Contents

Group

		1998	1997	Change
Divisional sales	CHF million	9 341	*9 912*	–6%
Sales Group[1]		9 535	*10 184*	–6%
Net income before minority interests		524	*428*	+22%
Net income and depreciation on tangible fixed assets and intangible assets		1 139	*1 031*	+10%
Total assets		9 639	10 402	–7%
Shareholders' equity		2 698	2 694	–
Investment in fixed assets		464	*473*	–2%
Personnel costs		2 117	*2 134*	–1%
Employees (at year-end)	Number	29 279	30 862	–5%
Return on sales (ROS)	%	5.5	*4.2*	+31%
Earnings per share (par value CHF 50)	CHF	36.25		+25%
(par value CHF 100)	CHF		*58.05*	
Dividend per share (par value CHF 50)	CHF	9.00[2]		+29%
(par value CHF 100)	CHF		14.00	

Italics = pro forma

1 incl. trading

2 as proposed to the General Meeting of Shareholders

Pro forma Financial Information

Consolidated Income Statements

1998 and 1997

	1998 CHF mio	%	Pro forma 1997 CHF mio	%
Sales	9 535	100.0	10 184	100.0
Cost of goods sold	–6 032		–6 656	
Gross profit	**3 503**	36.7	**3 528**	34.6
Marketing and distribution	–1 408		–1 470	
Research and development	–334		–349	
Administration and general overhead cost	–664		–679	
Operating income before amortization of goodwill	**1 097**	11.5	**1 030**	10.1
Amortization of goodwill	–40		–41	
Operating income after amortization of goodwill	**1 057**	11.1	**989**	9.7
Financial expense, net	–224		–243	
Other income and expense	–		–9	
Income before taxes and minority interests	**833**		**737**	
Taxes	–309		–309	
Income before minority interests	524	5.5	428	4.2
Minority interests	–5		–6	
Net income of the group	**519**		**422**	
Earnings per share (CHF / share)	36.25		29.03*	
Diluted earnings per share (CHF / share)	34.33		27.95*	

*In the 1997 Annual Report, the pro forma earnings per share were calculated including treasury shares. For 1998, earnings per share were calculated in accordance with IAS 33. In June 1998, shares were split at a 1:2 ratio

Pro forma Financial Information

Segment Information

1998 and 1997

Information by Division 1998 and 1997 (in CHF millions)

Division	Sales		Operating income before amortization of goodwill			
	1998	Pro forma **1997**	**1998**	% of sales	Pro forma **1997**	% of sales
Process & Performance Products	2 345	2 609	308	13.1	360	13.8
Pigments & Additives	1 882	2 006	311	16.5	258	12.9
Masterbatches	977	986	104	10.6	116	11.8
Surfactants	2 057	2 094	223	10.8	184	8.8
Fine Chemicals	1 117	1 189	105	9.4	107	9.0
Cellulose Ethers & Polymerisates	963	1 028	123	12.8	103	10.0
Total Divisions	**9 341**	**9 912**	**1 174**	12.6	**1128**	11.4
Other (mainly trading)	194	272	12	6.2	4	1.5
Corporate	–	–	–89	–	–102	–
Total Group	**9 535**	**10 184**	**1 097**	11.5	**1 030**	10.1

Information by Geographic Region 1998 and 1997 (in CHF millions)

Region	Sales			
	1998	%	Pro forma **1997**	%
Europe	5 231	55	5 433	53
USA / Canada / Latin America	2 729	29	2 857	28
Asia / Australia	1 361	14	1 668	17
Africa	214	2	226	2
Total Group	**9 535**	**100**	**10 184**	**100**

Further divisional and regional breakdown see pages 72–73

Consolidated Balance Sheets

at 31 December 1998 and 1997

		31 December **1998** CHF mio	%	31 December **1997** CHF mio	%
Assets	*				
Long-term assets					
Tangible fixed assets	3	3 899		4 453	
Intangible assets	4	743		763	
Financial assets	5	432		372	
Total long-term assets		**5 074**	52.6	**5 588**	53.7
Current assets					
Inventories	6	2 026		1 886	
Trade accounts receivable	7	1 571		1 671	
Other current assets	8	478		596	
Cash and short-term deposits		490		661	
Total current assets		**4 565**	47.4	**4 814**	46.3
Total assets		**9 639**	100.0	**10 402**	100.0

*The notes on pages 57 to 75 form an integral part of the consolidated financial statements

1998 Consolidated Financial Statements of the Clariant Group

		31 December 1998 CHF mio	%	31 December 1997 CHF mio	%
Equity and liabilities	*				
Equity					
Share capital	10	727		727	
Treasury shares (par value)		–15		–5	
Reserves		1 986		1 972	
Total equity		**2 698**	28.0	**2 694**	25.9
Minority interests		**61**	0.6	**191**	1.8
Liabilities					
Long-term liabilities					
Financial debts	11	2 974		2 731	
Deferred taxes	12	241		–33	
Other	13	553		518	
Total long-term liabilities		**3 768**		**3 216**	
Short-term liabilities					
Trade accounts payable		898		1 008	
Financial debts	14	672		1 270	
Taxes payable		48		101	
Other	15	1 494		1 922	
Total short-term liabilities		**3 112**		**4 301**	
Total liabilities		**6 880**	71.4	**7 517**	72.3
Total equity and liabilities		**9 639**	100.0	**10 402**	100.0

*The notes on pages 57 to 75 form an integral part of the consolidated financial statements

Consolidated Income Statements

for the years ended 31 December 1998 and 1997

		1998		1997	
		CHF mio	%	CHF mio	%
	*				
Sales		9 535	100.0	6 487	100.0
Cost of goods sold		–6 032		–4 148	
Gross profit		**3 503**	36.7	**2 339**	36.1
Marketing and distribution		–1 408		–982	
Research and development		–334		–223	
Administration and general overhead cost		–664		–413	
Operating income before amortization of goodwill		**1 097**	11.5	**721**	11.1
Amortization of goodwill		–40		–21	
Operating income after amortization of goodwill		**1 057**	11.1	**700**	10.8
Financial expense, net	18	–224		–157	
Other income and expense	19	–		–9	
Income before taxes and minority interests		**833**		**534**	
Taxes	20	–309		–215	
Income before minority interests		524	5.5	319	4.9
Minority interests		–5		0	
Net income of the group		**519**		**319**	
Earnings per share (CHF / share)	21	36.25		21.99	
Diluted earnings per share (CHF / share)	21	34.33		21.03	

*The notes on pages 57 to 75 form an integral part of the consolidated financial statements

1998 Consolidated Financial Statements of the Clariant Group

Consolidated Statements of Cash Flows

for the years ended 31 December 1998 and 1997

		1998		1997
		CHF mio		CHF mio
Net income		519		319
Depreciation of tangible fixed assets		554		339
Amortization of intangible assets		61		30
Change in deferred taxes		119		45
Change in long-term liabilities		19		–50
Other non-cash items		–8		201
Cash flow before changes in working capital		**1 264**		**884**
Change in inventories		–178		–82
Change in trade accounts receivable and other current assets		216		435
Change in short-term financial assets		–5		–106
Change in trade accounts payable		–93		196
Other		–464		–138
Cash flow from operating activities		**740**		**1 189**
Investment in tangible fixed assets	–464		–343	
Purchase of intangible and financial assets	–14		–32	
Sale of tangible and intangible assets	56		77	
Acquisition of companies, businesses and participations (net of cash acquired)	0		–3 430	
Acquisition of minority interests	–13		0	
Divestment of businesses	105		0	
Cash flow from investing activities		**–330**		**–3 728**
Capital increase	1		1 472	
Acquisition of treasury shares	–163		–55	
Change in long-term financial debts	247		1 082	
Change in short-term financial debts	–556		529	
Dividends paid to third parties	–102		–40	
Contribution to welfare foundation	0		–10	
Cash flow from financing activities		**–573**		**2 978**
Currency translation effect on cash and short-term deposits		–8		–9
Net change in cash and short-term deposits		**–171**		**430**
Cash and short-term deposits at the beginning of the period		**661**		**231**
Cash and short-term deposits at the end of the period		**490**		**661**

The notes on pages 57 to 75 form an integral part of the consolidated financial statements

Consolidated Statement of Changes in Equity for the years ended 31 December 1998 and 1997

in CHF mio	Share premium	Retained earnings	Cumulative translation differences	Total reserves	Total share capital	Treasury shares par value	Total equity
Balance 31 December 1996	**396**	**238**	**81**	**715**	**400**	**–**	**1 115**
Dividends to third parties		–40		–40			–40
Contribution to the Foundation for Employee Welfare of Clariant Ltd.		–10		–10			–10
Capital increase 1 July 1997	1 145			1 145	327		1 472
Purchase of treasury shares	–50			–50		–5	–55
Translation effects			–107	–107			–107
Net income		319		319			319
Balance 31 December 1997	**1 491**	**507**	**–26**	**1 972**	**727**	**–5**	**2 694**
Effect of IAS 12 revised		–193		–193			–193
Dividends to third parties		–102		–102			–102
Dividends on treasury shares		2		2			2
Exercise of conversion rights	1			1			1
Purchase of treasury shares	–153			–153		–10	–163
Translation effects			–60	–60			–60
Net income		519		519			519
Balance 31 December 1998	**1 339**	**733**	**–86**	**1 986**	**727**	**–15**	**2 698**

The notes on pages 57 to 75 form an integral part of the consolidated financial statements

1. Accounting policies

Introduction

The financial statements of the Clariant Group are prepared in accordance with the standards formulated by the International Accounting Standards Committee (IASC). The Group's financial statements have been audited by STG-Coopers & Lybrand AG, Basle.

Scope of consolidation

All companies in which Clariant Ltd., Muttenz, holds a majority equity investment and possesses the majority of the voting rights are fully consolidated.

Associated companies (investments of between 20% and 50% in a company's equity) are consolidated using the equity method where a significant influence is exercised by the Group. All other minority investments are valued at their acquisition cost less impairment in value.

Principles and method of consolidation

The financial statements of the companies included in the consolidation have been prepared, as a general rule, as of the date of the consolidated financial statements using the historical cost convention and applying uniform presentation and valuation principles.

The purchase method of accounting is used for acquired businesses.

Intercompany income and expenses including unrealized gross profits from internal Group transactions, and intercompany receivables and payables have been eliminated.

Sales are recognized when goods are delivered and services to third parties are rendered and are reported net of sales taxes and rebates.

The minority interests in the equity and the results of consolidated companies are separately disclosed in the balance sheet and income statement.

Exchange rate differences

Income, expense and cash flows of the consolidated companies have been translated into Swiss francs using the respective yearly average sales-weighted exchange rates. The balance sheets are translated using the year end exchange rates. Exchange rate differences arising from exchange rate movements compared to the prior year relating to the translation of shareholders' equity and long-term Group internal financings of consolidated companies, and differences resulting from the translation of the net income are allocated to reserves.

The exception to this is for Group companies in hyperinflationary countries, where all exchange rate differences are charged to the income statement.

Exchange rate differences on business transactions are recorded in the income statement at the approximate rate applicable at the time of the transaction.

Hyperinflationary countries

The financial statements of consolidated companies operating in highly inflationary economies are maintained using current value considerations, except in those extreme cases when the use of a functional currency different (generally US Dollar) from the local currency for the underlying accounts provides a more consistent picture of the economic situation.

Tangible fixed assets

Tangible fixed assets have been valued at historical acquisition or production costs and depreciated on a straight-line basis to the income statement, in accordance with the related Group guidelines over the following maximum estimated useful lives:

• Buildings	40 years
• Machinery and equipment	16 years
• Furniture, vehicles, computer hardware	5 to 10 years

In hyperinflationary countries, tangible fixed assets and related depreciation are indexed in accordance with inflation. Tangible fixed assets which are financed by leases giving rights to use the assets as if owned, are capitalized with their estimated present value at the inception of the lease, and depreciated over the duration of the respective lease contract.

Goodwill

Goodwill, arising when the acquisition cost of an investment is in excess of the fair value of net assets acquired, is capitalized and amortized over a period not exceeding twenty years.

Intangible assets

Other purchased intangible assets – such as patents, trademarks and other rights – are capitalized at historical cost and depreciated on a straight-line basis to the income statement over their estimated useful lives, with a maximum of ten years.

Financial assets

Associated companies are accounted for by the equity method. All other minority investments are reported at their acquisition cost and loans at their nominal value. Adjustments are made for any permanent impairment in value. The net result is included in other income and expense in the income statement.

Inventories

Purchased products are valued at acquisition cost while self-manufactured products are valued at manufacturing costs including related production expenses. Inventory held at the balance sheet date is primarily valued at standard cost, which as a general rule, approximates actual costs. This valuation method is also used for valuing the cost of goods sold in the income statement. Adjustments have been made for inventories with a lower market value or which are slow-moving. Unsaleable inventory has been fully written-off.

Trade accounts receivable

The reported values represent the invoiced amounts, less adjustments for doubtful receivables.

Marketable securities and financial instruments

Marketable security portfolios are valued at the lower of cost or market value. The result is included in net financial expense.

Financial instruments are used in the normal course of business to reduce risks arising from currency translation, interest rate or price movements. The Group manages and records centrally its cover of various positions arising from existing assets and liabilities as well as future business transactions. Transactions are only concluded with reputable international banks. The result of using financial instruments in our risk management programme is strictly monitored, checked and communicated to group management.

Financial instruments which are held for hedging purposes, principally interest rate and currency swaps, are valued using the same principles as the underlying hedged positions.

Gains and losses arising from the use of financial instruments for the purpose of hedging other financial risks are recorded in the income statement when the gains and losses arising from the underlying hedged position are recognized.

All other financial instruments are valued at fair market value with the resulting gains or losses recorded in net financial expense.

Deferred taxes

Deferred taxes have been calculated using the comprehensive liability method. These result from the timing differences that arise between the recognition of items in the balance sheets of Group companies used for tax purposes and those prepared for consolidation purposes. The withholding tax on possible distributions of retained earnings of Group companies has not been taken into account since, generally, the retained earnings are reinvested. The total deferred tax, calculated using applicable local tax rates, is included in long-term liabilities with changes in the year recorded in the income statement.

Pension fund, post-retirement and termination benefits

a Defined benefit pension plans

The liability in respect of defined benefit pension plans corresponds to the defined benefit obligation and is periodically calculated by independent actuaries. The charge for such pension plans representing the net periodic pension cost is included in personnel expenses.

b Post-retirement benefits other than pensions

Some group companies provide healthcare and life insurance benefits for the majority of their retired employees and their eligible dependents. The cost of these benefits are actuarially determined and accrued over the employees' working lives. Personnel costs and long-term liabilities include the expense and related liability, respectively.

c Termination benefits

These are provided in accordance with the legal requirements of certain countries.

Research and development

With the exception of fixed assets used for research and development, which are capitalised and written off over their estimated useful life, research and development costs are charged to the income statement in the period during which they are incurred.

2. Change in the scope of consolidation

As a part of the acquisition of the Specialty Chemicals business of the Hoechst Group, InfraServ Ltd Gendorf, Germany was initially accounted for as a fully consolidated subsidiary . The company is a provider of infrastructure services in the industrial park of Gendorf. A reassessment of the contract showed that due to limitations concerning control of the enterprise, full consolidation was not justified. For this reason, the accounting for the participation in InfraServ Ltd. Gendorf was changed in the 1998 year-end statement, and since 1 January 1998, the company is accounted for as a shareholding valued at equity. In the consolidated balance sheet of 31 December 1997, the following amounts pertaining to InfraServ Gendorf were included:

	CHF mio
Long-term assets	263
Current assets	39
Liabilities	35
Equity	267

The effect on the income statement is not material. 1 305 people were employed at the end, of 1997.

Effective 31 December 1998 the superabsorber business, a part of the surfactants division, was divested in an asset deal. Sales in 1998 were CHF 288 million and are included in the income statement.

Calculation of Goodwill

In the course of the legal transfer of some companies and assets in 1998, the calculation of the goodwill has been adapted.

	31.12.1998 (DEM 100.– = CHF 83.805)		31.12.1997 (DEM 100.– = CHF 83.805)	
	DEM mio	CHF mio	DEM mio	CHF mio
Purchase price	**5 400**	**4 525**	**5 400**	**4 525**
Net assets brought in from Hoechst	–3 991	–3 345	–3 991	–3 345
Goodwill resulting from purchase	**1 409**	**1 180**	**1 409**	**1 180**
Provisions for restructuring	1 167		1 167	
Deferred tax	–467	700	–467	700
Acquisition related costs net		24		24
Subtotal		**1 904**		**1 904**
FX variances, changes in the purchase price and in net assets acquired		–225		–56
Revaluation of fixed assets in accordance with IAS	–1 326*		–1 524*	
Deferred tax	322	–1 004	326	–1 198
Total Goodwill		**675**		**650**

31.12.1998: *of which CHF 549 million is attributable to revaluation of Land

31.12.1997: *of which CHF 737 million is attributable to revaluation of Land

Based on the strategic significance of the acquisition for Clariant, goodwill is being amortized over a period of 20 years.

3. Tangible fixed asset movements

in CHF mio	Land	Buildings	Machinery and equipment	Furniture, vehicles computer hardware	Plant under construction	Total 1998	Total 1997
Costs							
at 1 January	808	2 330	5 687	813	256	9 894	2 348
Changes in consolidation scope*	–176	–155	–153	–66	–18	–568	7 772
Additions and reclassifications	10	123	254	45	32	464	343
Disposals	–6	–59	–230	–59	–8	–362	–281
Translation effects	–3	–32	–32	–9	–8	–84	–288
at 31 December	**633**	**2 207**	**5 526**	**724**	**254**	**9 344**	**9 894**
Accumulated depreciation							
at 1 January	–	–1 076	–3 798	–567	–	–5 441	–1 206
Change in consolidation scope*	–	115	133	59	–	307	–4 239
Additions and reclassifications	–	–145	–336	–73	–	–554	–339
Disposals	–	12	140	53	–	205	204
Translation effects	–	15	16	7	–	38	139
at 31 December	**–**	**–1 079**	**–3 845**	**–521**	**–**	**–5 445**	**–5 441**
Book value at 31 December	**633**	**1 128**	**1 681**	**203**	**254**	**3 899**	**4 453**
Insured value at 31 December						**14 068**	**13 722**

*1998 mainly InfraServ GmbH & Co. Gendorf KG

The capitalised cost of tangible fixed assets under lease contracts at 31 December 1998 amounts to CHF 10 million with a book value of CHF 4 million (1997: CHF 9 million, and CHF 4 million respectively).

4. Intangible asset movements

in CHF mio	Goodwill	Other	Total 1998	Total 1997
Costs				
at 1 January	736	69	805	46
Change in consolidation scope	–	–	–	737
Additions	38*	14	52	32
Disposals	–	–10	–10	–2
Translation effects	–	–	–	–8
at 31 December	**774**	**73**	**847**	**805**
Accumulated amortization				
at 1 January	–22	–20	–42	–4
Change in consolidation scope	–	–	–	–12
Amortization	–40	–21	–61	–30
Disposals	–	2	2	2
Translation effects	–2	–1	–3	2
at 31 December	**–64**	**–40**	**–104**	**–42**
Book value at 31 December	**710**	**33**	**743**	**763**

*CHF 25 million of the total pertains to an increase in the goodwill associated with the acquisition of the Hoechst Specialty Chemicals business

5. Financial assets

	31.12.1998 CHF mio	31.12.1997 CHF mio
Investments in associated companies	417	349
Other investments	15	23
Total	**432**	**372**
Income from investments in associated companies	57	13

6. Inventories

	31.12.1998 CHF mio	31.12.1997 CHF mio
Raw material, consumables, work in progress	711	697
Finished products	1 315	1 189
Total	**2 026**	**1 886**

7. Trade accounts receivable

	31.12.1998 CHF mio	31.12.1997 CHF mio
Receivables gross	1 707	1 754
Provision for doubtful receivables	–136	–83
Total net	**1 571**	**1 671**

8. Other current assets

	31.12.1998 CHF mio	31.12.1997 CHF mio
Other receivables	355	514
Short-term financial assets	18	12
Prepaid expenses / accrued income	105	70
Total	**478**	**596**

9. Financial instruments

31.12.1998 in CHF mio	Contract volume	Replacement Value +	Replacement Value –
Hedging activities			
Foreign currency instruments	981	50	22
Interest rate instruments	1 386	73	8
Trading activities			
Forward exchange contracts	17	0	0

All financial instruments fall due between 1999 and 2007.

Additionally, written call options for 86,000 registered shares of Clariant Ltd with a strike price of CHF 750 per share were not yet executed as of 31 December 1998.

10. Changes in share capital and treasury shares

Registered shares each with a par value of CHF 50 (1997: CHF 100)

	Number of shares	Par value CHF mio
at 31 December 1997	**7 272 000**	**727**
Share split 1:2, change of par value from CHF 100 to CHF 50 per share	14 544 000	
Increase of share capital by conversion of bonds	1 636	
at 31 December 1998	**14 545 636**	**727**
Treasury shares	–304 466	–15
Outstanding Capital 31. December 1998	**14 241 170**	**712**

Treasury shares (number of shares with a par value of CHF 50 each)

	1998	1997
Holdings on 1 January	**95 960**	**0**
Shares purchased at fair market value	218 680	95 960
Shares sold at fair market value	–10 174	
Holdings on 31 December	**304 466**	**95 960**

11. Long-term financial debts

		31.12.1998 CHF mio	31.12.1997 CHF mio
Convertible Bond 1% convertible bonds 1997 – 2002 of CHF 456 million issued on 19 August 1997. The issue price was 100% of the principal amount. A disclosure according to IAS 32 has not been presented. Bonds with a CHF 5,000 nominal value can be converted into 8.7719 registered shares of Clariant AG during the period from 19 August 1997 to 19 August 2002, respectively until the early redemption date. Early redemption by Clariant is possible: – to 100% after 3 years (19 August 2000) – to 100% at anytime, if more than 95% of the original nominal value has been converted. As of 31 December 1998 bonds with a nominal value of CHF 935,000 were converted in shares.		455	456
Straight Bonds 4¼% bonds 1995–2000 of CHF 150 million issued on 18 October 1995 by Clariant Ltd., Muttenz. The issue price was 102% of the principal amount. Maturity is on 18 October 2000 at 100%, with earlier redemption not possible.		150	150
4⅝% bonds 1996–2003 of CHF 150 million issued on 29 July 1996 by Clariant Ltd., Muttenz. The issue price was 101⅝% of the principal amount. Maturity is on 29 July 2003 at 100%, with earlier redemption not possible.		150	150
4⅛% bonds 1996–2006 of CHF 200 million issued on 29 November 1996 by Clariant Ltd., Muttenz. The issue price was 101⅞% of the principal amount. Maturity is on 29 November 2006 at 100%, with earlier redemption not possible.		200	200
3⅜% bonds 1997–2004 of CHF 300 million issued on 27 August 1997 by Clariant Ltd., Muttenz. The issue price was 101⅝% of the principal amount. Maturity is on 27 August 2004 at 100%, with earlier redemption not possible.		300	300
3¾% bonds 1997–2007 of CHF 200 million issued on 27 August 1997 by Clariant Ltd., Muttenz. The issue price was 101¼% of the principal amount. Maturity is on 27 August 2007 at 100%, with earlier redemption not possible.		200	200
3% bonds 1998–2005 of CHF 250 million issued on 3 March 1998. The issue price was 101.50% of the principal amount. Maturity is on 3 March 2005 at 100%, with earlier redemption not possible.		250	
Liabilities to banks and other financial institutions		**1 276**	**1 287**
Obligations under finance leases		**1**	**3**
Subtotal		**2 982**	**2 746**
Less current portion		**–8**	**–15**
Total		**2 974**	**2 731**
Breakdown by maturity	1999	–	19
	2000	249	227
	2001	12	9
	2002	466	464
	2003	167	–
	thereafter	2 080	2 012
Total		**2 974**	**2 731**
Breakdown by currency	CHF	1 948	1 694
	DEM*	626	
	USD*	324	
	Other	76	1 037
Total		**2 974**	**2 731**
Total value of the security given, usually against tangible fixed assets		145	363
Total secured long-term financial debts		50	45

*1997 included in "Other"

12. Deferred taxes

	31.12.1998 CHF mio	31.12.1997 CHF mio
Deferred tax liabilities associated with:		
Tangible and intangible asset depreciation and amortization	683*	501
Prepaid pensions	1	–
Other accruals and provisions	127	125
Total	**811**	**626**
Deferred tax assets associated with:		
Tangible and intangible asset depreciation and amortization	46	58
Employee benefit liabilities	59	8
Other accruals and provisions	465	593
Total	**570**	**659**
Net deferred tax liability (asset)	**241**	**–33**

IAS 12 (revised) was adopted during 1998. The effect (*) of applying IAS 12 (revised) resulted in an increase in deferred tax liabilities of CHF 193 million at 1 January 1998. It would be impractical to restate the prior period values accordingly.

13. Other long-term liabilities

	31.12.1998 CHF mio	31.12.1997 CHF mio
Pension and termination benefit plans	246	235
US post-retirement benefits	91	93
Other	216	190
Total	**553**	**518**

14. Short-term financial debts

	31.12.1998 CHF mio	31.12.1997 CHF mio
Banks and other financial institutions (including employees' accounts)	664	1 255
Current portion of long-term financial debts	8	15
Total	**672**	**1 270**

15. Other short-term liabilities

	31.12.1998 CHF mio	31.12.1997 CHF mio
Other taxes	1	9
Provisions for restructuring costs	657	978
Accrued expenses	452	568
Provision for personnel costs	182	157
Other payables	202	210
Total	**1 494**	**1 922**

16. Pension and termination benefit plans

The Group has, apart from the legally required social security schemes, numerous independent pension plans. The assets are principally held externally. For certain Group companies, however, no independent assets for the pension benefit obligations exist. In these cases, a related liability has been created, which is included in the balance sheet under other long-term liabilities.

Defined benefit pension plans cover more than 60% of the Group's employees. In 1998, the defined benefit obligations and related assets of most plans have been recalculated. Future obligations and the corresponding assets of those plans considered as defined benefit plans under IAS 19 are recalculated on a regular basis and are audited by independent parties. All pension plan assets are valued at fair market value. All pension plan obligations are sufficiently funded by assets.

The following is a summary of the status of the plans:

	31.12.1998 CHF mio	31.12.1997 CHF mio
Assets of independent pension plans	964	893
Provisions for pension and termination benefits included in the Group balance sheet under other long-term liabilities	246	235
Sub-total	**1 210**	**1 128**
Present value of the anticipated benefits of active and retired employees	–1 009	–974
Surplus	**201**	**154**

US employees formerly with the Hoechst Specialty Chemicals business and now transferred to Clariant remain insured with Hoechst for their retirement benefit claims incurred prior to 30 June 1997.

The following are the principal assumptions used in calculating the defined benefit obligation of defined benefit plans:

Weighted average %

	1998	1997
Discount rate	5.0	5.3
Inflation rate	2.2	3.5
Return on assets	5.6	5.9

Contributions to Group defined benefit plans during 1998 totaled CHF 55 million; contributions to defined contribution plans equaled CHF 25 million. There exists a provision in the amount of CHF 91 million for additional benefits (medical etc.) related to US and Canadian employees.

17. Stock option plan

In 1996, a stock option plan for employees was introduced by the Clariant Group. As of the end of 1998, 6,698 registererd shares and 36,732 options have been issued. Shares to cover the options issued are held by an external fund.

18. Financial expense, net

	1998 CHF mio	1997 CHF mio
Interest income	40	24
Interest expense	–238	–144
Exchange rate differences	–26	–37
Total	**–224**	**–157**

19. Other income and expense

	1998 CHF mio	1997 CHF mio
Other income	–	3
Other expense	–	–12
Total	**–**	**–9**

20. Taxes

	1998 CHF mio	1997 CHF mio
Current income taxes	–190	–170
Deferred income taxes	–119	–45
Total	**–309**	**–215**

Tax expense on the consolidated earnings before taxes differs from the maximum Swiss tax rate applicable to corporations domiciled in Switzerland as follows:

	1998	1997
Maximum Swiss tax rate	24.8%	24.8%
Effect of different tax rates in other countries	22.1%	22.0%
Effect of expenses which are additionally tax deductible	–7.3%	–5.7%
Effect of previously unrecognised tax losses	–0.3%	–0.9%
Other items	–2.2%	0.1%
Effective tax rate	37.1%	40.3%

No material tax losses were used to reduce deferred tax liabilities. Tax losses and tax credits on which no deferred tax was calculated are as follows:

	31.12.1998 CHF mio	31.12.1997 CHF mio
Unrecognised tax losses	85	n.a.
Unrecognised tax credits	25	9

All tax losses and tax credits presented expire between 1999 and 2005.

21. Earnings per share (EPS)

Earnings per share are calculated by dividing the group net income by the average outstanding number of shares (issued shares minus treasury shares). The average number of shares outstanding for 1998 was 14,329,503 (1997 taking into account the split in June 1998: 14,522,273). Earnings per share amounted to CHF 36.25 (1997: CHF 21.99). Diluted earnings per share takes into account the potential shares that will be issued on full conversion of the convertible bonds of 19 August 1997 of Clariant AG. The average number of shares used in the diluted earnings per share was 15,127,867 (1997: 14 788 936). Diluted earings per share amounted to CHF 34.33 (1997: CHF 21.03).

22. Personnel expense

	1998 CHF mio	1997 CHF mio
Wages and salaries	–1 629	–1 021
Pension and social security costs	–488	–347
Total	**–2 117**	**–1 368**

23. Divisional breakdown of key figures 1998 and 1997 (in CHF million)

Division	Sales[1]		Operating income before amortization of Goodwill[1]		Net operating assets at 31.12.[2]	
	1998	1997	1998	1997	1998	1997
Process & Performance Products	2 345	2 240	308	329	1 856	*
Pigments & Additives	1 882	1 162	311	172	1 344	*
Masterbatches	977	741	104	84	460	*
Surfactants	2 057	1 063	223	94	1 113	*
Fine Chemicals	1 117	610	105	66	1 375	*
Cellulose Ethers & Polymerisates	963	531	123	56	633	*
Total Divisions	**9 341**	**6 347**	**1 174**	**801**	**6 781**	*****
Other (mainly trading)	194	140	12	6	89	*
Corporate	–	–	–89	–86	–955	*
Total Group	**9 535**	**6 487**	**1 097**	**721**	**5 915**	**6 225**

Division	Investment in tangible fixed assets		Depreciation and amortization of tangible and intangible fixed assets	
	1998	1997	1998	1997
Process & Performance Products	68	*	139	*
Pigments & Additives	72	*	86	*
Masterbatches	35	*	34	*
Surfactants	69	*	96	*
Fine Chemicals	119	*	140	*
Cellulose Ethers & Polymerisates	81	*	44	*
Total Divisions	**444**	*****	**539**	*****
Other (mainly trading)	1	*	7	*
Corporate	19	*	69	*
Total Group	**464**	**343**	**615**	**369**

1 Comparison to Pro forma 1997 see page 51

2 Within Net Operating Assets, fixed assets including infrastructure, inventory, trade payables and receivables were allocated to each division. All other balance sheet positions generally included in the calculation of Net Operating Assets, particularly Goodwill, were allocated to Corporate

* not available

24. Regional breakdown of key figures 1998 and 1997 (in CHF million)

Region	Sales[1]		Operating income before amortization of Goodwill[2]		Number of employees at 31.12.	
	1998	1997	1998	1997	1998	1997
Europe	5 231	3 327	780	529	17 069	18 184*
USA / Canada / Latin America	2 729	1 894	197	100	6 153	6 595
Asia / Africa / Australia	1 575	1 266	120	92	6 057	6 083
Total Group	**9 535**	**6 487**	**1 097**	**721**	**29 279**	**30 862***

Region	Investments in tangible fixed assets		Depreciation of tangible fixed assets		Net operating assets at 31.12.[3]	
	1998	1997	1998	1997	1998	1997
Europe	287	198	391	235	3 654	3 808
USA / Canada / Latin America	125	68	123	78	1 275	1 441
Asia / Africa / Australia	52	77	40	26	986	976
Total Group	**464**	**343**	**554**	**339**	**5 915**	**6 225**

* incl. 1,305 employees of InfraServ GmbH & Co., Gendorf KG

1 allocated by region of third party sale's destination

2 allocated by region of production and selling entity

3 long-term and current assets (excluding cash and short-term deposits) less non-interest bearing liabilities

25. Commitments and contingencies

Contingencies

In the course of normal business, affiliated companies may be involved in administrative proceedings and in litigation as a result of which claims are being made against them.

In the opinion of Group management, however, the outcome of the actions referred to will not materially affect the Group's financial position.

Leasing commitments

Commitments arising from fixed-term operational leases mainly from InfraServ companies, at 31 December are as follows:		1998 CHF mio	1997 CHF mio
	1998	–	100
	1999	64	89
	2000	61	80
	2001	52	78
	2002	46	78
	2003	42	–
	thereafter	6	74
Total		**271**	**499**

26. Affiliates, joint ventures and associated companies

The principal affiliates, joint ventures and associated companies are listed on pages 84 to 85.

27. Related party transactions

The Clariant Group maintains business relations based on the "arm's length principle" with the following related parties: Hoechst Group, InfraServ companies in Germany (industrial parks operated jointly with companies of the Hoechst Group and third parties), Harco Harlow Chemical Company Ltd., England, Hoechst-Gosei K.K., Japan, Perstorp-Clariant AB, Sweden.

28. Exchange rates of principal currencies

Rates used to translate the consolidated balance sheets (closing rate)

		31.12.1998	31.12.1997
1	USD	1.38	1.46
100	DEM	82.24	81.25
100	FRF	24.51	24.27
1	GBP	2.28	2.41
1 000	ITL	0.83	0.83
100	JPY	1.21	1.12
100	BEF	3.98	3.94
100	ESP	0.97	0.96

Average sales-weighted rates used to translate the consolidated income statements and consolidated statements of cash flow:

		1998	1997
1	USD	1.45	1.45
100	DEM	82.39	83.78
100	FRF	24.57	24.88
1	GBP	2.40	2.37
1 000	ITL	0.83	0.85
100	JPY	1.11	1.20
100	BEF	3.98	4.06
100	ESP	0.97	0.99

29. Events occurring subsequent to the balance sheet date

As of 1 January 1999, Clariant acquired the worldwide Hydrocerol® business from Boehringer Ingelheim. In addition to the actual business activities, the production site for Hydrocerol® in Winchester VA (USA) including staff is transferred to Clariant. The Hydrocerol® production in Ingelheim on the Rhine (Germany) will be transferred along with a part of the staff to a different site within the Clariant Group. Sales of Hydrocerol® amounted to DEM 40 million in 1998.

Clariant has signed an agreement to establish a joint-venture with Sang Ho Mercantile Co. Ltd, one of Korea's foremost producers of plastic compounds domiciled in Yangsan, Province of Kyongnam. Clariant's share in this joint-venture, which will be operating worldwide under the name of Sang Ho Mercantile Co. Ltd, amounts to 55% and will be fully consolidated in the Clariant Group accounts as from 1 January 1999 onwards. Sang Ho Mercantile Co. Ltd. has 130 employees and generated sales in the amount of USD 13 million in 1998.

In February 1999 Clariant signed an agreement with the present joint-venture partner Nippon Gohsei to acquire the remaining 50% participation of Hoechst Gosei K.K., Japan. Hoechst Gosei K.K., to be renamed after the transaction to Clariant Polymers K.K., has 170 employees and generated 1998 sales of more than USD 60 million.

PRICEWATERHOUSECOOPERS

Report of the Group Auditors to the General Meeting of Shareholders of Clariant Ltd., Muttenz

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes – pages 52 to 75) of the Clariant Group for the year ended 31 December 1998.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Accounting Standards (IAS) issued by the International Accounting Standards Committee, and comply with the the law and the provisions as contained in the Listing Rules of the Swiss Exchange.

We recommend that the consolidated financial statements submitted to you be approved.

STG-Coopers & Lybrand AG

U. Vogt Dr. R. Gerber

Basle, 12 April 1999

Five year Group Summary 1994–1998

		1998	1997 Pro forma	1996 Pro forma	1996	1995 Pro forma	1994 Pro forma
Divisional sales	CHF million	9 341	9 912	8 276			
Change relative to preceding year							
in Swiss Francs	%	–6	20	–			
in local currency	%	–1	13	–			
Group Sales[1]	CHF million	9 535	10 184	8 902	2 337	2 145	2 333
Change relative to preceding year							
in Swiss Francs	%	–6	14	–	9	–8	–5
in local currency	%	–2	*	–	7	3	2
Operating income before amortization of goodwill	CHF million	1 097	1 030	614	*	*	*
Change relative to preceding year	%	7	68	–	*	*	*
as a % of sales		11.5	10.1	6.9	*	*	*
Operating income after amortization of goodwill	CHF million	1 057	989	510	235	211	214
Change relative to preceding year	%	7	94	–	11	–1	1
as a % of sales		11.1	9.7	5.7	10.1	9.8	9.2
EBITDA	CHF million	1 672	1 592	1 115	*	*	*
Change relative to preceding year	%	5	43	–	*	*	*
as a % of sales		17.5	15.6	12.5	*	*	*
Net income before minority interests	CHF million	524	428	126	137	106	103
Change relative to preceding year	%	22	240	–	29	3	*
as a % of sales		5.5	4.2	1.4	5.9	4.9	4.4
Investment in fixed assets	CHF million	464	473	566	98	89	118
Change relative to preceding year	%	–2	–16	–	10	–25	–11
as a % of sales		5	5	6	4	4	5
Personnel costs	CHF million	2 117	2 134	–	545	525	580
Change relative to preceding year	%	–1	*	–	4	–9	–3
as a % of sales		22	21	–	23	24	25
Employees at year end	number	29 279	30 862	32 505	8 554	8 410	8 678
Change relative to preceding year	%	–5	–5	–	2	–3	–2

* not available

1 incl. trading

Trend in Group Sales by Business Sector / Division

	1998		1997		1996		1996		1995		1994	
			Pro forma		Pro forma				Pro forma		Pro forma	
	CHF mio	%	CHF mio	%	CHF mio	%	CHF mio	%	CHF mio	%	CHF mio	%
Business sector												
Textile Dyes							663	29	643	30	770	33
Textile Chemicals							347	15	323	15	342	15
Leather							240	10	211	10	235	10
Paper							326	14	299	14	287	12
Pigments/Additives							261	11	241	11	252	10
Masterbatches							401	17	326	15	342	15
Others							99	4	102	5	105	5
Total							**2 337**	100	**2 145**	100	**2 333**	100
Division												
Process & Performance Prod.	2 345	25	2 609	26	2 235	27						
Pigments & Additives	1 882	20	2 006	20	1 651	20						
Masterbatches	977	11	986	10	818	10						
Surfactants	2 057	22	2 094	21	1 706	20						
Fine Chemicals	1 117	12	1 189	12	980	12						
Cellulose Ethers & Polymerisates	963	10	1 028	11	886	11						
Total Divisions	**9 341**	100	**9 912**	100	**8 276**	100						
Other (mainly trading)	194	–	272	–	626	–						
Total Group	**9 535**	–	**10 184**	–	**8 902**	–						

Trend in Group Sales by Region

	1998		1997		1996		1996		1995		1994	
			Pro forma		Pro forma				Pro forma		Pro forma	
	CHF mio	%	CHF mio	%	CHF mio	%	CHF mio	%	CHF mio	%	CHF mio	%
Region												
Europe	5 231	55	5 433	53	*	–	1 026	44	936	44	958	41
USA / Canada / Latin America	2 729	29	2 857	28	*	–	758	32	694	32	811	35
Asia / Australia	1 361	14	1 668	17	*	–	485	21	453	21	498	21
Africa	214	2	226	2	*	–	68	3	62	3	66	3
Total	**9 535**	100	**10 184**	100	**8 902**	100	**2 337**	100	**2 145**	100	**2 333**	100

* not available

Investments by Region

	1998 CHF mio	%	1997 Pro forma CHF mio	%	1996 Pro forma CHF mio	%	1996 CHF mio	%	1995 Pro forma CHF mio	%	1994 Pro forma CHF mio	%
Region												
Europe	287	62	287	61	*	–	45	46	50	56	62	53
USA / Canada / Latin America	125	27	84	18	*	–	22	22	25	28	42	35
Asia / Australia	51	11	100	21	*	–	31	32	14	16	14	12
Africa	1	0	2	0	*	–	–		–		–	
Total	**464**	100	**473**	100	**566**	100	**98**	100	**89**	100	**118**	100

* not available

Trend in Group Personnel Employed by Region

	31.12.1998 Number	%	31.12.1997 Number	%	31.12.1996 Pro forma Number	%	31.12.1996 Number	%	31.12.1995 Number	%	31.12.1994 Number	%
Region												
Europe	17 069	58	18 184	59	18 906	58	4 255	50	4 197	49	4 241	49
USA / Canada / Latin America	6 153	21	6 595	21	7 470	23	2 607	30	2 560	31	2 812	32
Asia / Australia	5 605	19	5 623	18	5 621	17	1 598	19	1 558	19	1 538	18
Africa	452	2	460	2	508	2	94	1	95	1	87	1
Total	**29 279**	100	**30 862**	100	**32 505**	100	**8 554**	100	**8 410**	100	**8 678**	100

Share Information*

	31.12.1998	31.12.1997	31.12.1996
Number of registered shares issued (at par value CHF 50 each)	14 545 636**	14 544 000	8 000 000
Number of shares created by conversion within the limits of the conditional capital	1 636**	0	
Number of shares eligible for dividend	14 545 636	14 544 000	8 000 000
Dividend per share in CHF	9.00***	7.00	5.00
Year-end price in CHF	642	610	286.50
Stock exchange capital in CHF mio	9 338	8 872	2 292
High / low in CHF	1 054 / 540	627.50 / 280	293 / 183.50

* all quotations were adapted to the share split 1:2 of June 1998 (every registered share with a par value of CHF 100 each was split into two registered shares with a par value of CHF 50 each), therefore the values are comparable

** the 1,636 shares are already included in the total of 14,545,636 as on 31 December 1998

*** according to the resolution of the Board of Directors

Shareholders' structure according to number of shares held

Number of shares	31 December 1998 Number of shareholders	in %	Number of shares	in %
1 – 99	18 741	74.6	602 128	4.1
100 – 999	5 838	23.3	1 240 555	8.5
1 000 – 9 999	474	1.9	1 128 843	7.8
10 000 and more	64	0.2	8 861 235	60.9
Total registered shares			**11 832 761**	81.3
Shares not registered	–	–	2 712 875	18.7
Total	**25 117**	100.0	**14 545 636**	100.0

Shareholder's structure according to regions

Regions	31 December 1998 Number of shareholders	in %	Number of shares	in %
Switzerland	23 626	94.1	4 409 086	30.3
Europe	1 309	5.2	7 264 985	49.9
Outside of Europe	182	0.7	158 690	1.1
thereof USA	*69*	*0.3*	*122 102*	*0.8*
Shares not registered	–	–	2 712 875	18.7
Total	**25 117**	100.0	**14 545 636**	100.0

Shareholders holding 5% and more of the shares issued

Frankfurter Spezialchemikalien Vermögensverwaltungs GmbH & Co. KG., a 100% owned subsidiary of Hoechst Ltd, Frankfurt	6 544 000 shares

On 29 April 1997, the General Meeting of Shareholders of Clariant Ltd approved the following statutory regulations:

- Limitation of voting rights to 10% of the share capital, respectively 33.4% of the votes represented at the General Meeting (the latter for decisions under Article 704 Swiss Code of Obligations)
- Opting up to 49% for the mandatory offer as regulated by Article 32 of the Federal Law on Stock Exchanges and Securities Trading (Bundesgesetz über die Börsen und den Effektenhandel, BEHG)

Principal Companies of the Clariant Group

Affiliated companies and other holdings as at 31 December 1998

Although the economic transfer has taken place, the Hoechst companies marked with an asterisk could still not be transferred to Clariant under national civil law in 1998.

		Participation	Holding/Finance	Sales	Production	Research
Argentina	Clariant (Argentina) S.A., Buenos Aires	●		●	●	
Australia	Clariant (Australia) Pty. Ltd., Melbourne	●		●	●	
Austria	Clariant (Oesterreich) GmbH, Vienna	●		●	●	
Belgium	Clariant (Benelux) S.A., Louvain-La-Neuve	●		●	●	●
Brazil	Clariant S.A., São Paulo and Resende	●		●	●	
Canada	Clariant (Canada) Inc., Québec	●		●	●	
Chile	Clariant Colorquímica (Chile) Ltda., Santiago de Chile	●		●	●	
China	Clariant (Tianjin) Ltd., Tianjin	●		●	●	
	Clariant Chemicals (China) Ltd., Shanghai	●		●	●	
	Clariant (China) Ltd., Hong Kong	●		●	●	
	* Clariant Guangzhou Masterbatch Ltd., Guangzhou	▼		●	●	
	* Clariant (Tianjin) Pigments Co.Ltd., Tianjin	▼		●	●	
	Tianjin Hua Shi Chemicals Co. Ltd., Tianjin	■		●	●	
Colombia	Clariant (Colombia) S.A., Santa Fé de Bogotá	●		●	●	
Czech Republic	Clariant CR s.r.o., Prague	●		●		
Denmark	Clariant (Danmark) A/S, Karise	●		●	●	
Ecuador	Clariant (Ecuador) S.A., Quito	●		●		
Egypt	* Clariant (Egypt) S.A.E., Cairo	▼		●	●	
	* The Egyptian German Company for Dyes and Resins S.A.E., Cairo	●		●	●	
Finland	Clariant (Finland) Oy, Helsinki	●		●		
France	Clariant Huningue S.A., Huningue	●		●	●	●
	Clariant (France) S.A., Paris La Défense	●		●	●	●
Germany	Clariant Verwaltungsges. mbH, Leinfelden-Echterdingen	●	●			
	Clariant (Deutschland) GmbH, Leinfelden-Echterdingen	●		●	●	●
	Clariant GmbH, Frankfurt	●		●	●	●
	Clariant Masterbatch GmbH & Co. OHG, Lahnstein	●		●	●	●
Great Britain	Clariant Holdings UK Ltd., Horsforth/Leeds	●	●			
	Clariant UK Ltd., Horsforth/Leeds	●		●	●	●
	TR Oil Services Ltd., Stockport	●		●	●	
	RV Chemicals Ltd., Horsforth/Leeds	●		●	●	
Greece	Clariant (Hellas) S.A., Lykovrisi	●		●	●	
Guatemala	Clariant (Guatemala) S.A., Guatemala City	●		●	●	
Hungary	Clariant Hungaria Kft, Budapest	●		●		
India	Clariant (India) Ltd., Mumbai	▼		●	●	
	* Colour-Chem Ltd., Mumbai	▼		●	●	
Indonesia	P.T. Clariant Indonesia, Tangerang	●		●	●	
	P.T. Pulosynthetics, Jakarta	▼		●	●	
Ireland	Masterplast Ltd., Naas	●		●	●	

Clariant

● above 90%
▼ above 50 and up to 90%
■ 50% and below
1 Management and Support

		Participation	Holding/Finance	Sales	Production	Research
Italy	Clariant (Italia) S.p.A.. Milan	●		●	●	●
Japan	Clariant (Japan) K.K., Tokyo	●		●	●	●
	Clariant Tokuyama Ltd., Tokyo	▼		●	●	
Kenya	Clariant (Eastern Africa) Ltd., Nairobi	●		●	●	
Korea	Clariant (Korea) Ltd., Seoul	●		●		
	Clariant Industries (Korea) Ltd., Seoul	▼		●	●	
Malaysia	Clariant (Malaysia) Sdn. Bhd., Shah Alam	●		●	●	
Mexico	Clariant (México) S.A. de C.V., Naucalpan de Juárez	●		●	●	
	Clariant Productos Químicos S.A. de C.V., Santa Clara	●		●	●	
Morocco	Clariant (Maroc) S.A., Casablanca	●		●	●	
Netherlands	Mare Chemicals Vlissingen B.V., Vlissingen	●			●	
	Dick Peters B.V., Denekamp	●		●	●	
New Zealand	Clariant (New Zealand) Ltd., Takapuna-Auckland	●		●	●	
Nigeria	Clariant (Nigeria) Ltd., Ikeja-Lagos	▼		●	●	
Norway	Clariant (Norge) AS, Oslo	●		●		
Pakistan	Clariant (Pakistan) Ltd., Karachi	▼		●	●	
Peru	Clariant (Perú) S.A., Lima	●		●	●	
Philippines	Clariant (Philippines) Corp., Makati City-Manila	●		●		
Poland	Clariant Polska Sp. z.o.o., Warsaw	●		●		
Portugal	Clariant Químicos (Portugal) Lda., Porto	●		●	●	
Singapore	Clariant (Singapore) Pte. Ltd., Singapore	●		●	●	
South Africa	Clariant Southern Africa (Pty) Ltd., Weltevreden Park	●		●	●	
Spain	Clariant Productos S.A., El Prat de Llobregat	●		●	●	●
	Clariant Ibérica S.A., Barcelona	●		●		
	Clariant Especialidades Químicas S.L., Barcelona	●		●	●	
	Disper S.A., Sant Andreu de la Barca	●		●	●	
Sweden	Clariant (Sverige) AB, Mölndal	●		●	●	
Switzerland	Clariant International AG, Muttenz	●	● [1]			
	Clariant (Schweiz) AG, Muttenz	●		●	●	●
Taiwan	Clariant (Taiwan) Co. Ltd., Taipei	●		●		
Thailand	Clariant Products Ltd., Bangkok	●			●	
	Clariant Chemicals Ltd., Bangkok	■		●		
	Clariant Emulsions (Thailand) Ltd., Bangkok	▼		●	●	
	Drycolor Pacific Co. Ltd., Bangkok	●		●	●	
Tunisia	Clariant Tunisie S.A., Cherguia-Tunis	■		●		
Turkey	Clariant A.S., Istanbul	●		●	●	
Uruguay	Clariant (Uruguay) S.A., Montevideo	●		●		
USA	Clariant Corporation, Charlotte, N.C.	●		●	●	●
Venezuela	Clariant (Venezuela) S.A., Caracas	●		●	●	

Clariant Ltd. Balance Sheets (prior to profit appropriation)

at 31 December 1998 and 1997

	31 December **1998** CHF	%	31 December **1997** CHF	%
Assets				
Financial assets	4 924 102 533		4 179 006 201	
Total long-term assets	**4 924 102 533**	91.3	**4 179 006 201**	78.8
Current assets				
Receivables from Group companies	39 208 552		653 789 227	
Other receivables	12 730 525		20 333 397	
Accrued income	27 425 724		24 982 303	
Cash, marketable securities and short-term deposits	391 027 012		427 781 195	
Total current assets	**470 391 813**	8.7	**1 126 886 122**	21.2
Total assets	**5 394 494 346**	100.0	**5 305 892 323**	100.0

The notes on pages 90 to 95 form an integral part of the financial statements

Clariant

1998 Financial Statements of Clariant Ltd., Muttenz

	31 December 1998 CHF	%	31 December 1997 CHF	%
Equity and liabilities				
Equity				
Total share capital	**727 281 800**		**727 200 000**	
Reserves				
Legal reserves	1 309 333 778		1 484 988 500	
Reserve for treasury shares	231 534 742		55 029 300	
Total reserves	**1 540 868 520**		**1 540 017 800**	
Unappropriated earnings				
Balance from prior year	6 161 072		4 127 022	
Net income	168 386 373		103 842 050	
Total unappropriated earnings	**174 547 445**		**107 969 072**	
Total equity	**2 442 697 765**	45.3	**2 375 186 872**	44.8
Liabilities				
Long-term liabilities				
Convertible bond	455 065 000		456 000 000	
Straight bonds	1 250 000 000		1 000 000 000	
Other long-term liabilities	1 181 332 114		1 185 541 940	
Total long-term liabilities	**2 886 397 114**		**2 641 541 940**	
Short-term liabilities				
Provisions	1 252 186		3 065 125	
Liabilities to Group companies	–		3 124 400	
Other liabilities	7 459 692		239 404 983	
Accrued expenses	56 687 589		43 569 003	
Total short-term liabilities	**65 399 467**		**289 163 511**	
Total liabilities	**2 951 796 581**	54.7	**2 930 705 451**	55.2
Total equity and liabilities	**5 394 494 346**	100.0	**5 305 892 323**	100.0

The notes on pages 90 to 95 form an integral part of the financial statements

Clariant Ltd. Income Statements

1998 and 1997

	1998 CHF	1997 CHF
Income		
Income from financial assets	834 750 414	193 186 079
Income from cash, marketable securities and short-term deposits	122 076 992	53 608 116
Other income	30 912 639	112 966 140
Total income	**987 740 045**	**359 760 335**
Expenses		
Financial expense	326 271 167	157 838 828
Administrative expense	2 736 016	2 858 590
Changes to provisions for financial fixed assets	486 594 803	91 709 359
Other expense (including taxes)	3 751 686	3 511 508
Total expenses	**819 353 672**	**255 918 285**
Net income	**168 386 373**	**103 842 050**

The notes on pages 90 to 95 form an integral part of the financial statements

1998 Financial Statements of Clariant Ltd., Muttenz

Proposal for Profit Appropriation of Available Earnings

	1998 CHF	1997 CHF
Available unappropriated earnings		
Net income	168 386 373	103 842 050
Balance carried forward from previous year	6 161 072	4 127 022
Total available earnings	**174 547 445**	**107 969 072**
Appropriation		
Distribution of a dividend of CHF 9.00 gross on 14 545 636 registered shares with a par value of CHF 50. –	–130 910 724	
(1997: CHF 14.00 gross on 7 272 000 registered shares with a par value of CHF 100.–)		–101 808 000
Balance to be carried forward	**43 636 721**	**6 161 072**

1. Accounting policies

Introduction

The unconsolidated financial statements of Clariant Ltd. comply with the requirements of the Swiss Company Law.

Exchange rate differences

Balance sheet items denominated in foreign currencies are converted at year-end exchange rates. Exchange differences arising from these as well as those from business transactions are recorded in the income statement.

Financial fixed assets

These are valued at acquisition cost less adjustments for impairment of value.

Provisions

Provisions are made to cover existing liabilities.

2. Financial assets

Financial assets include loans to Group companies totaling CHF 2,955.2 million (1997: 1,664.7 million). The principal direct and indirect affiliated companies, joint-ventures and other holdings of Clariant Ltd. are shown on pages 84 to 85 of this report.

3. Cash, marketable securities and short term financial assets

Securities include treasury shares valued at fair market value in the amount of CHF 193.3 million (see also footnote 7).

4. Share capital

	31.12.1998	31.12.1997
Number of registered shares each with a par value of CHF 50 (1997: CHF 100)	14 545 636	7 272 000
In CHF	727 281 800	727 200 000

Share split

On 12 June 1998, the Annual General Meeting of Shareholders approved a 1:2 share split. The 7,272,000 shares, each with a par value of CHF 100 were converted into 14,544,000 shares, each with a par value of CHF 50.

At the same time the conversion rights of the CHF 456,000,000 1% convertible bonds 1997–2002 were adapted. Each bond with a par value of CHF 5,000 can be converted at no additional expense into 8.7719 Clariant AG registered shares with a par value of CHF 50 each (formerly 4.3859 registered shares with a par value of CHF 100 each) until 19 August 2002 or until the early repayment date.

Capital increase

As of 31 December 1998, CHF 935,000 of the 1% convertible bond 1997–2002 worth CHF 456,000,000 was converted into 1,636 registered shares in Clariant AG with a nominal value of CHF 50. The share capital grew accordingly by CHF 81,800.

Conditional capital increase

The Annual General Meeting held on 12 June 1998 approved an increase of the conditional capital from CHF 40,000,000 to CHF 80,000,000 and the following amendment of Art. 5b of the Articles of Association :
The company’s share capital shall be increased by a maximum of CHF 80,000,000 at a time by issuing no more than 1,600,000 registered shares with a nominal value of CHF 50, to be paid up in cash, through the exercise of conversion or option rights granted to their holders in relation to bonds that were issued by the company or by one of its subsidiaries. The relevant holders of conversion or option rights are entitled to subscribe to new shares. The acquisition of registered shares through the exercise of conversion and option rights is subject to the statutory terms of assignment covered by Art. 5 of the Articles of Association. The terms of issue are laid down by the Board of Directors. In the case of those convertible bonds and warrant bonds which, by order of the Board of Directors, are not offered to shareholders in advance of the subscription date, the following shall apply:
- The proceeds from the issuance of such convertible bonds and warrant bonds may only be used for financing and refinancing the acquisition of companies, divisions or affiliated companies.
- The new shares are issued at the relevant conversion and/or option terms. Convertible bonds and warrant bonds are to be issued at the prevailing market terms.

Conversion rights may be exercisable for a maximum of 10 years and option rights for a maximum of 5 years after the issue date of the bond in question.

Introduction of authorized capital

The Annual General Meeting held on 12 June 1998 approved the creation of authorized capital of CHF 40,000,000 and the introduction of a new Art. 5c in the Articles of Association, i.e.:

The Board of Directors is authorized to increase the share capital at any time before 12 June 2000 by a maximum of CHF 40,000,000 through the issuance of no more than 800,000 registered shares with a nominal value of CHF 50 to be paid up in full. Increases by means of direct underwriting followed by an offer to existing shareholders as well as partial increases are permitted. The Board of Directors shall decide upon the amount of issue in each case and the date on which shareholders are to become entitled to dividends. The new registered shares are subject to the terms of assignment in accordance with Art. 5 of the Articles of Association.

The Board of Directors is authorized to exclude the subscription right of shareholders and assign this to third parties if such new shares are to be used (1) for taking over companies by means of share swapping or (2) for financing the acquisition of companies, divisions or affiliated companies. Shares for which a right of option has been granted but not exercised are to be sold at the prevailing market price.

5. Reconciliation of equity

in CHF	Registered shares	Legal reserves	Reserve for treasury shares	Unappropriated retained earnings	Total
Balance 31.12.1997	727 200 000	1 484 988 500	55 029 300	107 969 072	**2 375 186 872**
Capital increase due to stock option rights exercised (convertible rights)	81 800	850 720			**932 520**
Purchase of treasury shares		–176 505 442	176 505 442		–
Dividends for 1997				–101 808 000	**–101 808 000**
Profit for the year				168 386 373	**168 386 373**
Balance 31.12.1998	**727 281 800**	**1 309 333 778**	**231 534 742**	**174 547 445**	**2 442 697 765**

6. Legal reserves

In 1995, 4,000,000 registered shares were issued to Sandoz Ltd. in exchange for the contribution in kind of assets which settled the equity capital of Clariant Ltd. by CHF 795,602,000. The amount in excess of par value of CHF 395,602,000 was recorded as legal reserves. On 1 July 1997, 3,272,000 registered shares were issued to Hoechst Ltd., Frankfurt in exchange for CHF 1,471,615,800 in assets. The amount in excess of par value of CHF 1,144,415,800 was recorded as legal reserves. In 1998, conversion options associated with the 1% convertible bond 1997–2002 of CHF 456 million were exercised resulting in the issuance of 1,636 registered shares. The difference to the par value of CHF 850,720 was allocated to legal reserves.

7. Reserve for treasury shares held by the Group

Between February and November 1998, the Group purchased 208,506 Clariant AG registered shares with a par value CHF 50 per share from the market at market value. Considered together with the balance of treasury shares held at 31 December 1997, 95,960 registered shares with a par value of CHF 50, total treasury shares held by Clariant AG amounted to 304,466 registered shares as of 31 December 1998. In accordance with the Swiss Code of Obligations paragraph 659a II, the required reserve for treasury shares has been made out of the part of available legal reserves, which exceeds 20% of share capital. Additionally, written call options for 86,000 registered shares Clariant Ltd with a strike price of CHF 750 per share were not yet executed as of 31 December 1998.

A part of the shares are reserved for the “Clariant Group Share Appreciation Rights/Stock Option Plan”.

8. Long-term financial debts

Convertible bond

On 19 August 1997, Clariant Ltd. issued CHF 456,000,000 of 1% convertible bonds 1997–2002. The issue price represents 100% of par value. Bonds with a CHF 5,000 par value can be converted into 8.7719 registered shares of Clariant Ltd. during the period from 19 August 1997 to 19 August 2002 resp. until the early redemption date.

Early redemption by Clariant Ltd. is possible:

– to 100% after 3 years (19 August 2000)
– to 100% at anytime, if more than 95% of the original nominal value has been converted.

Until 31 December 1998, bonds with a par value of CHF 935,000 have been converted to shares.

Straight bonds

– $4\frac{1}{4}$% bonds 1995–2000 of CHF 150 million issued on 18 October 1995 by Clariant Ltd., Muttenz. The issue price was 102% of the principal amount. The maturity is on 18 October 2000 at 100%, with earlier redemption not possible.
– $4\frac{5}{8}$% bonds 1996–2003 of CHF 150 million issued on 29 July 1996 by Clariant Ltd., Muttenz. The issue price was 1015/8% of the principal amount. The maturity is on 29 July 2003 at 100%, with earlier redemption not possible.
– $4\frac{1}{8}$% bonds 1996–2006 of CHF 200 million issued on 29 November 1996 by Clariant Ltd., Muttenz. The issue price was 1017/8% of the principal amount. The maturity is on 29 November 2006 at 100%, with earlier redemption not possible.
– $3\frac{3}{8}$% bonds 1997–2004 of CHF 300 million issued on 27 August 1997 by Clariant Ltd., Muttenz. The issue price was $101\frac{5}{8}$% of the principal amount. The bonds mature as of 27 August 2004, with no option for early redemption.
– $3\frac{3}{4}$% bonds 1997–2007 of CHF 200 million issued on 27 August 1997 by Clariant Ltd., Muttenz. The issue price was 101 1/4% of the principal amount. The bonds mature as of 27 August 2007 at 100%, with no option for early redemption.
– 3% bonds 1998–2005 of CHF 250 million issued on 3 March 1998 (by Clariant Ltd., Muttenz). The issue price was 101.50% of the principal amount. The bonds mature as of 3 March 2005 at 100%, with no option for early redemption.

9. Contingent liabilities

	Outstanding liabilities 31.12.1998 CHF mio	Outstanding liabilities 31.12.1997 CHF mio
Outstanding liabilities as guarantees in favour of Group companies	36	23

10. Voting and legal registration limitations

In accordance with Article 5 of the Articles of Incorporation, no limitations with regard to registration of shares which are acquired in one's own name and on one's own account exist. Special rules exist for Nominees.
In accordance with Article 12 of the Articles of Incorporation, each share has the right to one vote. A shareholder can only vote, for his own shares and for represented shares, up to a maximum of 10% of total share capital. For resolutions of the General Meeting of Shareholders where the agreement of at least 2/3 of the represented votes and a majority of the represented shares are required by Article 704 Swiss Code of Obligations, a shareholder can vote on his own behalf and on the behalf of other shareholders for up to 33.4% of the votes present at the resolution.

11. Shareholders holding 5 percent or more of total share capital

Based on the information available at the time of this report, Frankfurter Spezialchemikalien Vermögensverwaltungs GmbH & Co. KG., a 100% owned subsidiary of Hoechst AG, Frankfurt owns 45% of the share capital on 31 December 1998 (1997: Hoechst Ltd., Frankfurt 45%).

PRICEWATERHOUSECOOPERS

Report of the Statutory Auditors to the General Meeting of Shareholders of Clariant Ltd., Muttenz

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes – pages 86 to 95) of Clariant Ltd. for the year ended 31 December 1998.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with the law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

STG-Coopers & Lybrand AG

U. Vogt R. Sauter

Basle, 19 March 1999

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