

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured -Dom Curr	Baa1
Commercial Paper -Dom Curr	P-2
Akzo Nobel Sweden AB	
Outlook	Stable
Bkd Senior Unsecured	Baa1
ICI Wilmington Inc.	
Outlook	Stable
Bkd Senior Unsecured	Baa1
Akzo Nobel Inc.	
Outlook	Stable
Bkd Commercial Paper	P-2

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Key Indicators

Akzo Nobel N.V	2010	2009	2008
EBITDA Margin	14.7%	15.8%	14.1%
EBIT / Avg. Assets [1]	8.1%	7.5%	11.3%
Net Debt / EBITDA	1.4	2.2	1.8
EBITDA / Interest Expense	5.6	4.8	5.9
RCF / Net Debt	36.3%	18.6%	18.0%
FCF / Net Debt	8.7%	19.9%	-1.1%
Ratios are consistent with Moody's Global Standard Analytical Adjustments			

[1] Assets exclude cash and short-term investments

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

Opinion

Corporate Profile

AkzoNobel NV ("AkzoNobel") is a world-leading industrial company exclusively dedicated to coatings and specialty chemicals, generating total sales of around EUR 14.6 billion in 2010 (EUR 13.9 billion in 2009). The group serves a widely diversified base of customers in all major production regions and enjoys an extensive international manufacturing footprint.

Rating Rationale

AkzoNobel is the leading producer of coatings and benefits from its significant size, ahead of PPG Industries Inc (Baa1/stable) and DuPont (A2/under review for downgrade), and leading global market positions. AkzoNobel enjoy relatively stable revenue patterns, supported by a significant specialty business, improved levels of profitability and relatively lower capital requirements, compared to other chemicals businesses. The business is exposed to raw materials' volatility, while its specialty nature and the pricing mechanics often lead to a delay in transferring changes in raw material prices to the customers, notwithstanding the company's proactive pricing policies and good pricing power.

AkzoNobel's Baa1/Prime-2 ratings are well positioned to accommodate a period of steady growth that is expected to follow the period of

portfolio repositioning and restructuring concluded in 2010. Given a subdued level of demand for decorative applications in the developed markets, we expect future growth opportunities in the coatings segment to be driven by rising demand for industrial applications and expansion in the growing developing markets, particularly Latin America and Asia Pacific, where AkzoNobel already derives c. 39% of its revenues.

During the expansion period towards the targeted EUR 20 billion in revenues, AkzoNobel's profitability levels are expected to reflect its broader product and markets presence, than that of its close competitors currently focusing on high-margin coatings applications, with targeted EBITDA margin of 13-15%. We expect that growth will be supported through the organic expansion in the high-growth markets, further investment, as well as some bolt on acquisitions in the company's key product areas.

The Baa1 rating also reflects the expectation of sustained strong free cash flow generation, that together with accumulated cash balances, should support a gradual reduction in the absolute debt levels, including the on-going funding of the pension liabilities, as well as provide funding for bolt-on additions to the portfolio. Overall, AkzoNobel's conservative financial policies underpin the Baa1 ratings.

DETAILED RATING CONSIDERATIONS

Solid Business Profile and Strong Growth Platform

AkzoNobel's strong business profile assessment reflects the widespread geographic, operational, product and technology diversification of its operations, its relatively specialty-end product portfolio and leading global market positions in coatings. AkzoNobel's operations are concentrated in coatings (deco & industrial), while the remaining businesses provide a relatively moderate degree of product diversification, mitigated by a broad customer end-market diversification.

Following the divestment of its Organon Bio Science business in 2007 and the subsequent acquisition of Imperial Chemical Industries ("ICI") in 2009, the group's business is organised into the three main divisions: Decorative Paints (that accounted for 34% of 2010 revenues, and reported 11% EBITDA margin), Performance Coatings (that accounted for 33% of 2010 revenues and reported 13.5% EBITDA margin) and Specialty Chemicals (that contributed 33% of 2010 revenues and reported 19% EBITDA margin).

AkzoNobel's is focused on profitable expansion, with the new revenue goal of EUR 20 billion set in its Value and Values strategy, unveiled in 2010. The efforts are focusing on the highly growing emerging markets, including Latin America and Asia Pacific, where the addition of ICI has created a strong platform, further supported by bolt-on additions and investment (including Chinese multi site in Ningbo, opened last year). As a leading global player in coatings, AkzoNobel also fronts the sector's consolidation, and made several strategic bolt-on acquisitions in 2010, including the acquisition of powder coatings activities of Rohm and Haas from Dow Chemicals, that boosted its positions in the US, and the acquisition of Changzhou Prime Automotive Paint Co. Ltd that should support its leading position in China's high growth car refinishing segment. We also note, AkzoNobel's measures to "lighten" the asset base in the decorative paints, with the reorganisation of the distribution model and the announced collaboration with Walmart in the US.

Significant Size, Improved Profitability and Relative Revenue Stability

With EUR 9.7 billion in revenues derived in the coatings and decorative paints segments, AkzoNobel is the global leader in coatings. The company has stated its growth aspirations, mainly in the emerging markets, and has also stated profitability target of 13% - 15% (EBITDA margin), which we view as realistic, given the different product mix characteristic to the developing markets.

AkzoNobel is relatively exposed to raw materials' volatility as these represent approximately 30% of total costs. The coatings segment has been exposed to higher raw material prices in 2010 and we expect that these will likely remain a source of some margin pressure in 2011. AkzoNobel has been successful in raising prices and passing on part of the price increases in 2010.

The group benefits from a lower volatility in revenues, compared to other chemicals segments, and has also lifted its profitability to the levels reported by its key global peers through the successful restructuring in 2009/2010 and realisation of extensive ICI synergies. While we expect that AkzoNobel's expansion in the emerging markets will drive the revenue growth in the medium term, we also believe that the different product mix and promotion into the new markets will likely limit further improvements in the profitability of the group during the expansion. We note that cost cutting, efficiency measures and margin management initiatives remain a fundamental part of the company's strategy.

While AkzoNobel's reported return on assets remains slightly below the returns on assets reported by close competitors (such as PPG), we expect that the company's improved working capital management and focus on managing asset footprint in the decorative business, as well as profitable expansion in the emerging markets will likely allow to close the gap.

Conservative Growth Management and Substantial Financial Flexibility

AkzoNobel's Baa1 rating is supported by the group's sustained conservative financial policies. At the end of 2010, the group had EUR 5.9 billion in debt (including EUR 1.0 billion in pension liabilities and EUR 1.0 billion adjustment of leases). AkzoNobel's acquired ICI's significant pension liability position but has made proactive effort to reduce the pension liability and agreed a schedule of top-up contributions of GBP 245 million in the years 2010 and 2011 and of GBP 275 million in each year from 2012 to 2017. While the size of the pension deficit remains considerable and fluctuates depending on changes in discount rates and asset prices (the recovery in the asset prices, amongst other variables, supported EUR 0.8 billion reduction in the liability in 2010), AkzoNobel has relatively modest pension service cash costs and retains considerable flexibility in managing the pension liability.

This gradual deleveraging and the expected improvements in cash flow generation should support stronger credit metrics in the medium term, including RCF / Net Adjusted Debt at high twenties level and stronger FCF generation, that we see commensurate with the Baa1 rating.

Given its disposal of several assets as a result of the ICI acquisition, AkzoNobel carries a high level of liquidity on the balance sheet. We expect that these balances offer additional flexibility to address debt reduction (including pension liabilities) and support growth.

Liquidity

AkzoNobel maintains a strong liquidity position. At the end of 2010, the company reported EUR 2.9 billion in cash balances. The liquidity position is further supported by strong FCF generation and full availability under EUR 1.5 billion 2013 multicurrency revolving credit facility. Moody's notes that AkzoNobel has EUR 648 million in bond maturities in 2011.

Rating Outlook

The stable outlook is supported by the strong operating performance reported in 2010 and a solid start for 2011, underpinned by the continuous strength in demand for industrial applications and the expectation of robust growth in the emerging markets. The stable outlook reflects the assumption that the company will use its considerable financial flexibility to manage growth conservatively and will be able to maintain a strong credit profile. Including relatively strong metrics with RCF to Net Adjusted Debt averaging in mid-to-high twenties through the cycle.

What Could Change the Rating - Up

An upgrade would require a further deleveraging beyond the current level supported by a continuous improvement in profitability, as well as a sustainable improvement in RCF and FCF metrics towards the low thirties and mid to high single digits respectively.

What Could Change the Rating - Down

Further pressure on operating cash flow generation resulting in a weak or negative FCF generation, or a substantial weakening in profitability to low teens would put a negative pressure on the ratings.

Rating Factors

Akzo Nobel N.V.

Chemical Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Business Profile							
a) Business Position Assessment			X				
Factor 2: Size & Stability							
a) Revenue (Billions of US\$)			\$19.6		3		
b) # of Divisions of Equal Size							
c) Stability of EBITDA				13%			
Factor 3: Cost Position							
a) EBITDA Margin (3 Yr. Avg.)				14.8%			
b) ROA - EBIT / Assets (3 Yr. Avg.)				8.8%			
Factor 4: Management Quality							
a) Net Debt / Capital			26%				
b) Net Debt / EBITDA (3 Yr. Avg.)			1.8				
Factor 5: Financial Strength							
a) EBITDA / Total Interest Expense (3 Yr. Avg.)				5.4			
b) Retained Cash Flow / Net Debt (3 Yr. Avg.)				23.0%			
c) Free Cash Flow / Net Debt (3 Yr. Avg.)				9.8%			
Rating:							
a) Indicated Rating from Methodology				Baa			
b) Actual Rating Assigned				Baa1			



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