

Rating Action: Moody's rates Clariant's new notes Ba1.

Global Credit Research - 24 Jan 2012

London, 24 January 2012 -- Moody's Investors Service has assigned today Ba1 / LGD 4 (63) ratings to the new EUR 500 million 2017 senior unsecured notes to be issued by Clariant Finance (Luxembourg) S.A., a financial subsidiary of Clariant AG.

The notes will be guaranteed by Clariant AG on senior unsecured basis and rank pari passu with the existing senior unsecured obligations of the guarantor and the issuer.

RATINGS RATIONALE

Clariant's Ba1 ratings reflect Moody's expectation that the pace of the deleveraging in 2012-2013 is likely to slow down because the weakening economic environment in Europe and a slow-down in growth in the emerging markets will likely curtail further improvement in the earnings, as opposed to the assumption that supported the positive outlook assigned to the ratings at the start of 2011.

Following the acquisition of Sud-Chemie AG, funded in part through an equity placement, Clariant's total debt level has increased and is expected to be at approximately CHF 3 billion at the end of 2011 (before Moody's adjustments for leases and pension liabilities). However, we continue to assume further reduction in debt in 2012, with recent placements of EUR 390m in certificates of indebtedness in the German market and the new bond supporting the scheduled repayments in the next 12 months. With investment in the improvement of the business weighting on the FCF generation in 2012, further reduction in leverage in the next 12-18 months was assumed to come from the growth in earnings, which we now expect will be slower. At the end of 3Q 2011, Moody's estimates that Clariant's leverage stood at 3.1x on LTM Net Adjusted Debt to EBITDA basis and (RCF-CAPEX) / Debt was around 3.5%.

We continue to positively view the acquisition of Sud-Chemie AG, that has added to the scale and quality of the company's revenue base. It has reduced the uncertainty regarding Clariant's near term growth strategy and provided flexibility for further portfolio measures, as recently confirmed by the company. We expect such measures to focus on the more cyclical and less profitable businesses, leading, over time, to stronger average margins and a further reduction in the earnings volatility. We view these measures, together with the CAPEX commitments underpinning capacity rationalisation, to be building on the results of the comprehensive restructuring programme implemented by Clariant. We expect that Clariant will maintain its strong execution of the integration plan for Sud-Chemie. The company estimates that cost rationalisation measures in the acquired businesses will bring synergy benefits of CHF 75-95 million in earnings in the medium term.

The stable outlook on Clariant's Ba1 ratings is underpinned by the expectation that Clariant will maintain a strong liquidity profile as it continues to proactively manage its refinancing requirements.

Liquidity and Structural Considerations

The successful placement of the new EUR 500 million bond will support the liquidity and refinancing profile of the company in 2012/2013, as it faces CHF 250 m bond maturity in 2012 and a further EUR 600 m bond maturity in 2013. The company has also recently placed CHF 300 million in Swiss Franc bonds and EUR 390 million in certificates of indebtedness in the German market to support the refinancing requirements.

Clariant maintains a significant cash balance (which at the end of 3Q 2011 stood at CHF 1 billion) that

also supports the liquidity position during the refinancing period. The company, however, also uses part of its high cash balances to back up uncommitted short-term bank facilities that fund its working capital requirements. The company has confirmed that it is looking to maintain a liquidity reserve of c. CHF350m - CHF450 m to support operations, of which CHF 300-400 m may be replaced over time by a committed bank facility.

As a result of the acquisition of Sud-Chemie AG, the level of debt at operating subsidiaries has increased and at the end of 3Q 2011 stood at c. CHF 806 m (prior to recent EUR 182 million prepayment). Clariant's trade creditor obligations are substantially located at operating level as well. The company has confirmed that it is committed to reducing the level of indebtedness at the operating level in 2012, including through refinancing and repayment of loans at operating subsidiaries. The Ba1 rating on the notes, therefore, assumes that the company will manage this issue of structural subordination by reducing down the obligations at the operating companies in the next 12-18 months, as it has successfully done so in the past.

The principal methodology used in rating Clariant was the Global Chemical Industry Methodology published in December 2009. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Muttenz, Switzerland, Clariant AG is a leading international chemicals group. In 2010, Clariant reported revenues of approximately CHF 7.1 billion (consolidated revenues of CHF 7.2 billion reported for 9 months 2011, inclusive of the contribution by Sud-Chemie AG, that Clariant acquired in April 2011 and consolidates it since May 1, 2011).

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