

Shareholders Circular of AkzoNobel (Akzo Nobel N.V.)

Relating to the proposal to approve the separation of the Specialty Chemicals business from AkzoNobel through a private sale or a legal demerger

To be voted on at the Extraordinary General Meeting of Shareholders of Akzo Nobel N.V., to be held in Amsterdam, the Netherlands, on Thursday November 30, 2017, beginning at 2:00 p.m. (CET).

October 18, 2017



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Letter to the shareholders

Dear Shareholder,

On April 19, 2017, we informed you about our plans for the next phase of value creation at AkzoNobel. An integral part of the strategy we presented is the creation of two focused businesses via the separation of the Specialty Chemicals business from AkzoNobel.

Our strategy is for AkzoNobel to be a global Paints and Coatings company with market-leading positions, winning brands, broad geographic presence, and strong financial performance. At the same time, we want to establish a separate world class Specialty Chemicals business which can continue to leverage and build upon its leading positions and performance across a range of market segments. The separation of the Specialty Chemicals business will allow us to unlock further value and increase returns to our shareholders, while also keeping a focus on long-term value creation for the benefit of our shareholders and all other stakeholders.

The proposed separation of the Specialty Chemicals business is an important step towards realizing our strategy. The opinions and support of our shareholders are important to us. We wish to take your views into account in this process, especially in light of our broader efforts to further strengthen the relationships with our shareholders.

We ask the General Meeting of AkzoNobel shareholders for approval of the proposed separation of the Specialty Chemicals business. The requested approval covers both a private sale and a demerger. We currently see both a private sale and a demerger as viable alternatives, without a clear preference for either option. If we were to pursue the separation by way of an IPO, we will return to shareholders and request approval at a subsequent general meeting of shareholders.

The requested approval will enable us to follow a dual-track process for the separation of the Specialty Chemicals business. This ensures both competitive tension in the sales process and the appropriate flexibility necessary to obtain an optimal result for our shareholders and other stakeholders.

A dual-track process is an established means for separating businesses from listed companies. Listed companies often ask shareholders for approval to either sell the relevant business or separately list it as a separate company through an IPO. In our case, taking into account our intention to distribute the vast majority of the net proceeds to our shareholders and preferences of our shareholders, it fits better with our strategy to seek approval to either sell the Specialty Chemicals business or demerge it. In case of a demerger, our shareholders would effectively receive the proceeds of the separation as they would directly become shareholders of the Specialty Chemicals business as a separate listed company.

Shareholders will benefit directly from the proposed separation, because we intend to return the vast majority of the net proceeds of the separation to our shareholders – starting with advance proceeds of EUR 1 billion special cash dividend following shareholder approval at the General Meeting.

In this Shareholders Circular, we provide you with information regarding the proposed separation and explain why we consider it to be in the best interests of AkzoNobel, our shareholders and other stakeholders. We advise all our shareholders to read this and other related documents for further information.

The Board of Management and Supervisory Board of AkzoNobel unanimously recommend that you vote to approve this proposal at the Extraordinary General Meeting on November 30, 2017.

We look forward to continuing the dialogue with you, our shareholders, and delivering the next phase of value creation at AkzoNobel. We strongly value your support for the proposed separation as an integral part of this strategy.

Yours sincerely,

Antony Burgmans
Chairman of the Supervisory Board

Thierry Vanlancker
CEO

1 Strategic rationale for the separation

Background

This Shareholders Circular relates to the proposal made to the shareholders of AkzoNobel, included as item 3 of the agenda for the Extraordinary General Meeting of Shareholders of AkzoNobel to be held in Amsterdam, the Netherlands, on Thursday November 30, 2017, at 2:00 p.m. (CET) (the "**EGM**"), which reads:

"Approval of the separation of the Specialty Chemicals business from AkzoNobel through a private sale or a legal demerger (voting point)"

The proposal follows the presentation on April 19, 2017 of our revised strategy to accelerate growth and value creation by creating two focused, high-performing businesses: 'Paints and Coatings' and 'Specialty Chemicals'.

Since 2012 we have consistently improved profitability and more recently returned to growth, including conducting bolt-on acquisitions. 2015 and 2016 represented record years for AkzoNobel in terms of profitability and many other metrics. We have been successful by dealing prudently with historical issues, including the pension deficit, pruning the portfolio and taking measures to simplify the organization and its processes. This has resulted in increased operational excellence and substantial cost-savings, which helped us to improve various key performance indicators over the years, including return on sales, return on investment, EBIT and cash flow generation.

Our stronger operational and financial foundation enables us to take the logical next step in our strategy: creating two focused businesses, each with the scale and capabilities to stand on their own and to deliver strong cash generation in the future. The separate companies will be even better positioned to accelerate sustainable growth and profitability in their respective markets. Both companies will also benefit from the ability to make differentiated capital allocation decisions, tailored to the specific needs of each business.

We believe the proposed separation of Specialty Chemicals allows us to unlock the full value potential of both businesses and enables AkzoNobel to deliver further profitable growth as a focused Paints and Coatings company. Our new strategy will be beneficial for our shareholders and other stakeholders in the short-term, including significantly increased shareholder returns for 2017 and 2018, while also enabling us to continue creating long-term value in the years to come.

Specialty Chemicals

Our world class Specialty Chemicals business is a leader in the majority of the markets in which it operates, with a balanced portfolio of businesses, healthy and resilient profit margins and a solid cash generation profile. Its leadership positions are spread across several high growth segments, which, together with targeted opportunities to invest further in the business in the future, contribute to an attractive growth outlook.

The separation will allow the Specialty Chemicals business to continue to build upon its leading positions across a range of segments, with the ability to make more tailored capital allocation decisions. There is a clear vision and strategy in place to deliver improved financial performance by continued operational excellence and accelerating growth, with the opportunity for a step change in growth post-separation by making incremental organic growth investments to deliver an attractive pipeline of projects.

Paints and Coatings

Following the separation of Specialty Chemicals, the more agile and focused AkzoNobel will be a global Paints and Coatings business with leading market positions that will deliver further performance improvement aimed at achieving 15% return on sales and greater than 25% return on investment by 2020.

The Paints and Coatings business has a broad and balanced geographic presence with half of revenue coming from various high-growth markets, including a third of revenue generated in Asia. AkzoNobel Paints and Coatings holds number 1 or 2 leading positions in virtually all regions relevant for Paints and segments relevant for Coatings where it operates.

AkzoNobel has a clear aim to grow faster than its relevant markets by leveraging its leading market positions, strong brands, and delivering commercial excellence through a more focused sales and marketing organization.

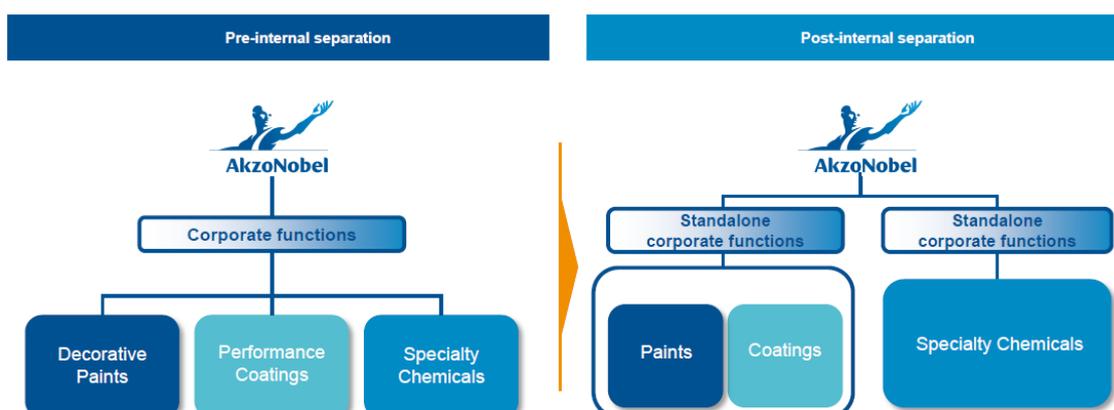
Furthermore, there are significant opportunities to improve performance by delivering operational excellence with a more integrated supply chain organization. The AkzoNobel Leading Performance System (ALPS) and Global Business Services (GBS) programs continue to deliver substantial cost savings for both the supply chain and support functions.

2 Establishing two separate businesses within AkzoNobel

Background

AkzoNobel comprises three operational business areas: 'Decorative Paints', 'Performance Coatings' and 'Specialty Chemicals', and one non-operational business area: 'Corporate and Other', which comprises, among others, corporate functions that support the three operational business areas.

Following the announcement on April 19, 2017 regarding AkzoNobel's strategy to create two focused businesses, the company proceeded with the internal separation. The aim of the internal separation is to establish two separate businesses within AkzoNobel: a Paints and Coatings business and a Specialty Chemicals business. The internal separation facilitates the subsequent external separation of the Specialty Chemicals business from AkzoNobel which is described in Chapter 3 of this Shareholders Circular. The aim of the internal separation is illustrated in the figure below.



The Specialty Chemicals business and the internal separation

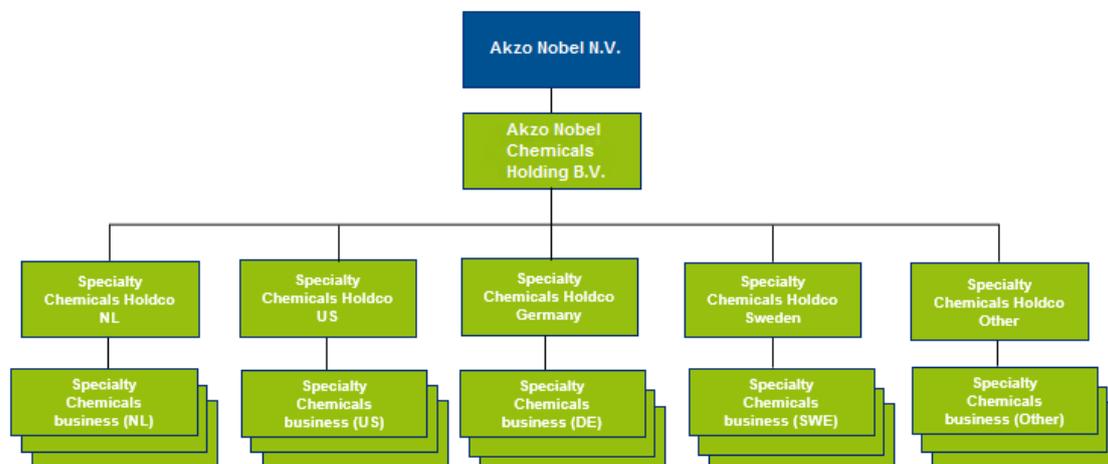
The Specialty Chemicals business comprises the chemicals activities of the AkzoNobel group, including the operational business units Ethylene and Sulfur Derivatives, Industrial Chemicals, Polymer Chemistry, Pulp and Performance Chemicals, and Surface Chemistry. More information on the Specialty Chemicals business and its various business units can be found in Schedule 1 to the Demerger Proposal, which is published on our corporate website (www.akzonobel.com).

The Specialty Chemicals business is located throughout the world and operates under various legal entities within the AkzoNobel Group, including many dedicated to the Specialty Chemicals business and some that carry out Paints and/or Coatings activities as well as Specialty Chemicals activities.

As a result of the internal separation, Akzo Nobel Chemicals Holding B.V., a wholly-owned subsidiary of AkzoNobel, will acquire the Specialty Chemicals business in its entirety. The

intended structure of the Specialty Chemicals business following the internal separation is illustrated in the high level entity structure shown below.

Simplified structure chart of the Specialty Chemicals business post-internal separation



The creation of a standalone group of companies dedicated to the Specialty Chemicals business under Akzo Nobel Chemicals Holding B.V. requires the legal and economic transfer of assets, liabilities and employees (including contracts) allocated to the Specialty Chemicals business in a large number of jurisdictions to entities that are or will become direct or indirect subsidiaries of Akzo Nobel Chemicals Holding B.V.

In addition, certain parts of the non-operational business area 'Corporate and Other' will be allocated to the Specialty Chemicals business. This includes part of the corporate functions and certain legacy assets and liabilities that relate to, or are otherwise attributed to, the Specialty Chemicals business.

Transfers of the relevant assets and liabilities will be effected at the level of the AkzoNobel group companies in the relevant jurisdictions. It is envisaged that these transfers, and as such the internal separation, will be completed on or about January 1, 2018. In a few jurisdictions, the legal transfer of assets and liabilities may take place after January 1, 2018, with economic effect, as far as legally permissible, as of January 1, 2018. It is envisaged that most, if not all, of such transfers after January 1, 2018 will be completed prior to the external separation of the Specialty Chemicals business from AkzoNobel. Appropriate contractual arrangements will be entered into in order to deal with the completion of any transfers of assets and liabilities in respect of any of those few jurisdictions that may not have been fully completed prior to the external separation.

The internal separation is guided by the main principle that all assets and liabilities relating to the Specialty Chemicals business, in whatever form or nature, past, present and future, known and unknown, will be allocated to, and (directly or indirectly) acquired by, Akzo Nobel Chemicals Holding B.V. Key assets and employees allocated to the Specialty Chemicals group of companies in accordance with this allocation principle include, among others:

- Real estate assets used for the benefit of the Specialty Chemicals Business, including over 70 manufacturing sites and over 15 RD&I sites and centres
- Over 10,000 employees in around 40 countries, who work for the Specialty Chemicals Business or at corporate level providing functional support for the Specialty Chemicals Business (either centrally or locally)
- Joint ventures relating to the Specialty Chemicals business
- IP rights exclusively relating to the Specialty Chemicals Business. IP rights used both in the Specialty Chemicals Business and the Paints and Coatings Business (except for the name AkzoNobel) will either be allocated to the Specialty Chemicals Business, or the Specialty Chemicals Business will receive a licence to use such IP rights for in-scope business

The Specialty Chemicals business includes certain contingent and actual liabilities which will be allocated and transferred to the Specialty Chemicals group of companies in line with the allocation principle set out above. For further information about the allocated assets and liabilities related to the Specialty Chemicals business, including any legacy assets and liabilities allocated to the Specialty Chemicals business, please refer to Schedule 1 of the Demerger Proposal.

Reference is also made to the *pro forma* unaudited combined balance sheet and *pro forma* unaudited combined profit and loss statement regarding the Paints and Coatings business and the Specialty Chemicals business as per June 30, 2017, included in Annex 1 through 4 to this Shareholders Circular.

Master Separation Agreement

In connection with the internal separation, Akzo Nobel N.V. and Akzo Nobel Chemicals Holding B.V. will enter into a Master Separation Agreement and a set of ancillary agreements, which will together provide a contractual framework for the relationship between AkzoNobel and its group companies and Akzo Nobel Chemicals Holding B.V. and its group companies after the internal separation becomes effective. If AkzoNobel pursues the separation by means of the Demerger, Akzo Nobel Chemicals N.V. will become a party to the Master Separation Agreement upon the effective time of the Demerger.

Under the Master Separation Agreement, Akzo Nobel Chemicals Holding B.V. will indemnify the AkzoNobel group for liabilities relating to the Specialty Chemicals business. Conversely, AkzoNobel will indemnify Akzo Nobel Chemicals Holding B.V. and its group companies for liabilities relating to the Paints and Coatings business. These indemnities will also pertain to any statutory cross-liability between AkzoNobel and Akzo Nobel Chemicals N.V., which apply pursuant to Dutch law in the event of any legal demerger.

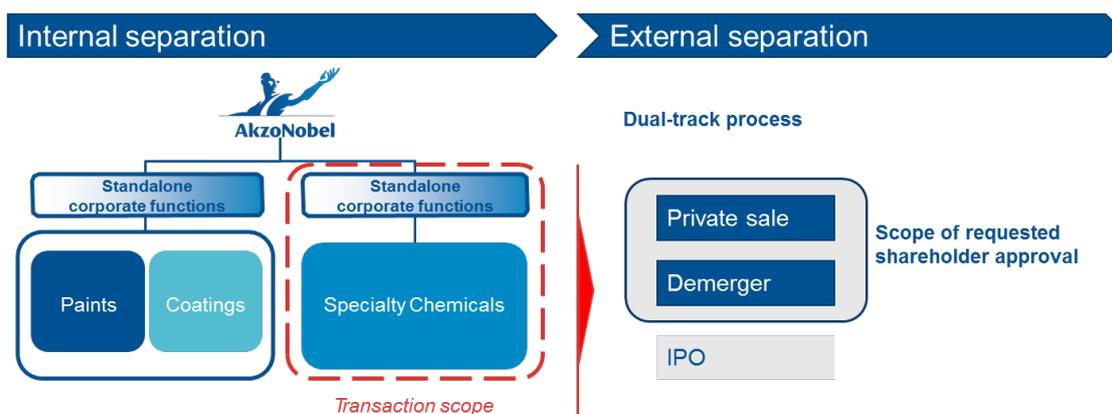
3 Dual-track process for the external separation

Background

The internal separation and reorganization of Specialty Chemicals as a standalone business within AkzoNobel, as described in Chapter 2 of this Shareholders Circular, is the necessary preparation that will enable us to subsequently separate the Specialty Chemicals business from AkzoNobel.

In the context of the current strategic and financial profile of AkzoNobel, we are carefully reviewing and considering various options to best separate the Specialty Chemicals business from AkzoNobel in order to unlock the full value potential of both the Specialty Chemicals business and the Paints and Coatings business. As announced on April 19, 2017, we are preparing for a dual-track process (illustrated below) to enable the proposed separation of the Specialty Chemicals business from AkzoNobel. At the EGM on November 30, 2017, we will request shareholder approval for two possible transaction structures for the external separation of the Specialty Chemicals business: a private sale of the Specialty Chemicals business and the Demerger of the Specialty Chemicals business.

The chart below shows the two stages of this process, and the potential transaction structures to effectuate the separation of the Specialty Chemicals business from AkzoNobel.



This Chapter provides further information on the dual-track process for the separation as well as an explanation regarding how AkzoNobel will determine the final parameters of the separation (including the preferred transaction structure) and the timing of the proposed separation.

Requested shareholder approval

The separation of Specialty Chemicals does not exceed the statutory threshold set out in section 2:107a of the Dutch Civil Code regarding the divestment of one-third of the assets of Akzo Nobel N.V. according to the 2016 Annual Report. AkzoNobel has decided to make the proposed separation of the Specialty Chemicals business by way of a dual-track process subject to shareholder approval, as explained in the letter to the shareholders, because the opinions and support of our shareholders are important to us and should be taken into account

during this process, especially in light of our broader efforts to further strengthen the relationship with our shareholders. We are therefore requesting approval by the General Meeting of shareholders for the separation of the Specialty Chemicals business from AkzoNobel, as set forth in agenda item 3.

The approval for the separation of the Specialty Chemicals business includes the approval of the formal Demerger Proposal. The Demerger Proposal sets forth the terms and conditions of the Demerger that would apply if we decide, in due course, to pursue the Demerger as the most attractive method to separate the Specialty Chemicals business from AkzoNobel. Approval of the Demerger Proposal by the General Meeting will enable us to execute the Demerger if and when it becomes clear, in the view of AkzoNobel, that the Demerger provides the best option for unlocking the value of the Specialty Chemicals business and returning the vast majority of the net proceeds from this business to shareholders. This also enables us to create competitive tension among interested parties who participate in the private track process by having a viable alternative ready at hand. Voting in favour of the Demerger Proposal therefore allows agile decision-making regarding the separation, to the benefit of our shareholders and all other stakeholders.

On April 19, 2017 we announced that we are also considering the possibility of separating the Specialty Chemicals business from AkzoNobel via an initial public offering (IPO). Although an IPO remains a potential option for the separation of the Specialty Chemicals business, we have reflected on the current views of our shareholders and are therefore not actively pursuing such an IPO at this time. If we were to pursue the separation by way of an IPO, we will request separate shareholder approval at a subsequent general meeting of shareholders.

Private track: the private sale of the Specialty Chemicals business

The private track process is currently underway, and has been structured as a controlled auction for the sale and transfer of the Specialty Chemicals business. A wide group of potential interested parties, including both strategic parties and financial investors who have previously expressed an interest, will be invited to participate in the controlled auction. The process is being closely managed by AkzoNobel together with its financial and legal advisors.

Selected interested parties will be provided with certain additional information regarding the Specialty Chemicals business, including an information memorandum, and will be asked to submit non-binding offers for the Specialty Chemicals business.

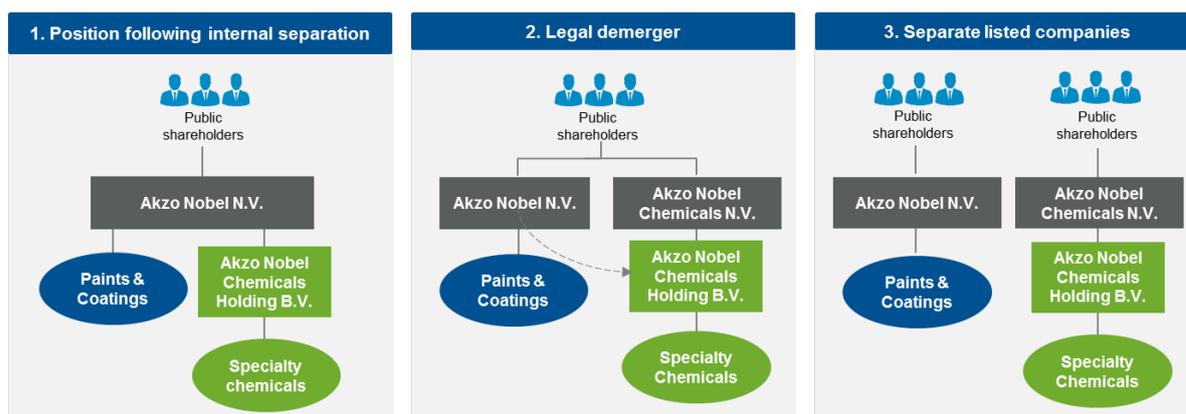
A select group of interested parties will then have the opportunity to perform detailed due diligence on the Specialty Chemicals business. They will also have the opportunity to meet and engage with the management team of the Specialty Chemicals business. These bidders will also be asked to submit binding offers for the Specialty Chemicals business, which will be assessed on the basis of value and the other decision criteria as announced on April 19, 2017, including but not limited to strategy, timing, tax, pensions, stakeholders, legal, liabilities and risks. Depending on the outcome of this assessment, AkzoNobel may then proceed to sign a definitive purchase agreement with the successful bidder in the private track process. The parties would then proceed to closing, subject to fulfilment of certain closing conditions included in a definitive purchase agreement.

Public track: Demerger of the Specialty Chemicals business

The public track is being prepared in parallel to the private track and provides the possibility of separating the Specialty Chemicals business as a whole from AkzoNobel by means of a Demerger following the approval of shareholders at the forthcoming EGM. A Demerger, if pursued, would result in the creation of two separate listed entities.

The Demerger Proposal sets forth the terms and conditions of a Demerger and provides for a transaction structure of which the main steps are summarised below:

- Prior to a Demerger being implemented, the Specialty Chemicals business will be internally separated from the Paints and Coatings business of AkzoNobel and acquired by Akzo Nobel Chemicals Holding B.V. Reference is made to Chapter 2 of this Shareholders Circular.
- If and when the Demerger is implemented, Akzo Nobel Chemicals N.V. will acquire all shares in Akzo Nobel Chemicals Holding B.V. by universal succession of title, and as a result acquire the Specialty Chemicals business.
- In return, Akzo Nobel Chemicals N.V. will allot shares in its capital to the shareholders of Akzo Nobel N.V. at the time of the Demerger. For each common share held in the capital of Akzo Nobel N.V., a shareholder will receive one share in the capital of Akzo Nobel Chemicals N.V. The shares of Akzo Nobel Chemicals N.V. will be listed and admitted to trading on Euronext Amsterdam.
- As a result, the shareholders of Akzo Nobel N.V. at the time of the Demerger will become shareholders in two separate listed entities: Akzo Nobel N.V. (comprising the Paints and Coatings business) and Akzo Nobel Chemicals N.V. (comprising the Specialty Chemicals business).



The Demerger will only be implemented if the Board of Management decides to effectuate the Demerger, with the approval of the Supervisory Board. More information regarding the Demerger and the Demerger Proposal is included in Chapter 4 of this Shareholders Circular.

Decision regarding the final parameters of the external separation

The Board of Management, with the approval of the Supervisory Board, will decide on the proposed separation, which includes a decision on the final parameters of the proposed separation such as the precise method, scope, timing and conditions of the external separation by either private sale or a Demerger.

We currently see both a private sale and a Demerger as viable alternatives, without a clear preference for either option. Both a private sale and a Demerger would enable us to separate the Specialty Chemicals business from AkzoNobel in one transaction and then swiftly return the vast majority of the net proceeds of the external separation to our shareholders. In case of the Demerger, AkzoNobel would satisfy its commitment to return the vast majority of the net proceeds of the external separation to its shareholders by way of allotment of shares in the newly established (standalone) Akzo Nobel Chemicals N.V. to AkzoNobel's shareholders on a share-for-share basis. In the case of a private sale, AkzoNobel would consider the most efficient way of returning to shareholders the vast majority of net proceeds, excluding any amounts related to, among others, tax, pensions, and costs related to the separation.

The choice regarding which of the potential methods of separation will ultimately be followed, will be based on an assessment that includes which method creates the most value. In accordance with our fiduciary duties, we will also consider other parameters encompassing the decision criteria as announced on April 19, 2017, including but not limited to strategy, timing, tax, pensions, stakeholders, legal, liabilities and risks.

Both the private track and the public track will be prepared and conducted broadly in parallel in order to retain full flexibility to reach an optimal result for our shareholders and other stakeholders, also in relation to ensuring appropriate competitive tension to maximise the value of the separation.

In accordance with our statutory duties, we will continue to carefully review the alternative separation methods in light of all relevant circumstances and taking into account the interests of our shareholders, our other stakeholders and the long-term objectives of AkzoNobel, including the strategic objective to separate the Specialty Chemicals business from AkzoNobel in a timely manner.

Timing

We remain confident that the separation process is on track to take place within 12 months, and therefore by April 2018, in the form of a signed agreement for the private sale or through the implementation of the Demerger. We have made considerable progress to date in the preparations for the separation of the Specialty Chemicals business and a dedicated project organisation is in place, including a number of fully operational project teams, which are entirely engaged in the preparations for the separation. It is noted that this timeline is dependent on and remains subject to market conditions and other relevant circumstances.

4 Description of the Demerger Proposal

Introduction

In Chapter 3 of this Shareholders Circular, we explained that the Demerger, if implemented, will result in the creation of two separate listed entities: Akzo Nobel N.V. containing the Paints and Coatings business and Akzo Nobel Chemicals N.V. containing the Specialty Chemicals business. In this Chapter, we provide further information about the Demerger, the terms and conditions of the Demerger Proposal and about Akzo Nobel Chemicals N.V. For more detailed and technical information, shareholders are advised to carefully read the Demerger Proposal, the Explanatory Notes to the Demerger Proposal and the relevant affiliated documents, which are published on the website of AkzoNobel (www.akzonobel.com).

Please note that the information in this Chapter only applies to the situation that AkzoNobel decides to pursue the separation by means of the Demerger.

Assets and liabilities that will transfer as a result of the Demerger

The Demerger Proposal provides that as a result of the Demerger, Akzo Nobel Chemicals N.V. will acquire all shares in Akzo Nobel Chemicals Holding B.V. No other assets or liabilities will transfer to Akzo Nobel Chemicals N.V. as a result of the Demerger.

Prior to the Demerger being implemented, the assets and liabilities of the AkzoNobel group that are dedicated to the Specialty Chemicals business will be acquired directly or indirectly by Akzo Nobel Chemicals Holding B.V. as part of the internal separation described in Chapter 2 of this Shareholders Circular. Therefore, through the acquisition of the shares in Akzo Nobel Chemicals Holding B.V. as a result of the Demerger, Akzo Nobel Chemicals N.V. will indirectly acquire the Specialty Chemicals business and certain assets and liabilities of the non-operational business 'Corporate and Other', as further described in Chapter 2 of this Shareholder Circular and Schedule 1 to the Demerger Proposal.

Akzo Nobel N.V.'s shareholders will receive shares in Akzo Nobel Chemicals N.V.

The Demerger Proposal provides that as a result of the Demerger, each shareholder of Akzo Nobel N.V. will receive shares in Akzo Nobel Chemicals N.V. on the basis of a 1-for-1 share allocation ratio, as further set out in the Demerger Proposal.

It is intended that Akzo Nobel Chemicals N.V. will be listed on Euronext Amsterdam. To this end, shares in Akzo Nobel Chemicals N.V. allotted in the Demerger will be included in the giro deposit held by Euroclear Nederland, and will be allotted in dematerialised form through Euroclear Nederland and the relevant intermediaries and settlement institutions to persons registered in the records of the intermediaries as being shareholders of Akzo Nobel N.V. and therefore entitled to receive shares in Akzo Nobel Chemicals N.V. at the effective time of the Demerger.

We refer to clause 17 of the Demerger Proposal for further details, including the measures for the allotment of shares in Akzo Nobel Chemicals N.V. to persons who currently hold their

shares in AkzoNobel either (i) directly and are registered as a shareholder in Akzo Nobel N.V.'s shareholders register or (ii) in bearer form (known as "K" or "CT" type certificates).

Pro forma financial information on Akzo Nobel N.V. and Akzo Nobel Chemicals N.V.

The Demerger Proposal includes unaudited pro forma financial information regarding Akzo Nobel N.V. and Akzo Nobel Chemicals N.V. as per June 30, 2017, reflecting the situation as if on that date:

- Akzo Nobel Chemicals Holding B.V. existed;
- The Demerger was implemented; and
- Akzo Nobel Chemicals Holding B.V. was entitled to the Specialty Chemicals business.

The *pro forma* unaudited combined balance sheet and *pro forma* unaudited combined profit and loss statement as per June 30, 2017 for Akzo Nobel Chemicals N.V. and Akzo Nobel N.V. are included in Annex 1 and 2 to this Shareholders Circular.

Capital structure Akzo Nobel Chemicals N.V.

The Demerger would enable AkzoNobel to establish a capital structure for both the Specialty Chemicals business and the Paints and Coatings business that fits the needs of the respective businesses, including the appropriate funding for tax, pensions, and other relevant items.

The Boards anticipate that Akzo Nobel Chemicals N.V. and its group companies will incur third party financing for implementing the internal separation and acquiring the Specialty Chemicals business from AkzoNobel prior to the Demerger becoming effective, for which financing Akzo Nobel Chemicals N.V. and its group companies may be required to grant (additional) security.

In connection with the implementation of the internal separation, Akzo Nobel Chemicals Holding B.V. and its group companies are anticipated to incur indebtedness in the range of EUR 2.0 billion and EUR 2.8 billion, with the same amount being paid to AkzoNobel. The relevant *pro forma* unaudited combined financial statements included in Annex 3 and 4 have been prepared by using the midpoint of this range, being EUR 2.4 billion.

It is expected that the Paints and Coatings Business will have an issuer credit rating of BBB+ / Baa1, and the Specialty Chemicals Business will have an investment grade credit profile.

Financial information and entitlement to profits of Akzo Nobel Chemicals N.V.

The financial information and transactions relating to the shares in Akzo Nobel Chemicals Holding B.V. at the effective time of the Demerger that will pass to Akzo Nobel Chemicals N.V. as a result of the Demerger, shall be accounted for in the financial statements of Akzo Nobel Chemicals N.V. as per January 1, 2018.

The shareholders of Akzo Nobel N.V. will also become shareholder of Akzo Nobel Chemicals N.V. as a result of the demerger and shall, as such, be fully entitled to share in the profit of

Akzo Nobel Chemicals N.V. as per January 1, 2018 *pro rata parte* of the nominal value of their shareholdings.

Governance Akzo Nobel Chemicals N.V.

The governance structure of Akzo Nobel Chemicals N.V. is set forth in the draft articles of association of Akzo Nobel Chemicals N.V. that will apply as per the effective time of the Demerger. Reference is made to Schedule 21 to the Demerger Proposal.

The articles of association of Akzo Nobel Chemicals N.V. do not provide for priority shares held by a separate foundation, nor a protective foundation with a call option on preference shares in the share capital of Akzo Nobel Chemicals N.V. The governance regime of Akzo Nobel Chemicals N.V. will otherwise be largely comparable to that of other Dutch listed multinational companies.

Akzo Nobel Chemicals N.V. will have a two-tier board, consisting of a Board of Management of at least one member and a Supervisory Board of at least three members, however it is intended that the company will have a Board of Management of two members and at least six Supervisory Board members prior to the Listing.

Board of Management of Akzo Nobel Chemicals N.V.

As per the effective time of the Demerger, it is intended that the Board of Management will consist of two members, with Mr. Werner Fuhrmann being the CEO of Akzo Nobel Chemicals N.V. An executive search process is currently ongoing for the position of the CFO of Akzo Nobel Chemicals N.V.

Supervisory Board of Akzo Nobel Chemicals N.V.

The intended composition of the Supervisory Board of Akzo Nobel Chemicals N.V. as per the effective time of the Demerger, is as follows:

Mr. Thierry Vanlancker;
Mr. Louis Hughes; and
Ms. Peggy Bruzelius.

It is the intention that three additional members of the Supervisory Board of Akzo Nobel Chemicals N.V. will be appointed prior to the implementation of the Demerger, with effect as per, or shortly after, the Demerger being implemented.

Mr. Vanlancker is member of the Board of Management and CEO of AkzoNobel. Mr. Hughes and Ms. Bruzelius are current members of the Supervisory Board of AkzoNobel. They will continue to serve in their current position following their appointment to the Supervisory Board of Akzo Nobel Chemicals N.V. Each of them has extensive knowledge of the Specialty Chemicals business of Akzo Nobel Chemicals N.V. and as a result, their appointment to the Supervisory Board of Akzo Nobel Chemicals N.V. will facilitate a smooth transition of the Specialty Chemicals business following a Demerger. It is envisaged that Mr. Vanlancker, Mr.

Hughes and Ms. Bruzelius will retire from their position in the Supervisory Board of AkzoNobel Chemicals N.V. after two years upon appointment such as to allow for an orderly succession plan for Supervisory Board members.

Remuneration and dividend policy of Akzo Nobel Chemicals N.V.

Akzo Nobel Chemicals N.V. will have a remuneration policy and dividend policy. AkzoNobel as sole shareholder of Akzo Nobel Chemicals N.V. will ensure that these policies are in place prior to the Demerger becoming effective.

The main elements of Akzo Nobel Chemicals N.V.'s remuneration policy for the Board of Management and the Supervisory Board upon the Demerger being implemented, are set out in Schedule 1 to the Explanatory Notes.

The dividend policy of Akzo Nobel Chemicals N.V. will be set in light of the strategy of Akzo Nobel Chemicals N.V. If the Boards decide to implement the Demerger, Akzo Nobel Chemical N.V.'s dividend policy will be described in the listing prospectus and will be discussed in the Acquiring Company's annual general meeting after the Listing.

Resolutions AkzoNobel may take as sole shareholder of Akzo Nobel Chemicals N.V. to prepare for the Listing

In order to prepare Akzo Nobel Chemicals N.V. for the Listing, AkzoNobel may adopt certain shareholder resolutions as sole shareholder of Akzo Nobel Chemicals N.V. prior to the effective time of the Demerger. This is further described in paragraph 10 of the Explanatory Notes and includes that AkzoNobel may, amongst others, resolve:

- to change the legal name of Akzo Nobel Chemicals N.V., with effect after the Demerger being implemented but prior to the Listing;
- to appoint new members to the Board of Management and Supervisory Board;
- to authorise the Board of Management of Akzo Nobel Chemicals N.V. to resolve to issue shares in Akzo Nobel Chemicals N.V.'s share capital and/or grant rights to subscribe for such shares, up to a maximum of 10% of the total outstanding shares for general purposes, and in the event of a merger, acquisition or a strategic alliance, to extent this authorisation by a maximum of a further 10% and to restrict or exclude the pre-emptive rights in light of such an issuance of or granting of rights to subscribe for such common shares, for a period of 18 months;
- to authorise the Board of Management of Akzo Nobel Chemicals N.V. to resolve to issue shares in Akzo Nobel Chemicals N.V.'s share capital and/or grant rights to subscribe for such shares, up to a maximum of 25% of the total outstanding shares to one or more parties following the effective time of the Demerger and to restrict or exclude the pre-emptive rights in light of such an issuance of or granting of rights to subscribe for such common shares, for a period of 18 months;
- to authorise the Board of Management of Akzo Nobel Chemicals N.V., for a period of 18 months, to resolve to repurchase fully paid-up shares in Akzo Nobel Chemicals N.V.'s

own share capital for the maximum number of shares that Akzo Nobel Chemicals N.V. may at any time hold in its own share capital with the understanding that the maximum number of shares that Akzo Nobel Chemicals N.V. will hold in its own share capital at any one time shall not exceed 10% of its issued share capital. Such shares may be acquired through the stock market or otherwise, at a price between par value and the market price of the share (as quoted on Euronext Amsterdam on the day of the acquisition by or on behalf of the company) provided that such market price does not exceed the opening stock price on the day of the acquisition by or on behalf of the company plus 10 %.

Any such resolutions by AkzoNobel as sole shareholder of Akzo Nobel Chemicals N.V. will be publicly announced prior to the effective time of the Demerger. Resolutions to authorize the board of directors to issue shares up to a certain percentage of the total outstanding share capital are rather common authorisations and are comparable to those periodically granted to AkzoNobel N.V. by its shareholders at the annual general meetings of the company, including at the last annual general meeting on April 25, 2017.

Auditor statements in relation to the Demerger Proposal

As required under Dutch law, the Board of Management of AkzoNobel and the Board of Management of Akzo Nobel Chemicals N.V. have each requested an independent auditor (PriceWaterhouseCoopers Accountants N.V. and Mazars Paardekooper Hoffman Accountants N.V., respectively) to issue certain statements in relation to the Demerger Proposal. These auditor statements, as further described in clause 16 of the Demerger Proposal, will be filed with the Dutch Trade Register and be made available for inspection at the offices of AkzoNobel and Akzo Nobel Chemicals N.V. together with the auditor's reports as referred to in section 2:334aa subsection 3 BW for the eligible persons under Dutch law.

Demerger is subject to conditions precedent

The implementation of the Demerger is subject to certain conditions precedent being satisfied or waived. The conditions precedent are set forth in clause 20 of the Demerger Proposal and include, amongst others, that:

- AkzoNobel's Board of Management, upon approval of AkzoNobel's Supervisory Board, has decided that the internal separation as per that moment has been carried out satisfactorily, in accordance with Schedule 1 to the Demerger Proposal;
- AkzoNobel's Board of Management, upon approval of AkzoNobel's Supervisory Board, has adopted the resolution to implement the Demerger; and
- The listing prospectus for Akzo Nobel Chemicals N.V. prepared and filed with the Dutch Authority for the Financial Markets ("AFM"), has been approved by the AFM.

Timing

According to Dutch law, the Demerger must be implemented within six months after the announcement of the Demerger Proposal in a Dutch nationally distributed newspaper (which is

envisaged to take place on or around October 19, 2017), or if at the end of such six month period the implementation of the Demerger would not be allowed due to a filed creditor opposition, within one month after such opposition has been withdrawn, resolved or lifted by an enforceable court order by the relevant court of the Netherlands.

5 Return of vast majority of net proceeds to shareholders

General

In line with our announcement on April 19, 2017, we intend to return the vast majority of the net proceeds from the separation of the Specialty Chemicals business to our shareholders following the separation. Some of the gross proceeds may be reserved for AkzoNobel (Paints and Coatings) business purposes, including the funding of specific pension arrangements currently in place within AkzoNobel as well as costs as a result of the separation and creation of two focused businesses.

In due course, we will determine the optimal way to return the vast majority of the net proceeds from the separation to our shareholders, depending on the separation method chosen and taking into account our shareholders' interests (including tax considerations).

Advance distribution of proceeds following approval of the separation

To demonstrate our confidence in the successful separation of the Specialty Chemicals business, we announced on April 19, 2017 that we intend to make an advance distribution of the separation proceeds at an amount of EUR 1 billion by means of a special cash dividend.

This special cash dividend is an integral part of the contemplated separation of Specialty Chemicals and assumes that the separation will take place. Payment of the special dividend is therefore conditional upon approval by the General Meeting of the proposed separation of Specialty Chemicals from AkzoNobel as set out in agenda item 3 at the EGM.

As the EGM takes place on November 30, 2017, the EUR 1 billion special dividend can therefore be paid on December 7, 2017 with the ex-dividend date being December 4, 2017.

6 Recommendation to shareholders

Having given due and careful consideration to the strategic considerations set forth in this Shareholders Circular and the financial and social aspects and consequences thereof, the Boards believe that pursuing two independent strategic directions for AkzoNobel Paints and Coatings and the Specialty Chemicals business is in the best interests of its shareholders and all other stakeholders. We therefore unanimously recommend that shareholders vote in favour of the proposal to separate the Specialty Chemicals business from AkzoNobel by means of a private sale or legal demerger.

Glossary

Capitalised terms used in this Shareholder Circular have the meaning given below, unless the context requires otherwise (words in the singular include the plural and vice versa).

AkzoNobel	Akzo Nobel N.V.
Board of Management	The board of management of AkzoNobel
Demerger	The legal demerger pursuant to section 2:334a subsection 3 of the Dutch Civil Code, as described in the Demerger Proposal, as a result of which (i) Akzo Nobel Chemicals N.V. acquires a part of AkzoNobel's assets by universal succession of title, (ii) Akzo Nobel Chemicals N.V. allots shares in its capital to AkzoNobel's shareholders in accordance with the share allocation ratio set out in the Demerger Proposal, and (iii) AkzoNobel continues to exist
Demerger Proposal	The legal demerger proposal dated October 18, 2017 between AkzoNobel and Akzo Nobel Chemicals N.V. containing the terms and conditions of the Demerger
EGM / Extraordinary General Meeting	The extraordinary general meeting of shareholders of AkzoNobel to be held on November 30, 2017 in Amsterdam, the Netherlands
Euroclear Nederland	Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V
Explanatory Notes	The Explanatory Notes to the Demerger Proposal
General Meeting	The general meeting of shareholders of AkzoNobel
Listing	Following the Demerger, the shares of Akzo Nobel Chemicals N.V. will be listed and admitted to trading on Euronext Amsterdam
Supervisory Board	The supervisory board of AkzoNobel

Disclaimers

Forward-looking statements

This Shareholders Circular contains certain forward-looking statements with respect to the financial condition, results of operations and business of AkzoNobel and certain of the plans and objectives of AkzoNobel with respect to these items and in particular with respect to the creation of the separate Specialty Chemicals business. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances and there are many factors that could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements.

"No Offer"

This Shareholders Circular does not constitute, or form part of, an offer to sell, or a solicitation of an offer to purchase, any securities in the United States of America (including its territories and possessions, any state of the United States of America and the District of Columbia) (the "United States") or elsewhere. No securities in the Specialty Chemicals business have been registered under the U.S. Securities Act of 1933 (the "Securities Act") and these may not be offered or sold within the United States absent registration or an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Presentation of information

The information included in this Shareholders Circular reflects the situation as at the date of this Shareholders Circular, unless specified otherwise. The publication of this Shareholders Circular shall under no circumstances imply that the information contained herein is accurate and complete as of any time after the date of this Shareholders Circular or that there has been no change in the intentions or expectations of (the Board of Management and/or the Supervisory Board of) AkzoNobel in relation to the strategic decision to pursue two independent strategic directions focused on the Paints and Coatings Group and the Specialty Chemicals business (including the method and timing thereof) since the date of this Shareholders Circular. The foregoing does not affect the obligation of AkzoNobel to make a public announcement pursuant to applicable laws.

ANNEX 1 ***Pro forma* unaudited combined balance sheet and *pro forma* unaudited combined profit and loss statement for Akzo Nobel Chemicals N.V. (Specialty Chemicals business) as per June 30, 2017**

1. Akzo Nobel Chemicals N.V.

Pro forma condensed combined interim statement of income of Akzo Nobel Chemicals N.V. with entitlement to Specialty Chemicals business

Pro forma condensed combined statement of income Akzo Nobel Chemicals N.V.

Unaudited

in €millions

	30-06-2017
Continuing operations	
Revenue	2,549
Cost of sales	(1,683)
Gross profit	866
SG&A costs	(559)
Other results	(1)
Operating income	307
Financing income and expenses	(9)
Results from associates and joint ventures	3
Profit before tax	301
Income tax	(76)
Profit for the period from continuing operations	225
Discontinued operations	
Profit for the period from discontinued operations	-
Profit for the period	225
Attributable to	
Shareholders of the company	222
Non-controlling interests	3
Profit for the period	225

1. Akzo Nobel Chemicals N.V.

Pro forma condensed combined interim balance sheet of Akzo Nobel Chemicals N.V.
with entitlement to Specialty Chemicals business

Pro forma condensed combined balance sheet Akzo Nobel Chemicals N.V.

Unaudited

in €millions

	30-06-2017
Non-current assets	
Intangible assets	831
Property, plant and equipment	2,245
Other financial non-current assets	261
Total non-current assets	3,337
Current assets	
Inventories	518
Other current assets	8
Receivables	936
Cash and cash equivalents	133
Total current assets	1,595
Total assets	4,932
Equity	
Business equity	3,008
Non-current liabilities	
Provisions and deferred tax liabilities	740
Long-term borrowings	47
Total non-current liabilities	787
Current liabilities	
Short-term borrowings	32
Trade and other payables	891
Other short-term liabilities	214
Total current liabilities	1,137
Total equity and liabilities	4,932

1. Akzo Nobel Chemicals N.V.

Basis of Preparation to Pro forma combined balance sheet and statement of income of Akzo Nobel Chemicals N.V. with entitlement to Specialty Chemicals business

- ↴ These schedules support article 3.3 (b) of the demerger proposal
- ↴ A detailed Basis of Preparation included below;

Basis of preparation (1/7)

Introduction

These unaudited pro forma combined interim financial statements of Akzo Nobel Chemicals N.V. are prepared for the purpose of the legal demerger proposal presented to Akzo Nobel N.V.'s EGM on 30 November 2017. These pro forma combined interim financial statements are prepared for illustrative purposes only. The objective of these pro forma combined interim financial statements is to illustrate the anticipated effect of a legal demerger of the Specialty Chemicals business from Akzo Nobel N.V. to Akzo Nobel Chemicals N.V. in order for the Shareholders of Akzo Nobel N.V. to evaluate the demerger proposal.

These pro forma combined interim financial statements relate to the six months' period ended 30 June 2017 on a pro forma basis and therefore do not reflect the actual financial position or results of Akzo Nobel Chemicals N.V. The pro forma combined interim financial statements are unaudited.

Pro forma basis

The pro forma combined interim financial statements for Akzo Nobel Chemicals N.V., comprising the pro forma combined interim statement of income and the pro forma combined interim balance sheet, have been prepared on a combined basis in the context of the legal demerger proposal pursuant to section 2:334a(3) of the Dutch Civil Code and as if Akzo Nobel Chemicals N.V. and its subsidiaries would have existed from 1 January 2017 and from that date onwards would have been entitled to all economic risks and benefits of the Specialty Chemicals business.

These pro forma combined interim financial statements for Akzo Nobel Chemicals N.V. were not prepared in the context of the Prospectus Directive 809/2004/EC.

Basis of combination

During the period presented, the Specialty Chemicals business functioned as part of the larger group of companies controlled by Akzo Nobel N.V. ("AkzoNobel Group").

The Specialty Chemicals business combines the Business Area Specialty Chemicals, as reported by the AkzoNobel Group, with certain other assets and liabilities and income and expense from the Business Area Corporate and Other, which are directly attributed to the Specialty Chemicals business.

1. Akzo Nobel Chemicals N.V.

Basis of preparation (2/7)

The Specialty Chemicals business was conducted through 108 dedicated legal entities, combined with 46 shared legal entities, containing both Specialty Chemicals and other AkzoNobel Group corporate and operational activities which have been partly attributed to the Specialty Chemicals business.

These pro forma combined interim financial statements present the Specialty Chemicals business as if it had been controlled by Akzo Nobel Chemicals N.V. ("AkzoNobel Chemicals Group") from 1 January 2017 onwards.

As indicated, during the period presented, the Specialty Chemicals business functioned as part of AkzoNobel Group and accordingly, AkzoNobel Group performed certain corporate overhead services for the Specialty Chemicals business. These services include, but are not limited to, executive oversight, information management, legal, treasury, pensions, control and accounting, human resources, taxes and investor relations.

Intergroup transactions, balances and unrealized gains and losses on transactions within the AkzoNobel Chemicals Group have been eliminated in the combination.

IFRS recognition and measurement criteria

The pro forma combined interim financial statements for Akzo Nobel Chemicals N.V. for the six months' period ended 30 June 2017 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the European Union ("IFRS") and have been derived from the (condensed) consolidated interim financial statements of Akzo Nobel N.V. for the six months' period ended 30 June 2017, which have been prepared in accordance with IAS 34.

In the pro forma combined interim financial statements of Akzo Nobel Chemicals N.V., the predecessor accounting approach has been applied in accordance with common practice on the accounting for business combinations under common control in combined financial statements. This means that the assets, liabilities, income and expenses of the economic activities included in the pro forma combined interim financial statements correspond to the historically reported amounts in the consolidated interim reporting of Akzo Nobel N.V. (predecessor values).

Scope of combination

The pro forma combined interim financial statements have been prepared for the purpose of presenting the financial position and results of operations of Akzo Nobel Chemicals N.V. on a combined carve-out basis, as if the Specialty Chemicals business was demerged from the AkzoNobel Group effective 1 January 2017, as explained in the section on Basis of combination.

1. Akzo Nobel Chemicals N.V.

Basis of preparation (3/7)

Limitations inherent to carve-out

As the Specialty Chemicals business did not operate as a stand-alone group in the past, these pro forma combined interim financial statements have been prepared on a carve-out basis and may not be indicative of the AkzoNobel Chemicals Group's future performance and what its combined results of operations, financial position and cash flows would have been, had the Specialty Chemicals business operated as a separate entity from AkzoNobel Group for the periods presented. Rather than the legal structure, the economic activities under common management and the perimeter agreed in the separation process have been considered the main factors in determining the perimeter of the Akzo Nobel Chemicals N.V. pro forma combined interim financial statements.

Combined Statements of Income

The Combined Statement of Income of Akzo Nobel Chemicals N.V. reflects income and expenses of the Business Area Specialty Chemicals combined with certain income and expenses of Corporate and Other directly attributed to Specialty Chemicals business.

AkzoNobel Group corporate overhead services related to the Specialty Chemicals business are included in the pro forma combined interim financial statements based on specific identification and activity levels or have been allocated based on allocation keys, if no specific activity levels were available.

Where not specifically identifiable, expenses of Corporate and Other have been allocated to the AkzoNobel Chemicals Group using the following allocation methods:

- Employee benefit expenses have been allocated to the AkzoNobel Chemicals Group based on activity levels and related FTE allocation to the AkzoNobel Chemicals Group from the AkzoNobel Group. This allocation was determined on a function by function, entity by entity basis using best estimates of historical activity levels to support the AkzoNobel Chemicals Group and the remaining part of the AkzoNobel Group.
- Other operational expenses, such as rental costs, facility management, external advisors and service providers have been allocated to the AkzoNobel Chemicals Group using allocation keys such as revenue, square meters or other allocation keys that were deemed an appropriate approximation of activity levels.
- Depreciation and amortization were assigned to the AkzoNobel Chemicals Group following the allocation of underlying assets.

1. Akzo Nobel Chemicals N.V.

Basis of preparation (4/7)

Combined Balance Sheets

The combined assets and liabilities of Akzo Nobel Chemicals N.V. include the assets and liabilities previously reported as part of the Business Area Specialty Chemicals (except for income tax balances) combined with assets and liabilities of Business Area Corporate and Other that have directly been attributed to the Specialty Chemicals business. Where required, allocations and attributions have been made as follows:

- Post-retirement provisions were allocated between the AkzoNobel Chemicals Group and the remaining AkzoNobel Group based on headcount for obligations in relation to active employees and post-separation retention of liabilities and obligations to finance the post-retirement plans for inactive employees, as set out in further detail below.
- Environmental and sundry provisions have been specifically attributed to the AkzoNobel Chemicals Group if related to the historical Specialty Chemicals sites and activities and intended post-separation retention of the related liability.
- Restructuring provisions were allocated between the AkzoNobel Chemicals Group and the remaining AkzoNobel Group based on the split of employees (FTEs) impacted by the restructuring between the AkzoNobel Chemicals Group and the remaining AkzoNobel group.
- Other payables, excluding employee benefit expenses, were allocated based on their relative share of the expenses allocation.
- Property, plant and equipment have been attributed based on usage and intended post-separation ownership.

Management believes the allocation methods applied in the pro forma combined interim financial statements to be a reasonable reflection of the utilization of services provided by AkzoNobel Group and the historical cost of doing business.

However, as the AkzoNobel Chemicals Group did not operate as a stand-alone entity in the past, these pro forma combined interim financial statements may not be indicative of the AkzoNobel Chemicals Group's future performance and do not necessarily reflect what its combined results of operations, financial position and cash flows would have been, had Akzo Nobel Chemicals N.V. operated as a separate legal structure from AkzoNobel Group for the period presented.

1. Akzo Nobel Chemicals N.V.

Basis of preparation (5/7)

Income tax

Dedicated AkzoNobel Chemicals Group legal entities file a (consolidated) tax return on a standalone basis or, for the majority of the jurisdictions, with other AkzoNobel Group entities through a fiscal unity or consolidated tax group. In certain jurisdictions the Specialty Chemicals business forms part of an AkzoNobel Group legal entity that also performs activities not related to the Specialty Chemicals business. For the purpose of the pro forma combined interim financial statements, income taxes are computed and reported on a combination of the so-called separate return method for the Combined Statement of Income and the legal entity approach for the Combined Balance Sheet. Under the separate return method, a carve-out entity calculates its tax provision as if it was filing its own separate tax return based on the pre-tax accounts included in the pro forma combined interim financial statements. Under the separate return method careful consideration is required in relation to Net Operating Losses ("NOL's") (and other tax attributes) to ensure that these will be available to the AkzoNobel Chemicals Group post separation. Considering that the deferred tax assets for NOL's and tax credits are not available to the AkzoNobel Chemicals Group if they are not contained in a surviving AkzoNobel Chemicals Group legal entity or, in certain jurisdictions in which the AkzoNobel Chemicals Group legal entity forms part of a fiscal unity or consolidated tax group with other AkzoNobel Group entities, the election has been made to surrender such tax attributes to the relevant AkzoNobel Chemicals Group legal entity, these deferred tax assets are not included in the Combined Balance Sheet of the pro forma combined interim financial statements.

AkzoNobel Chemicals Group management determines the income tax positions and expense for each of the jurisdictions in which they operate. This involves the allocation of the actual current tax exposures and provisions as well as assessing temporary and permanent differences.

AkzoNobel Chemicals Group management considers the separate tax return method to be appropriate, but due to the use of certain assumptions and allocation keys (in most cases and to the extent possible in accordance with the commercial allocation) it may not necessarily lead to the income tax positions and expense that would have been incurred if the AkzoNobel Chemicals Group entities were actually separate taxable entities.

In certain jurisdictions, Specialty Chemicals business operations were part of a larger AkzoNobel Group tax return. In general, income tax associated with these tax groups was paid by the head of the consolidated tax group and reported in the consolidated financial statements of the AkzoNobel Group. Accordingly, income tax associated with these tax groups was reported in the consolidated financial statements of AkzoNobel Group and paid by AkzoNobel. In line with the legal entity approach, the effects of being included in the AkzoNobel consolidated tax returns, including the utilization of any historical net operating losses, have been recorded as part of Business equity.

Uncertain tax positions have been included in the pro forma combined interim financial statements in the event they originate from Specialty Chemicals business and activities. Note that the actual allocation of uncertain tax positions upon the demerger may differ.

1. Akzo Nobel Chemicals N.V.

Basis of preparation (6/7)

Goodwill allocation

The goodwill included in the pro forma combined interim financial statements is based on the goodwill attributable to the companies or businesses within the Special Chemicals Business Area.

Business equity and funding structure

The AkzoNobel Group utilizes a central approach for cash management and the funding of its operations. Therefore, all balances of the Specialty Chemicals business with AkzoNobel (In house bank, cash pool, and intercompany loans) have been presented as part of business equity in the pro forma combined interim financial statements, except for intercompany current accounts with AkzoNobel that have an operational nature and are settled periodically based on instructions from AkzoNobel Group treasury.

The funding structure is therefore not necessarily representative of the financing that would have been reported, had the Specialty Chemicals business operated on its own or as an entity independent from AkzoNobel Group during the periods presented, nor is it indicative of the financing structure in the future. During the reporting periods included in these pro forma combined interim financial statements, the Specialty Chemicals business was mainly financed by AkzoNobel Group. The consolidated capital structure of Akzo Nobel Chemicals N.V. at the time of the separation will likely differ from the capital structure presented in the pro forma combined interim financial statements.

Post-retirement benefits

AkzoNobel Group is sponsor of defined benefit plans (DB) that are partly externally funded and, mainly for Germany, partially unfunded. Liabilities, assets and costs of plans that are entirely related to the Specialty Chemicals business are attributed to the AkzoNobel Chemicals Group. To the extent plans relate to active employees and whose participants are partially allocated to the AkzoNobel Chemicals Group and partially to the remaining AkzoNobel Group, the individual employee liabilities and costs were used for the attribution. The individual liabilities for active employees are based on a split of FTEs between the AkzoNobel Chemicals Group and the remaining AkzoNobel Group. To the extent plans relate to inactive employees, the allocation between the AkzoNobel Chemicals Group and the remaining AkzoNobel Group was determined based on the intended post-separation retention of the liabilities. The main defined benefit plans are located in Germany, US, Switzerland, Sweden and Belgium. For some small and immaterial plans, the allocation between the AkzoNobel Chemicals Group and the remaining AkzoNobel Group is based on the allocation of headcount. The liabilities have been determined under the guidance of IAS 19 and calculated by independent actuaries. The allocation of plan assets follows the allocation of defined benefit obligations on a pro-rata basis.

1. Akzo Nobel Chemicals N.V.

Basis of preparation (7/7)

Use of the AkzoNobel brand name

The Specialty Chemicals business uses the AkzoNobel® brand name and historically was charged a royalty cost determined as a percentage of revenue. The pro forma combined interim financial statements include these royalty cost charges to the AkzoNobel Chemicals Group for the AkzoNobel® brand name. As part of the separation, these charges are expected to be replaced by a brand license fee agreement between Akzo Nobel Chemicals N.V. and Akzo Nobel N.V.

ANNEX 2 ***Pro forma* unaudited combined balance sheet and *pro forma* unaudited combined profit and loss statement for Akzo Nobel N.V. (Paints and Coatings business) as per June 30, 2017**

2. AkzoNobel excl. Specialty Chemicals business

Pro forma condensed combined interim statement of income

For the six-months' period ended 30 June 2017

Pro forma condensed combined statement of income AkzoNobel excl. Specialty Chemicals business

Unaudited

in €millions

	30-06-2017
Continuing operations	
Revenue	4,897
Cost of sales	(2,691)
Gross profit	2,206
SG&A costs	(1,682)
Other results	(14)
Operating income	510
Financing income and expenses	(33)
Results from associates and joint ventures	12
Profit before tax	489
Income tax	(126)
Profit for the period from continuing operations	363
Discontinued operations	
Profit for the period from discontinued operations	(1)
Profit for the period	362
Attributable to	
Shareholders of the company	320
Non-controlling interests	42
Profit for the period	362

2. AkzoNobel excl. Specialty Chemicals business

Pro forma condensed combined interim balance sheet

└ Per 30 June 2017

Pro forma condensed combined balance sheet AkzoNobel excl. Specialty Chemicals business

Unaudited

in €millions

	30-06-2017
Non-current assets	
Intangible assets	3,400
Property, plant and equipment	1,818
Other financial non-current assets	1,479
Total non-current assets	6,697
Current assets	
Inventories	1,111
Other current assets	47
Receivables	2,250
Cash and cash equivalents	909
Total current assets	4,317
Total assets	11,014
Equity	
Business equity	3,763
Non-current liabilities	
Provisions and deferred tax liabilities	1,376
Long-term borrowings	2,598
Total non-current liabilities	3,974
Current liabilities	
Short-term borrowings	275
Trade and other payables	2,629
Other short-term liabilities	373
Total current liabilities	3,277
Total equity and liabilities	11,014

2. AkzoNobel excl. Specialty Chemicals business

Basis of Preparation to pro forma combined interim balance sheet and statement of income of AkzoNobel excluding Specialty Chemicals business

- ↗ These schedules support article 3.3 (c) of the demerger proposal
- ↗ A detailed Basis of Preparation included in the attached;

Basis of preparation (1/3)

Introduction

These unaudited condensed pro forma combined interim financial statements of Akzo Nobel N.V. are prepared for the purpose of the legal demerger proposal presented to Akzo Nobel N.V.'s EGM on 30 November 2017. These pro forma combined interim financial statements are prepared for illustrative purposes only. The objective of these pro forma combined interim financial statements is to illustrate the effect of a legal demerger of the Specialty Chemicals business from Akzo Nobel N.V. in order for the Shareholders of Akzo Nobel N.V. to evaluate the demerger proposal.

These pro forma combined interim financial statements relate to the six months' period ended 30 June 2017 on a pro forma basis and therefore do not reflect the actual financial position or results of Akzo Nobel N.V. The pro forma combined interim financial statements are unaudited.

Pro forma basis

The pro forma combined interim financial statements for Akzo Nobel N.V., comprising the pro forma combined interim statement of income and the pro forma combined interim balance sheet, have been prepared on a combined basis in the context of the legal demerger proposal pursuant to section 2:334a(3) of the Dutch Civil Code and, as if Akzo Nobel Chemicals N.V. and its subsidiaries would have existed from 1 January 2017 and from that date onwards would have been entitled to all economic risks and benefits of the Specialty Chemicals business (and Akzo Nobel N.V. would no longer be entitled from that date).

These pro forma combined interim financial statements for Akzo Nobel N.V. were not prepared in the context of the Prospectus Directive 809/2004/EC.

Basis of combination

These pro forma combined interim financial statements of Akzo Nobel N.V. are based on the historical consolidated financial statements of Akzo Nobel N.V. after deducting the pro forma combined interim financial statements of Akzo Nobel Chemicals N.V.

2. AkzoNobel excl. Specialty Chemicals business

Basis of preparation (2/3)

IFRS recognition and measurement criteria

The pro forma combined interim financial statements for Akzo Nobel N.V. for the six months' period ended 30 June 2017 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards as adopted by the European Union ("IFRS") and have been derived from the (condensed) consolidated interim financial statements of Akzo Nobel N.V. for the six months' period ended 30 June 2017, which have been prepared in accordance with IAS 34.

Scope of combination

The pro forma combined interim financial statements have been prepared for the purpose of presenting the financial position and results of operations of Akzo Nobel N.V. on a combined carve-out basis, as if the Specialty Chemicals business was demerged from the AkzoNobel Group effective 1 January 2017, as explained in the section on Basis of combination.

Limitations inherent to carve-out

As the AkzoNobel Group did not operate excluding the Specialty Chemicals business in the past, these pro forma combined interim financial statements have been prepared on a carve-out basis and may not be indicative of the AkzoNobel Group's future performance and what its combined results of operations, financial position and cash flows would have been, had the Specialty Chemicals business operated as a separate entity from AkzoNobel Group for the periods presented.

Income tax

Tax positions and expenses have been determined by taking the consolidated Akzo Nobel N.V. positions and deducting the income tax positions and expenses related to the Specialty Chemicals business calculated using the separate returns and surviving legal entity approach, as described in detail in the Basis of Preparation to the Akzo Nobel Chemicals N.V. pro forma combined financial statements. No separate returns approach was taken to calculate the income tax positions or expense related to Akzo Nobel N.V. excluding the Specialty Chemicals business. Would this have been done, the income tax positions and expenses in these pro forma combined interim financial statements would have been different.

2. AkzoNobel excl. Specialty Chemicals business

Basis of preparation (3/3)

Business equity and funding structure

The AkzoNobel Group utilizes a central approach for cash management and the funding of its operations. Therefore, all balances of the Specialty Chemicals business with AkzoNobel (In house bank, cash pool, and intercompany loans) have been excluded from business equity in the pro forma combined interim financial statements, except for intercompany current accounts with the AkzoNobel Chemicals Group that have a trading nature and are settled periodically based on instructions from AkzoNobel Group treasury.

The funding structure is therefore not necessarily representative of the financing that would have been reported, had the Specialty Chemicals business operated on its own or as an entity independent from AkzoNobel Group during the periods presented, nor is it indicative of the financing structure in the future. During the reporting periods included in these pro forma combined interim financial statements, the Specialty Chemicals business was mainly financed by AkzoNobel Group. The consolidated capital structure of Akzo Nobel N.V. at the time of the separation will likely differ from the capital structure presented in the pro forma combined interim financial statements.

Use of the AkzoNobel brand name

The Specialty Chemicals business uses the AkzoNobel® brand name and historically was charged a royalty cost determined as a percentage of revenue. The pro forma combined interim financial statements include these royalty income to the AkzoNobel Group for the AkzoNobel® brand name. As part of the separation, this royalty income are expected to be replaced by a brand license fee agreement between Akzo Nobel Chemicals N.V. and AkzoNobel N.V.

ANNEX 3 ***Pro forma* unaudited combined balance sheet and *pro forma* unaudited combined profit and loss statement for Akzo Nobel Chemicals N.V. (Specialty Chemicals business) as per June 30, 2017 – adjusted for anticipated third party financing**

3. Akzo Nobel Chemicals N.V.

Pro forma condensed combined interim statement of income of Akzo Nobel Chemicals N.V. with entitlement to Specialty Chemicals business and effects of intended capital restructuring

Pro forma condensed combined statement of income Akzo Nobel Chemicals N.V. including Specialty Chemicals business - adjusted for intended capital restructuring

Unaudited	Pro forma	[1]	Pro forma adjusted
in €millions	30-06-2017		30-06-2017
Continuing operations			
Revenue	2,549		2,549
Cost of sales	(1,683)		(1,683)
Gross profit	866		866
SG&A costs	(558)		(558)
Other results	(1)		(1)
Operating income	307		307
Financing income and expenses	(9)	(24)	(33)
Results from associates and joint ventures	4		4
Profit before tax	302	(24)	278
Income tax	(79)	6	(73)
Profit for the period from continuing operations	223	(17)	206
Discontinued operations			
Profit for the period from discontinued operations			
Profit for the period	223	(17)	206
Attributable to			
Shareholders of the company	220	(17)	203
Non-controlling interests	3		3
Profit for the period	223	(17)	206

3. Akzo Nobel Chemicals N.V.

Pro forma condensed combined interim balance sheet of Akzo Nobel Chemicals N.V. with entitlement to Specialty Chemicals business and effects of intended capital restructuring

Pro forma condensed combined balance sheet Akzo Nobel Chemicals N.V. including Specialty Chemicals business - adjusted for intended capital restructuring

Unaudited

in €millions	Pro forma 30-06-2017	[1]	Pro forma adjusted 30-06-2017
Non-current assets			
Intangible assets	831		831
Property, plant and equipment	2,245		2,245
Other financial non-current assets	261		261
Total non-current assets	3,337		3,337
Current assets			
Inventories	518		518
Other current assets	8		8
Receivables	936		936
Cash and cash equivalents	133		133
Total current assets	1,595	-	1,595
Total assets	4,932	-	4,932
Equity			
Business equity	3,008	(2,400)	608
Non-current liabilities			
Provisions and deferred tax liabilities	740		740
Long-term borrowings	47	2,400	2,447
Total non-current liabilities	787	2,400	3,187
Current liabilities			
Short-term borrowings	32		32
Trade and other payables	891		891
Other short-term liabilities	214		214
Total current liabilities	1,137	-	1,137
Total equity and liabilities	4,932	-	4,932

3. Akzo Nobel Chemicals N.V.

Basis of Preparation to pro forma condensed combined interim balance sheet and statement of income of Akzo Nobel Chemicals N.V. with entitlement to Specialty Chemicals business and effects of capital restructuring

- 7 The Basis of Preparation for these pro forma combined interim financial statements of AkzoNobel Chemicals N.V. with entitlement to the Specialty Chemicals business (adjusted for the capital restructuring) is the same as used for the pro forma combined interim financial statements of AkzoNobel excluding Specialty Chemicals business, except for the following pro forma adjustments, which were made to illustrate the effect of the contemplated capital restructuring;
 1. Attract between €2.0 billion and €2.8 billion new external financing by Akzo Nobel Chemicals Holding B.V. or its subsidiaries, with the same amount then being paid by Akzo Nobel Chemicals Holding B.V. to Akzo Nobel N.V. For the purpose of this pro forma adjustment the €2.4 billion mid-point of the range has been used. Interest expense to be paid assumed to be based on an annual interest rate of 2%. The tax effect thereon has been calculated against 2016 effective rate of AkzoNobel Group.
- 7 Both effects of the capital restructuring have been reflected in the pro forma combined interim balance sheet as if they had been implemented on 30 June 2017, with the effects of the capital restructuring reflected in the pro forma combined interim statement of income as if interest has been paid on the external financing from 1 January 2017 onwards.
- 7 No income tax or other effects on reported book values of the internal separation have been included in these pro forma financial statements.
- 7 These schedules support article 3.3 (e) of the demerger proposal.

ANNEX 4 ***Pro forma* unaudited combined balance sheet and *pro forma* unaudited combined profit and loss statement for Akzo Nobel N.V. (Paints and Coatings business) as per June 30, 2017 – adjusted for anticipated third party financing**

4. AkzoNobel excl. Specialty Chemicals business

Pro forma condensed combined interim statement of income including capital restructuring

Pro forma statement of income AkzoNobel excl. Specialty Chemicals business - adjusted for intended capital restructuring

Unaudited

in €millions	Pro forma	[1]	Pro forma adjusted
	30-06-2017		30-06-2017
Continuing operations			
Revenue	4,897		4,897
Cost of sales	(2,691)		(2,691)
Gross profit	2,206		2,206
Selling expenses	-		
General and administrative expenses	-		
Research and development expenses	-		
SG&A costs	(1,682)		(1,682)
Other results	(14)		(14)
Operating income	510		510
Financing income and expenses	(32)	2	(30)
Results from associates and joint ventures	12		12
Profit before tax	490	2	492
Income tax	(126)	0	(126)
Profit for the period from continuing operations	364	2	366
Discontinued operations			
Profit for the period from discontinued operations	(1)	-	(1)
Profit for the period	363	2	365
Attributable to			
Shareholders of the company	321	2	323
Non-controlling interests	42		42
Profit for the period	363	2	365

4. AkzoNobel excl. Specialty Chemicals business

Pro forma condensed combined interim balance sheet including capital restructuring

Pro forma balance sheet AkzoNobel excl. Specialty Chemicals business - adjusted for intended capital restructuring

Unaudited in €millions	Pro forma 30-06-2017	[1]	[2]	Pro forma adjusted 30-06-2017
Non-current assets				
Intangible assets	3,400			3,400
Property, plant and equipment	1,818			1,818
Other financial non-current assets	1,479			1,479
Total non-current assets	6,697			6,697
Current assets				
Inventories	1,111			1,111
Other current assets	47			47
Receivables	2,250			2,250
Cash and cash equivalents	909	2,400	(1,000)	2,309
Total current assets	4,318	2,400	(1,000)	5,718
Total assets	11,014	2,400	(1,000)	12,414
Equity				
Business equity	3,763	2,400	(1,000)	5,163
Non-current liabilities				
Provisions and deferred tax liabilities	1,376			1,376
Long-term borrowings	2,597			2,597
Total non-current liabilities	3,973			3,973
Current liabilities				
Short-term borrowings	276			276
Trade and other payables	2,629			2,629
Other short-term liabilities	373			373
Total current liabilities	3,278			3,278
Total equity and liabilities	11,014	2,400	(1,000)	12,414

4. AkzoNobel excl. Specialty Chemicals business

Basis of Preparation to pro forma condensed combined interim balance sheet and interim statement of income of AkzoNobel excluding Specialty Chemicals business adjusted for capital restructuring

- 7 The Basis of Preparation for these pro forma combined financial statements of AkzoNobel excluding the Specialty Chemicals business (adjusted for the capital restructuring) is the same as used for the pro forma combined financial statements of AkzoNobel excluding Specialty Chemicals business, except for the following pro forma adjustments, which were made to illustrate the effect of the contemplated capital restructuring;
 - 1) Attract between €2.0 billion and €2.8 billion new external financing by Akzo Nobel Chemicals Holding B.V. or its subsidiaries, with the same amount then being paid by Akzo Nobel Chemicals Holding B.V. to Akzo Nobel N.V. For the purpose of this pro forma adjustment the €2.4 billion mid-point of the range has been used. Interest income assumed to be based on an annual interest rate of 0.25%. The tax effect thereon has been calculated against 2016 effective rate of AkzoNobel Group.
 - 2) Payment of a special dividend of €1 billion to the Shareholders of Akzo Nobel N.V.
- 7 Both effects of the capital restructuring have been reflected in the pro forma combined balance sheet as if they had been implemented on 30 June 2017, with the effects of the capital restructuring reflected in the pro forma combined interim statement of income as if interest has been received on the remaining cash balance from 1 January 2017 onwards.
- 7 No income tax or other effects on reported book values of the internal separation have been included in these pro forma financial statements.
- 7 These schedules support article 3.3 (d) of the demerger proposal.