

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

Relating to the proposal to approve the capital repayment and share consolidation in respect of the separation of the Specialty Chemicals business from AkzoNobel

To be voted on at the Extraordinary General Meeting of Shareholders of Akzo Nobel N.V., to be held in Amsterdam, the Netherlands, on Tuesday 13 November 2018, beginning at 3:00 p.m. (CET).

2 October 2018



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Letter to the shareholders

Dear Shareholder,

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 completion of the separation.

We have consulted many shareholders and evaluated various options to determine the optimal way to return the proceeds, taking into account a number of factors including our shareholders' interests, speed to implement, and tax considerations.

The Board of Management and the Supervisory Board propose to return an aggregate amount of EUR 6.5 billion to you, our shareholders. This return consists of the following elements: 1) distribution of EUR 1 billion in advance proceeds (paid in December 2017), 2) EUR 2 billion capital repayment and share consolidation, 3) EUR 1 billion additional special cash dividend and 4) a EUR 2.5 billion share buyback program.

In this Shareholders Circular, we provide you with information regarding the proposed methods for distributing the proceeds, including detailed information on the specific procedure required to facilitate a capital repayment and share consolidation. We advise all our shareholders to read this information carefully.

The Board of Management and Supervisory Board of AkzoNobel unanimously recommend that you vote to approve the proposed capital repayment and share consolidation in respect of the separation of the Specialty Chemicals business at the Extraordinary General Meeting on November 13, 2018.

We look forward to delivering the next phase of value creation at AkzoNobel, as a focused paints and coatings company.

If you have any questions or comments, please do not hesitate to contact our Investor Relations team at: investor.relations@akzonobel.com.

Yours sincerely,

Nils Smedegaard Andersen
Chairman of the Supervisory Board

Thierry Vanlancker
CEO

1 Return of the vast majority of net proceeds from the separation of the Specialty Chemicals business to shareholders

Separation of the Specialty Chemicals business from AkzoNobel

On October 1, 2018 AkzoNobel successfully completed the separation of the Specialty Chemicals business from AkzoNobel to The Carlyle Group and GIC.

Return of the vast majority of net proceeds to shareholders

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 completion of the separation.

During spring 2018, we consulted many shareholders to receive input to determine the optimal way to return the vast majority of the net proceeds from the separation to our shareholders, taking into account our shareholders' interests, including tax considerations.

The Board of Management and the Supervisory Board have taken this feedback from many shareholders into account, and have determined to return an aggregate amount of EUR 6.5 billion to our shareholders. This return consists of the following elements.

1. Advance distribution of proceeds following approval of the separation

We have made an advance distribution out of the separation proceeds at an amount of EUR 1 billion by means of a special cash dividend, which was paid on December 7, 2017, with the ex-dividend date on December 4, 2017.

2. Capital repayment and share consolidation

We intend to return an amount of approximately EUR 2 billion to our shareholders by means of a capital repayment and share consolidation. At this EGM, we request approval from our General Meeting for this transaction.

This capital repayment, on the basis of three technical amendments of the Articles of Association, will be combined with a share consolidation. The share consolidation aims to decrease the number of outstanding Shares by the number of Shares that could, theoretically, have been repurchased by AkzoNobel for the amount that will be repaid to the holders of Shares by means of the capital repayment.

We expect to implement the capital repayment and share consolidation and repay the amount of approximately EUR 2 billion to our shareholders in Q1 of 2019, subject to the conditions set out in this circular.

3. Additional special cash dividend

Following the capital repayment and share consolidation, we intend to make a distribution out of the separation proceeds at an amount of approximately EUR 1 billion by means of an additional special cash dividend. The payment date and record date of this distribution will be announced by the Board

of Management. Payment of this dividend is expected to take place in Q1 of 2019 due to tax reasons. The special cash dividend will be declared by AkzoNobel by means of an interim dividend. The exact amount and timing of the special cash dividend will be determined at the discretion of AkzoNobel.

4. Share buy-back program

We intend to launch a share buyback program to purchase Shares up to EUR 2.5 billion within the 2019–2020 timeframe. We intend to cancel these shares after repurchase. This buyback program will commence following the completion of the capital repayment, share consolidation and special dividend payment. The share buyback program will be executed within the limitations of the existing authority granted by the Annual General Meeting of shareholders (AGM) on April 26, 2018 and of the authority granted by future AGMs. The share buyback program may be suspended, modified or discontinued at any time. All transactions under this program will be published on AkzoNobel's website on a weekly basis.

2 Description of the proposed capital repayment and share consolidation

Introduction and key principles

It is proposed to adjust the capital structure of AkzoNobel in order to repay approximately EUR 2 billion to AkzoNobel's shareholders by means of a capital repayment and share consolidation.

The key consequences of this transaction will be as follows:

- an aggregate amount of approximately EUR 2 billion will be repaid to the holders of Shares; and
- the number of issued Shares will be decreased by the number of Shares that could, theoretically, have been repurchased by AkzoNobel for the amount that will be repaid to the holders of Shares by means of the capital repayment.

This capital repayment and share consolidation will take place in three steps, which involve three amendments to the Articles of Association:

- i. first, the par value per Share will be increased by an amount, to be determined by the Board of Management after the EGM and prior to the implementation of this transaction, which allows for the repayment per Share to AkzoNobel's shareholders pursuant to step iii. below;
- ii. second, the Shares will be consolidated on the basis of a share consolidation ratio, to be determined by the Board of Management after the EGM and prior to the implementation of this transaction, which will decrease the number of issued Shares by a number equal to the number of Shares that could, theoretically, have been repurchased by AkzoNobel for the amount that will be repaid to the holders of Shares by means of the capital repayment; and
- iii. third, the par value per Share will be decreased to EUR 0.50, and part of the amount whereby the par value is decreased, being approximately EUR 2 billion in aggregate, will be repaid to the holders of Shares.

All proposed amendments to the Articles of Association under agenda item (1) are necessary to effect the capital repayment and share consolidation, and are deemed to be indivisible and inseparable and are therefore put to a vote of the General Meeting as one voting item. In accordance with the Articles of Association, the proposed amendments of the Articles of Association have been approved by the Priority as the holder of the priority shares. The Priority will not cast any votes on its priority shares in the EGM.

Procedure of the capital repayment and share consolidation

First amendment of the Articles of Association – increase of par value

To make it possible to pay approximately EUR 2 billion to the holders of Shares as a repayment of share capital, the par value of the Shares must first be increased. The par value of each Share is currently EUR 2 and will be increased to an amount per Share that is at least equal to the amount that will be repaid to holders of Shares for each Share, and that also allows for a share consolidation in accordance with the consolidation ratio that will be determined by the Board of Management using the formula set out below.

This formula takes into account the difference between the aggregate market value of the Shares and the repayment of approximately EUR 2 billion.

This increase of the par value of the Shares will be achieved through an amendment to the Articles of Association, proposed under agenda item 1.a. The increase in par value will be charged to the euro conversion reserve and/or the share premium reserve at the election of the Board of Management.

Second amendment of the Articles of Association - share consolidation

Secondly, it is proposed to consolidate the number of issued Shares into the number of Shares resulting from the application of the consolidation ratio, which will be determined on the basis of the formula below. This consolidation of Shares (also called a reverse stock split), will be implemented by means of a second amendment of the Articles of Association, proposed under agenda item 1.b.

Under Dutch law, the par value per Share must be a multiple of one eurocent, therefore the aggregate par value of the Shares after the increase pursuant to the first amendment of the Articles of Association will be such that the aggregate par value amount divided by the number of Shares resulting after the consolidation is a multiple of one eurocent. For that reason the amount of the increase may be higher than the amount that will be repaid. That additional amount will subsequently be added to the share premium reserve (see the next step).

Third amendment of the Articles of Association – decrease par value and repayment of share capital

Finally, it is proposed to decrease the par value of each (consolidated) Share to EUR 0.50. Approximately EUR 2 billion will be repaid to the holders of the Shares and if the amount of the decrease to par value exceeds the amount that will be repaid pursuant to agenda item 1.a., the difference will be added to the share premium reserve. This requires a third amendment of the Articles of Association, proposed under agenda item 1.c.

The decrease of the par value of each Share, today EUR 2, to EUR 0.50 provides ample headroom to allow AkzoNobel to repay share capital in a tax efficient way.

Formulas - Consolidation ratio

The consolidation ratio will determine:

- i. the number of Shares resulting from the share consolidation;
- ii. the new par value of the Shares after the first and second amendment of the Articles of Association; and
- iii. the amount to be paid per Share to shareholders post consolidation.

Consolidation ratio

The consolidation ratio will be calculated as follows:

$$\frac{A - B}{A} = Y$$

A = the market value of the outstanding Shares at a date and time to be determined by the Board of Management.

B = the total amount of the repayment of capital to holders of Shares (approximately EUR 2 billion).

Y = the consolidation ratio.

This consolidation ratio shall be determined by the Board of Management within the range of 6/7 up to and including 24/25.

Par value increase

The par value of the Shares after the first amendment of the Articles of Association will depend on the consolidation ratio. The par value of the Shares will be increased to a level that ensures that the aggregate par value of the Shares will be divisible by the total number of Shares after the share consolidation, as explained above. The par value of each Share will be in the range of EUR 8 up to and including EUR 9.

For example, assuming a number of 255 million issued and outstanding Shares, a consolidation ratio of 7 pre-consolidation Shares to 6 post-consolidation Shares requires an increase to the par value of each pre-consolidation Share of EUR 8.27, a consolidation ratio of 15 pre-consolidation Shares to 14 post-consolidation Shares to EUR 8.40.

Par value of the Shares after the share consolidation

The new par value of the Shares as a result of the share consolidation will be determined as follows:

$$\frac{X}{Y} = Z$$

X = the par value of Shares before the consolidation of the Shares.

Y = the consolidation ratio.

Z = the par value of Shares after consolidation.

For example, assuming a number of 255 million issued and outstanding Shares, a consolidation ratio of 7 pre-consolidation Shares to 6 post-consolidation Shares leads to a new par value of each Share of EUR 9.65, a consolidation ratio of 15 pre-consolidation Shares to 14 post-consolidation Shares to EUR 9.

Repayment of capital per Share

Since the repayment per Share will take place after the share consolidation, the amount repaid per Share will depend on the applicable consolidation ratio.

$$\frac{B / D}{Y} = E$$

B = the aggregate amount of the repayment of capital to the holders of the Shares (approximately EUR 2 billion).

D = the total number of outstanding Shares before the share consolidation.

Y = the consolidation ratio.

E = the total amount of repayment of capital per Share after the share consolidation.

Illustrative calculations

The calculations below provide a further illustration of the procedure. All values and amounts are for illustration purposes only; the actual values will be determined by the Board of Management, on the basis of the formulas described above.

Total number of issued and outstanding Shares:	255,000,000
Presumed market price per Share:	EUR 80
Total market value of Shares:	EUR 20,400,000,000
Par value per Share:	EUR 2.00

The total repayment to the holders of Shares will be approximately EUR 2 billion or approximately EUR 8.71 per issued and outstanding Share. This amounts to approximately 10% of the total market value of the outstanding Shares. Therefore, the total number of Shares will be decreased by approximately 10% by means of the share consolidation to ensure that the total market value of the Shares, as of the capital repayment and share consolidation becoming effective, will not decrease. In other words, approximately 10% of the Shares could, theoretically, have been repurchased by AkzoNobel, if the amount of approximately EUR 2 billion was used for a share repurchase against a price per Share of EUR 80.

As can be seen in the formula below, this reduction can be achieved by using a consolidation ratio of 10 pre-consolidation Shares to 9 post-consolidation Shares.

Consolidation ratio

$$\frac{A \text{ (EUR 20.4 billion)} - B \text{ (EUR 2 billion)}}{A \text{ (EUR 20.4 billion)}} \approx Y(9/10)$$

Par value following the increase

The aggregate par value of the Shares will not change as a result of the share consolidation. If a consolidation ratio of 10 pre-consolidation Shares per 9 post-consolidation Shares (9/10) is used, the par value of the Shares should first be increased to EUR 8.37, being the amount that is (i) at least equal to the amount of the capital repayment and (ii) allows for a share consolidation in accordance with a 10 pre-consolidation Shares to 9 post-consolidation Shares ratio. The amount of this increase will be charged to the euro conversion reserve and/or the share premium reserve at the election of the Board of Management.

$$\frac{X \text{ (EUR 8.37)}}{Y \text{ (9/10)}} = Z \text{ (EUR 9.30)}$$

Par value following the share consolidation

As a consequence of the share consolidation, in accordance with a consolidation ratio of 10 pre-consolidation Shares into 9 post-consolidation Shares, the par value of a Share will be increased to EUR 9.30. A shareholder, who prior to the share consolidation held 10 Shares with a par value of EUR 8.37 each, will hold 9 Shares with a par value of EUR 9.30 each after the share consolidation. The total par value of this shareholder's aggregate number of Shares will remain EUR 83.70.

Finally, the par value of the Shares will be decreased to EUR 0.50 per Share. This means that, in this example, the par value of every Share will be decreased by EUR 8.80. As explained above, part will be paid out to the holders of Shares to a total of approximately EUR 2 billion, while the remainder of the amount will be added to the share premium reserve.

It will therefore have to be determined what the total amount of repayment per Share after the share consolidation will be. The repayment per Share will be calculated using the following formula:

Repayment of capital per Share

$$\frac{B(\approx \text{EUR } 2 \text{ billion}) / D \text{ (255 million outstanding Shares)}}{Y \text{ (9/10)}} = E (\approx \text{EUR } 8.71)$$

This amount per Share will be rounded in (whole) eurocents. In this example an amount of EUR 8.71 per Share will be repaid to the holders of Shares and EUR 0.09 per Share will be added to the share premium reserve.

Expected timeline and implementation process

It is proposed that the capital repayment and share consolidation will be implemented and effected in Q1 of 2019, subject to the conditions set out in this circular. The relevant Ex Distribution Date, Record Date and Payment Date will be communicated to shareholders by the Board of Management prior to the implementation.

Shareholders' interests

For persons holding their Shares through Euroclear Nederland, banks and brokers will round all positions up or down, as result of the share consolidation, depending on the particular contractual arrangement between the bank or broker and the shareholder. As a result, persons whose holding of Shares in Euroclear Nederland is not divisible in accordance with the denominator of the consolidation ratio (9 in the previous example) will either receive cash or need to pay an additional amount from or to the relevant bank or intermediary. Shareholders are requested to contact their bank or intermediary in case they have any question surrounding receipt or payment of an additional amount.

ADRs

Certain Shares are traded over-the-counter on OTCQX in the United States of America in the form of American depositary receipts ("**ADRs**" and each an "**ADR**") under a deposit agreement as described in the registration statement on Form F-6 with file number: 333-119739 as supplemented and amended from time to time (the "**ADR Program**"). For persons holding ADRs, Deutsche Bank Trust Company Americas, acting as the sponsor of the ADR Program (the "**ADR Depositary**") will facilitate the execution of the proposed share consolidation and capital repayment in accordance with the deposit agreement as lastly supplemented and amended on 3 January 2012 (the "**Deposit Agreement**"). The ADR Depositary shall notify the holders of ADRs in advance of the implementation of the proposed share consolidation and capital repayment in accordance with the Deposit Agreement. Holders of ADRs are requested to contact the ADR Depositary in case they have any questions surrounding the proposed share consolidation and capital repayment.

Tax consequences

The amount to be repaid to a holder of Shares in connection with the repayment of capital and share consolidation will not be subject to Dutch dividend withholding tax as far as said transactions

remain within the fiscal limits as determined for AkzoNobel. Currently we do not expect that the capital repayment and share consolidation will exceed these fiscal limits. Shareholders are encouraged to consult their own tax advisor as to the particular tax consequences in light of their specific circumstances.

EXPLANATION TO AGENDA ITEMS 1.A. THROUGH 1.D.

The three steps through which the capital repayment and share consolidation will be effected are summarised below. Each step will be implemented by a separate deed of amendment of the Articles of Association. A text of the proposed amendments to the Articles of Association reflected in a triptych (a comparison with the present Articles of Association) in Dutch and an unofficial English translation and the relevant explanatory notes are available for inspection at the offices of AkzoNobel, Christian Neefestraat 2, 1077 WW Amsterdam, the Netherlands and are available on AkzoNobel's website (www.akzonobel.com).

The Board of Management, with the prior approval of the Supervisory Board and the Priority, proposes the following to the General Meeting.

1.a. Amendment of the Articles of Association to increase the par value of the common shares

It is proposed to the General Meeting to amend the Articles of Association in accordance with the draft deed of amendment of the Articles of Association as reflected in the triptych referred to above to, amongst other things, increase the par value of each Share from EUR 2 to a value that will follow from the consolidation ratio and as will be determined by the Board of Management by determining the market value of all the Shares on a date determined by the Board of Management. The new par value of the Shares will be in the range from EUR 8 up to and including EUR 9. The increase in par value will be paid up from the euro conversion reserve and/or the share premium reserve at the election of the Board of Management.

1.b. Amendment of the Articles of Association to execute the share consolidation

It is proposed to the General Meeting to amend the Articles of Association in accordance with the draft deed of amendment of the Articles of Association as reflected in the triptych referred to above to, amongst others, consolidate the Shares, having a par value determined in the amendment of the Articles of Association under item 1.a, which will be in the range from EUR 8 up to and including EUR 9, to an amount of Shares with a par value in the range of EUR 8.50 up to and including EUR 10, calculated on the basis of the formulas as set out above, which will be determined by the Board of Management.

1.c. Amendment of the Articles of Association to decrease the par value of the common shares, including a reduction of capital

It is proposed to the General Meeting to amend the Articles of Association in accordance with the draft deed of amendment of the Articles of Association as reflected in the triptych referred to above to, amongst others, decrease the par value of each Share from the amount it was raised to in connection with the share consolidation proposed in item 1.b to EUR 0.50, and a capital repayment to the holders of Shares, to be determined by the Board of Management on the basis of the formulas set out above, to the holders of Shares of in aggregate approximately EUR 2 billion, provided that the repayment will not be less than EUR 1,990,000,000 and not more than EUR 2,010,000,000. The difference between the par value of the Shares before the reduction and the repayment of capital will be added to the share premium reserve.

1.d. Authorisation

It is proposed to the General Meeting to authorise each member of the Board of Management and each lawyer, (candidate) civil law notary and paralegal working at De Brauw Blackstone Westbroek N.V. to execute the deeds of amendment of the Articles of Association as referred to under agenda item 1.a., 1.b. and 1.c.

For the purposes of this agenda item 1, a vote attached to a Share cast in the Extraordinary General Meeting will also be considered as a vote cast in the Extraordinary Meeting of holders of common shares in light of article 2:99 BW.

The proposals under 1.a. through 1.d. will be put to a vote of the General Meeting as one voting item.

Conditions

The implementation of the capital repayment and share consolidation is subject to the customary filings with the Trade Register and the two-month creditor objection period as described in Section 2:100 BW in connection with this capital repayment.

Under the provisions of Section 2:100 BW, objections may be lodged by creditors within a period of two months following the publication of the resolution to reduce the capital with the Trade Register of the Chamber of Commerce. The amendments of the Articles of Association and the capital reduction will be effected only after that period and if no objections have been received during that period or, in the event one or more creditors have opposed the capital reduction, after such opposition has been withdrawn, resolved or lifted by an enforceable court order by the relevant court of the Netherlands.

AkzoNobel reserves the discretionary power not to implement the proposals under 1.a. through 1.d. due to unforeseen circumstances or for other reasons, taking into account the interest of AkzoNobel, its business and its other stakeholders. However, AkzoNobel shall not resolve to only implement certain but not all of the proposals under 1.a. through 1.d.

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.
Articles of Association	The articles of association of AkzoNobel
Board of Management	The board of management of AkzoNobel
BW	Dutch Civil Code (<i>Burgerlijk Wetboek</i>)
EGM / Extraordinary General Meeting	The extraordinary general meeting of shareholders of AkzoNobel to be held on 13 November 2018 in Amsterdam, the Netherlands
Euroclear Nederland	Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V.
General Meeting	The general meeting of shareholders of AkzoNobel
Priority	The meeting of holders of priority shares in the capital of AkzoNobel
Shares	The common shares in the capital of AkzoNobel
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. 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.

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. The foregoing does not affect the obligation of AkzoNobel to make a public announcement pursuant to applicable laws.