Added to the existing organization, this acquisition makes Plastic Coatings the market leader in Europe and provides a good platform for further growth. Furthermore, 40-percent owned Poudroc S.A., a French powder coatings producer, was fully acquired, which is now being integrated in Powder Coatings.

R&D efforts during the year were mainly targeted at improving the eco-efficiency of products through the reduction of toxicity levels and emissions and lower energy consumption. In particular, a recently launched concept based on proprietary chemistry for powder coatings and on new, in-house developed plastisols is expected to have a significant impact on competitiveness in the longer term.

Hybrid concepts based on combinations of proprietary chemistry, liquid paint technology, and powder are the main focus of the business unit's new Technology Center located in Malmö, Sweden.

Industrial Coatings North America

The economic climate this past year can again be characterized as one of steady, but modest, growth within the industries the business unit serves. This stable environment, slightly diminishing raw material costs, and improved product offerings have led to a record earnings level. The new coil coatings plant in Columbus, Ohio, is fully operational. Industrial Coatings is beginning to enjoy the benefits of modern technology with improved efficiency, consistency, and quality.

Commitment to R&D continues to play an important role in the business unit's success. In addition to the development of new chemistries, older, reliable technologies are also revisited to make them more acceptable to the environment, improve their physical properties, and often reduce costs.

The business unit is continuing to grow through further penetration of its existing markets. Also, geographic growth is being pursued through key acquisitions in emerging markets such as Asia and Latin America. These acquisitions will provide a foundation for leveraging technology and market know-how.

Car Refinishes
Sales 1997 NLG 1,270 million, 1996 NLG 1,130 million

Car Refinishes once again enjoyed a highly successful year, with sales well above 1996 levels and a substantial improvement in operating income.
Key factors for the business unit's success are continued improvement of the product and service package, growth in medium-segment brands, and increasing penetration of growth markets in South America, Asia, and Eastern Europe.

In Western Europe, the business unit maintained its share in a shrinking overall market. The position in the upper segment of the market was bolstered by the introduction of new high-value-added products and a strong service package.

Autocryl® PLUS, the upgraded version of the business unit's flagship product Autocryl®, moved from the test market to the full-scale introduction phase. The Autobase® line, which was also upgraded, remains a key component of the product range.

An innovative high solids topcoat system, Autocryl® LV, was developed. This product has a low VOC (volatile organic compounds) content that meets the most stringent international environmental requirements.
It has outstanding application and aesthetic properties that will enable body shops to improve productivity and profitability. The new line is expected to make a significant contribution to profit in the years ahead.

As in Europe, the car refinishes market in the United States continued to decline. Nevertheless, sales volumes exceeded expectations, while the North American organization slightly improved its share in the upper end of the market.

The introduction of Colorbuild™, the first color-matched U.S. primer-surfacer, was successful. It now accounts for more than half of the business unit's undercoat sales in the North American market. During the year Stellix™, an advanced user-friendly Windows 95-based collision repair management system for body shops, was launched.

Sales under the Sikkens® brand were supported by the introduction of Simple Systems, which simplifies product choices and enables customers to improve efficiency and the quality of repairs.

Sales of the medium-segment brand Lesonal® showed a very positive upward trend during the first full year after its market launch in Western Europe and North America. Lesonal® was also introduced in the Indonesian market.

The South American operations concentrated on high growth and on building a strong, dedicated organization. The Brazilian medium-segment range was transformed into a line for the entire South American market under the Wanda® brand name. Already available in Paraguay and Uruguay, the Wanda® range was introduced in Chile, Ecuador, and Peru. These developments led to a sharp improvement of sales volumes in South America. Sales of Sikkens® products doubled during the year, and some 1,000 mixing machines were installed for Sikkens® and Wanda® products.

Activities in Asia were extended and new companies were established in the People's Republic of China, Taiwan, Korea, Malaysia, India, Thailand, Indonesia, and Singapore.

In Central and Eastern Europe, sales volumes exceeded expectations. The business unit strengthened its position and infrastructure in the region, anticipating ongoing expansion in these markets. National centers have been established in Poland, Hungary, Turkey, Russia, the Czech Republic, and the Baltic states.

AD Aerospace Finishes
AD Aerospace Finishes, the 60/40 joint venture with Dexter, performed well above expectations, producing results significantly in excess of the previous year. All geographic areas contributed to this success with double digit sales growth.

Growth of market share was achieved in all market segments, including the maintenance sector where AD Aerospace Finishes already held a dominant position. In the OEM sector (Original Equipment Manufacturing: coatings for new aircraft), recently acquired approvals and airline operators' preference aided further penetration of this market segment.

R&D efforts for the year were targeted at solvent reduction and emission control as well as at a reduction of the downtime during the aircraft maintenance cycle.

A family of high solids products was well received by the market and is now undergoing qualification procedures by the world's major airframe manufacturers.

Industrial Products
Sales 1997 NLG 1,260 million, 1996 NLG 1,070 million

For the business unit, which conducts most of its activities under the name Casco Products, 1997 can be characterized as a year of restructuring and consolidation of recent acquisitions and of strong organic growth. After a hesitant start sales and volumes reached an all-time high, and earnings improved significantly. The gain in sales was principally due to new marketing activities, notably in Eastern Europe, Asia, and North America. However, the financial turbulence in Southeast Asia had a negative impact on sales at the end of the year. Exports to South America developed positively. The business unit achieved market leadership in several market segments. A stronger market focus of R&D and technical service also contributed to higher sales.

The continued development of the organization in combination with capacity increases constitutes the basis for further strong organic growth.

The business climate for printing inks improved during the year. In many areas distributors were replaced by the business unit's own sales forces, resulting in the establishment of new sales offices in the United Kingdom, Italy, and Austria. Successful marketing efforts were also made in Eastern Europe and the People's Republic of China.

R&D resources are continuously being strengthened in order to serve the needs of the different market segments and deal with environmental issues. New products include a radiation curing ink for rotary screen printing based on solvent-free technology.

The rapid growth of the resin-impregnated paper business continued in 1997. The capacity of the Malaysian facility was doubled, and construction of a new production line in the U.S. facility was started. In Europe restructuring activities were continued. During the year a new class of core film laminates and a new abrasive resistant decorative surface film for flooring applications were launched.

Business conditions for adhesives were generally favorable in Europe, Asia, and North America. Technical support facilities in Eastern Europe, Southeast Asia, the People's Republic of China, and the United States were expanded. A distribution company in Estonia was acquired.

Product development led to a new generation of PUR (polyurethane-based) adhesives for nonwood sandwich panels. New adhesives for laminated wood beams introduced in 1996 increased market share. Recently developed or modified products accounted for a large portion of particle board resins sales.

Sales of Expancel® expandable microspheres continued to grow both geographically and through the development of new applications. In 1998, new capacity will be added at the production site in Sundsvall, Sweden. R&D efforts focused on high-performance products with increased expandability and efficiency, and on more environmentally adapted products. Marketing efforts for Expancel® microspheres were stepped up outside Europe, mainly in North and South America.

Resins

Sales 1997 NLG 590 million, 1996 NLG 520 million

In 1997, the business unit posted substantially better results than in 1996, both for printing ink resins and surface coatings resins. Higher volumes and better prices accounted for most of the earnings gain.

During the year a number of steps were taken to achieve an even more pronounced customer focus, including substantial investments in equipment and manpower intended to streamline R&D, logistics, and marketing operations.

The Surface Coatings Resins unit recently began a multimillion-dollar renovation and debottlenecking project at its site in Louisville, Kentucky. This will result in a major capacity increase and provide a number of health, safety, and environmental advantages when completed in the second half of 1998.

In the interest of providing its printing inks customers with the best and most consistent service possible, a worldwide operating Printing Ink Resins unit was established with headquarters in Matteson, Illinois. At the Baxley (Georgia) site, construction of a new synthetic resins plant and an extensive infrastructural project recently started, aimed among other things at a major expansion of ink resin capacity.

R&D efforts were directed toward the development of environmentally adapted coatings. The new product line of water-based resins for general industry, both isocyanate and non-isocyanate types, received much interest. New rheologically modified resins for general industry and architectural applications were also developed. For printing inks a new range of resins was developed featuring superior rheologic properties. The business unit succeeded in developing a broader range of SCA (sag control agent) light-modified resins for automotive OEM applications. SCA is the most widely applied rheology-modifying technology for resins in the automotive coatings industry.

Following the completion of the renovation of the printing ink resins laboratory, in Bergen op Zoom, the Netherlands, the business unit started the final phase of a project that will result in highly modern laboratory space for acrylate, alkyd and polyester SCA, and amino resins preparation. The laboratory allows for intensive cooperation with customers during product development and constitutes a proactive approach to the health, safety, and environmental requirements.

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

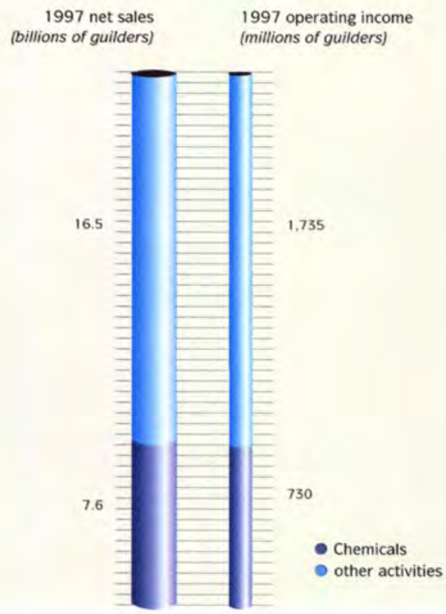
Group Director Technology:
Conrad S. Kent

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

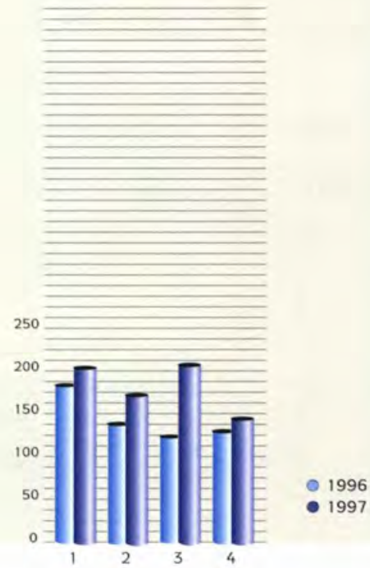
CHEMICALS

CHEMICALS

Chemicals in Akzo Nobel



Operating income per quarter
(millions of guilders)



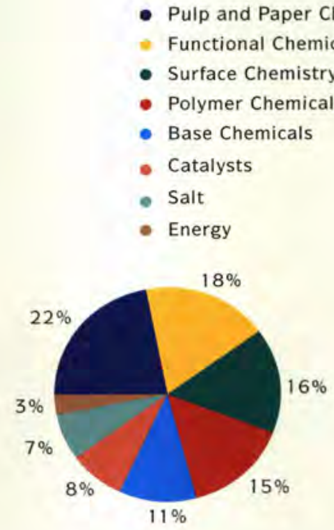
Millions of guilders	**1997**	1996
Business unit sales	**7,590**	6,840
Intragroup sales/deconsolidated activities/other	**(15)**	855
Net sales	**7,575**	7,695
Operating income	**730**	576
Depreciation and amortization	**554**	505
Gross cash flow	**1,284**	1,081
Expenditures for PP&E	**579**	932
R&D expenditures	**229**	220
Invested capital at year end	**5,850**	5,705
Key ratios		
Operating income as percentage of:		
– net sales	**9.6**	7.5
– invested capital	**12.6**	10.7
Net sales/ invested capital	**1.31**	1.42
Expenditures for PP&E/ depreciation	**1.1**	1.9
Number of employees at year end	**13,100**	14,700

SALES AND INCOME

Sales were NLG 7,575 million, down 2 percent from sales of NLG 7,695 million in the previous year. Deconsolidations and acquisitions—including the sale of the activities of the business unit Salt America and the deconsolidation of ROVIN and Delamine—had a net negative effect of 9 percent. Sales rose 6 percent due to higher exchange rates and 2 percent due to higher volumes. Surface Chemistry, Polymer Chemicals, and Functional Chemicals achieved 10 percent volume growth, while volumes for Salt and Catalysts were lower.
Average selling prices were slightly below the 1996 level. Surface Chemistry, Polymer Chemicals, and Functional Chemicals were the principal contributors to the 27 percent growth in operating income from NLG 576 million in 1996 to NLG 730 million in 1997. The effects of the investment program at Catalysts were reflected in its improved results. In the face of unfavorable market conditions for hydrogen peroxide, earnings of Pulp and Paper Chemicals remained at the 1996 level. Base Chemicals showed gradual improvement during 1997 but virtually remained at the prior year's level, as a consequence of the planned biennial maintenance stop.
The results of Salt were lagging behind due to price pressure. Chemicals' operating income was 9.6 percent of sales, against 7.5 percent in 1996.

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

1997 business unit sales (NLG 7.6 billion)
(excluding Salt America)



1997 net sales by country of origin

Performance targets for the Chemicals group remain unchanged: a return on sales higher than 10 percent and a return on invested capital of more than 15 percent over the business cycle.

Sales of Chemicals' nonconsolidated companies, on a 100-percent basis, increased from NLG 3,560 million in 1996 to NLG 4,800 million in 1997. About half of the increase is due to the inclusion of ROVIN and Delamine. Chemicals' share in earnings of nonconsolidated companies increased from NLG 89 million in 1996 to NLG 120 million in 1997, principally as a result of higher contributions from Flexsys (rubber chemicals) and Methanor (methanol) as well as the inclusion of ROVIN (VCM/PVC).

BUSINESS REVIEW

The Chemicals business units consist of product/market combinations that are based upon leading positions in selected segments of the chemical industry and cover specialty, functional, and commodity chemicals.

An important part of these positions are held via the many alliances throughout the world. Almost all of these joint ventures are directly linked to business units; notable exceptions are Flexsys and Akcros Chemicals (PVC processing and UV radiation curing chemicals).

In macroeconomic terms the year 1997 was characterized by a continuing strong U.S. economy, an improving business climate in Western Europe, and increasingly serious crises developing in Southeast Asia in the second half of the year. Overall, it was also one of the better years in recent history for the chemical industry worldwide.

In 1997, many steps were taken to further improve Chemicals' portfolio. Salt America was divested (to Cargill), while early in 1998 Base Chemicals sold its soda ash business (to Brunner Mond). On the acquisition side Pulp and Paper Chemicals reinforced its position in Finland through the acquisition of Enso Paperikemia Oy (of which the latex business part has been brought into a 50/50 joint venture with Polymer Latex GmbH). In North America the Tacoma (Washington) based sodium chlorate business of Elf Atochem was taken over and early in the year a silica sol company in Taiwan was acquired. Polymer Chemicals—through its 50/50 joint venture with KAC (Kayaku Akzo Corporation Ltd.) in Japan—acquired the peroxides business of Sanken Chemical. Base Chemicals strengthened its position in Germany and acquired via the 50/50 joint venture ECI (Elektro-Chemie Ibbenbüren GmbH) the chlor-alkali business in Bitterfeld owned by the BvS (Bundesanstalt für vereinigungsbedingte Sonderaufgaben). In the last month of the year Functional Chemicals was able to

acquire the North American chelates business of Hampshire Chemical from Sentrachem/Dow Chemical. This move makes Akzo Nobel the number one in chelates worldwide. Finally, Flexsys, the 50/50 joint venture in rubber chemicals, acquired the remaining shares of KCA (Kali-Chemie Akzo GmbH) from Solvay's Kali-Chemie in Germany. In this way Flexsys has secured full control over its Crystex® insoluble sulfur business worldwide.

Other major events in 1997 include the decisions to invest in a major revamp/expansion of the U.S. surfactant facilities, in a solar salt facility in Western Australia, and in a carbon disulfide plant in Indonesia.

Also during the year the following plants and projects in Europe were brought on stream: metal alkyls (Rotterdam, the Netherlands), organophosphorus chemicals (Bitterfeld, Germany), ethylene oxide revamp/expansion (Stenungsund, Sweden), cellulose derivatives (Örnsköldsvik, Sweden), and the chlorine/HCl expansion project (Rotterdam). The 50/50 Akcros Chemicals joint venture started up its UV radiation curing chemicals facility in New Brunswick (New Jersey) and the joint venture TANP (organic peroxides) in the People's Republic of China began operations in the second half of 1997.

Chemicals' priorities remain focused on improving profitability by delivering on major investment programs and on growing in selected business areas with emphasis on acquiring a stronger presence in North America and organic growth in Asia.

Developments in the Chemicals business units

Pulp and Paper Chemicals

Sales 1997 NLG 1,660 million, 1996 NLG 1,450 million

Results for the business unit Pulp and Paper Chemicals—which operates under the name Eka Chemicals—were in line with the previous year. The improvement of the pulp market, anticipated for 1997, was largely delayed. Despite reasonable inventory levels, pulp prices did not move up as much as producers had hoped. The situation in the pulp market and worldwide overcapacity in hydrogen peroxide resulted in persistent price erosion. The large surplus of hydrogen peroxide capacity is partly due to the fact that the expected growth in demand for Totally Chlorine Free (TCF) bleaching failed to materialize. The situation was aggravated by recent capacity additions in some European countries. With prices deteriorating, Eka Chemicals "mothballed" an older production unit in Bohus, Sweden, to adjust supply to demand.

For bleached pulp there is a steady trend toward Elemental Chlorine Free (ECF) bleaching, which is stabilizing the demand for sodium chlorate in Europe. A healthy growth of sodium chlorate is projected for North America, where Eka Chemicals acquired the right to serve customers that were supplied by Elf Atochem from its Tacoma (Washington) facility, which was closed down in the fall of 1997. This further strengthened the business unit's sodium chlorate position in North America. Chlorate capacity in Chile was expanded, and a project to increase capacity in Mo i Rana, Norway, is under way.

Eka Chemicals strengthened its position in the important Finnish pulp and paper market through the acquisition of Enso Paperikemia Oy, the bleaching, paper and water chemicals operations of Enso, early in 1997. These activities were integrated in the business unit during the year. For the styrene butadiene (SB) latex business included in the acquisition, the 50/50 Eka Polymer Latex Oy joint venture was formed between Eka Chemicals and Polymer Latex GmbH. SB latex is a welcome addition to the existing paper chemicals range. Overall, paper chemicals showed a positive development, with higher sales in emerging markets in Southeast Asia. The acquisition of Asia Colloids and Chemicals Corp. in Taiwan provided a production base for silica sols in Asia and further improved the strong worldwide position in silica sols.

Akzo-PQ Silica v.o.f., the 50/50 joint venture with PQ Corporation, was confronted with increased competition in the Western European market, resulting in loss of margins for some silicate commodities. Specialty products, on the other hand, did somewhat better. On balance, results were up substantially from the previous year.

Functional Chemicals
Sales 1997 NLG 1,340 million, 1996 NLG 1,170 million

Functional Chemicals continued its upward trend and exceeded expectations; almost all business segments recorded higher earnings.

In the Industrial Chemicals unit, earnings of monochloroacetic acid (MCA) continued to improve, aided by higher sales volumes for the acid itself and its sodium salt. Denak Co. Ltd., the 50/50 MCA joint venture in Japan, reported lower earnings. Stronger exports and higher sales prices partially compensated for weak domestic demand. The strategy of optimizing the product mix of carboxymethyl cellulose (CMC)—the major downstream product for MCA—was successfully pursued and resulted in significantly higher earnings.

Results for methylamines stabilized, with higher raw material prices being offset by higher sales volume. Yixing Akzo Nobel Sanyuan Chemical Company Ltd., the 65/35 joint venture in the People's Republic of China for the manufacturing and marketing of choline chloride (a trimethylamine-derived animal feed additive), began construction of a new plant.

Chelates continued their strong performance by further penetrating into attractive market segments such as micronutrients. In the last quarter, the Hampshire Chemical Co.'s U.S.-based chelates business, including its production facility in Lima, Ohio, was acquired.

Overall, the carbon disulfide business suffered slightly from the stagnating rayon industry in the western world. In order to better serve growing Asian markets, Akzo Nobel, as the leading global supplier of carbon disulfide, commenced construction of a new 40,000 metric-tons-per-annum plant in Cikampek, Indonesia. This project is scheduled to be operational in 1999.

The new plant for organophosphorus chemicals, used as flame retardants, in Bitterfeld, Germany, started up successfully. The performance of the organophosphorus business recovered as a result of sales gains and better margins in both flame retardants and functional fluids.

The ethylene amines business was sluggish in the first half of the year, due in part to a major maintenance stop. Good results were recorded in the second half. The new ammonia terminal for the ethylene amines plant in Stenungsund, Sweden, became operational during the year. The preproject for the proposed ethanol amines and ethylene amines plant in the People's Republic of China is nearing completion.

Surface Chemistry
Sales 1997 NLG 1,200 million, 1996 NLG 1,010 million

Surface Chemistry posted a substantial gain in earnings compared to the previous year. All segments of the business unit contributed to the improvement, aided by a healthy business climate, higher exchange rates, and a successfully implemented productivity improvement program. Specialty products and responsiveness to customer needs will continue to be emphasized.

The European cationic surfactants business showed substantial improvement, following the 1996 restructuring and cost reduction plan.
Surfactants in North America continued to deliver a good performance. A major modernization and expansion project at the McCook and Morris (Illinois) production facilities was initiated during the year. In South America and Asia, Surface Chemistry significantly strengthened its presence. Sales and technical service were expanded in both regions. The plant in Itupeva, Brazil, was debottlenecked, resulting in increased production capacity. The 50/50 Lion Akzo Company Ltd. joint venture in Japan for the production of cationic surfactants continued to perform satisfactorily.

The investment program in the Stenungsund (Sweden) plant is progressing according to plan. The extended product range and capacity will foster growth in specialty areas such as cleaning, asphalt, mining, and feed additives.

Products from capacity added to the cellulose derivatives plant in Örnsköldsvik, Sweden, gradually reached the market, and growth was achieved in coatings and building material applications.

Fatty acids suffered from low margins early in the year, not only for the European operations but also for the 50/50 Akzo Nobel Oleochemicals Sdn. Bhd. joint venture in Pasir Gudang, Malaysia, where a major expansion will be completed early in 1998.

Delicate production and handling of metal alkyls, Deer Park, Texas

Trimethylaluminum (TMAL) production unit.

Sampling for laboratory analysis.

Shuttle tank for transport on the site.

ISO-certified containers are used for overseas transport of the product; specialized roadtankers supply the customers in the United States.

For optimum protection of the operator, pyrophoric organometallic compounds are mixed in a dry box.

Polymer Chemicals

Sales 1997 NLG 1,110 million, 1996 NLG 930 million

Polymer Chemicals' most important group of customers is the polymer producing industry, mainly polyolefins producers. Customers' plants in Europe, North America, and Asia/Pacific were running at high capacity utilization rates, although margins were not uniformly satisfactory. With operations strategically placed around the world, the business unit was able to make full use of the upswing in polyolefins demand. Performance was also favorably influenced by currency translation gains relating to the U.S. dollar and some European currencies. These external effects, combined with streamlined and more focused operations, led to an operating income clearly in excess of 1996.

The year's calendar of events featured four major items:

- In April, the grassroots European metal alkyls facility in Rotterdam was officially opened. Built on time and within budget, the plant will permit the business unit to participate in growth of the European market and strengthen its exports to Asia/Pacific.
- In May, Kayaku Akzo Corporation Ltd., the 50/50 Japanese organic peroxides joint venture, successfully completed negotiations to acquire the business of Sanken Chemical, thus strengthening its business in Japan through a larger market share and economies of scale.
- In June, the new plant of Tianjin Akzo Nobel Peroxides Co. Ltd., the 73/27 Chinese organic peroxides joint venture, was opened by the Chinese Vice Minister for the Chemical Industry. The symposium, organized as a companion event to the official opening of Akzo Nobel's first chemicals plant in the People's Republic of China, drew excellent participation from Chinese customers.
- In December, the metal alkyls site in Deer Park, Texas, started up the new trimethylaluminum (TMAL) plant. TMAL is the key raw material for methylaluminoxane co-catalysts used in the emerging new metallocene-based polyolefins technology. Intensified cooperation with the Japanese 50/50 metal alkyls joint venture, Tosoh Akzo Corporation Ltd., should benefit the joint venture and Akzo Nobel, both in conventional metal alkyls and in novel co-catalysts.

In South America the business unit is well placed to benefit from renewed growth triggered by the recent wave of privatization in the formerly state-owned polymer industry. Earnings in 1997 showed major improvement over 1996 due to a sharp customer focus and strict cost control, and warrant optimism for the years to come. Performance in Mexico was good despite the difficult monetary situation. The 51/49 Russian organic peroxides marketing joint venture, A.O. Ankorit, successfully continued its market penetration. However, as the Russian polymer industry is in turmoil, resumption of growth is not expected in the immediate future. In India, the 40/60 Centak Chemicals Ltd. organic peroxides joint venture had another satisfying year.

Base Chemicals
Sales 1997 NLG 850 million, 1996 NLG 780 million

Base Chemicals sales were up from the 1996 level. Overall income of the business unit was at the previous year's level as a consequence of the planned biennial maintenance stops.

Results for chlor-alkali were down from 1996, due to planned maintenance shutdowns and lower caustic soda prices, which, however, picked up again in the second half of the year. The project for the supply of chlorine to ICI and reprocessing of hydrochloric acid in the vinyl chloride monomer (VCM) process was started up successfully in the second quarter.

Income from chloromethanes improved considerably, as a result of increased volumes and higher prices, in part aided by a higher U.S. dollar.

While remaining at an unsatisfactory level, earnings from soda ash improved in the wake of healthy demand. Early in 1998 this business was divested to Brunner Mond plc.

Results of dimethylether were negatively influenced by higher methanol prices.

The results of ROVIN v.o.f., the 50/50 nonconsolidated VCM and PVC joint venture in the Netherlands, improved considerably from 1996 as the stagnancy in the market disappeared during the year and prices improved stepwise.

Results of the 50/50 Elektro-Chemie Ibbenbüren GmbH joint venture in Germany trailed the 1996 level. The joint venture acquired the business of Bitterfeld Chlor-Alkali GmbH and will convert the existing diaphragm electrolysis plant in Bitterfeld, Germany, into a state-of-the-art membrane plant. The new facility is expected to come on stream by mid-1999.

The 30/70 Methanor v.o.f. joint venture in Delfzijl, the Netherlands, turned in a very favorable performance in 1997. Methanol prices were at an attractive level due to healthy demand and supply stagnancy in this industry.

Catalysts
Sales 1997 NLG 640 million, 1996 NLG 650 million

Catalysts' results clearly improved but have not reached an acceptable level yet. The improvement was attributable to lower cost structures, largely resulting from capital expenditures made in recent years. Fluid cracking catalysts (FCC) results were still weak but substantially better than in 1996.

Hydroprocessing catalysts (HPC) remain the healthier and more promising business, although results did not meet previous years' levels. HPC market growth is expected to continue, driven by increasingly stringent environmental regulations for transport fuels. The strong position in all major geographic areas was maintained, directly in Europe, West Asia, and the Americas or indirectly through the Nippon Ketjen Company Ltd. joint venture in East Asia.

The efforts to penetrate the market as a catalyst supplier for hydrocracking units have started successfully. An important step in consolidating a leading position in HPCs is the formation of the "MAKFining" alliance together with Mobil, Kellogg, and Fina for the development and marketing of a wide range of process technologies and catalysts for the conversion of heavy oil fractions into high quality fuels. Oil refineries are constantly looking for ways to reduce fixed costs and outsource activities. This is creating fresh opportunities for chemical companies to solve refinery problems by offering customized service packages along with the catalysts. Part of such services are supplied by the Eurecat joint ventures. Nippon Ketjen, the 50/50 Japanese joint venture for HPCs, again registered good earnings, but lower exports slightly reduced the figure compared to the previous year.

The petroleum refining industry, Catalysts' most important market, saw a modest upturn in earnings after several years of low refinery margins. Due to the still abundant supply of light crudes the price difference between heavy and light crudes remained small, resulting in a stabilized need for FCC upgrading. Overall market growth for FCCs is expected to be limited for the next several years, despite growing consumption in Asia/Pacific. This market situation, combined with recent overcapacity, led to significant declines in selling prices. As the dip in the market has stabilized, prices are bottoming out and showing, for the first time in several years, signs of firming up. FCC-Fábrica Carioca de Catalisadores S.A., the Brazilian 40/60 joint venture that produces fluid cracking catalysts mainly for the Brazilian market, turned in a fair performance. While market development in Brazil fell short of expectations, other South American countries showed continued growth.

The relatively small chemical and petrochemical catalyst business could not match its 1996 record performance but still showed good returns. With the integration of oil refining and petrochemical activities continuing, new opportunities in this field are being pursued. The Deer Park (Texas) facility for the production of catalysts for C4 and light naphtha isomerization is about to start up and will provide the business unit with a strong foothold for entering this market.

Salt

Sales 1997 NLG 520 million, 1996 NLG 580 million

Salt achieved satisfactory results, albeit lower than in 1996. Market conditions became more difficult due to industry-wide overcapacity, which changed the competitive environment. The business unit nevertheless managed to hold on to its share in its traditional markets, but prices were lower. Investments in production facilities—in line with Akzo Nobel's Responsible Care® policy—and continuous improvement in efficiency helped cushion the negative effects of price pressure. The decision to build a cogeneration plant in a 50/50 joint venture at the Mariager site in Denmark will improve overall cost effectiveness. It also exemplifies the Responsible Care® policy and will have a positive effect on the environment.

Shipments of salt to the chemical industry showed a stable picture. State-of-the-art production facilities and favorable logistics vis-à-vis geographic markets contribute to leadership in this sector.

To be able to participate in growth of the chemical industry market in Asia/Pacific, it was decided to build a solar salt facility in Onslow, Western Australia. The plant, designed for an initial production capacity of 2.5 million metric tons per annum, is presently under construction and will have its first harvest at year-end 1999. With expansion possibilities being abundantly available, the plant could become the world's largest solar salt operation.

Following the divestment of Salt America, the former U.S.-based salt operations, the business unit increased its sales of evaporated salt exported from the Netherlands to customers on the U.S. east coast and in South American markets.

The sales and marketing organization of Salt Specialties was strengthened to consolidate leadership positions in traditional markets. The business unit is also penetrating markets that are opening up in other areas such as Eastern Europe; salt products are now being sold to these new markets.

The supply of salt for industrial use and private consumption has become a pan-European business in the high-quality segments in which the business unit is an important player. In conformity with its policy of looking for market niches and launching new products, Salt is presently introducing Jozo® brand based premium salt products to meet growing customer demand for products positioned at the high end of the market.

Energy

Sales 1997 NLG 270 million, 1996 NLG 270 million

In 1997, the European authorities decided to liberalize the European electricity and gas markets. Within seven years the market may be fully open to competition. Akzo Nobel expects that important benefits will emerge from more competitive energy prices. During the year Energy negotiated better electricity and gas contracts in Germany and the Netherlands, with substantial benefits for several Akzo Nobel business units.

In 1997, the Energy Efficiency Program (EEP) for the most energy intensive sites in the Netherlands showed a substantial improvement with an energy reduction of 18 percent since 1990. The basic tool for such a program is the consumption monitoring system, which is now also being introduced in Germany with high expectations for energy savings.

Two major decisions on cogeneration projects were authorized. The salt factory in Mariager, Denmark, will be extended to include a 28 megawatt gas turbine installation, resulting in substantially improved energy efficiency and considerable reduction of CO_2, NO_x and SO_x emissions.

At the Diosynth site in Oss, the Netherlands, a preproject for a 10 megawatt cogenerating installation was started. The new unit is to supply both the Akzo Nobel and Unilever facilities.

In Delfzijl, the Netherlands, the major cogeneration expansion project at the 50/50 joint venture Delesto B.V. is progressing according to plan. The first firing date is foreseen for mid-1998.

Other activities

The 50/50 Akcros Chemicals joint venture continued to experience weak market demand for its PVC stabilizers during 1997, primarily due to the lack of recovery of the important German construction market. Results were at the 1996 level. The strong pound sterling had a negative effect on the exports of U.K.-based operations, where prices had to be adjusted to remain competitive. The major restructuring program for rigid PVC stabilizers continued, and it was announced that the Roermond plant in the Netherlands will be shut down by or before 2000. The new production facility for UV radiation curing chemicals in New Brunswick, New Jersey, which will serve the North American market, was successfully started up.

The 50/50 Flexsys joint venture continued its global market consolidation. With sales accounting for about one-third of world market volume, Flexsys enjoyed improved overall results as demand for rubber chemicals was strong throughout the year. A new organizational structure, with separate business sectors for global (tire) accounts and national (general rubber goods) accounts, has sharpened the company's market focus. By the end of the year the major investment project at Antwerp, Belgium, for the production of 4-aminodiphenylamine (4-ADPA), a key intermediate for antidegradants, was successfully started up. The new facility employs patented, environmentally friendly technology. During the year Flexsys acquired the remaining 50 percent of the shares of Kali-Chemie Akzo GmbH, its Crystex® joint venture in Germany and France.

The 50/50 joint venture Delamine B.V. produces ethylene amines (EDA and higher amines) via an ethylene dichloride (EDC) route. The steep increases in prices for critical raw materials have not been fully compensated in EDA market prices, resulting in lower 1997 earnings.

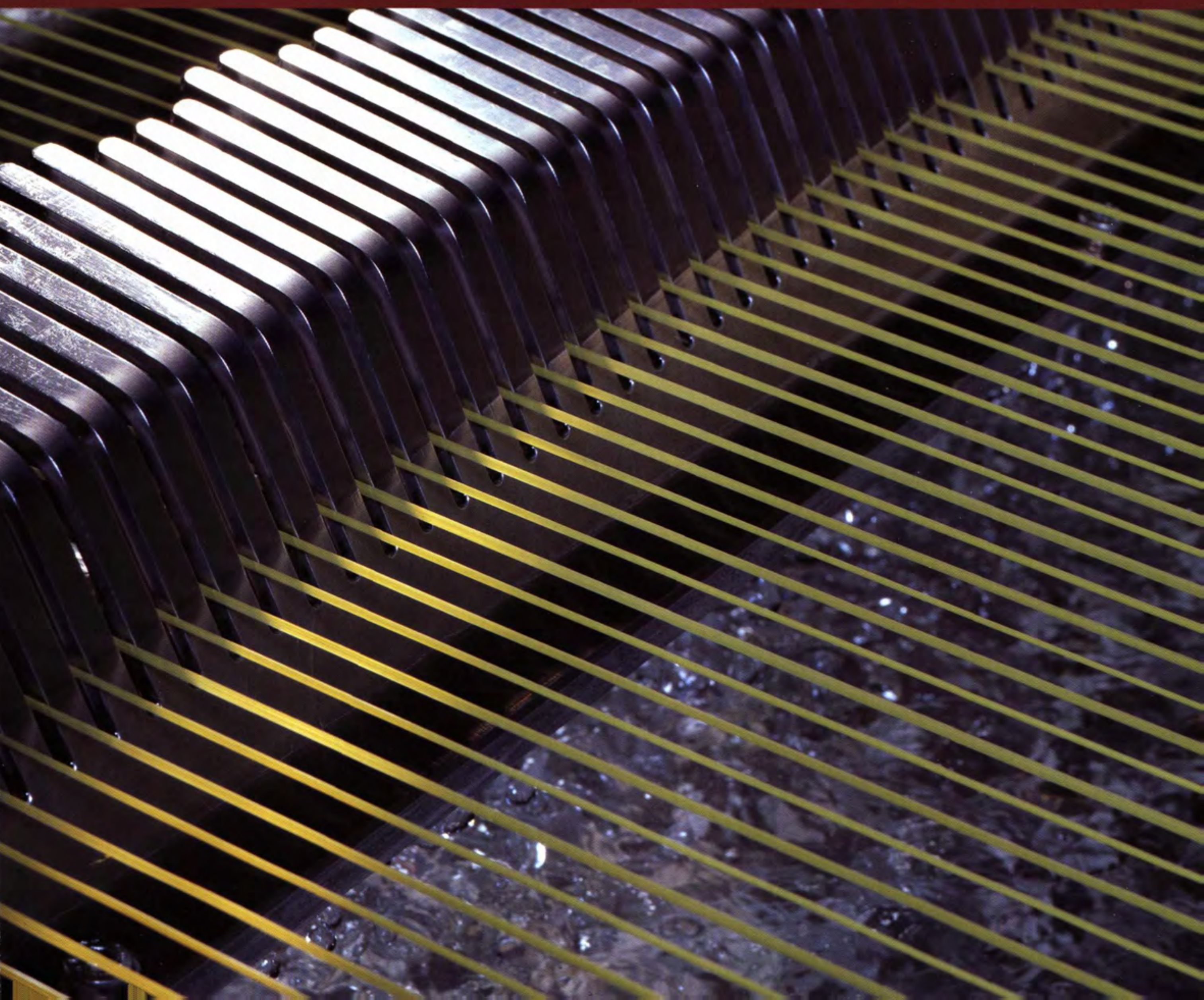
Responsible in Board of Management:
Fritz W. Fröhlich
Paul K. Brons (alternate)

Group Director Technology:
E. (Henk) Molenaar

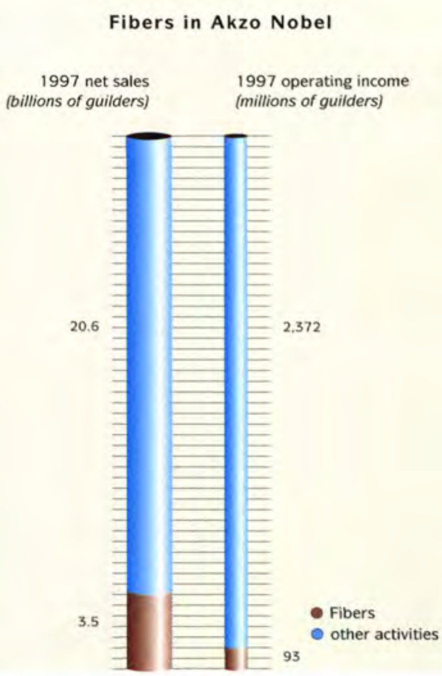
Business Units:
Industrial Fibers
Textile Fibers
Aramid Products
Nonwovens
Membrana

General Managers:
Folkert B. Blaisse
Peter Wack
Willem H. Meyberg
Leo Janse
Günter H. Vitzthum
(until October 31, 1997)
Marcel H. Zegger
(from November 1, 1997)

FIBERS



FIBERS



Millions of guilders	**1997**	1996
Business unit sales	**3,600**	3,480
Intragroup sales/other	**(61)**	(87)
Net sales	**3,539**	3,393
Operating income	**93**	82
Depreciation and amortization	**241**	223
Gross cash flow	**334**	305
Expenditures for PP&E	**184**	318
R&D expenditures	**103**	102
Invested capital at year end	**2,530**	2,546
Key ratios		
Operating income as percentage of:		
– net sales	**2.6**	2.4
– invested capital	**3.7**	3.2
Net sales/ invested capital	**1.39**	1.33
Expenditures for PP&E/ depreciation	**0.8**	1.4
Number of employees at year end	**13,300**	14,100

SALES AND INCOME

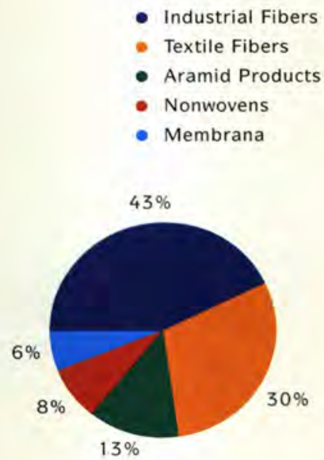
Fibers was able to benefit from the improved economic climate. Demand for fibers increased strongly, with growth in Europe averaging 8 percent, although substantial price pressure remained. Overall, volume was 10 percent higher. Combined with 8 percent lower average selling prices and a 2 percent positive currency translation effect, this resulted in 4 percent higher sales in 1997.

Industrial Fibers and Aramid Products managed to improve results. Textile Fibers reported positive figures. Especially the Sympatex® activities did better than in 1996, whereas results of viscose textile deteriorated. Nonwovens registered a better performance, while Membrana's results were under pressure. Fibers' operating income aggregated NLG 93 million, compared with NLG 82 million in 1996.

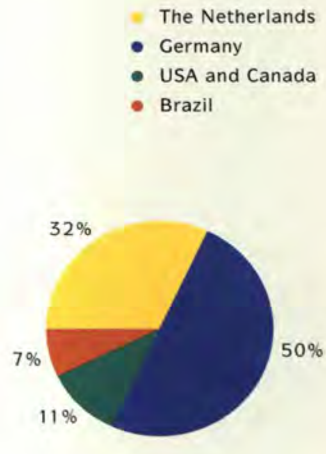
At 2.6 percent, Fibers' return on sales remained at the low 1996 level. Strategically, we strive for a return on sales of 7 percent and a return on invested capital of 12 percent.

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

1997 business unit sales (NLG 3.6 billion)



1997 net sales by country of origin



Sales of the nonconsolidated companies, on a 100-percent basis, amounted to NLG 1,300 million, compared with NLG 1,560 million in 1996. The 1997 figure does not include Fibers' participation in Fibras Químicas S.A. in Mexico, which was sold effective January 1, 1997. The share of Fibers in earnings of nonconsolidated companies was negative again (minus NLG 10 million in 1997 against minus NLG 3 million in 1996), which was mainly attributable to the difficult market situation for Rajashree Polyfil Ltd. in India. This company has amalgamated with Century Enka Ltd.

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.

Our strategy is to participate actively in the restructuring of the global fiber industry.
The announcement of a letter of intent which we signed with the Turkish company Sabanci to create a 50/50 joint venture for the industrial fibers business fits in this strategy. Early in the year we transferred our nylon 6 business in Brazil to DuPont.

The portfolio of Textile Fibers was streamlined by two divestments. In April we announced the transfer of our 40-percent participation in Fibras Químicas S.A., Mexico, to our Mexican partner Alfa, effective January 1, 1997. At the end of the year an agreement was reached with Textilwerke Deggendorf GmbH in Germany under which Akzo Nobel's remaining stake in Kuagtextil GmbH and the polymerization plant in Oberbruch were sold to this company. This step will complete Akzo Nobel's withdrawal from the polyester textile filament market in Europe. In April 1997 a joint company was formed with U.K.-based Courtaulds to further develop and invest in NewCell®, a highly innovative textile fiber.

A letter of intent was signed in December 1997 to transfer the maintenance service unit at the Kleefse Waard site in Arnhem to Electron Holding B.V.

Productivity drives to cut costs, increase competitiveness, and improve results continue at an accelerated pace. The transfer of the labor-intensive textile aftertreatment to Poland—a cornerstone of this policy—is making good progress. Additionally, we are implementing in all business units far-reaching efficiency programs, partially supported by external consultants. In Germany, where we employ a significant part of our work force, we have entered into promising negotiations with employee representatives with the objective to utilize the possibilities of the new labor agreement for the German chemical industry allowing a sizable pay cut. Agreement was reached on a reduction of our pension schemes in Germany.

The progress made in implementing productivity-boosting programs, adjusting organizations, and intensifying global marketing efforts, coupled with portfolio streamlining, resulted in a staff reduction of 7 percent at the traditional sites, while there was an increase of 200 employees in Poland.

We are transferring our businesses into independent legal entities with the objective to adjust our legal structure to the organizational structure. This will further improve the cost effectiveness of these operations and pave the way for additional alliances, if required.

Expenditures for property, plant and equipment in 1997 were significantly lower than in the previous year, with a large portion going toward cost reductions. Authorization was given for a major capacity increase at Akzo Nobel's carbon fiber company Fortafil Fibers Inc., which holds a leading position in the United States. The capacity expansion will enable the company to meet strong growth in the demand for carbon fibers. Approval was also obtained for the first phase of a new capacity increase at Aramid Products.

Developments in the Fibers business units

Industrial Fibers

Sales 1997 NLG 1,570 million, 1996 NLG 1,540 million

Employing 4,500 people, Industrial Fibers is active in polyester, nylon, and rayon industrial fibers and fabrics with production facilities in Germany, the Netherlands, the United States, and Brazil. Industrial fibers find application as reinforcing materials in tires and various other technical end-uses, such as fabrics, car seat belts, conveyor belts, airbags, ropes, and nets.

In 1997, Industrial Fibers posted an improved earnings performance. Demand increased noticeably and capacities were fully utilized, which enabled the business unit to strengthen its worldwide market position. Moreover, much progress was made in the implementation of cost reduction programs.

After the signing of a memorandum of understanding with the Chinese company Wuxi Taiji much headway was made in investigating the viability of a joint venture for the production of industrial polyester fibers. This project is now also included in the discussions on the intended joint venture with the Sabanci Group.

In April 1997, the nylon 6 activities of Cobafi S.A. in Brazil were divested to DuPont, which will enable Cobafi to focus on polyester, its core product.

Once again, the Western European industrial viscose market proved to be very resilient against the tendency to replace viscose with polyester yarn in tire applications. The excellent properties of viscose, in combination with market and quality leadership, will enable the business unit to continue serving its customers in the years ahead.

The polyester business showed an improvement as far as technical applications like car seat belts, conveyor belts, and tarpaulins are concerned. Demand for polyamide 66 airbag yarn again showed high growth. Especially in Western Europe, the business unit holds a very strong position in this continuously expanding market.

Textile Fibers
Sales 1997 NLG 1,090 million, 1996 NLG 1,130 million

Akzo Nobel is the world's largest producer of viscose textile filament yarns with a prominent position in terms of quality and innovation. With its Enka® viscose, Textile Fibers is the market leader in Western Europe. Sympatex® is the brand name for high-grade, breathable and waterproof membrane applications, especially in streetwear, sportswear, and shoes. Through cooperation with local partners, Sympatex® achieved leading positions in a number of European countries.

In 1997, viscose textile was confronted with adverse business conditions. The economic upswing was less pronounced than expected. Prices remained under pressure, and customer demand shifted to market segments where the business unit has a less prominent position. Operational losses could not be avoided. To counter this development the sales and marketing organization was aligned, the cost structure was improved—notably in production—and the transfer of labor-intensive aftertreatment to Poland was further pursued.

Sympatex® recorded an excellent year, harvesting the first results of the strategy to grow in new geographic areas and in new market segments, as is also reflected in its breakthrough in the contract and shoe markets. Investments in market development should bolster long-term profitability.

The other activities of Textile Fibers, Enka tecnica and Hima, Germany, recorded a satisfactory performance. Enka tecnica strengthened its position in components for spinning equipment, while Hima achieved structurally lower costs.

In Brazil, the opening up of borders and a hesitant textile market put the results of Polyenka S.A. under pressure. Through productivity improvement measures aided by a modernization program, Polyenka was able to mitigate the loss situation.

In 1997, the performance of the nonconsolidated overseas companies showed a varied picture. Enka de Colombia S.A. almost broke even after its disappointing performance in the previous year. The results of operations at Enkador S.A., Ecuador, were satisfying. Substantial overcapacities in the Indian market continued to depress the results of Century Enka Ltd. and Rajashree Polyfil Ltd. The merger of these two companies as from April 1, 1997, is expected to bring synergy benefits.

Aramid Products
Sales 1997 NLG 450 million, 1996 NLG 350 million

Aramid Products achieved substantially higher sales and operating income figures than in 1996.

Shipments of Twaron®, the high performance fiber, recorded growth in all areas of application, such as optical fiber cable reinforcement, specialty hoses, transmission belts, brake linings, clutch facings, ballistic fabrics, tires, and industrial composites. In all geographic areas, with the exception of Asia, higher sales were registered. Exports to the United States were much higher, supported by the higher U.S. dollar.

In 1997, a special unit for recycling spinning residues was started up successfully.

Twaron® production process, Delfzijl/Emmen, the Netherlands

Unit producing PPD, one of the monomers for the polymer PPTA.

Monitoring the production process.

Washing of the polymer.

Spinning of the Twaron® yarn, followed by drying of the product on big drums.

Monitoring the logistics.

Visual inspection of the finished product.

Aramid Products expended strong efforts on the reduction of lead times and the improvement of communication processes in order to respond quickly to customer needs.

Fortafil Fibers Inc. achieved excellent results. In the light of accelerating market growth, plans were authorized to expand capacity in Rockwood, Tennessee, by 60 percent to 1,360 metric tons per annum. The expansion, which will come on stream in the beginning of 1999, includes infrastructural changes that will permit rapid realization of another expansion of the same size.

Nonwovens

Sales 1997 NLG 290 million, 1996 NLG 250 million

Nonwovens is a supplier of nonwoven fabrics, composites, and three-dimensional products for high-performance industrial applications and civil engineering. With manufacturing facilities in Europe and the United States, the business unit's market positions vary from solid to leading, depending on application and geographic area.

Results in 1997 improved over 1996, with all business areas contributing. Results in the roofing area also showed a slight recovery due to cost reduction programs, which will be fully implemented in the years ahead.

The civil engineering business of Geosynthetics did well worldwide. The introduction of Twaron®-reinforced Colback® fabric grid for soil reinforcement was successful.

In industrial nonwovens the position of Colback® nonwoven fabrics in the flooring/automotive market was strengthened. The first sales in the Asia/Pacific region (excluding Japan) were realized. Construction and startup of a second Colback® production line in Asheville, North Carolina, were successfully completed. This capacity expansion should enable further growth.

Membrana
Sales 1997 NLG 200 million, 1996 NLG 210 million

Membrana is the world's largest producer and supplier of membranes and porous material for use in hemodialysis (blood purification for kidney patients), microfiltration (for medical applications such as artificial lungs and plasma separation), and Accurel® Systems (additive concentrates for the plastics industry and for environmental cleanup). Operating in a high-tech environment, the business unit 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, with a strong focus on environmental issues.

In the difficult field of healthcare, with mounting pressure on prices across the board, Membrana failed to match the 1996 results, despite numerous measures to improve productivity. This decline in performance was due to the fact that more time is needed to increase shipments and achieve higher capacity utilization in the field of new dialysis membranes. As the markets for all of Membrana's medical membranes (dialysis, blood oxygenation, and plasma separation) continue to grow, an improvement in performance is expected for 1998.

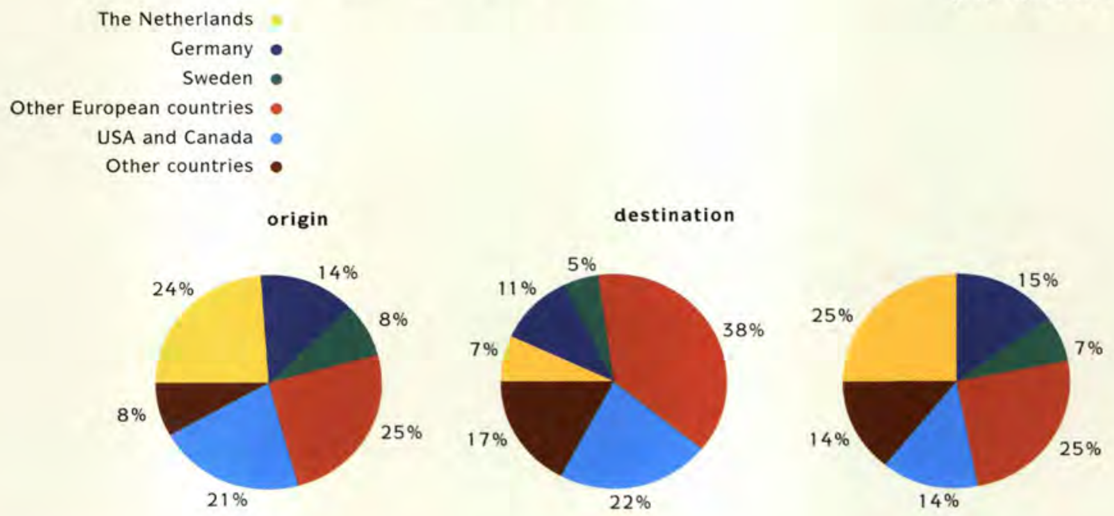
In the field of microfiltration for industrial uses, shipments of MicroPES™ membranes increased as anticipated. In water filtration—a fast growing market segment for technical membrane applications—a strategic alliance was established with the Dutch company Stork.

Growth of Accurel® Systems slowed down in 1997. The development of new markets and applications has laid the foundation for an upturn in 1998.

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

1997 net sales (NLG 24.1 billion)

Number of employees at year-end 1997 (68,900)



GEOGRAPHIC INFORMATION

Millions of guilders	Net sales, by destination 1997	1996	Net sales, by origin 1997	1996	Operating income 1997	1996	Invested capital, December 31 1997	1996	Expenditures for property, plant and equipment 1997	1996
The Netherlands	**1,737**	1,761	**5,743**	5,912	**546**	539	**3,811**	3,817	**359**	527
Germany	**2,671**	2,789	**3,262**	3,038	**207**	156	**1,695**	1,546	**120**	174
Sweden	**1,092**	1,091	**1,904**	1,912	**237**	181	**1,557**	1,389	**217**	343
Other European countries	**9,187**	8,076	**6,051**	5,108	**888**	660	**2,789**	2,536	**249**	185
USA and Canada	**5,391**	5,066	**5,080**	4,715	**391**	314	**3,481**	3,402	**296**	451
Other countries	**3,974**	3,655	**2,012**	1,753	**202**	181	**1,490**	1,288	**171**	163
Nonrecurring items					**(6)**					
Total	**24,052**	22,438	**24,052**	22,438	**2,465**	2,031	**14,823**	13,978	**1,412**	1,843

In the Netherlands improved results of Pharma were partially offset by lower Fibers earnings. In Germany lower Pharma results were more than compensated by higher contributions of Coatings and Fibers.
The increase in Swedish earnings is mainly due to Chemicals.

The improvement of the results in the "Other European countries" mainly stems from Pharma and Coatings.

Chemicals was the main contributor to the increase in earnings in the United States.

A substantial part of the consolidated activities in the "Other countries" is concentrated in Brazil. In general, results of operations in that country were at the same level as in the prior year.

Sales in Southeast Asia totaled approximately NLG 975 million (1996: NLG 825 million), while sales of the companies established in that region amounted to NLG 450 million (1996: NLG 350 million). 1997 earnings in this region were at the same level as in the prior year.

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

Nonconsolidated companies (on a 100-percent basis)

Millions of guilders	Net sales, by origin 1997	1996	Invested capital, December 31 1997	1996	Number of employees, December 31 1997	1996
Europe	**4,010**	2,740	**1,900**	1,610	**2,600**	3,500
North America	**510**	460	**370**	300	**700**	700
Latin America	**620**	1,030	**620**	950	**2,400**	4,500
Other regions	**1,110**	1,110	**800**	850	**4,300**	4,300
Total	**6,250**	5,340	**3,690**	3,710	**10,000**	13,000

COUNTRIES WITH CONSOLIDATED AND NONCONSOLIDATED COMPANIES

at December 31, 1997

	Pharma	*Coatings*	*Chemicals*	*Fibers*	*Other**
Europe					
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					
United States	●	●	●	●	●
Canada	●	●	●		
Latin America					
Brazil	●	●	●	●	●
Argentina	●	●	●		●
Chile	●		●		
Colombia	●		●	●	
Ecuador	●			●	
Mexico	●	●	●		
Netherlands Antilles					●
Venezuela	●		●		
Asia					
Japan	●	●	●	●	
Bangladesh	●				
China	●	●	●		●
India	●		●	●	
Indonesia	●	●	●		
Lebanon	●				
Malaysia	●	●	●		
Pakistan	●				
Philippines	●				
Saudi Arabia			●		
Singapore	●	●	●		
South Korea	●	●			●
Taiwan	●		●		
Thailand	●	●	●		
Vietnam	●	●			
Africa					
Algeria	●		●		
Egypt	●				
Ivory Coast		●			
Morocco	●	●			
Nigeria	●				
South Africa	●		●		
Australia/Oceania					
Australia	●		●		
New Zealand			●		

* *including R&D and country organizations*

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

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.

Results 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 entered into, translation is based on the exchange rates stated in these contracts. Exchange differences on anticipatory hedges of firm commitments regarding sales and purchases are deferred on the balance sheet until the hedged transactions have been reflected in the accounts.

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	
	1997	1996	**1997***	1996*
USD	**2.02**	1.74	**1.95**	1.69
DEM	**1.13**	1.12	**1.13**	1.12
SEK	**0.26**	0.25	**0.26**	0.25
GBP	**3.34**	2.96	**3.21**	2.66

* *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 to 15 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 as well as royalties, 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	1997		1996	
Net sales	1		**24,052**		22,438
Cost of sales			**(14,159)**		(13,684)
Gross margin			**9,893**		8,754
Selling expenses		**(5,061)**		(4,591)	
Research and development expenses		**(1,260)**		(1,137)	
General and administrative expenses		**(1,171)**		(1,083)	
Other results	2	**64**		88	
			(7,428)		(6,723)
Operating income			**2,465**		2,031
Financing charges	3		**(274)**		(263)
Operating income less financing charges			**2,191**		1,768
Taxes	4		**(657)**		(507)
Earnings of consolidated companies after taxes			**1,534**		1,261
Earnings from nonconsolidated companies	5		**119**		91
Earnings before minority interest			**1,653**		1,352
Minority interest			**(38)**		(34)
Net income			**1,615**		1,318

See notes on pages 63 and 64.

Consolidated balance sheet

AFTER ALLOCATION OF PROFIT

Millions of guilders, December 31	NOTE	1997		1996	
Assets					
Noncurrent assets					
Intangible assets	7		**235**		167
Property, plant and equipment	8		**9,740**		9,486
Financial noncurrent assets:	9				
– nonconsolidated companies		**1,277**		1,236	
– other financial noncurrent assets		**468**		383	
			1,745		1,619
			11,720		11,272
Current assets					
Inventories	10	**4,045**		3,878	
Receivables	11	**4,995**		4,366	
Cash and cash equivalents	12	**699**		891	
			9,739		9,135
Total			**21,459**		20,407
Equity and liabilities					
Equity	13				
Akzo Nobel N.V. stockholders' equity		**9,035**		7,703	
Minority interest		**260**		238	
			9,295		7,941
Provisions	14		**3,775**		3,531
Long-term debt	15		**2,015**		2,148
Short-term debt					
Short-term borrowings	16	**1,714**		2,485	
Current liabilities	17	**4,660**		4,302	
			6,374		6,787
Total			**21,459**		20,407

See notes on pages 64 through 69.

Consolidated statement of cash flows

Millions of guilders	**1997**		1996	
Earnings before minority interest	**1,653**		1,352	
Depreciation and amortization	**1,325**		1,207	
Cash flow		**2,978**		2,559
Other adjustments to reconcile earnings to cash provided by operations:				
– equity in earnings of nonconsolidated companies	**(141)**		(109)	
– dividends from nonconsolidated companies	**59**		87	
– changes in provisions	**43**		62	
– other changes	**25**		33	
		(14)		73
Change in working capital*		**(425)**		(78)
Net cash provided by operations		**2,539**		2,554
Purchase of intangible assets	**(97)**		(37)	
Expenditures for property, plant and equipment	**(1,412)**		(1,843)	
Investments in nonconsolidated companies	**(95)**		(35)	
Repayment of loans to nonconsolidated companies	**58**			
Acquisition of consolidated companies**	**(121)**		(161)	
Proceeds from sale of interests**	**668**		127	
Changes in other financial noncurrent assets	**(45)**		(105)	
Net cash used for investments		**(1,044)**		(2,054)
		1,495		500
Issuance of stock	**29**		18	
New long-term debt	**88**		425	
Repayment of long-term debt	**(238)**		(1,024)	
Changes in short-term borrowings	**(972)**		754	
Net cash (used for)/provided by financing activities		**(1,093)**		173
		402		673
Dividends paid		**(629)**		(513)
		(227)		160
Effect of exchange rate changes on cash and cash equivalents		**35**		32
Change in cash and cash equivalents		**(192)**		192
Cash and cash equivalents at beginning of year		**891**		699
Cash and cash equivalents at end of year		**699**		891

See note on page 69.

* *Inventories and receivables less current liabilities, exclusive of dividends. In the 1997 figure the Retsof insurance receivable of NLG 160 million is included. See also note 11.*

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

GENERAL

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

Changes in consolidated interests
At the end of April 1997, the activities of the business unit Salt America were divested to Cargill Inc., United States, for an amount of NLG 600 million, which approximates the book value of these activities.

During 1997, Akzo Nobel acquired and deconsolidated various other businesses, none of which were significant to the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

note [1]
Net sales
By activity

Millions of guilders	**1997**	1996
Pharma	**4,615**	3,952
Coatings	**8,382**	7,436
Chemicals	**7,575**	7,695
Fibers	**3,539**	3,393
Other activities and intercompany deliveries	**(59)**	(38)
	24,052	22,438

Given the minor importance of other activities (1997 sales: NLG 124 million; 1996 sales: NLG 141 million), they have been combined with intercompany deliveries.

By destination

Millions of guilders	**1997**	1996
The Netherlands	**1,737**	1,761
Germany	**2,671**	2,789
Sweden	**1,092**	1,091
Other European countries	**9,187**	8,076
USA and Canada	**5,391**	5,066
Other countries	**3,974**	3,655
	24,052	22,438

note [2]
Other results
In 1997, the following nonrecurring items were included under other results:

Millions of guilders	
Settlement of Retsof insurance claim	160
Restructuring costs at:	
– Chemicals	(57)
– Fibers	(56)
– Coatings	(32)
– Other	(13)
Other items	(8)
	(6)

note [3]
Financing charges

Millions of guilders	**1997**	1996
Interest received and similar income	**69**	70
Interest paid and similar expenses	**(343)**	(333)
	(274)	(263)

Interest paid was reduced by NLG 30 million (1996: NLG 37 million) due to the capitalization of financing expenses of capital investment projects under construction.

note [4]
Taxes on operating income less financing charges
Income taxes averaged 30% (1996: 29%). Taxes were reduced by an amount of NLG 85 million (1996: NLG 90 million) due to the utilization of tax loss carryforwards from prior years. Income taxes were further reduced by an amount of NLG 80 million (1996: NLG 40 million) due to tax exempt income elements. On the other hand, the effect of losses for which taxes could not be offset against taxes charged to income in previous years and nondeductible expenses was an increase of the tax charge by NLG 75 million (1996: NLG 30 million).

At December 31, 1997, operating loss carryforwards for tax purposes amounted to NLG 1.2 billion, of which NLG 0.1 billion will expire within five years. For an amount of NLG 1.0 billion of losses there is no expiration date.

note [5]
Earnings from nonconsolidated companies
Earnings from nonconsolidated companies were net of a tax charge of NLG 30 million (1996: NLG 19 million).

note [6]

Salaries, wages, and social charges

Millions of guilders	**1997**	1996
Salaries and wages	**5,146**	4,879
Pension costs	**326**	331
Other social charges	**913**	850
	6,385	6,060

Employees

Average number of employees	**1997**	1996
Pharma	**15,500**	15,100
Coatings	**22,900**	21,800
Chemicals	**13,700**	14,900
Fibers	**13,700**	14,500
Other units	**3,700**	3,800
	69,500	70,100
Number of employees at December 31	**68,900**	70,700

CONSOLIDATED BALANCE SHEET

note [7]

Intangible assets

Millions of guilders	Total	Intellectual property rights	Preparation and start-up expenses
Situation at December 31, 1996			
Cost of acquisition	214	175	39
Amortization	(47)	(37)	(10)
Book value	167	138	29
Changes in book value			
Investments	97	71	26
Amortization	(32)	(24)	(8)
Changes in exchange rates	3	1	2
Total changes	68	48	20
Situation at December 31, 1997			
Cost of acquisition	315	246	69
Amortization	(80)	(60)	(20)
Book value	**235**	**186**	**49**

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, 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
Changes in book value						
Acquisitions and disposal of interests	(225)	(80)	(131)	(3)	(11)	
Capital expenditures	1,412	405	1,420	206	(622)	3
Depreciation	(1,293)	(194)	(911)	(178)		(10)
Disinvestments	(99)	(25)	(63)	(9)		(2)
Changes in exchange rates	442	124	297	16		5
Other changes	17	5	24	2		(14)
Total changes	254	235	636	34	(633)	(18)
Situation at December 31, 1997						
Cost of acquisition	21,561	5,102	13,464	1,948	714	333
Depreciation	(11,821)	(2,054)	(8,191)	(1,441)		(135)
Book value	**9,740**	**3,048**	**5,273**	**507**	**714**	**198**

The book value of property, plant and equipment financed by installment buying and leasing was NLG 42 million at December 31, 1997 (at December 31, 1996: NLG 47 million).

The book value of property, plant and equipment on the basis of current value is NLG 0.9 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, 1996	1,619	1,138	98	383
Deconsolidations/investments	219	104	4	111
Goodwill	(73)	(73)		
Consolidations/divestitures/repayments	(197)	(98)	(58)	(41)
Equity in earnings	141	141		
Dividends received	(59)	(59)		
Changes in exchange rates	95	76	4	15
Situation at December 31, 1997	**1,745**	**1,229**	**48**	**468**

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 551 million at year-end 1997 (at December 31, 1996: NLG 368 million). Equity in 1997 earnings was NLG 62 million, against NLG 47 million in 1996. At year-end 1997, these partnerships accounted for NLG 120 million of short-term receivables from nonconsolidated companies (at December 31, 1996: NLG 88 million).

note [10]

Inventories

Millions of guilders	**1997**	1996
Raw materials and supplies	**1,250**	1,115
Work in process	**733**	631
Finished products and goods for resale	**2,053**	2,126
Inventory prepayments	**9**	6
	4,045	3,878

note [11]

Receivables

Millions of guilders	**1997**	1996
Trade receivables	**3,885**	3,591
Receivables from non-consolidated companies	**263**	249
Other receivables	**949**	638
	5,097	4,478
Discounted portion	**(102)**	(112)
	4,995	4,366

Other receivables at December 31, 1997, included a receivable of NLG 160 million related to the settlement of the insurance claim regarding the 1994 water intrusion at the Retsof mine, New York.

For details on receivables from nonconsolidated companies reference is made to note 9.

note [12]

Cash and cash equivalents

Millions of guilders	**1997**	1996
Short-term investments	**324**	254
Cash on hand and in banks	**375**	637
	699	891

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings, and debentures immediately convertible into cash.
At December 31, 1997, as at December 31, 1996, 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, 1996	7,703	238
Issuance of stock	29	
Retained earnings	1,009	14
Changes in minority interest in subsidiaries		5
Goodwill	(120)	
Changes in exchange rates	414	3
Situation at December 31, 1997	**9,035**	**260**

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	**1997**	1996
Deferred taxes	**651**	532
Pension obligations	**1,843**	1,705
Restructuring of activities	**495**	479
Environmental costs	**469**	456
Other	**317**	359
	3,775	3,531

The current portion of provisions amounted to NLG 540 million (at December 31, 1996: NLG 671 million).

Provisions for pension obligations

Most Akzo Nobel companies have established pension plans for their employees in accordance with local legal requirements and customs. At December 31, 1997, as at December 31, 1996, 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	1997	1996
Debentures:		
– issued by Akzo Nobel N.V.	**1,400**	1,400
– issued by consolidated companies	**33**	29
Private borrowings	**68**	65
Debt to credit institutions	**215**	324
Other borrowings	**299**	330
	2,015	2,148

The total amount of long-term credit facilities (USD 1.0 billion) arranged by Akzo Nobel but not utilized was NLG 2.0 billion at December 31, 1997 (at December 31, 1996: NLG 1.7 billion).

Aggregate maturities of long-term debt are as follows:

Millions of guilders	1998	1999/ 2002	after 2002
Debentures:			
– issued by Akzo Nobel N.V.		600	800
– issued by consolidated companies	1	32	–
Private borrowings	10	20	38
Debt to credit institutions	104	101	10
Other borrowings	54	172	73
	169	925	921

In 1997 the average interest rate was 6.7% (1996: 6.6%).

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

Private borrowings and debt to credit institutions were secured to an aggregate amount of NLG 48 million (at December 31, 1996: NLG 67 million) by means of mortgages, etc.

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

note [16]

Short-term borrowings

Millions of guilders	1997	1996
Commercial paper	**1,144**	1,122
Debt to credit institutions	**455**	1,312
Borrowings from nonconsolidated companies	**115**	51
	1,714	2,485

Commercial paper relates to Akzo Nobel's commercial paper program in the United States, which at December 31, 1997 (as at December 31, 1996) had a maximum of USD 700 million (year-end 1997: NLG 1,414 million; year-end 1996: NLG 1,218 million), and to Akzo Nobel's Euro commercial paper program, which was relaunched in 1997. At December 31, 1997, the latter program had a maximum of USD 200 million (NLG 404 million).

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

note [17]

Current liabilities

Millions of guilders	1997	1996
Prepayments by customers	**42**	44
Suppliers	**2,276**	2,178
Debt to non-consolidated companies	**33**	45
Taxes and social security contributions	**791**	671
Amounts payable to employees	**463**	381
Dividends	**432**	430
Pensions	**33**	23
Other liabilities	**590**	530
	4,660	4,302

note [18]

Commitments and contingent liabilities

Environmental matters

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

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

As stated in note 14, the provisions for environmental costs accounted for in accordance with the aforesaid policies aggregated NLG 469 million at December 31, 1997 (at December 31, 1996: NLG 456 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.

Other litigation

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.

Commitments

Purchase commitments for property, plant and equipment aggregated NLG 186 million at December 31, 1997. At December 31, 1996, these commitments totaled NLG 187 million. In addition, the Company has purchase commitments for raw materials and supplies incident to the ordinary conduct of business.

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated NLG 1,040 million at December 31, 1997 (at December 31, 1996: NLG 1,007 million). Payments due within one year amount to NLG 303 million (1996: NLG 263 million); payments due after more than five years amount to NLG 266 million (1996: NLG 332 million).

Guarantees relating to nonconsolidated companies totaled NLG 73 million (at December 31, 1996: NLG 55 million).

As general partners in several partnerships, Akzo Nobel companies are liable for obligations incurred by these partnerships. At December 31, 1997, the risk ensuing from these liabilities was NLG 472 million (at December 31, 1996: NLG 323 million).

note [19]

Financial instruments

Foreign exchange risk management

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

At December 31, 1997, outstanding contracts to buy currencies totaled NLG 1.1 billion (at December 31, 1996: NLG 0.7 billion), while contracts to sell currencies totaled NLG 2.3 billion (at December 31, 1996: NLG 1.9 billion). These contracts mainly relate to U.S. dollars, Swedish kronor, pounds sterling, French francs, Danish kroner, Deutschmarks, Belgian francs, and Finnish marks.

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

Interest risk management

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

A major part of the funding in Netherlands guilders has been arranged on the basis of fixed rate interest. Therefore fixed rate liabilities were swapped with floating rate AIBOR-related liabilities for an amount of NLG 320 million and a remaining maturity of 8 years.

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 an amount of USD 200 million (year-end 1997: NLG 404 million; year-end 1996: NLG 348 million) at a level of 5.8% until the end of 2005.

Furthermore, the Company has entered into interest rate cap agreements with a cap rate of 8½% for an amount of USD 200 million (year-end 1997: NLG 404 million; year-end 1996: NLG 348 million) to protect itself against the risk of excessive increases in interest rates on short-term U.S. dollar borrowings. These contracts will expire in 2003.

Akzo Nobel has swap agreements related to a 9% pound sterling loan with an outstanding amount of NLG 168 million at December 31, 1997. 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.

Finally, the Company has concluded a cross currency swap expiring in 1998, which converts NLG 138 million AIBOR-related liabilities into CHF 100 million (at December 31, 1997: NLG 139 million; at December 31, 1996: NLG 129 million) liabilities with a fixed interest rate of 2.67%.

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 1997 balance sheet items	440	244	(133)	(771)
Eliminations:				
– changes in exchange rates	(246)	(86)	(21)	(228)
– changes in consolidation	231	(115)	4	27
Changes in 1997 financial position	425	43	(150)	(972)

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

Akzo Nobel N.V. statement of income

Millions of guilders	Note	**1997**	1996
Net income from affiliated companies	a	**1,641**	1,361
Other net income		**(26)**	(43)
Net income		**1,615**	1,318

See notes on page 71.

Akzo Nobel N.V. balance sheet

AFTER ALLOCATION OF PROFIT

Millions of guilders, December 31	Note	**1997**		1996	
Assets					
Noncurrent assets					
Financial noncurrent assets	c		**14,351**		12,821
Current assets					
Receivables	d	**182**		202	
Cash and cash equivalents	e	**97**		213	
			279		415
Total			**14,630**		13,236
Stockholders' equity and liabilities					
Stockholders' equity	f				
Subscribed stock		**1,426**		1,423	
Additional paid-in capital		**5,742**		5,716	
Statutory reserves		**–**		–	
Cumulative currency translation differences		**(1,301)**		(1,715)	
Other reserves		**3,168**		2,279	
			9,035		7,703
Long-term debt	g		**4,748**		4,531
Short-term debt	h		**847**		1,002
Total			**14,630**		13,236

See notes on pages 71 through 74.

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 58 and 59. Thus net income and stockholders' equity are equal to net income and stockholders' equity as shown in the consolidated financial statements on pages 60 and 61. As the financial data of Akzo Nobel N.V. are included in the consolidated financial statements, the statement of income of Akzo Nobel N.V. is condensed in conformity with section 402 of Book 2 of the Netherlands Civil Code.

STATEMENT OF INCOME

note [a]

Net income from affiliated companies

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

note [b]

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

In 1997, remuneration including pension expense, amounting to NLG 12,426,000 (1996: NLG 12,431,000) for members of the Board of Management, to NLG 81,000 (1996: NLG 68,000) for former members of the Board of Management, and to NLG 970,000 (1996: NLG 943,000) for members of the Supervisory Board, was charged to Akzo Nobel N.V. and its subsidiaries. Former members of the Supervisory Board did not receive any remuneration in 1997, as in 1996. In 1997, 24,473 options were granted to the Board of Management.

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, 1996	12,821	6,681	5,943	115	53	29
Investments/divestitures	64	156		(92)		
Equity in earnings	1,641	1,609		32		
Dividends received	(684)	(681)		(3)		
Loans granted	844		818			26
Repayment of loans	(629)		(569)		(53)	(7)
Changes in exchange rates	414	411	2	1		
Goodwill	(120)	(120)				
Situation at December 31, 1997	**14,351**	**8,056**	**6,194**	**53**		**48**

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

note [d]

Receivables

Millions of guilders	**1997**	1996
Receivables from consolidated companies	**96**	142
Other receivables	**86**	60
	182	202

note [e]

Cash and cash equivalents

Millions of guilders	**1997**	1996
Short-term investments	**94**	20
Cash on hand and in banks	**3**	193
	97	213

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, 1996	1,423	5,716	–	(1,715)	2,279	7,703
Issue of common stock	3	26				29
Retained earnings					1,009	1,009
Goodwill					(120)	(120)
Changes in exchange rates in respect of affiliated companies				414		414
Situation at December 31, 1997	**1,426**	**5,742**	**–**	**(1,301)**	**3,168**	**9,035**

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 71,303,300 shares of common stock. In 1997, 138,800 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 some 100 key employees under the Company's stock option plan. One option entitles its holder to acquire one share of common stock of NLG 20. The exercise price of newly granted options is the closing rate at the Amsterdam stock exchange, on the day that the Akzo Nobel share is quoted ex final dividend. In 1997 no options lapsed (1996: 268).

Stock options

Expiry date	Year of issue	Number of options granted	Options outstanding at December 31, **1997**	Options outstanding at December 31, 1996	Exercise price in NLG
May 6, 1997	1992	46,897		3,378	164.50
May 6, 1998	1993	55,027	**2,041**	7,239	148.80
May 6, 1999	1994	48,314	**7,280**	41,295	223.50
April 28, 2000	1995	79,478	**8,182**	39,797	180.00
April 26, 2001	1996	83,340	**25,359**	65,185	198.00
April 29, 2002	1997	69,480	**41,008**		247.90
			83,870	156,894	

Of the stock options granted to the Board of Management over the last five years 28,847 options were outstanding at December 31, 1997.

Additional paid-in capital

At least NLG 2,564 million of additional paid-in capital (at December 31, 1996: NLG 2,523 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.

note [g]

Long-term debt

Millions of guilders	**1997**	1996
Debentures	**1,400**	1,400
Debt to consolidated companies	**3,345**	3,125
Other borrowings	**3**	6
	4,748	4,531

Debentures

Millions of guilders	**1997**	1996
8% 1992/02	**300**	300
6⅜% 1993/03	**300**	300
7% 1995/05	**500**	500
5¾% 1996/01	**300**	300
	1,400	1,400

Debt to consolidated companies

Borrowings from these companies have no fixed repayment schedule. Interest charged on these borrowings averaged 4.2% in 1997 (1996: 4.1%).

Other borrowings

The portion to be repaid in 1998 amounts to NLG 1 million. The portion due after 5 years relates to the remaining NLG 2 million. The average rate of interest was 3.5% (1996: 3.2%).

note [h]

Short-term debt

Millions of guilders	**1997**	1996
Debt to credit institutions	**3**	361
Commercial paper	**158**	
Taxes and social security contributions	**85**	72
Debt to consolidated companies	**35**	46
Borrowings from nonconsolidated companies	**49**	35
Dividend	**432**	430
Other liabilities	**85**	58
	847	1,002

Commercial paper relates to Akzo Nobel's Euro commercial paper program, which was relaunched in 1997 and which at December 31, 1997, had a maximum of USD 200 million (NLG 404 million).

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 Netherlands consolidated companies. These debts, at December 31, 1997 aggregating NLG 1.9 billion (as at December 31, 1996), are included in the consolidated balance sheet. Additionally, guarantees were issued in behalf of consolidated companies in the amount of NLG 2.3 billion (1996: NLG 2.1 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 73 million (1996: NLG 55 million).

Arnhem, February 20, 1998

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
L.P. Bremer, III
A.E. Cohen
J.G.A. Gandois
H. Kopper
M.C. van Veen
L.C. van Wachem
D. Wendelstadt

OTHER INFORMATION

AUDITORS' REPORT

We have audited the 1997 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, 1997, 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 20, 1998

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.

* *Renamed Supervisory Board.*

PROPOSAL FOR PROFIT ALLOCATION

Amounts in guilders	1997	
Net income		1,615,000,000
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	2,400	
dividend on common stock	606,041,550	
		606,043,950
To be carried to other reserves		1,008,956,050

Following the acceptance of this proposal, the holders of common stock will receive a dividend of NLG 8.50 per share of NLG 20, of which NLG 2.50 was paid earlier as an interim dividend.
The final dividend of NLG 6.00 will be made available on dividend coupon No. 50 from May 11, 1998.

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.

TEN-YEAR FINANCIAL SUMMARY

Consolidated statement of income

Millions of guilders	**1997**	1996	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988
Net sales	**24,052**	22,438	21,488	22,208	*20,874*	16,509	16,713	16,851	17,246	18,736	16,581
Operating income	**2,465**	2,031	1,973	1,932	*1,404*	1,071	1,189	1,156	1,261	1,713	1,424
Financing charges	**(274)**	(263)	(260)	(285)	*(276)*	(218)	(239)	(277)	(368)	(324)	(255)
Taxes on operating income less financing charges	**(657)**	(507)	(495)	(458)	*(269)*	(236)	(285)	(264)	(280)	(507)	(409)
Earnings from nonconsolidated companies	**119**	91	137	102	*84*	81	66	64	103	86	123
Earnings from normal operations, after taxes	**1,653**	1,352	1,355	1,291	*943*	698	731	679	716	968	883
Extraordinary items after taxes			2	(75)	*(144)*	(144)	(66)	(111)	(64)	12	(11)
Earnings before minority interest	**1,653**	1,352	1,357	1,216	*799*	554	665	568	652	980	872
Minority interest	**(38)**	(34)	(43)	(38)	*(9)*	(5)	(19)	12	11	(26)	(29)
Net income	**1,615**	1,318	1,314	1,178	*790*	549	646	580	663	954	843
Common stock, in thousands of shares of NLG 20 at December 31	**71,303**	71,165	71,080	71,070	*71,023*	53,968	45,996	45,961	44,421	43,324	40,241
Dividend	**606**	534	498	497		339	299	299	289	347 *	302 *
Per share of common stock of NLG 20, in guilders											
Net income	**22.67**	18.54	18.49	16.58	*11.12*	11.67	14.06	12.89	15.06	23.05	20.96
Dividend	**8.50**	7.50	7.00	7.00	*6.50* **	6.50 **	6.50	6.50	6.50	8.00	7.50
Stockholders' equity	**126.71**	108.24	92.92	88.04	*89.69*	113.99	110.40	103.62	104.50	103.84	106.61
Number of employees at December 31	**68,900**	70,700	69,800	70,400	*73,400*	60,700	62,500	65,200	69,800	70,900	71,100
Salaries, wages, and social charges	**6,385**	6,060	5,918	6,028	*6,015*	5,082	5,079	5,092	5,068	5,308	4,889
Ditto, as percentage of net sales	**26.5**	27.0	27.5	27.1	*28.8*	30.8	30.4	30.2	29.4	28.3	29.5
Ratios											
Operating income, as percentage of net sales	**10.2**	9.1	9.2	8.7	*6.7*	6.5	7.1	6.9	7.3	9.1	8.6
Operating income, as percentage of invested capital	**17.1**	15.2	16.0	15.7	*11.5*	11.5	13.2	12.7	13.7	18.9	17.4
Net income, as percentage of stockholders' equity	**19.3**	18.4	20.4	18.7	*12.3*	9.8	13.1	12.3	14.5	21.7	20.8

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

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

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

Consolidated balance sheet*

Millions of guilders	**1997**	1996	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988
Intangible assets	**235**	167	146	67	*1*	1					
Property, plant and equipment	**9,740**	9,486	8,479	8,391	*8,648*	6,359	5,853	5,864	5,884	5,911	5,558
Financial noncurrent assets	**1,745**	1,619	1,425	1,300	*1,210*	1,128	1,358	1,002	959	852	847
Noncurrent assets	**11,720**	11,272	10,050	9,758	*9,859*	7,488	7,211	6,866	6,843	6,763	6,405
Inventories	**4,045**	3,878	3,632	3,395	*3,553*	2,903	2,797	2,789	2,865	2,952	2,997
Receivables	**4,995**	4,366	4,202	4,111	*4,131*	3,148	2,956	3,117	3,157	3,684	3,125
Cash and cash equivalents	**699**	891	699	728	*1,591*	1,863	659	812	816	885	951
Current assets	**9,739**	9,135	8,533	8,234	*9,275*	7,914	6,412	6,718	6,838	7,521	7,073
Total assets	**21,459**	20,407	18,583	17,992	*19,134*	15,402	13,623	13,584	13,681	14,284	13,478
Stockholders' equity	**9,035**	7,703	6,605	6,257	*6,370*	6,152	5,078	4,762	4,642	4,499	4,290
Minority interest	**260**	238	193	184	*175*	154	141	142	192	232	235
Equity	**9,295**	7,941	6,798	6,441	*6,545*	6,306	5,219	4,904	4,834	4,731	4,525
Provisions	**3,775**	3,531	3,387	3,091	*2,875*	2,374	2,425	2,426	2,537	2,303	2,207
Long-term debt	**2,015**	2,148	2,718	3,139	*4,179*	2,339	1,800	1,818	2,083	2,425	2,229
Short-term borrowings	**1,714**	2,485	1,619	1,101	*1,714*	1,417	1,406	1,642	1,167	1,535	1,436
Current liabilities	**4,660**	4,302	4,061	4,220	*3,821*	2,966	2,773	2,794	3,060	3,290	3,081
Short-term debt	**6,374**	6,787	5,680	5,321	*5,535*	4,383	4,179	4,436	4,227	4,825	4,517
Total equity and liabilities	**21,459**	20,407	18,583	17,992	*19,134*	15,402	13,623	13,584	13,681	14,284	13,478
Invested capital											
Of consolidated companies	**14,823**	13,978	12,666	11,951	*12,700*	9,609	8,952	9,116	9,026	9,410	8,743
In nonconsolidated companies	**1,277**	1,236	1,157	1,093	*1,022*	964	1,239	862	779	699	703
Total	**16,100**	15,214	13,823	13,044	*13,722*	10,573	10,191	9,978	9,805	10,109	9,446
Property, plant and equipment											
Capital expenditures	**1,412**	1,843	1,652	1,633	*1,410*	1,170	933	1,007	1,129	1,297	1,270
Depreciation	**1,293**	1,183	1,076	1,137	*1,141*	885	871	878	867	852	751
Ratios											
Net sales/invested capital	**1.67**	1.68	1.75	1.80	*1.71*	1.78	1.85	1.86	1.87	2.06	2.03
Equity/net debt	**0.81**	0.69	0.61	0.60	*0.60*	0.87	0.67	0.62	0.60	0.55	0.57
Equity/noncurrent assets	**0.79**	0.70	0.68	0.66	*0.66*	0.84	0.72	0.71	0.71	0.70	0.71
Inventories and receivables/ current liabilities	**1.94**	1.92	1.93	1.78	*2.01*	2.04	2.07	2.11	1.97	2.02	1.99

* *At December 31.*

Business segment statistics

Millions of guilders	**1997**	1996	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988
Pharma											
Net sales	**4,615**	3,952	3,774	3,669	*3,421*	3,421	3,246	3,064	2,775	2,647	2,412
Operating income	**931**	795	750	655	*590*	590	532	514	429	383	335
Invested capital*	**2,756**	2,392	1,973	1,803	*1,780*	1,780	1,616	1,484	1,338	1,330	1,390
Operating income, as percentage of net sales	**20.2**	20.1	19.9	17.9	*17.2*	17.2	16.4	16.8	15.5	14.5	13.9
Operating income, as percentage of invested capital	**36.2**	36.4	39.7	36.6	*34.7*	34.7	34.3	36.4	32.2	28.2	26.4
Gross cash flow	**1,128**	971	900	796	*711*	711	641	616	525	472	408
Expenditures for PP&E	**235**	236	273	238	*226*	226	195	178	147	149	159
Average number of employees	**15,500**	15,100	14,300	14,100	*14,000*	14,000	13,600	13,200	12,800	12,500	12,300
Coatings											
Net sales	**8,382**	7,436	6,840	6,887	*6,503*	4,024	4,062	3,851	3,929	3,659	2,794
Operating income	**751**	592	474	521	*398*	199	203	221	251	281	210
Invested capital*	**3,393**	3,120	2,972	2,798	*2,970*	1,873	1,903	1,879	1,683	1,708	1,291
Operating income, as percentage of net sales	**9.0**	8.0	6.9	7.6	*6.1*	4.9	5.0	5.7	6.4	7.7	7.5
Operating income, as percentage of invested capital	**23.1**	19.4	16.4	18.1	*13.4*	10.5	10.7	12.4	14.8	18.7	17.6
Gross cash flow	**992**	811	675	729	*601*	321	325	334	355	373	286
Expenditures for PP&E	**287**	254	254	233	*270*	172	143	169	170	170	158
Average number of employees	**22,900**	21,800	21,500	21,900	*22,600*	14,200	15,000	14,500	15,300	14,000	12,100
Chemicals											
Net sales	**7,575**	7,695	7,342	7,902	*7,525*	5,816	5,671	5,737	5,760	6,420	6,020
Operating income	**730**	576	608	712	*478*	351	359	328	379	703	700
Invested capital*	**5,850**	5,705	5,111	5,180	*5,220*	3,476	3,406	3,476	3,461	3,607	3,455
Operating income, as percentage of net sales	**9.6**	7.5	8.3	9.0	*6.4*	6.0	6.3	5.7	6.6	11.0	11.6
Operating income, as percentage of invested capital	**12.6**	10.7	11.8	13.7	*9.3*	10.2	10.4	9.5	10.7	19.9	22.5
Gross cash flow	**1,284**	1,081	1,055	1,212	*998*	712	719	685	725	1,043	1,016
Expenditures for PP&E	**579**	932	753	733	*545*	423	309	341	450	516	423
Average number of employees	**13,700**	14,900	15,300	16,000	*16,900*	12,900	13,400	14,400	14,700	14,500	13,800
Fibers											
Net sales	**3,539**	3,393	3,584	3,626	*3,239*	3,239	3,762	4,262	4,852	5,210	4,678
Operating income	**93**	82	158	80	*(21)*	(21)	127	102	218	268	195
Invested capital*	**2,530**	2,546	2,554	2,117	*2,653*	2,653	2,193	2,372	2,735	2,750	2,464
Operating income, as percentage of net sales	**2.6**	2.4	4.4	2.2	*(0.6)*	(0.6)	3.4	2.4	4.5	5.1	4.2
Operating income, as percentage of invested capital	**3.7**	3.2	6.8	3.4	*(0.9)*	(0.9)	5.6	4.0	7.9	10.3	8.1
Gross cash flow	**334**	305	383	314	*225*	225	380	384	516	552	438
Expenditures for PP&E	**184**	318	309	321	*311*	311	250	261	294	368	470
Average number of employees	**13,700**	14,500	15,200	16,700	*18,500*	18,500	20,100	23,500	26,200	26,900	26,400

* *At December 31.*

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

Regional statistics

Millions of guilders	**1997**	1996	1995	1994	*pro forma 1993*	1993	1992	1991	1990	1989	1988
The Netherlands											
Net sales by destination	**1,737**	1,761	1,640	1,526	*1,451*	1,366	1,467	1,517	1,532	1,612	1,706
Net sales by origin	**5,743**	5,912	5,968	5,734	*5,371*	5,252	5,446	5,720	5,809	6,156	6,022
Operating income	**546**	539	484	434	*289*	277	331	430	411	605	601
Expenditures for PP&E	**359**	527	671	632	*490*	485	392	499	524	493	465
Invested capital*	**3,811**	3,817	3,722	3,420	*3,460*	3,420	3,064	3,115	3,185	2,853	2,902
Number of employees*	**17,600**	17,800	18,400	18,700	*19,300*	19,100	19,900	20,500	22,100	22,300	22,700
Germany											
Net sales by destination	**2,671**	2,789	2,959	2,937	*2,858*	2,598	2,853	2,867	2,957	2,894	2,692
Net sales by origin	**3,262**	3,038	3,065	3,292	*3,255*	3,025	3,489	3,446	3,602	4,595	4,179
Operating income	**207**	156	235	159	*90*	78	231	169	209	341	261
Expenditures for PP&E	**120**	174	179	196	*170*	156	178	165	195	309	282
Invested capital*	**1,695**	1,546	1,473	1,191	*1,730*	1,655	1,681	1,726	1,651	2,022	1,785
Number of employees*	**10,700**	11,200	11,700	11,800	*13,700*	13,300	13,800	14,800	15,300	16,000	19,700
Sweden											
Net sales by destination	**1,092**	1,091	1,056	1,022	*907*	176	201	188	195	199	185
Net sales by origin	**1,904**	1,912	1,863	1,785	*1,317*	19	43	56	55	49	44
Operating income	**237**	181	261	239	*130*	1	3	3	–	2	3
Expenditures for PP&E	**217**	343	159	130	*75*	1	1	1	1	1	1
Invested capital*	**1,557**	1,389	1,110	970	*1,150*	8	8	14	13	17	16
Number of employees*	**4,700**	4,700	4,800	4,600	*4,700*	100	100	100	100	100	100
Other European countries											
Net sales by destination	**9,187**	8,076	7,882	8,052	*7,561*	5,288	5,808	5,947	6,180	6,632	5,940
Net sales by origin	**6,051**	5,108	4,602	4,884	*4,711*	2,738	2,828	2,798	3,040	2,959	2,522
Operating income	**888**	660	498	468	*370*	240	237	187	233	268	260
Expenditures for PP&E	**249**	185	153	193	*235*	146	115	145	171	173	208
Invested capital*	**2,789**	2,536	2,253	2,388	*2,450*	1,439	1,453	1,686	1,731	1,723	1,488
Number of employees*	**17,000**	16,000	14,900	15,400	*15,500*	9,300	9,700	10,600	12,400	12,600	11,600
USA and Canada											
Net sales by destination	**5,391**	5,066	4,599	5,238	*4,957*	4,401	3,865	3,783	3,700	4,016	3,128
Net sales by origin	**5,080**	4,715	4,326	4,834	*4,710*	4,169	3,732	3,577	3,446	3,487	2,664
Operating income	**391**	314	311	435	*390*	365	284	242	277	258	150
Expenditures for PP&E	**296**	451	358	393	*350*	321	203	142	160	197	251
Invested capital*	**3,481**	3,402	3,051	3,021	*2,930*	2,333	2,061	1,943	1,805	2,133	1,983
Number of employees*	**9,500**	11,100	11,400	11,600	*11,400*	10,700	10,700	10,600	10,500	10,500	8,900
Other countries											
Net sales by destination	**3,974**	3,655	3,352	3,433	*3,140*	2,680	2,519	2,549	2,682	3,383	2,930
Net sales by origin	**2,012**	1,753	1,664	1,679	*1,510*	1,306	1,175	1,254	1,294	1,490	1,150
Operating income	**202**	181	184	197	*135*	110	103	125	131	239	149
Expenditures for PP&E	**171**	163	132	89	*90*	61	44	55	78	124	63
Invested capital*	**1,490**	1,288	1,057	961	*980*	754	685	632	641	662	569
Number of employees*	**9,400**	9,900	8,600	8,300	*8,800*	8,200	8,300	8,600	9,400	9,400	8,100

* *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
France:	Paris
Germany:	Frankfurt am Main
Sweden:	Stockholm, as Swedish Depositary Receipts
Switzerland:	SWISS EXCHANGE

In order to comply with regulations of the United States Securities and Exchange Commission the Company also files an Annual Report on Form 20-F. After filing, a copy of this report can be obtained free of charge at Akzo Nobel's Investor Relations Department.

FINANCIAL CALENDAR

- Report for the 1st quarter 1998
  April 23, 1998
- Annual Meeting of Stockholders 1997
  April 24, 1998
- Quotation ex 1997 final dividend
  April 28, 1998
- Payment of 1997 final dividend
  May 11, 1998
- Report for the 2nd quarter 1998
  July 29, 1998
- Report for the 3rd quarter 1998
  October 28, 1998
- Quotation ex 1998 interim dividend
  October 29, 1998
- Payment of 1998 interim dividend
  November 16, 1998
- Report for the year 1998
  February 22, 1999
- Annual Meeting of Stockholders 1998
  April 22, 1999

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	1997	1996	1995	1994	1993
Dividend in % of net income	**38**	41	38	42	55 *
Dividend, in % of net income, before extraordinary items	**38**	41	38	40	43 *
Number of shares of common stock outstanding at year end (in thousands)	**71,303**	71,165	71,080	71,070	53,968
Akzo Nobel shares sold (in millions)					
Amsterdam	**74**	63	43	38	30
London	**8**	7	15	22	17
NASDAQ (USA)	**6**	3	3	4	6

Amounts in guilders	1997	1996	1995	1994	1993
Net income per share**	**22.67**	18.54	18.49	16.58	11.67
Dividend per share	**8.50**	7.50	7.00	7.00	6.50
Stockholders' equity per share	**126.71**	108.24	92.92	88.04	113.99
Highest share price	**377.60**	237.90	209.70	229.00	200.70
Lowest share price	**231.70**	176.00	164.00	187.60	134.50
Year-end price	**349.60**	236.00	185.60	200.40	188.00

Quarterly net income per share**

Amounts in guilders	1997	1996	1995	1994	1993
1st quarter	**4.78**	4.67	5.70	3.96	3.43
2nd quarter	**6.44**	5.16	5.40	4.05	3.30
3rd quarter	**6.38**	4.61	4.56	4.53	2.47
4th quarter	**5.06**	4.09	2.83	4.04	2.50

At December 31, 1997, the members of the Supervisory Board together owned 2,752 Akzo Nobel N.V. shares of common stock and no options. In addition to the options granted under the Akzo Nobel stock option plan, the members of the Board of Management together owned 801 shares and no other options.

At December 31, 1997, about 6 percent of common stock was owned by private investors and about 94 percent by institutional investors. At year-end 1997 "N.V. Arnhemsche Maatschappij tot het houden van aandelen Akzo Nobel" owned 10.9 percent of outstanding common stock of Akzo Nobel N.V.

* *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 weighted 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.

Design
Dedato, Amsterdam, the Netherlands
Printing and typesetting
Tesink bv, Zutphen, the Netherlands

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

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

Interest coverage
Operating income divided by financing charges

Gearing
Net interest-bearing debt divided by equity

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
(please turn over)