STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

February 7, 2011

Clariant AG

Primary Credit Analyst:
Karl Nietvelt, Paris (33) 1-4420-6751; karl_nietvelt@standardandpoors.com

Secondary Contact:
Lucas Sevenin, Paris (33) -1-4420-6661; lucas_sevenin@standardandpoors.com

Table Of Contents

Clariant AG

Major Rating Factors

Corporate Credit Rating
BBB-/Stable/A-3

Strengths:

- Leading producer of a broad range of specialty chemicals, including pigments, performance, and industrial and consumer chemicals.
- Good regional, product, and end-market diversification.
- Improving profitability and free cash flow, supported by substantial reorganization.
- Strong liquidity and current low debt.

Weaknesses:

- Historically challenged profitability, owing to large recurring restructuring charges.
- Pronounced sensitivity of chemical activities to overall industrial and economic conditions.
- Highly volatile raw material costs.

Rationale

The ratings on Switzerland-based specialty chemicals manufacturer Clariant AG reflect Standard & Poor's Ratings Services' view of the company's "intermediate" financial risk profile and "fair" business risk profile. Clariant's product portfolio comprises a very wide spread of industrial and consumer specialty chemicals, pigments, additives, emulsions, surfactants, and bleach activators, as well as oil, textile, and leather chemicals.

The company's fair business risk profile currently constrains the ratings. Large and recurring restructuring charges have challenged Clariant's profitability in the past. The company's ongoing cost reduction and network optimization program should, however, lead to improved earnings and profits in our view. The other main weaknesses are the cyclical nature of the chemicals industry, margin sensitivity to economic conditions, and exposure to volatile raw material costs. Key rating strengths on the other hand are Clariant's wide product range, and its diversified global sales growth pattern. Other positives are its strong 2010 profits and free cash flow, as well our expectation for a continued supportive near-term environment for the chemicals industry.

Our qualification of Clariant's financial risk profile as intermediate chiefly reflects the company's improved credit metrics following its large reduction of financial debt in the past two years. Other strengths are its strong liquidity and favorable medium-term debt maturity profile.

Key business and profitability developments

We expect Clariant to post record 2010 profits, on the back of favorable chemical industry trends. Clariant's impressive recovery in 2010, based on reported volumes up 14% in the first nine months the year, almost fully offset the severe volume drop in early 2009. Reported EBITDA margins (before restructuring charges) also widened to 12.5% in the 12 months to Sept. 30, 2010, from only 7.5% in full-year 2009 and 9%-11% in previous years. Consequently, we estimate 2010 unadjusted EBITDA (before restructuring charges) to exceed Swiss franc (CHF)900 million (€650 million), or close to double the CHF0.5 billion trough of 2009. Restructuring charges, however, will likely have remained sizable in 2010 (estimated at about CHF260 million), as the company completed its restructuring program.

For 2011 we expect continued good performance at Clariant, in line with the to a degree supportive global macroeconomic outlook. We nevertheless assume some reduction in gross margins compared with the likely record 2010 level. From 2012 onward, however, we work with more conservative midcycle EBITDA (post restructuring costs) of about CHF750 million for credit purposes. This working assumption should be prudent, because it also factors in Clariant's limited track record with respect to structurally improved profitability.

Key cash flow and capital-structure developments

We anticipate that Clariant's Standard & Poor's adjusted ratio of funds from operations (FFO) to debt in 2010 will be well above 50% (it was 53.5% in the 12 months ended Sept. 30, when adjusted net debt reached CHF1.1 billion). Under our credit scenario, we assume unadjusted midcycle FFO of CHF550 million-CHF600 million, compared with capital spending in the CHF250 million-CHF300 million range.

Due to its substantial debt deleveraging in the past two years, Clariant's current balance sheet incorporates broad financial flexibility. Still, we will monitor the company's future use of its high cash balances, which stood atCHF1.3 billion at end-September 2010, in comparison with gross debt of CHF1.6 billion.

Liquidity

We view Clariant's current liquidity position as "strong."

At end-December 2010, we estimated liquidity sources for the next 12 months at about CHF1.7 billion, including:

- A large CHF1.3 billion in reported cash and cash equivalents at end-September 2010, of which we treat CHF150 million as tied to operations; and
- FFO at around CHF600 million.

This compares with liquidity uses in 2011 of CHF0.4 billion, comprising:

- CHF166 million of short-term debt. Maturities are also modest in 2012, whereas a large €600 million bond matures in April 2013; and
- Capital spending that we assume will rise again to CHF300 million.

As a result of the large liquidity build-up, Clariant cancelled its syndicated back-stop facility earlier in 2010. If and when liquidity decreases, we would expect the company to put in place some committed back-up lines.

Outlook

The stable outlook reflects our expectations for a near-term supportive chemical environment and Clariant's financial flexibility after its large debt reduction in the past two years. Given its current low net debt, we think that the ratings on Clariant incorporate sufficient headroom in case of a modest to midsize acquisition. An adjusted ratio of FFO to debt of 35%-40% under our mid-cycle credit scenario would be in line with our 'BBB-' rating. In favorable years, like 2010, we would expect metrics to be comfortably above this level.

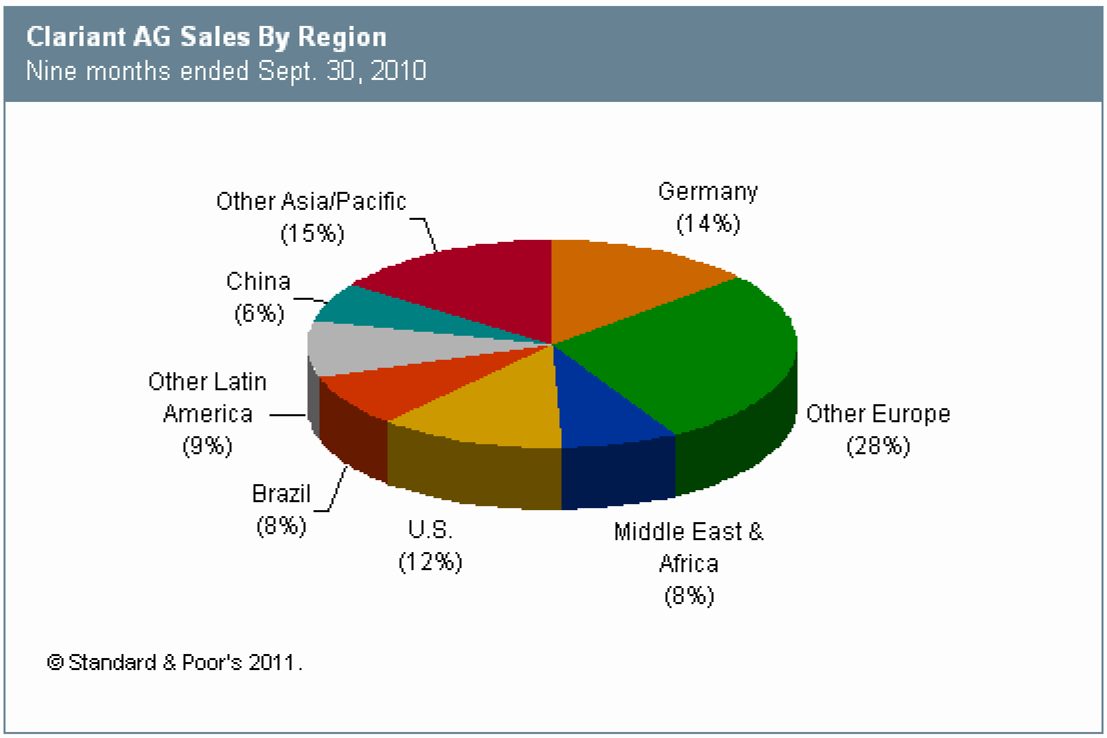
Rating upside depends largely on the company establishing a track record of structurally improved profitability, in addition to its commitment to maintain prudent financial policies. We will also seek to gain more visibility on how Clariant plans to use its large cash balances once we have met with management.

We could consider downgrading Clariant if the adjusted FFO-to-debt ratio were to fall significantly below 30% in a downturn without near-term prospects of recovery, or if the company were to make a large cash or debt-funded acquisition.

Business Description

Clariant is a leading chemicals producer worldwide, offering one of the broadest ranges of specialty chemical products. It recorded sales of CHF7.13 billion (€5.2 billion) for the 12 months ended Sept. 30, 2010. The company's presence outside Europe and North America is greater than for peers (see chart 1).

Chart 1



In January 2010, Clariant changed its operating structure from four divisions to 10 business units (see chart 2 and 3):

- Industrial & Consumer Specialties (23% of first-nine-months 2010 EBITDA), comprising a wide spectrum of industrial applications with adjuvants, solvents, and dispersing agents, and delivering ingredients for hydraulic, metal working, and other performance fluids (like for de-icing), as well as for some personal care ingredients for skin and hair care, wet wipes, and selected pharmaceutical applications.
- Performance Chemicals (21%), combining consumer and industrial detergents, additives, and emulsions and paper divisions. For paper, Clariant has niches in optical brightness and colored paper.
- Pigments (24%), providing organic pigments and pigment preparations for coatings (notably for automotive), printing (for ink jet and laser), and plastics.
- Masterbatches (15%), consisting mainly of processing masterbatches and primarily serving plastic packaging, textile, and automotive applications. The unit produces plastic compounds with a high concentration of color

pigments. It sells its products to plastic processors, which add the compounds at rates of between 1% and 5% to give simple plastics special coloring and other properties.

- Oil & Mining Services (6%), providing chemicals to the oil industry to remove impurities, defoam, and improve flow; and to the mining industry to facilitate dust control, mineral processing, and extraction.
- Textile Chemicals (7%), relative to special chemicals for pretreatment and finishing of textiles (for instance, water repellent, wet absorbent). Clariant also ranks as n°3 in textile dyes globally, which it sources for color matching.
- Leather Services (4%), providing chemical specialties mainly for the automotive leather segment (treatment and finishing), as well as for shoe, furniture, garment, and fur manufacturers.

Chart 2

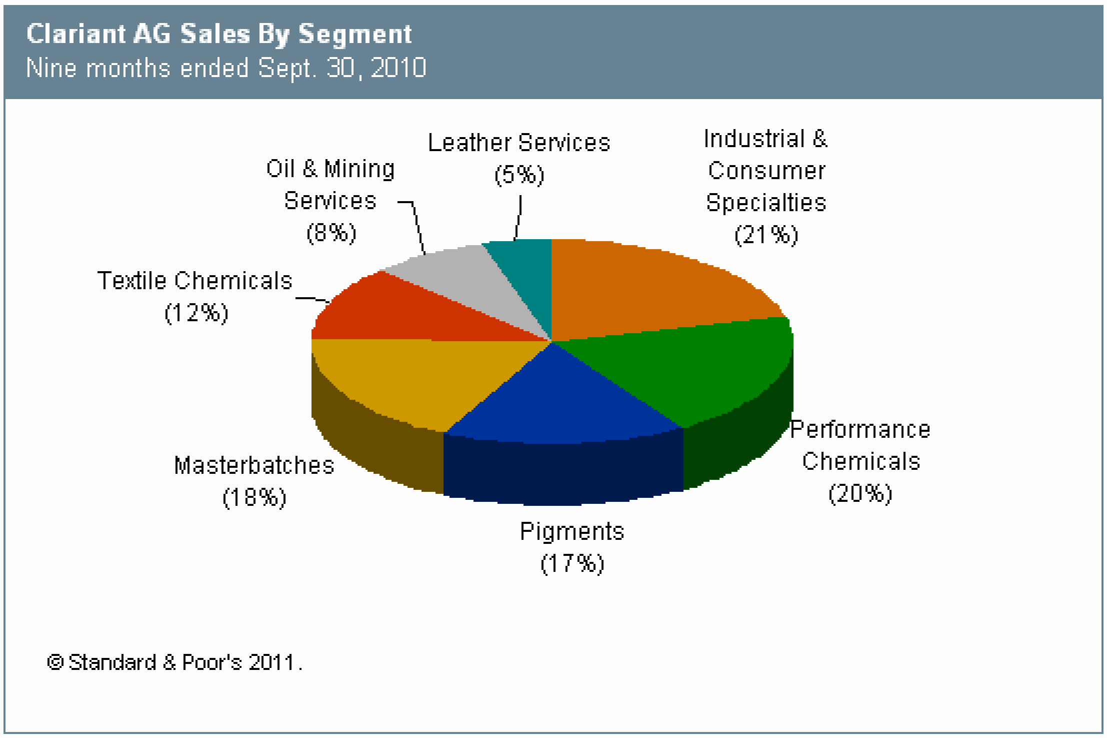
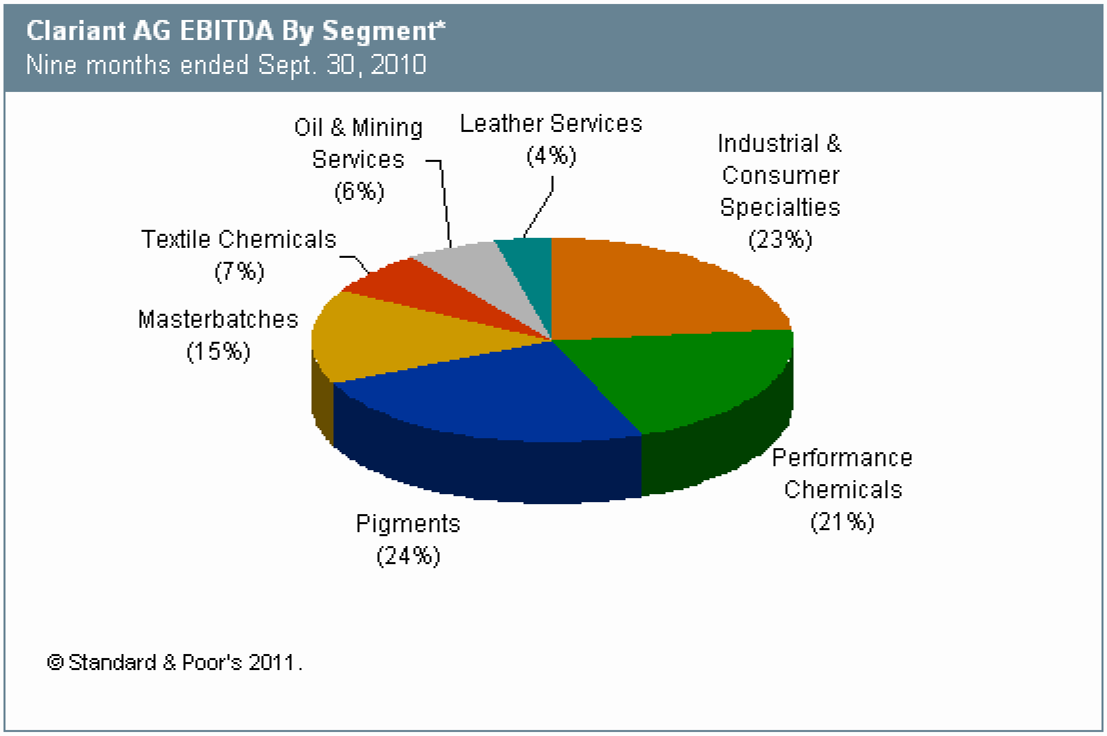


Chart 3



Business Risk Profile: Fair, Due To Subpar Profitability, Despite Good Diversification By Product, Region, And End Markets

The major constraints for Clariant's business risk profile, which we assess as fair, are:

- Profitability historically below peers'. Clariant's profits suffered in the past several years from high costs and related recurring restructuring challenges (see table 1 below). Clariant's current CEO, who took office in October 2008, has embarked on a new wide-ranging restructuring program through end-2010 to optimize the company's global asset network and reduce its production capacity—by closing 15 sites--and to reduce the complexity of its portfolio. In contrast with the previous plan, we see the current restructuring program as more drastic and aimed at structurally improving profitability. Still, we will monitor the company's progress in demonstrating that profits have structurally improved and are more resilient. If Clariant shows headway, we could raise our assessment of its business risk profile back to 'satisfactory'.
- Chemical industry earnings' sensitivity to economic growth. Even though Clariant benefits from end-market diversification, its operating margins or return on capital in specialty chemicals have proven to be sensitive to economic conditions. During the fourth-quarter 2008-second-quarter 2009 crisis (see table 1), Clariant's volumes dropped by over 20%, resembling trends in the rest of the industry, and also because the company has a significant share of industrial end markets. Clariant's core business is also exposed to seasonality, with a traditionally weaker year end, and to cyclicality, although less so than base or intermediate chemicals.
- Perceived moderate pricing power. The life cycle of specialty chemicals is significantly lower than that of base chemicals, often between two and four years, which puts pressure on the company to develop new products. Because it is difficult to impose price increases during a product's lifetime, new chemicals are the main conduit for

price increases and profitability improvements. A main risk for the industry also relates to passing on volatile raw material costs, which is slightly mitigated for Clariant because 50% of its costs are not oil dependent.

Table 1

Clariant AG Profitability

					2010			2009			
(Mil. CHF)	**2010***	**2009**	**2008**	**2007**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Sales to third parties	7,130	6,614	8,071	8,533	1,709	1,894	1,817	1,710	1,691	1,609	1,604
EBITDA (before exceptional items)	895	495	783	812	232	264	235	164	163	125	43
Restructuring charges	298	240	112	185	26	64	100	108	33	48	51
EBITDA	597	255	671	627	206	200	135	56	130	77	-8
EBITDA margin (before exceptionals)	12.5	7.5	9.7	9.5	13.6	13.9	12.9	9.6	9.6	7.8	2.7
Sales growth (year-on-year, % change)	7.5	(18.1)	(5.4)	5.3	1.1	17.7	13.3	(1.9)	(19.2)	(24.1)	(24.1)
Volumes	13.3	(12.8)	(6.5)	2.0	5.0	20.0	20.0	8.0	(11.0)	(23.0)	(25.0)
Prices	(1.8)	(0.3)	7.5	1.0	3.0	0.0	(4.0)	(6.0)	(3.0)	2.0	6.0

*Data for 12 months ended Sept. 30, 2010. CHF--Swiss franc. Source: Clariant AG reported data.

The following factors support Clariant's fair business risk:

- Leading positions in specialty chemicals, alongside a very diversified product range. In contrast to base chemical producers, its product portfolio has more than 10,000 products.
- Technical expertise in specialty chemicals. Although production processes in the industry are often relatively simple, the molecules are more complex. Products are mainly customized and produced for specific needs, making them less vulnerable to price-based competition and commoditization.
- Strong end-market and geographic diversification. Because of Clariant's wide-spread specialty chemicals portfolio, we believe it is less sensitive to individual product demand and supply imbalances. We also think that end markets are fairly well diversified, with a perceived modest share of cyclical automotive and construction markets. Its significant share of more industrial end markets (process industries) is somewhat mitigated by an equally important share of more stable home and personal care end markets. We note, however, that Clariant ceased to disclose its estimated end markets in 2008.

Financial Risk Profile: Intermediate, With Financial Headroom Thanks To Large Debt Reduction Since 2009

Clariant's' financial risk profile, which we assess as intermediate, is supported by:

- Currently strong credit metrics and financial flexibility. We expect 2010 credit metrics to be well above the level commensurate with the rating. For instance, adjusted FFO to debt is likely to have been well above 50% in 2010, compared with our rating expectations of 35%-40% under midcycle credit assumptions.
- Strongly improved free cash flow generation. Free operating cash flow after capital expenditure in the 12 months to Sept. 30, 2010, were a robust CHF0.4 billion, on the back of strongly improved FFO of about CHF0.6 billion. The company has also been particularly successful in tightening its working capital requirements, freeing up close to CHF0.5 billion in the 2009 downturn, while maintaining strict working capital levels in 2010.
- Currently strong liquidity and low net debt. As a result of the above, Clariant's net financial debt dropped to CHF0.3 billion at end-September 2010, down from CHF1.4 billion on the same date in 2008. Adjusted debt

846742 | 300008632

decreased over the same period to CHF1.1 billion from CHF2.1 billion. We intend, however, to further evaluate the company's policies regarding its current large cash balances, in particular as acquisition activity has picked up in the sector. Clariant's cash and short-term investments amounted to a high CHF1.27 billion at end-September 2010, compared with gross debt of CHF1.57 billion.

The factors below constrain Clariant's intermediate financial risk profile:

- Sensitivity of cash flows to economic conditions, as seen in 2009.
- Past heavy restructuring costs and future cash outlays. According to the company, profit & loss restructuring charges should come down to below CHF100 million in 2011-2013, from close to CHF260 million in 2010 (see table 1 above). Cash outlays in the 2011-2013 period should still be significant, though, at about CHF180 million, although management forecasts net cash savings from the restructuring program of CHF100 million per year post 2013.
- Material capital intensity, with capital expenditure consuming over half of FFO in the last five years. Management has indicated that about 50% of CHF300 million in capital expenditure was dedicated to maintenance.
- Perceived increased acquisition risk in the chemical industry (for further details, see "Industry Report Card: Strong Balance Sheets Place EMEA Chemical Companies Well To Pursue Acquisitions And Growth," published Jan. 4, 2011).
- Significant turnover of CEOs in past years, in part due to unsuccessful restructuring efforts, based on our understanding. The current CEO has, however, been in place since October 2008. In addition, we believe the current restructuring program should be more successful than previous ones, given its sharper focus on margins and cash generation.
- Substantial pension commitments, resulting in a CHF0.5 billion debt adjustment in 2009 (on total defined pension and other retirement benefit obligations of CHF2.0 billion at year-end 2009).

Financial Statistics/Adjustments

Clariant has reported under International Financial Reporting Standards since January 1995. Standard & Poor's made the following key adjustments to the company's reported debt figures for the fiscal year ended Dec. 31, 2009:

- We added a tax-adjusted pension deficit of CHF498 million. Clariant had CHF1,933 million in pension obligations and CHF78 million in other postretirement obligations. The market value of plan assets was about CHF1,461 million at year-end 2009.
- We added guarantees of CHF44 million at year-end 2009.
- We treat about CHF150 million of reported cash as tied to operations, but deduct the remainder (CHF990 million at year-end 2009) from gross debt.
- We now deduct all restructuring costs from EBITDA, contrary to the past, when we treated 50% of these as exceptional, consequently stripping them out.

Related Criteria And Research

Table 2

Reconciliation Of Clariant AG Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. CHF)*

	--Fiscal year ended Dec. 31, 2009--						
Clariant AG reported amounts							
	Debt	**Shareholders' equity**	**Revenues**	**Operating income (before D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**
Reported	1,685.0	1,844.0	6,647.0	263.0	73.0	757.0	757.0
Standard & Poor's adjustments							
Operating leases	121.4	--	--	8.0	8.0	42.0	42.0
Postretirement benefit obligations	498.0	(164.7)	--	33.0	23.0	--	--
Guarantees	44.0	--	--	--	--	--	--
Surplus cash and near cash investments	(990.0)	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	(488.0)
Minority interests	--	52.0	--	--	--	--	--
Disposal gains and equity income	--	--	(33.0)	(33.0)	--	--	--
Total adjustments	(326.6)	(112.7)	(33.0)	8.0	31.0	42.0	(446.0)
Standard & Poor's adjusted amounts							
	Debt	**Equity**	**Revenues**	**EBITDA**	**Interest expense**	**Cash flow from operations**	**Funds from operations**
Adjusted	1,358	1,731	6,614	271	104	799	311

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts. D&A--Depreciation and amortization. CHF--Swiss franc.

Table 3

Clariant AG Peer Comparison*

Industry Sector: Chemical Companies				
	Clariant AG	**LANXESS AG**	**Evonik Industries**	**Rhodia**
Rating on Feb. 7, 2011	BBB-/Stable/A-3	BBB/Stable/A-2	BB+/Positive/B	BB/Stable/B
(Mil.€)	--Fiscal year ended Dec. 31, 2009--			
Revenues	4,380.1	5,057.0	13,076.0	4,477.0
Net income from continuing operations	(136.4)	40.0	246.0	(101.0)
Funds from operations (FFO)	206.0	341.2	1,021.6	268.2
Capital expenditures	124.3	293.2	865.5	202.5
Free operating cash flow	404.9	287.0	1,151.1	373.6
Debt	899.6	1,117.1	6,604.8	2,344.2
Equity	1,146.6	1,549.3	5,011.0	(719.0)

Table 3

Clariant AG Peer Comparison* (cont.)

Adjusted ratios				
Operating income (before D&A)/revenues (%)	4.7	8.0	13.1	10.6
EBIT interest coverage (x)	(0.0)	1.3	1.5	0.9
EBITDA interest coverage (x)	2.6	3.5	3.2	2.4
Return on capital (%)	(0.1)	5.5	6.2	9.5
FFO/debt (%)	22.9	30.5	15.5	11.4
Free operating cash flow/debt (%)	45.0	25.7	17.4	15.9
Debt/EBITDA (x)	5.0	2.8	4.0	5.2
Total debt/debt plus equity (%)	44.0	41.9	56.9	144.2

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. Note: average exchange rate €1/Swiss franc 1.51. D&A--Depreciation and amortization.

Table 4

Clariant AG Financial Summary*

Industry Sector: Chemical Companies

	--Fiscal year ended Dec. 31--				
(Mil. CHF)	**2009**	**2008**	**2007**	**2006**	**2005**
Rating history	BBB-/Negative/A-3	BBB-/Stable/A-3	BBB/Negative/A-3	BBB/Stable/A-2	BBB/Stable/A-2
Revenues	6,614.0	8,071.0	8,533.0	8,100.0	8,181.0
Net income from continuing operations	(206.0)	(36.0)	101.0	124.0	184.0
Funds from operations (FFO)	311.0	582.8	652.3	700.2	572.3
Capital expenditures	187.6	313.2	359.6	362.0	420.3
Free operating cash flow	611.3	137.7	280.7	33.2	(61.1)
Debt	1,358.4	2,077.7	2,068.8	2,379.3	2,509.7
Equity	1,731.3	1,814.2	2,404.4	2,368.2	2,399.3
Adjusted ratios					
Operating income (before D&A)/revenues (%)	4.7	8.8	7.8	10.6	9.1
EBIT interest coverage (x)	(0.0)	2.3	2.5	3.1	2.7
EBITDA interest coverage (x)	2.6	7.2	5.3	6.2	4.2
Return on capital (%)	(0.1)	4.8	6.0	7.9	8.4
FFO/debt (%)	22.9	28.1	31.5	29.4	22.8
Free operating cash flow/debt (%)	45.0	6.6	13.6	1.4	(2.4)
Debt/EBITDA (x)	5.0	3.2	3.4	3.0	3.7
Debt/debt and equity (%)	44.0	53.4	46.2	50.1	51.1

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. D&A--Depreciation and amortization. CHF--Swiss franc.

Ratings Detail (As Of February 7, 2011)*	
Clariant AG	
Corporate Credit Rating	BBB-/Stable/A-3
Senior Unsecured (3 Issues)	BBB-
Corporate Credit Ratings History	
04-May-2010	BBB-/Stable/A-3
28-Jan-2009	BBB-/Negative/A-3

Ratings Detail (As Of February 7, 2011)*(cont.)	
14-Mar-2008	BBB-/Stable/A-3
23-Aug-2007	BBB/Negative/A-3
Business Risk Profile	Fair
Financial Risk Profile	Intermediate
Debt Maturities	
On Sept. 30, 2010: 2010: CHF105 mil. 2011: CHF166 mil. 2012: CHF249 mil. 2013: CHF783 mil. 2014: CHF269 mil. 2015 and thereafter: CHF2 mil.	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Additional Contact:
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com