

Announcement: Moody's affirms Clariant's Ba1 ratings and changes outlook to stable.

Global Credit Research - 22 Nov 2011

London, 22 November 2011 – Moody's Investors Service has today affirmed Ba1 senior unsecured ratings of Clariant AG and changed the outlook on the ratings to stable from positive.

RATINGS RATIONALE

The rating action reflects our 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 3.2 billion at the end of 2011 (before Moody's adjustments for leases and pension liabilities). However, we continue to assume c.CHF 0.5 billion reduction in debt in 2012, with recent placements of EUR 365m in certificates of indebtedness in the German market 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 divisions, 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.

Sensitivity Analysis

Taking into account the on-going slow down in the operating environment, the upgrade of the ratings would likely require a further reduction in debt. We maintain our financial guidance that an improvement in the leverage profile with (RCF-CAPEX) / Debt in mid to high single digits, Total Debt / EBITDA sustained below 3.0x and consistent FCF generation would be required to support an upgrade of the Ba1 ratings. We note that Clariant retains an option to trigger (subject to its share price) a conversion of its convertible notes from March 2012.

A deterioration in the operating performance leading to a weaker financial profile Total Debt / EBITDA sustained above 4x, RCF / Total Debt at or below 20% would put a negative pressure on the ratings.

The stable outlook is underpinned by the expectation that Clariant will maintain a strong liquidity profile and will proactively manage its remaining refinancing requirements (including a gradual refinancing of c.CHF 528 million in bank facilities of Sud-Chemie AG with the view to minimise structural subordination in the consolidated debt structure over a period of time).

Following the acquisition, Clariant has placed CHF 300 million in Swiss Franc bonds and EUR 365 million in certificates of indebtedness in the German market, addressing its maturities in 2011 and forthcoming maturities in 2012. In addition, Clariant will face CHF 400m maturity of its acquisition bridge loan facility in March 2012 (extendable by 1 year) and has a further EUR 600 m bond maturing in 2013. The company maintains a significant cash balance (CHF 1.1 billion at the end of 3Q 2011) that supports the liquidity position during the refinancing period. Clariant, 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 with a committed bank facility.

The principal methodology used in rating Clariant AG was the Global Chemical Industry Methodology published in December 2009. Please see the Credit Policy page on www.moody's.com for a copy of this methodology.

Headquartered in Pratteln, 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).

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Elena Nadtotchi
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Olivier Beroud
Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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