



Exactly your chemistry.

Financial Report 2002

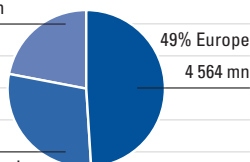
The year in summary

Sales by region

Total 2002: CHF 9 330 mn

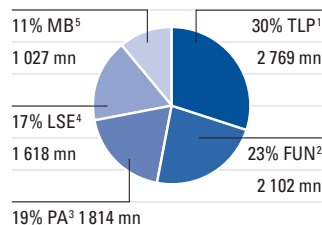
22% Asia/Africa/Australia

2 083 mn



Sales by division

Total 2002: CHF 9 330 mn



¹ Textile, Leather & Paper Chemicals

² Functional Chemicals

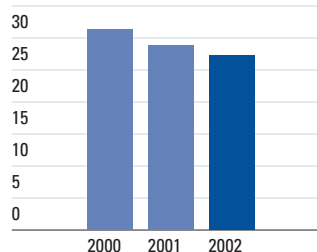
³ Pigments & Additives

⁴ Life Science & Electronic Chemicals

⁵ Masterbatches

Employees

thousand



Key figures

		2002	2001
Divisional sales with third parties	CHF mn	9 330	9 871
Operating result before restructuring, disposals and goodwill amortization		690	631
Consolidated loss		- 648	- 1 242
Total assets		8 550	10 555
Capital and reserves		914	1 958
Investment in fixed assets		339	505
Research and development		352	409
Staff costs		2 097	2 346
Staff (at year-end)	number	27 849	28 904
Loss per share	CHF	- 4.30	- 8.14
Dividend per share	CHF	— ¹	0.30

¹ For explanation please refer to the section on dividends on page 5

Thumbnail sketch

Based at Muttensz near Basel, Switzerland, Clariant is a global leader in the field of fine and specialty chemicals. Some 28 000 employees in more than 100 group companies on five continents generate annual sales of over CHF 9 billion.

Clariant is divided into five divisions: Textile, Leather & Paper Chemicals, Pigments & Additives, Masterbatches, Functional Chemicals, Life Science & Electronic Chemicals. The divisions have operational autonomy within the overall group strategy, and are entirely responsible for their own business success.

Clariant's innovative products play a decisive role in the customers' manufacturing and treatment processes or add value to their end-products. The company's success is based on the know-how of its staff, and on their ability to identify new customer needs at an early stage and to work together with customers to find innovative, efficient solutions.

Clariant is committed to sustainable growth springing from its own innovative strength. Our objective is to achieve 30% of sales with products and services that are no more than five years old.

Clariant – Exactly your Chemistry.

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Clariant in 2002

Overview

In another difficult year Clariant has reached more milestones than one would be lead to believe by the figures. Certainly, the dominant negative event for Clariant in 2002 was the fact that the goodwill recorded for the LSE Division and a part of property plant and equipment had to be deemed as not recoverable and were consequently written off, thus causing a net loss for the second consecutive year.

But as in the year before the company has successfully tackled one of its prevalent problems, namely the reduction of the financial debt. Compared to the prior year, net financial debt was reduced by more than CHF 800 million. This remarkable improvement was the result of a combination of factors: tight management of capital expenditure and the working capital, some disposals of non-strategic business activities and a development in the exchange rate of foreign currencies, which on the one side had a negative impact on the income statement but on the other side helped to reduce the financial debt.

The economic upturn that Clariant as everyone else had been hoping for in 2002 did not materialize, so the sales goals envisaged at the beginning of the year had to be pursued the hard way, which Clariant did more successfully than the figures make evident at first sight.

The key features of the reporting period were:

- A net loss of CHF 648 million due to impairment of goodwill and property plant and equipment
- A reduction in net debt by more than 800 million Swiss francs from CHF 4.28 billion at the end of 2001 to CHF 3.47 at the end of 2002
- A reduction of capital expenditure from CHF 505 million in 2001 to CHF 339 million in 2002
- A headcount reduction by 1055 to 27 849 (including the effect of disposals)
- An increase in sales expressed in local currencies by 3% over last year (5% on a comparable basis)
- An improvement in volume and mix of products sold which offset the persisting price pressure
- Despite tough market conditions an improvement of the operating margin from 6.2 to 7.4%
- EBITDA of CHF 1 193 million, corresponding to a margin of 12.8% of sales.

The large-scale restructuring program that Clariant embarked on in 2001 is proceeding according to schedule. In 2002, six plants were closed and the cost basis was reduced by CHF 100 million.

In 2002, Clariant also suffered from certain setbacks, the major one being a new facility in detergents in the United States. Unexpected technical problems were encountered, which entailed additional capital expenditure and expenses that materially impacted the financial performance of the Group and of the Functional Chemicals Division.

By spinning off operations, Clariant has further streamlined its portfolio and scaled back its activities in areas that are overly dependent on raw material prices. The major divestitures include the sale of the European emulsion activities and global emulsions powder activities in Europe to Celanese, the disposal of the Portuguese affiliate Resiquímicas which is the holder of the emulsions business in the Portuguese market to former minority shareholder Socer. Since the disbanding of the Cellulose Ethers & Polymerisates Division, emulsion activities had been part of the Leather, Textile & Paper Chemicals Division. In December, Clariant also sold its hydrosulfite business, pertaining to the Textiles, Leather & Paper Chemicals Division in North America to Canada-based Chemtrade.

Market conditions

Economic trends

During the course of 2002, the major economies of the world failed to switch back to solid, sustainable growth due to far-reaching, fundamental disequilibriums. Europe's and Japan's economies continued to be weak while for the US economy the hopes expressed at the beginning of 2002 did not materialize fully. In addition to the slower growth of the world economies, reporting scandals and corporate governance issues, as well as fears of war in Iraq and of deflation added pressure to the economic climate. Despite very low levels of global interest rates in most major economies, stock markets again saw increased volatility including a severe downturn. The lack of economic confidence showed up in most if not all of Clariant's end user markets. Customers continued to restrict their capital expenditures and themselves were cautioned by their customers' reluctance to consume and invest. Many industries continued to downsize (over)capacities, and this particularly included the chemicals industry. It appears now that many companies are well-prepared for the long-awaited economic upswing.

Geographic trends

Sales revenues contracted in all regions due mainly to the strong Swiss franc. Europe continued to show weakness, both in local currencies (LC) and Swiss francs, while in the US modest sales growth was negated by the increasing strength of the Swiss franc. In Brazil strong sales growth in LC of 28.6% was mainly offset by the weakness of the Brazilian real against the Swiss franc. In Japan as well, modest gains in sales in LC of 3% were neutralized by the strong Swiss franc. Hong Kong continued to show strong growth in sales, both in local currencies (17.9%) and Swiss francs (8.8%). The persisting sluggishness of the Eurozone economies had a negative impact on sales in Europe, while in the United States sales grew modestly despite the economic recovery materializing at a much slower pace than anticipated.

Exchange rate trends

All the currencies important for Clariant lost considerable ground against the Swiss franc throughout 2002. The trend seen in 2001 continued and included the US dollar in 2002 as well as the safe haven effect of the Swiss franc clearly influenced many investors in 2002. The changes that affected Clariant most were the exchange rate movements of the euro (-2.9%), the US dollar (-7.7%), the yen (-10.6%), the British pound (-3.8%) and the Brazilian real (-24.5%). Most other currencies with importance for Clariant also weakened substantially (between -5 and -11%). These movements had a corresponding effect on Clariant's sales. 8.1% of the drop in revenues can be attributed to currency fluctuations. In Latin America this effect overshadowed very pleasing sales and earnings contributions expressed in local currencies. Both grew strongly on a local basis but the translation effect neutralized these gains. The strength of the Swiss franc at the year-end did have positive effects on the balance sheet, particularly the translation of non-Swiss franc financial debt into Swiss francs helped to reduce net financial debt by almost CHF 190 million.

Developments in important markets

Germany's economy has been almost stagnant for two years.

In 2002, volumes sold by the German chemical industry have increased by 2.5% compared to the previous year, sales prices continued to decline. Domestic sales dropped by 1.5%, while export sales increased by 0.5%. The expectation is that in 2003 the situation will be similar to the one in 2002.

In the **United States** market conditions generally improved over the course of 2002 as compared to the prior year. Encouragingly, industrial production and capacity utilization in the United States are slightly improving. While the decline in producer prices was not nearly as severe as in 2001 and even began to stabilize, pricing continued to decline in 2002. Many of our end user markets exhibited improvements in 2002, while others began to turn around. Namely, the automotive and residential construction markets saw significant sales growth. These conditions are reflected in Clariant Corporation's performance in 2002. Sales increased by 1.5% and volumes by 5.3%.

With inventory levels at historical lows and business investment postponed, the US economy is much healthier than a year ago and is poised for further growth in 2003.

The situation in **Brazil** was impacted by events occurring in other countries on the continent. In this sense the economic crisis in Argentina and the recent turmoils in Venezuela also affected the behavior of the investors towards Brazil. In addition, the political uncertainties faced by the country the past year did nothing to extenuate these effects. As an opposite effect the resulting decline of the real contributed to the strengthening of Brazilian export industry from which Clariant also was able to benefit.

For 2003 moderate economic growth and increasing exports are expected, which will be supported by the still favorable exchange rates.

Deep into a long period of economic stagnation **Japan's** economy failed to show any clear signs of recovery in 2002. Despite this, the industrial production is slowly but steadily increasing. However, particularly the chemical industry is facing the difficult situation where many customers are transferring their production sites to China, Taiwan, and other Asian countries. Chemical companies, especially those operating in the domestic market of textiles, information technology, construction, etc. are expected to remain stagnant in 2003.

Sales and operating results

Sales on a comparable basis increased by 4.7% over last year measured in local currencies and decreased by 3.3% in Swiss francs. All divisions achieved growth in volume and product mix, which was only in part offset by lower sales prices.

Despite adverse conditions **costs of goods sold** in percent of sales declined from 68.8% in 2001 to 67.3% in 2002. This was the result of several effects. Standard capacity was significantly reduced in the restructuring program initiated in 2001. Capacity utilization was improved by the increased volumes produced and sold. In addition, raw material prices saw a decrease which was not entirely compensated by decreases in sales prices.

While variable costs in **marketing and distribution** remained stable in percent of sales, some savings were achieved in the fixed-cost section of marketing and distribution. This was also helped by the currency translation, which further decreased costs denominated in Swiss francs.

The current savings program also led to a more efficient use of financial means in **research and development**. Expenses in percent of sales went from 4.1% in 2001 to 3.8% in 2002, thus remaining close to the long-term goal of 4% of sales. The most important cost reductions were achieved in the Textile, Paper & Leather Chemicals and Life Science & Electronic Chemicals Divisions.

Income from financial fixed assets decreased slightly from CHF 42 million in 2001 to CHF 36 million. This is the result of last year's divestiture of the 50% shareholding in the British company Harlow Chemicals, which had been sold to Yule Catto, and the lower contribution by the Infraserv companies, held by the German affiliate Clariant GmbH. To some extent this was offset by the contribution of other investments, namely smaller affiliates in the Far East and also an increased stake in the Swedish company Clariant Perstorp, which was sold again at the end of the 2002 as part of the disposal of the emulsions business.

Administration and general overheads were to a significant extent influenced by several one-time items. The most important one of these were costs incurred in connection with the installation of a large plant in the United States, where technical difficulties lead to additional expenses in the amount of close to 50 million Swiss francs that could not be capitalized. Additional costs were entailed by the cancellation of a toll manufacturing agreement with a supplier, which will bring better absorption of Clariant's own facilities, and new provisions were made to cover certain environmental costs.

For the second consecutive year Clariant was compelled to **critically assess the recoverability of goodwill and the fixed assets acquired with the BTP Group in 2000**. Despite the fact that progress had been achieved regarding sales volume and profitability, it had to be noted that the persisting difficult market conditions make it impossible to recover the values recorded for goodwill and property plant and equipment acquired with BTP in the foreseeable future. As a consequence the entire remaining goodwill allocated to the Life Science & Electronic Chemicals Division and fixed assets of the division mainly located in the US were written off. This setback will not deter Clariant from further streamlining these operations and making them a profitable part of the Group's portfolio of operations.

Financial income decreased due to the fact that interest rates have reached a low point of several decades. **Financial expense** benefited from the same fact and also from the reduction in financial debt that was achieved by way of cutting back on capital expenditure and disposal of several operations. Apart from this, favorable financing conditions are obtained from the fact that almost a third of the long-term financial debt is denominated in Japanese yen.

The favorable development in net financial expense was offset by losses due to **exchange rate differences** caused by the appreciation of the Swiss franc, the devaluation of the US dollar and several Latin American currencies. Especially companies operating in Latin America and those holding receivables denominated in US dollars took a hard blow from currency developments towards the end of the year.

Tax expenses continue to be marked by the fact that a substantial part of Clariant's income is generated in countries with high tax rates, such as Germany, Italy or Japan. In 2001 and 2002, the US operations failed to generate any taxable income and at present no further tax assets can be capitalized in those companies. An additional hike in the company's tax rate was caused by the impairment write-off of property plant and equipment, which also did not yield any tax asset that could be capitalized. It should be observed however, that in recent time operations in taxwise favorable countries such as China have gained considerable momentum and will help to reduce the overall tax burden in the foreseeable future.

All the factors described above led to a negative **net income**. Although the situation shall in no way be appeased, management believes that the loss mainly caused by the write-offs for impairment overshadows the operating progress that the company has made in 2002.

Balance sheet

Total assets fell from CHF 10 555 million in 2001 to CHF 8 550 million. Several factors contributed to this development. First, there were the divestitures that caused a substantial reduction in fixed assets, inventories and to a smaller extent in accounts receivable, second, a further appreciation of the Swiss franc occurred, especially during the second half of the year, thereby causing a decline in value of all assets and liabilities denominated in another currency, and third, management enforced a tight management of the working capital, which especially became evident in fixed assets, where capital expenditure was kept to a minimum and ran considerably below depreciation of fixed assets.

Net operating assets reflect these effects and declined to CHF 4453 million at year-end compared to CHF 6 314 million one year previously.

Gearing, which reflects net financial debt in relation to equity capital including minorities, rose from 211% in 2001 to 345%. The development was driven by three factors, the prevailing one being the reduction in equity caused by the impairment write-down of goodwill and property plant and equipment. This effect was mitigated by the reduction of financial debt after the divestitures and the development of the exchange rates of currencies with the Swiss franc.

Net current assets (defined as inventories plus accounts receivable and liabilities from sales and services) were managed efficiently in the period under review: After the elimination of the effect of the divestitures, they only rose minimally, even though the current economic conditions make it difficult to enforce any tight payment terms on customers. Inventories and accounts receivable rose slightly. At year-end net current assets stood at CHF 2 363 million (26.8% of continuing sales) compared with CHF 2 705 million (28.0% of continuing sales as reported in 2001) at the end of the previous year.

Cash flow

The cash flow statement is marked by the impact of the various divestitures that Clariant undertook during the course of the year. The effects of these transactions are all summed up in the line "Disposal of business activities" in the section "Cash Flow from Investing Activities."

This leads to certain difficulties in the reconciliation of the developments of balance sheet items from the prior to the current year with the changes shown in the cash flow statement. The changes in balance sheet positions shown in the cash flow statement are shown net of the effect of disposals and changes in foreign exchange rates.

Net of these effects Clariant reports a minimal increase in inventories and accounts receivable. Capital expenditure ran substantially below those of last year and also below depreciation.

Liquid funds increased substantially as a consequence of the disposals, for which the payments were received at the end of the year.

Other important features of the statement are the payments of dividends by shareholdings valued at equity, which comprise a special dividend by two German Infraser companies in excess of CHF 50 million, a substantial repurchase of own shares as a consequence of the disbanding of a call/put structure with a bank and the repayment of more than CHF 530 million of financial debt.

Loss per share

The total number of shares was 153 440 000 at the end of 2002. Of these, 149 652 172 were in circulation at year-end, the remaining 3 787 828 were treasury stock. The average number of outstanding shares used to calculate earnings per share was thus 150 890 166 compared with 152 573 596 for the previous year. Loss per share thus amounted to CHF 4.30 compared with a loss of CHF 8.14 in 2001.

Dividends

The Swiss Code of Obligations requires that equity consist as a minimum of paid-in share capital plus a legal reserve of 20% of paid-in share capital before a dividend can be paid out. As at 31 December 2002 Clariant Ltd's equity did not meet this requirement, no dividend will be paid out.

Sale of business operations and participations

In the period under review, Clariant sold off the European emulsions and emulsion powders business, which was part of the Textile, Leather & Paper Chemicals Division and to a small extent of Functional Chemicals. The bulk of these activities are located in Germany and Spain with smaller operations in France, Greece and UK as well as two shareholdings valued at equity in Sweden and Slovenia. In a separate transaction emulsion activities in Portugal were sold to a former minority shareholder.

In North America hydrosulfite activities, which also were part of the Textile, Leather & Paper Chemicals Division, were sold. The large part of these operations are located in the US with some toll manufacturing activities and sales offices in Canada.

Earlier in 2002, minor affiliate ProBioSint in Italy was sold to its former owners. The company had been part of the Life Science & Electronic Chemicals Division.

Divisions

Textile, Leather & Paper Chemicals

		2002	2001
Sales	CHF mn	2 306	2 470
EBITDA	CHF mn	299	322
ROS-EBIT	%	8.3	8.5
ROS-EBITDA	%	13.0	13.0

Position

The division is the market leader in the textile and leather chemicals segment. It is also among the top three in the segments textile dyes and paper chemicals.

Performance

In a difficult economic situation the overall performance was above the one of the prior year in local currencies. This was due to stable margins, increase in sales volume and only a moderate price pressure.

The performance of the Textile Business Units was to some degree affected by the ongoing decline of the key markets in USA, Europe and Japan and the shift of bulk chemical production to Asia, mainly to China. Although the performance in India, Southeast Asia and China was well above expectations, sales in that region could not offset the decline in the traditional markets.

However, some market share was gained in the high-end market for automotive textiles with high-fastness products. The Business Unit Textile Chemicals showed strong performance in technical textiles and strong growth rates in Pakistan, India and Turkey.

Business Unit Paper showed a very good performance in all regions. The increased price pressure in OBAs could be offset by an increase in sales volume. In the segment of high-margin dyes both volume and price level could be maintained.

Leather sales picked up continuously after a weak start and met the previous year's level in local currencies. Higher profitability was achieved by stable sales in traditional markets (shoes, garment, upholstery) and an increased presence in the automotive industry.

The good performance in the Business Unit Emulsions despite the weak construction industry was based on the restructuring measures taken in the last years and the favorable raw material prices in the first half of 2002.

Market trend

The shift of the traditional textile and leather industries to Asia and especially China will continue at an accelerated pace. Low cost markets in Turkey and in the Caribbean basin will benefit from their ability to satisfy customer demands in specialty dyes at short notice. The increasing demand for ecologically friendly products and processes, also in emerging markets, will develop into new business opportunities.

Strategy

The Textile Business Units will focus on expanding the marketing organization in Asia and especially China in order to gain market share in this region. In Europe distribution channels will be optimized and production will be trimmed in order to reduce the cost base and increase competitiveness. Business Unit Paper is continuing its focus on strong customer relationship especially with key accounts as well as implementing profitable new solutions. As part of the strategy, activities in emulsions in Europe and hydrosulfite in the US were sold to further streamline the portfolio and to reduce the dependence on raw material prices.

Innovation

Textile Dyes has diversified its activities of customer services to service retailers and branding companies through Archroma Global Services®. Textile research is developing high-performance dyes enabling excellent fastness standards in automobile textiles (Foron AS-BL® in combination with Fadex ECS®) and microfibers for leisure ware (Foron S-WF® and Nylosan®). A large number of innovative products with water- and dirt-repellent Nuva® brands in apparel and carpets were introduced.

Outlook

In 2003, the textile industry will shift additional production capacity away from USA and Europe to Asia. The division expects to take advantage of this development through its new production plant in Tianjin and to obtain a greater market share. During the current year the remaining emulsion businesses will be integrated into the Textile Chemicals Business Unit. The outlook for the paper market is optimistic. Sales in the leather business and the textile sector are expected to be stable.

Pigments & Additives

		2002	2001
Sales	CHF mn	1 814	1 872
EBITDA	CHF mn	285	296
ROS-EBIT	%	11.2	12.1
ROS-EBITDA	%	15.7	15.8

Position

The division is the global market leader in organic pigments and a leading supplier of coating and plastic additives, waxes and flame retardant in high-value niche applications.

Performance

Despite the continuing economic downturn, the division managed to reverse the trend and gain market share, recording a commendable growth of 4% in local currencies. While Business Unit Printing Ink was hit hard by weak end markets (packaging, newspaper sectors), Business Unit Pigments achieved substantial growth in local currencies, mainly in the sectors of plastics, coatings and nonimpact printings. Demand for specialty additives was also strong, allowing the Business Unit Additives to grow well in local currencies.

The level of operating profitability could be maintained while inventories were reduced substantially. Major restructuring measures were completed, further improving the competitive position for the years ahead.

Market trend

While Latin America and particularly Asia showed positive developments, the ongoing economic weakness and the waning hopes for a recovery marked the major European and US markets.

Strategy

The division has defined a new strategy this year, aiming at the expansion of its market leadership. The strategy contains three main elements. First of all processes have to be optimized to reduce costs within the global production network. Sites in Asia will become more and more important. Secondly the launching process of innovative products will be accelerated. The third element is a new business structure based on a merger of the two areas pigments and additives. As of January 2003 the restructured division is divided into four industry-focused business units: Coating Industries, Plastic Industries, Printing Industries, and Specialized Industries. This new strategy will help to serve customers more effectively.

Innovation

Several new high-performance waxes and pigments, including pigments geared towards the automotive industry, were introduced this year. Three major projects in high-performance pigments, metallocene waxes and nonhalogen-based flame retardant reached the end of the development phase and will contribute to further growth.

Outlook

The market conditions are not expected to change in 2003. The swift implementation of the new strategy will secure growth by further increasing the market focus while allowing the optimization of processes to be speedier and simpler.

Masterbatches

		2002	2001
Sales	CHF mn	1 027	1 038
EBITDA	CHF mn	127	106
ROS-EBIT	%	9.5	7.4
ROS-EBITDA	%	12.4	10.2

Position

The division is the global market leader in colored masterbatches with 53 manufacturing units in 31 countries.

Performance

Overall, the division reached an increase in sales of 5% in local currencies. Setbacks in the US and Germany were compensated by favorable developments in Italy and Asia. The profitability was strongly supported by the effect of the restructuring measures undertaken at the end of 2001 and the beginning of 2002.

Market trend

There persists a movement of large parts of the fiber industry to the Far East. The moderate growth of US demands also affects production of the electronics and IT industry and as a consequence the demand for masterbatches. A similar situation exists in the automotive industry. The fiber-packaging industry is growing moderately.

Strategy

The division continues to reinforce its leading market position by further improving its technology and service leadership and aims to extend its lead in color masterbatches. In 2003 year, it is seeking growth in the emerging markets, especially in Asia, focusing on fibers, the packaging industry, engineered products and additive masterbatches.

Innovation

The focus is clearly on customer-driven service, for instance predicting color trends, computer-assisted design tools and color service for the automotive industry. The market in which Clariant operates anticipates a renewal rate of 30% with fairly short product life cycles. Approximately 35% of the division's product portfolio is renewed every year, making it possible to grow faster than market average.

Outlook

Despite the moderate expectations regarding economic growth in 2003, the division continues its strategy to gain market share and improve the financial performance. Production facilities in Europe will be further streamlined, thus achieving additional cost reductions. With the advantages of a market leader in quality and innovation even a slight economic recovery in US and Latin America would give the division the opportunity for substantial improvement of earnings.

Functional Chemicals

		2002	2001
Sales	CHF mn	2 059	2 147
EBITDA	CHF mn	213	231
ROS-EBIT	%	6.8	7.8
ROS-EBITDA	%	10.3	10.8

Position

The division is organized in five business units – Detergents, Performance Chemicals, Process Chemicals, Biocides and Cellulose Ethers & Dispersion Powders. Detergents is a worldwide leading partner in innovative additives for detergents and cleansing agents. In Europe the division is the market leader in tailor-made polyethylene glycols. It is also a global player in personal care, crop protection and oilfield chemicals.

Performance

In a weak market environment the business units managed to maintain their market positions. Klebosol, a product used in the electronic industry, was integrated into Business Unit Electronic Materials to exploit synergies. The start-up cost of a new detergent project could not be compensated by the increase in sales of traditional products in that industry, which affected the overall result in 2002. Cellulose Ethers substantially improved export sales, thus offsetting the weak demand by the German construction industry. Personal Care continues to focus on specialty products and reduced the share of commodity goods in total sales by another 10%. Functional Fluids enhanced their brake-fluids business, also outside Europe, while Crop Protection grew significantly through new projects with key accounts.

Clariant Oil Services (oilfield chemicals) finalized the integration of the oilfield company TROS and maintained market share and profitability. The division managed to reduce current assets significantly.

Market trend

Reduction of material and conversion costs continue to be dominant in the detergents and cleaning agents industry. Therefore price increases are very difficult to enforce. A shift from commodities to specialties continues to persist and liquid detergents are gaining market share against powder.

Strategy

Growth in demand for the division's products is expected to occur in the NAFTA region and in Asia. Investments in production facilities in Mexico will be finalized in 2003 and will support additional sales in NAFTA. In general, the different industries in which the division is engaged are growing in line with the economy. Therefore the division is concentrating its efforts on increasing market shares in order to ensure steady growth. The restructuring of the biocides business will be completed in 2003.

Innovation

The research & development units support operations in all business units. Some of the R&D projects are developed in exclusive cooperation with customers, for example the search for new bleaching agents to be used at low temperatures. First sales were achieved with new raw materials for so-called easy-to-clean applications in the field of sanitary equipment. New hydrate inhibitors preventing the formation of hydrates during natural gas production were brought to market.

Outlook

After the divestiture of silicates and the dispersion powders business in 2002, the division will grow especially in the NAFTA region. A new ethoxylation plant in Mexico and a polymer plant in England have recently come on stream.

The capacity utilization rate in existing plants will be increased further to reduce costs per unit. The completed restructuring process will restore margins in the biocides business. The dependency on commodity goods will be further reduced, the division's R&D position will be strengthened by new projects. The business with high-specialized polyethylene glycols will be expanded in all regions.

Life Science & Electronic Chemicals

		2002	2001
Sales	CHF mn	1 618	1 616
EBITDA	CHF mn	146	75
ROS-EBIT*	%	- 1.1	- 9.8
ROS-EBITDA	%	9.0	4.6

* One-time effect of goodwill impairment excluded

Position

The division develops and supplies fine chemicals and is one of the leading partners to the agrochemical and pharmaceutical industries worldwide. It has a leading position in chemicals for products in the electronics industry.

Performance

The division managed to maintain its market position in a difficult surrounding, achieving an increase in sales of 7% over the prior year in local currencies.

The Business Unit Electronic Materials clearly outperformed the market. Tight controls of current assets and capital expenditure ensured that the division's free cash flow was substantially improved.

Business Unit Specialty Fine Chemicals maintained its leading position for its main product lines. It developed and implemented a worldwide sales network and introduced a geographic market segmentation. The business unit successfully upheld its profitability despite a difficult economic environment.

Business Unit Pharma maintained its position in 2002, against a background of difficult trading conditions in the pharmaceutical fine chemicals industry. The financial performance suffered a setback due to lower than expected sales and therefore less than full capacity utilization in some manufacturing plants.

The market for pharmaceutical APIs and intermediates was very difficult in 2002. Demand for outsourcing by the major pharmaceutical companies was reduced, mainly driven by the low number of new drug approvals, failure of some new drugs in the late clinical phase and also by delays in the registrations of new drugs. This resulted in overcapacities in the production of APIs and late stage intermediates, affecting the entire industry, including the Business Units Pharma and Custom Synthesis. Beside this, Clariant was able to introduce 14 new products to the markets.

The financial performance was also negatively impacted by fluctuations of the exchange rates. This is of particular importance as a large part of the sales are exported to the US and invoiced in US dollars.

Market trend

Overall business prospects show an upward trend and favorable growth rates in the electronic materials industry, permitting reasonable profitability. The business unit has improved its global position by introducing trend-setting new products.

Some specialty fine chemicals markets continue to suffer from overcapacities which result in harsh price competition.

Sales growth in pharmaceutical consumer markets has dropped to an expected 5–6%, down from 9–10%. Although it is thought that in the longer term the pharma companies will need to outsource more of their processes of chemical production, tough business conditions are expected to persist throughout 2003.

Strategy

In 2002 the division was reorganized. Now it consists of the Business Units Electronic Materials, Pharma, Custom Synthesis and Specialty Fine Chemicals. This allows for a better focus on the customers' specific requirements and reflects the specific nature of the pharmaceutical market and its various regulations. The division further streamlined the product portfolio by the disposal of a minor affiliate in Italy and the closure or sale of four small and uneconomical plants as planned.

The Business Unit Electronic Materials intends to grow with new product developments in the advanced semiconductor and flat panel display segments. The newly developed 193 nm resist materials are perceived well in the market. New low k materials have been introduced as well as light management films generating additional sales.

Specialty Fine Chemicals aims at consolidating its leadership position in several product lines, to capitalize on its expertise to develop new products and new applications. This strategy is supported by a worldwide sales organization and intense cooperation with customers.

The Business Unit Pharma concentrates on the increase of R&D expenditure in a systematic manner over a longer period of time to strengthen and broaden the technology base, especially in chiral chemistry. Areas of particular chemical expertise that already exist in the business unit are to be expanded. The focus is on higher margin projects that will help to absorb unused capacities of existing FDA-approved production facilities, although the benefit of this strategy is rather in the medium term. The division will continue to build up a strong track record as a reliable supplier to key global pharmaceutical customers, as well as a producer of generic APIs in cases where there is a strong technology fit.

Innovation

In 2002 Business Unit Pharma introduced 14 new products on a commercial scale.

Promising new product developments in all business units await their market launch in the foreseeable future.

Innovation in Specialty Fine Chemicals depends on systematic research and development, unique expertise and technology, as well as on a strong motivation and a sound proprietary patents position. New Highlink® and Silcare® families are being developed and offer innovative solutions for existing and new markets. New products have been successfully launched and new chiral building blocks are advanced in the pipeline.

Outlook

In view of the persisting low economic growth, prospects for all business units are only moderate. But the division is confident that the right strategic moves are being made and that in this way continuous improvement in performance over the coming years is ensured.

The semiconductor industry is expected to recover. The flat panel display segment will benefit from growing demand for new TV screens. Optimizing of production facilities will go on within the Business Units Pharma and Custom Synthesis.

Regional developments

Europe

In 2002, the European Group companies contributed 54% of sales. Sales in Europe decreased by 5% in local currencies and by 7% in Swiss francs. However, efficiency improvements led to higher gross margins and operating income in Europe. Capital expenditures in 2002 amounted to CHF 188 mn, a reduction by 38% compared with 2001. The reductions took place mainly in Central and Western Europe.

In Central Europe (Germany, Switzerland and Austria), sales decreased by 5% in local currencies, mainly as a result of the site disposals in 2001 (site of Cassella-Offenbach, Germany, and PVA/PVB business) and site closure in 2002 (Floridsdorf, Austria).

In Southern Europe (Italy, Spain, Portugal, Greece), sales increased by 3% in LC, mainly due to the good performance of the Masterbatches and FUN Divisions in Italy and Spain. The increase of operating income was mainly the result of improved margins and cost savings of all Group companies in the region.

In Western Europe (France, Benelux), sales and margins declined while the operating result improved. The loss of margins was especially caused by the LSE Division.

The businesses in the UK and Ireland were influenced by a weak demand, site and business consolidations and price decrease. While sales decreased by 14% in local currencies, operating income on a regional level could be improved.

The Group companies in Northern Europe (Sweden, Finland, Norway, Denmark) increased sales by 9% in local currencies, which was mainly due to increased business volume in Sweden. The margins and the operating income were also enhanced on a regional level.

Americas

Group companies in the Americas contribute 27% of the 2002 Group turnover. Sales of the companies within this region increased by 12% in local currencies, but decreased by 6% in Swiss francs. All currencies in the region weakened considerably against the Swiss franc. Overall, the American operations achieved growth in margin and operating income, both in local currencies and Swiss francs.

Business recovered slightly in the NAFTA region, with an increase in sales of 3% in local currencies, this despite the difficult economic environment in this region. As a result of implemented restructuring projects and current efficiency improvements, higher margins and operational income were achieved in 2002. The North American hydrosulfite business was sold at the end of 2002.

2002 saw significant currency devaluations in Latin America (especially in Argentina, Venezuela and Brazil). Additionally, the industrial production contracted throughout this region. Despite these adverse circumstances, price increases and higher sales were achieved both in local currencies and in US dollars, which is the functional currency in many countries of the area. As a consequence, improved margins and growth in operating income were achieved in Latin America.

Asia, Africa, Australia

Group companies in Asia, Australasia and Africa contributed 19% to Group sales in 2002. In local currencies sales grew by 9% in this region, to a large extent absorbed by the translation into a strong Swiss franc. In line with the continuous economic activity and the efficiency improvements, the Asian Group entities strongly increased the operating income in local currencies and Swiss francs.

The strongest growth area was again China with above real GDP growth and good returns on previous investments. Together with the monetary stabilization and economic recovery, Turkey and South Africa contributed to the excellent performance.

Despite the depreciation of the rupee, Clariant's Indian subsidiaries were able to accelerate sales to grow faster than the Indian GDP.

The ASEAN development was two-sided – with Indonesia (setback by the terrorist attack in Bali) and Malaysia (devaluation of the ringgit) in a difficult market environment, while Singapore and Thailand expanded sales and boosted operating income.

South Korean performance was negatively affected by an accident in the pigment plant, although electronic materials performed extremely well.

Despite the recessive Japanese market environment and a weaker yen, Clariant was able to grow the domestic Japanese sales and improve operating margins.

Research and development

Clariant is committed to R&D as the motor for innovation-based sustainable growth. Thus the 2002 R&D expenditures with 3.8% of sales were kept in a strategically appropriate range to secure the future business, although due to the slackening economy Clariant was compelled to curb costs also in this area.

According to Clariant's strategy, R&D efforts focus on innovative solutions for customers in business areas offering attractive value-based growth opportunities. By this the position in existing markets is being expanded and new markets can be developed.

Due to this customer focus R&D is an integrated part of the divisional strategies and business concepts. The Corporate R&D department successfully secures the interdivisional knowledge networking and the diversification into new strategic business areas based on higher risk innovations.

A total of CHF 351 mn was spent on R&D in 2002. Clariant has some 1 600 people working in research and development.

Research and development		2002	2001
Expenditure	CHF mn	352	409
As a % of sales	%	3.8	4.1

Modern corporate governance at Clariant

Clariant's principles and regulations on corporate governance are set out in the Articles of Association of Clariant Ltd and in the organizational and Group regulations of the Clariant Group. The Board of Directors reviews these documents regularly and adapts them to new conditions if necessary. The Articles of Association of Clariant Ltd can be viewed on the Internet at www.governance.clariant.com.

Corporate governance reporting is in compliance with the guidelines of SWX Swiss Exchange.

1. Group structure and shareholders

1.1 Group structure

The Group consists of five divisions that function as profit centers and which – as the most senior operating units – bear full responsibility for their business activities. Section Divisions (p. 6) in the Financial Review of this Annual Report describes the operations of the divisions and their results. Group functions such as Legal and Auditing are part of the Corporate Center.

The scope of consolidation of Clariant Ltd includes the listed companies Clariant (India) Ltd, Colour-Chem Ltd and Clariant (Pakistan) Ltd

The major consolidated but unlisted companies include the Clariant companies in Germany, the US, the UK, France, Brazil, Switzerland, Italy, Spain and China.

Company	Registered office	Equity	Share holdings
		CHF mn	%
Clariant GmbH	Frankfurt/M, D	406 417	100.0
Clariant Corporation	Charlotte/NC, USA	1 039 261	100.0
Clariant UK Ltd	Leeds, UK	111 569	100.0
Clariant (France)	Paris La Défense Cedex, F	149 103	100.0
Clariant S.A.	São Paulo, BR	120 503	100.0
Clariant (Schweiz) AG	Muttenz, CH	150 000	100.0
Clariant (Italia) S.p.A.	Mailand, I	45 098	100.0
Clariant Ibérica S.A.	Barcelona, E	117 948	100.0
Clariant (China) Ltd	Hongkong	42 946	100.0

Other companies, see p. 52

Listed company	Registered office	Listing	Capitalization	Shareholdings	ISIN no.
			Shares	%	
Clariant (India) Ltd	Mumbai	The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India, Mumbai (NSE)	1 723 162 500 INR	50.94	INE221A01014
Colour-Chem Ltd*	Mumbai	The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India, Mumbai (NSE)	2 792 505 000 INR	50.1	INE492A01029
Clariant (Pakistan) Ltd	Karachi	The Karachi Stock Exchange (KSE)	1 169 767 500 PKR	75.00	PK0076701017

* Clariant acquired its 50.1% stake in Colour-Chem Ltd in 1997 from the former Hoechst AG. In October 2002, the Indian stock exchange supervisory authorities decided that Clariant should have made a public takeover bid at that time in order to acquire 20% of the freely traded shares. Clariant is now being asked to submit a takeover bid to the minority shareholders. Clariant International Ltd / Ebitto Chemiebeteiligungen AG are aware of the decision by the Indian authorities. Clariant's lawyers in India have appealed the decision. An appropriate provision has already been made.

1.2 Significant shareholders

According to the available information, as at December 31, 2002 there were two shareholders each holding over 5% of the share capital.

- Frankfurter Spezialchemikalien Verwaltungs GmbH & Co. KG, Frankfurt/Main, Germany: 11.8% (2001: 11.8%) of the share capital. The company is a wholly-owned subsidiary of Hoechst AG, Frankfurt/Main, of which 97% is owned by Aventis SA, Strasbourg.
- Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA): 5.12% (2001: 0%) of the share capital. The company is controlled by the general partner, Artisan Investment Corporation.

1.3 Cross-shareholdings

There are no cross-shareholdings.

2. Capital structure

2.1 Capital

The ordinary and conditional capital are described in Note 4 of the Notes to the Financial Statements of Clariant Ltd, Muttenz (p. 56).

2.2 Conditional capital

The company's share capital shall be increased by a maximum of CHF 40 000 000 by issue of a corresponding maximum of 8 000 000 registered shares of CHF 5.– par value each, to be paid up in cash, by the exercise of conversion or warrant rights that were granted to their holders in connection with loan obligations of the Company or one of its subsidiaries. The details are set out in Art. 5b of the Articles of Association.

2.3 Changes in capital

A description of the changes in capital that took place in 2001 and 2002 can be found on page 25 of this financial report. The details for 2000 can be found on page 60 of the 2000 Annual Report.

2.4 Shares and participation certificates

As at December 31, 2002, 153 440 000 registered shares each with a par value of CHF 5.– had been issued.

2.5 Bonus certificates

Clariant Ltd has not issued any non-voting equity security (Genussschein).

2.6 Limitations on transferability and nominee registrations

Transfer of registered shares shall require approval of the Board of Directors, which may delegate this function. The details are set out in Art. 5 of the Articles of Association.

2.7 Convertible bonds and options

There are no outstanding convertible bonds. As part of the employee participation scheme, options were issued on registered shares. Details of the option programs can be found in the Notes to the Consolidated Financial Statements, Chapter 18.

3. Board of Directors

In accordance with the Articles of Association, the Board of Directors of Clariant Ltd shall have at least eight and a maximum of twelve members. At the seventh ordinary Annual General Meeting held on 16 May 2001, the Board of Directors was reduced from nine to the current eight members. Approval from the Federal Office for Justice and Police for the Board of Directors to comprise four Swiss and four non-Swiss has been obtained.

3.1 Members of the Board of Directors (BoD)

Pierre Borgeaud, 68, Swiss citizen, Vice-Chairman

Pierre Borgeaud holds a degree in mechanical engineering from the Swiss Federal Institute of Technology in Zurich and started his career in the research department of Gebrüder Sulzer AG. In 1975 he was appointed Chairman of the subsidiary Maschinenfabrik Winterthur. That same year he was appointed as General Manager and a Member of the Executive Board. Six years later, he took over as CEO of Sulzer. In 1984 he was elected to the Board of Directors of Gebrüder Sulzer AG, where he held the post of Chairman from 1988 until 2000.

Heinrich Bossard, 59, Swiss citizen

Heinrich Bossard studied economics and business administration in Switzerland, the UK and the US. Following several years working at a number of international companies, he held various positions at Bossard Group for a total of 30 years. He is currently President and CEO of the Bossard Group.

Reinhard Handte, 56, German citizen, CEO

Reinhard Handte is a chemist (University of Stuttgart, Germany) and started his career in 1974 at Hoechst AG as a researcher in crop protection, becoming Head of Crop Protection Research in Gersthofen, Germany in 1982. He subsequently held various other positions until being named Head of Research and Development for the Specialty Chemicals Division in 1988. He became Head of the Specialty Chemicals Division in 1989.

After the acquisition of Hoechst's Specialty Chemicals business by Clariant in 1997, he became Head of German Operations and Head of Corporate Environmental, Safety and Health Affairs. He was named Chief Operating Officer of Clariant in 1999. Reinhard Handte has been Chief Executive Officer of Clariant since 2001.

Stephen Hannam, 53, British citizen

Stephen Hannam is a chemist (University of Manchester, UK) and began his career at Warwick International Ltd, where he was appointed Director and General Manager in 1979. In 1987 he moved to BTP plc as CEO of the Chemicals Division and was appointed CEO of the Group in 1994. After Clariant bought BTP in 2000, Stephen Hannam took over as Head of the Life Science & Electronic Chemicals Division at Clariant. Since stepping down from the Board of Management he has been a member of the Board of Directors at Clariant Ltd.

Roland Lösser, 60, German citizen, Vice-Chairman

Roland Lösser is an economist and started his professional life in the business administration department of Vereinigte Leichtmetallwerke in Bonn, Germany. In 1969 he moved to Sandoz AG, where he held a number of leading positions in data processing. In 1986 he took over as head of Finance/Administration at Sandoz AG Germany and in 1990 as CFO of Sandoz Corporation in the US. At the newly established Clariant International Ltd, he was appointed CFO in 1995 and held this position until 2001.

Robert Raeber, 66, Swiss citizen, Chairman

Robert Raeber graduated from the Kantonale Handelsschule (Cantonal Commercial College) in Zurich. After completing his studies he held management positions in sales and marketing at Unilever. He then moved to the advertising agency Advico SA, where he worked as a manager with responsibility for expansion in Europe. In 1967 Robert Raeber joined the Nestlé Group, where he had a management career with CEO responsibility in various European markets. In 1996 he joined the Executive Board of Nestlé SA in Vevey, Switzerland, where he was responsible for the European market.

Tony Reis, 61, Swiss citizen

After studying business in Lucerne, Paris and London, Tony Reis began his professional career in marketing management at IBM Switzerland. After working in Brussels and Paris as Director of Operations for IBM Europe, he took over as CEO of IBM Switzerland in 1990. He returned to the European headquarters of IBM in Paris in 1993 as General Manager of Country Operations. Four years later he moved to Swisscom where he held the post of Chief Executive Officer in 1998 and 1999.

Prof. Dieter Seebach, 65, German citizen

After graduating with a degree in chemistry from the University of Karlsruhe, Germany, Dieter Seebach worked as a postdoctoral fellow at Harvard University in Cambridge, USA, where he taught and conducted research. In 1971 he took up a teaching post at the University of Giessen, Germany. He has been Professor of Organic Chemistry at the Federal Institute of Technology in Zurich since 1977. A winner of numerous research prizes, he was awarded an honorary doctorate degree by the University of Montpellier, France, in 1989.

With the exception of Reinhard Handte (Group CEO), all BoD members are non-executive.

Stephen Hannam and Roland Lösser were members of the Management Board of Clariant before joining the Board of Directors. After their withdrawal from the Management Board, their know-how and expertise are to continue to benefit the company.

Roland Lösser is also the Chairman of the Supervisory Board of Clariant GmbH, Germany.

3.2 Other activities and functions

Robert Raeber

Board of Directors/supervisory mandates: Nestlé Deutschland AG*; Blaue Quellen AG*, Rhens/Germany; GfK AG (Gesellschaft für Konsumforschung); Maus Frères SA, Geneva; Schöller Holding GmbH Nuremberg/Germany.

Activities on behalf of companies and representative functions:

President of the Confédération des Industries Agro-Alimentaires de l'UE (Federation of Agro-Alimentary Industries in the EU) (CIAA) until November 2002; Dresdner Bank AG (Supervisory Board).

Pierre Borgeaud

Board of Directors/supervisory mandates: Buehler AG, Uzwil; SV-Service, Zurich.

Activities on behalf of companies and representative functions: None

Heinrich Bossard

Board of Directors/supervisory mandates: Sigma AG*, Stans; Telezug AG; Sand AG, Neuheim; Alice + Walter Bossard-Stiftung; Trifast AG*; Wasserwerke Zug; Kolin Holding AG; Elektrizitätswerk Hochdorf AG; WWZ Netze AG; WWZ Energie AG; Bossard Holding AG; Bossard + Staerkle AG*; Bossard AG*; Bossard International AG*; Bossard Unternehmensstiftung.

Activities on behalf of companies and representative functions: None

Reinhard Handte

Board of Directors/supervisory mandates: None

Activities on behalf of companies and representative functions: None

Stephen Hannam

Board of Directors/supervisory mandates: TheSkillsMarket Ltd*; Bracken Partnership Ltd (until 6/2002); Associated British Foods Plc.; Low & Bonar Plc. (since 9/02).

Activities on behalf of companies and representative functions: None

Roland Lösser

Board of Directors/supervisory mandates: Clariant GmbH*

Activities on behalf of companies and representative functions:

Member of the Admission Board of SWX

Tony Reis

Board of Directors/supervisory mandates: Vontobel Holding and Vontobel Bank AG, Zurich; Metallwarenholding AG and V-ZUG AG, Zug; ROLEX Manufacture SA in Biel/Bienne; redIT in Zug; Private Equity Holding AG, Zug; Karl Steiner AG, Generalunternehmung, Zug.

Activities on behalf of companies and representative functions: None

Dieter Seebach

Board of Directors/supervisory mandates: None

Activities on behalf of companies and representative functions:

Consultant to Novartis Pharma and Lonza Group

* Chairman

3.3 Cross-involvement

There are no cross-involvements.

3.4 Elections and terms of office

The members of the Board of Directors are elected for four years. Re-election is possible. The age limit is 70 years of age.

Terms of office of members of the Board of Directors

	first elected	elected until
Robert Raeber	2001	2005
Pierre Borgeaud	1995	2004
Heinrich Bossard	2002	2006
Reinhard Handte	2000	2004
Stephen Hannam	2001	2005
Roland Lösser	2000	2004
Tony Reis	1999	2003
Dieter Seebach	2001	2005

3.5 Internal organizational structure

In accordance with the law and the Articles of Association, the Board of Directors is the supreme management body of the Group. It consists of the Chairman, one or several Vice-Chairman/ Chairmen, and the other members. In accordance with the Articles of Association the number of members must be at least eight and no more than twelve. The Chairman and the Vice-Chairman/Chairmen together constitute the Executive Committee of the Board of Directors. The members of the Board of Directors sit on the following committees:

- Executive Committee
- Strategy Committee
- Appointments and Compensation Committee
- Audit Committee
- Technology and Innovation Committee
- IT and Communications Committee

Committee	Executive Committee	Audit	Strategy	Appointments/ Compensation	Technology/ Innovation	Communication/IT
Robert Raeber	■		■			
Pierre Borgeaud	■		■	■		
Heinrich Bossard		■				
Reinhard Handte			■		■	
Stephen Hannam						■
Roland Lösser	■	■	■	■		
Tony Reis						■
Dieter Seebach					■	

■ Chairman ■ Member

The Board of Directors appoints the Chairman, Vice-Chairman/Chairmen and members of the committees for each year.

The BoD meets at least once a quarter. At the invitation of the Chairman, the members of the Management Board and/or other employees and third parties may attend the meetings of the BoD for the purpose of reporting or imparting information. The committees report on their activities and results to the BoD. They prepare the business of the BoD in their respective areas but do not have any decision-making authority, with the exception of imminent threats or danger, unless such authority has been conferred upon them specifically. In such cases they decide together with the Chairman. The overall responsibility of the BoD is not limited by the committees.

The Executive Committee (EC) prepares the meetings of the Board of Directors (BoD). The EC meets as needed but at least before each meeting of the BoD. When matters cannot be postponed, the EC passes resolutions for which the BoD is responsible, according to the current agenda, provided the EC deems it either inopportune or impossible to convene an extraordinary meeting of the BoD. (The inalienable duties of the BoD in accordance with Art. 716a of the Swiss Code of Obligations are excluded). These resolutions require unanimity of the members present.

The Strategy Committee (STC) comprises the members of the EC and the CEO. It is headed by the Chairman. The STC prepares all strategic discussions for the BoD, provided they are not expressly allocated to another committee. The STC makes recommendations to the BoD in particular on the following:

- Strategic projects
- Financial transactions
- Funding/deployment of funds
- Organizational and management structure
- Investments in the remit of the BoD

The Appointments and Compensation Committee (ACC) comprises two members of the EC. The Chairman must be an independent, non-executive member of the BoD. The ACC meets at least twice a year. Together with the Chairman, the ACC draws up principles for the selection of candidates for election and re-election to the BoD and prepares the corresponding recommendations. In particular, it considers and submits to the BoD the proposals of the CEO concerning candidates for the positions of Division Head, members of the Management Board, function heads and heads of subsidiaries with sales of CHF 200 mn or more or with particular strategic importance. The ACC draws up principles for compensation of members of the Board of Directors and submits them to the BoD for approval. It approves the employment contracts for the CEO, members of the Management Board, function heads and heads of subsidiaries with sales of CHF 200 mn or more or with particular strategic importance. All appointments and dismissals that fall within the remit of the BoD must be submitted in advance to the ACC, which makes a recommendation to the BoD. The ACC reviews the bonus, option and share plans. Furthermore, it reviews fringe benefit regulations, dismissal regulations and contractual severance compensation with the Heads of Divisions, members of the Management Board, function heads and heads of subsidiaries.

The Audit Committee (AUDC) comprises two members of the BoD. The Chairman must be an independent, non-executive member of the BoD. The AUDC reviews the activities of the external auditors and their collaboration with the internal auditors as well as organizational adequacy. It also reviews the performance and compensation of the external auditors and their independence. All consultancy mandates concluded with the external auditors in the Group are submitted by the CFO to the committee for information purposes at the AUDC meetings. Consultancy mandates for the external auditors for which compensation exceeds CHF 200 000 are submitted to the AUDC for approval. The AUDC assesses the performance of the internal auditors and reports to the BoD. Furthermore, the AUDC assesses the efficacy of the internal audit system and internal risk management and reviews compliance with standards in the company. The AUDC examines the Group financial statements and holding company financial statements and receives the reports of the CFO and external auditors. The AUDC reviews and updates the organizational regulations of the Board of Directors.

The Technology and Innovation Committee (TIC) comprises two members of the BoD with experience in the research segments and in the Group's innovation management. It meets at least twice a year. The tasks of the TIC include assessing the innovative activities on behalf of the BoD and recommending measures to stimulate research and development in the Group. The TIC also recommends measures to optimize exploitation of innovative potential.

The IT and Communication Committee (ITCC) comprises two members of the BoD with experience in information technology and communication. It meets as needed but at least twice a year. The tasks of the ITCC include assessing IT projects in the Group, drawing up an IT strategy, a communication and investor relations strategy and the related organizational structure on behalf of the BoD. It makes the corresponding recommendations to the BoD.

3.6 Definition of areas of responsibility

The BoD decides on all Group activities for which it has responsibility in accordance with the law (especially Art. 716a of the Code of Obligations on nontransferable and inalienable duties of the Board of Directors), the Articles of Association and the organizational regulations. The Board of Directors has sole authority in particular for the following, in accordance with and supplementary to Art. 716a of the Code of Obligations and Art. 23 of the Articles of Association:

- Convening the Annual General Meeting (AGM), determining the points on the agenda and proposals to be made by the BoD plus approving the Annual Report including the balance sheet and income statement for the AGM
- Approving financial transactions of considerable scope (over CHF 100 mn) or involving special risks, in particular capital market transactions and other financing transactions (e.g. large loans) plus changes to the associated conditions
- Establishment and control of strategic management of the Group
- Approval of the basic outline of the Group organization and these organizational regulations

- Approval of the basic financing policy and of its planning and control
- Approval of the Group annual budget
- Approval of the Group balance sheet and income statement on a quarterly basis and of the company balance sheet and income statement on an annual basis
- Approval of the consolidated financial statements for the business year
- Appointment and dismissal of members of the Management Board, the Heads of Divisions and functions and heads of important subsidiaries
- Approval of investments which exceed CHF 20 mn
- Approval of the liquidation or disposal of a subsidiary, a stake in a joint program or in another company or significant portions thereof, of rights to products or industrial property rights, provided the annual sales of the company concerned or of a division or of the product or the industrial property rights associated with it exceed CHF 20 mn
- Ensuring succession planning and management development
- Ensuring a management and corporate culture that is appropriate for the company's objectives
- Ensuring an internal controlling system and risk and compliance management.

The Board of Management, in addition to its general corporate management function, is mainly responsible for implementing and monitoring the Group strategy, for the financial and operational management of the Group and for the efficiency of the Group structure and organization. The members of the Management Board are appointed by the BoD in line with the proposal of the Appointment and Compensation Committee. Subject to responsibility of a higher-ranking corporate body, the Management Board is responsible for:

- Operational implementation of the Group strategy, the strategies and action programs of the individual divisions and subsidiaries
- Managing the divisions and the functions that report to the respective divisions
- Preparing and deploying resources as efficiently as possible to implement the Group strategy in accordance with the budget
- Monitoring compliance with the organizational regulations for divisions, subsidiaries and functions and with the Group regulations
- Establishing a management and corporate culture in line with the company's objectives.

3.7 Information and control instruments vis-à-vis the Board of Management

Clariant has an internal audit department which informs the BoD regularly of the audit results. A risk management system is being set up which will coordinate and group together the risks (e.g. insurable, environmental protection, financial, commercial and political risks) that were previously handled separately.

In addition to the documents required to pass resolutions, the BoD receives the following reports at its regular meetings:

- Quarterly reports on the sales and earnings performance of the company with the relevant information about competitors in the same manageable period since the beginning of the year, structured by division with the main sales areas and key product groups plus the major subsidiaries
- A quarterly report on the cash flows, debt and debt-equity ratio plus other relevant key figures for the Group and value added
- Annual qualitative assessments of the divisions and key subsidiaries
- Audit reports prepared by the internal and Group auditors
- Annual analysis of the shareholder structure
- Annual overview of the Group's key staff benefit schemes (especially pension funds)
- In cases involving extraordinary events of considerable commercial relevance, the BoD receives direct, immediate information.

4. Board of Management

The Board of Management consists of the CEO, the CFO, the Head of Research & Development, the Head of German Operations and the five Division Heads.

4.1 Members of the Board of Management

Peter Brandenburg, 55, Swiss citizen, Head of German Operations

Peter Brandenburg is an economist and was appointed Head of German Operations and CEO of Clariant GmbH, Germany, in 2001. Prior to this he was Corporate Head of Regions and managed two divisions: from 1997 until 1999 the former Process & Performance Products Division and from 1995 until 1997 the Textile Division. He was also Chief Executive Officer of Clariant (Switzerland) Ltd. Peter Brandenburg joined Sandoz in 1970 and held a number of management positions in Latin America, South Africa and Japan for almost 20 years. From 1982 until 1990 he was CEO in Japan.

François Dennefeld, 60, French citizen, Head of the Textile, Leather & Paper Chemicals Division

François Dennefeld is a chemist and has been Head of the Textile, Leather & Paper Chemicals Division since 1999. Since 2001 he has also been Head of Special Regions. Prior to this he was CEO for France and head of the international Business Unit Paper in the Process & Performance Products Division. He began his career in 1971 in the marketing department of the Dyes & Chemicals Division at Sandoz AG and later became regional manager for the division in France. From 1980 until 1982 he was CEO of the Chemicals Division of Sandoz GmbH in Austria and from 1982 until 1985 CEO of the Chemicals Division in France. After the Specialty Chemicals Division was spun off from Sandoz to form Clariant in 1995, he was appointed CEO of Clariant SA France.

Nico Gontha, 54, Swiss, Head of the Masterbatches Division

Nico Gontha is an economist and was appointed as Head of the Masterbatches Division in June 2001. In the six years prior to this appointment, he was Regional President of ASEAN/Pacific Rim for Clariant in Singapore and Regional Head of India/ASEAN/Pacific Rim for the Pigments & Additives Division. Nico Gontha joined Sandoz Chemicals in Basel in 1975 and later became Managing Director of PT Sandoz Chemicals Indonesia. From 1994 until 1996 he was manager and Regional President of ASEAN for Sandoz Chemicals (Singapore) Pte Ltd; at the same time he headed the Masterbatches Asia Division and the Pigments & Additives ASEAN Division.

Reinhard Handte, 56, German citizen, CEO

see 3.1, Board of Directors

Günther Hencken, 61, German citizen, Head of the Pigments & Additives Division

Günther Hencken is a chemist and has been Head of the Pigments & Additives Division since June 2001. From 1996 until 2001 he headed the Masterbatches Division. He began his career in 1974 at Hoechst AG

in the Pigments and Dyes Application Laboratories. From 1976 until 1983 he worked in the US and was appointed Head of Technical Applications and Marketing for Pigments. From 1984 until 1993 Günther Hencken was Strategic Business Unit Manager and Head of the Masterbatches Business Unit at Schroeder & Stadelmann in Germany. In 1993 he was appointed Head of the Masterbatches Business Unit at Hoechst in Germany and in 1996 Head of the SBU Masterbatches in the US.

Joachim Mahler, 50, German citizen, Head of the Life Science & Electronic Chemicals Division

Joachim Mahler is a physicist and was appointed Head of the Life Science & Electronic Chemicals Division in 2002. From 1997 until 1998 he was Head of Special Regions and from 1999 until 2001 Head of the Cellulose Ethers & Polymerisates Division. He began his career in 1979 as a consultant for McKinsey & Company. After moving to Hoechst AG in 1985 he held a number of positions in the US and Germany: Strategic Planning Manager for the Polyester Films Group, Head of Strategic Planning at Hoechst Group, Head of Marketing and Sales in the PVC Films Business Unit and Controller in the Agriculture Division. In 1994 he was appointed Head of the Diagnostics Europe/Asia Business Unit in the Behring Diagnostics Division. In 1996 he was appointed Head of the Emulsions Business Line in the Specialty Chemicals Division. Joachim Mahler came to Clariant in connection with the takeover of the Specialty Chemicals Division from Hoechst AG in 1997.

Reinhart S. Meyer, 63, German citizen, Head of the Functional Chemicals Division

Reinhart S. Meyer is an economist and has been head of the Functional Chemicals Division since 1997. This division was established when the Tensides and Additives/Surfactants Division of Hoechst AG was transferred to the Functional Chemicals Division at Clariant in connection with the takeover of specialty chemicals from Hoechst by Clariant. After joining Hoechst AG in 1963, Reinhart Meyer worked in export and sales in Germany and also held a number of positions in North Africa, Latin America and the US. He was Head of the Oilfield Group and Head of Overseas Region for the Tensides and Additives Division. He was appointed Head of the Textile & Leather Business Unit in 1994 and Head of the Surfactants – now Functional Chemicals – Division in 1997.

François Note, 43, French citizen, CFO

François Note is an economist and has been Chief Financial Officer at Clariant since 2001. From 1999 until 2001 he was head of Corporate Human Resources and responsible for all HR activities of the Clariant Group worldwide. Before joining Clariant, he was Chief Financial Officer at GTS Carrier Services (formerly Hermes Europe Railtel), which operated the pan-European broadband telecoms network Ebone. François Note began working for the Sandoz Group in 1983 and held a number of finance positions in Switzerland, Belgium and Italy. He was appointed Head of Group Controlling in 1995, a position he continued to hold after the merger of Sandoz and Ciba-Geigy in 1996.

Hartmut Wiezer, 55, German citizen, Head of Corporate R&D

Hartmut Wiezer is a chemist and has been Head of Research & Development at Clariant since 2000. From 1997 until 1999 he was Head of the former Fine Chemicals Division at Clariant. He began his career in 1975 at Hoechst AG and held a number of positions in the Polymer Additives Business Segment, including R&D, marketing and pilot factory production. From 1983 until 1986 he was Assistant in Hoechst's R&D Head Office and subsequently Project Manager and Head of R&D for Electronic Materials in the Information Technology Division. He was appointed Head of R&D for the Fine Chemicals Business Unit in 1989 and Head of the Fine Chemicals Business Unit in 1995. He moved to Clariant in 1997 when the Specialty Chemicals Division was taken over from Hoechst.

4.2 Other activities and functions

François Dennefeld is a member of the Doctoral Council of the University of Upper Alsace. Peter Brandenburg is a member of the Board of the Swiss Society of Chemical Industries. The members of the Management Board do not carry out any other activities, consultancy functions or hold other offices.

4.3 Management contracts

There are no management contracts with third parties pursuant to this guideline.

5. Compensations, shareholdings and loans

Content and method of determining the compensations and of the shareholding programs

The Appointments and Compensation Committee (NKA) of the Board of Directors draws up principles for compensation of members of the Board of Directors and submits them to the BoD for approval. It approves the employment contracts with the CEO, members of the Management Board, heads of functions and of major subsidiaries. It also reviews the corresponding salaries regularly together with the CEO. The committee reviews the bonus, option and share plans and makes recommendations to the BoD. Furthermore, it reviews fringe benefit regulations, dismissal regulations and contractual severance compensation with the Heads of Divisions, members of the Management Board, function heads and heads of subsidiaries.

The 650 or so managers of middle and senior management (around 2% of all employees) participate in the company's results in two ways:

The Group Bonus Plan (GBP) is a variable income model that rewards the financial results achieved in the business year at the Group and business unit level and the achievement of individually agreed targets. The target bonus accounts for anywhere from 15% of the annual target remuneration for middle management and up to 50% for members of the Management Board. The actual bonus for a given year can fluctuate from 0 to 200% of the target bonus.

The Long Term Incentive Plan (LTIP) is an employee participation scheme based on shares. Participants receive registered shares that are vested for a period of three years. The amount of the allocated shares corresponds to between 50% and 150% of the annual bonus, depending on the hierarchical level and the annual bonus actually paid out.

Senior management (top 50) may choose between registered shares or options. The options have a term to maturity of ten years and are also vested for three years. The amount of the allocated options is determined on the basis of the bonus actually paid out. If shares are chosen, the value of the shares corresponds to 60% of the amount in options.

The LTIP accounts for less than 1% of the Group's staff costs.

The non-executive members of the Board of Directors are appropriately compensated for their activities.

Compensations for acting members of governing bodies

Total compensation for members of the Board of Directors and the Management Board amounted to CHF 12.55 mn (2001: CHF 13.74 mn). This includes cash compensation of CHF 7.25 mn (2001: CHF 8.14 mn) and employer expenses for pension schemes of CHF 5.3 mn (2001: CHF 5.6 mn).

As part of the Long Term Incentive Plan of Clariant Ltd, the members of the governing bodies received 57 803 shares worth CHF 1.77 mn and 25 091 options worth CHF 291 000 (2001: 61 510 shares worth CHF 2.9 mn and 26 060 options worth CHF 401 000).

Shares and options from the Long Term Incentive Plan are subject to a three-year vesting period.

Payments to outgoing members of governing bodies amounted to CHF 1.59 mn (2001: CHF 2.54 mn).

Members of executive bodies

Total compensation for members of the Management Board amounted to CHF 12.1 mn (2001: CHF 13.35 mn). It can be broken down as follows:

		2002	2001
Cash compensations	CHF mn	6.8	7.8
Expenditure on pension schemes	CHF mn	5.3	5.6
Number of allocated shares		47 999	56 810
Number of allocated options		25 091	26 060

Members of the Management Board have a right to subscribe shares or options.

Non-executive members of governing bodies

Non-executive members of governing bodies receive annual cash compensation and shares as part of the Long Term Incentive Plan. The compensations amounted to:

		2002	2001 ¹
Cash compensations	CHF mn	0.45	0.34
Number of allocated shares		9 804	4 700

¹ Adjusted since new accounting standards were adopted in 2002

Compensations for former members of governing bodies

No compensations were paid to former members of governing bodies.

Shares and options

The share and option packages for members of governing bodies comprise shares and options that are still vested under the Long Term Incentive Plan and privately held shares and options.

	Shares within the vesting period	Shares privately held	Options within the vesting period	Options exercisable
Members of executive bodies	120 556	3 850	55 731	112 640
Non-executive members of governing bodies	12 244	18 450	9 310	14 470
Total	132 800	22 300	65 041	127 110

Additional remuneration

Roland Lösser, Vice-Chairman of the Board of Directors, received CHF 75 000 as remuneration for his activity as Chairman of the Supervisory Board of Clariant (Germany) GmbH.

Loans granted by governing bodies

No new loans were granted. There are no loans outstanding from previous years.

Highest total compensation

The highest total compensation paid to a member of a governing body was CHF 2.63 mn. It comprises the basic annual salary, bonus and valued Long Term Incentive Plan amounting to CHF 1.64 mn plus expenses for the pension fund amounting to CHF 0.99 mn.

6. Shareholders' participation rights

The shareholders' participation rights are described in the Articles of Association, section 3, Articles 9-17.

6.1 Voting-rights restrictions and representation

The only voting-rights restriction at Clariant is the restriction to 10% of the share capital in accordance with Art. 12, para. 1, of the Articles of Association.

There are no special rules for waiving statutory voting-rights restrictions.

There are no statutory rules on participation at the Annual General Meeting which differ from the legal provisions.

6.2 Statutory quorums

The statutory quorums correspond to the Swiss Code of Obligations.

6.3 Convocation of the Annual General Meeting

There are no statutory rules that differ from the legal provisions.

6.4 Agenda

There are no statutory rules that differ from the legal provisions.

6.5 Entry in the share register

There are no special statutory rules concerning a deadline for entry in the share register. The share register is regularly closed seven to ten days before the Annual General Meeting.

7. Changes of control and defense measures

7.1 Duty to make an offer

An acquirer shall only be bound by the requirement of Art. 32 of the Federal Stock Exchange Act of March 24, 1995 to make a public purchase offer if he is acquiring more than 49% of the company's shares. (Art. 5a of the Articles of Association)

7.2 Clauses on changes of control

There are no clauses on changes of control.

8. Auditors

8.1 Duration of the mandate and term of office of the head auditor

PricewaterhouseCoopers has held the mandate since Clariant Ltd was established in 1995.

Ulrich Vogt has been the head auditor since this date.

8.2 Auditing honorarium

PricewaterhouseCoopers received a fee of CHF 4 mn for auditing the 2002 financial statements.

8.3 Additional honorariums

PricewaterhouseCoopers received a total fee of CHF 6 mn for consultancy and special audits.

8.4 Supervisory and control instruments vis-à-vis the auditors

The Audit Committee of the Board of Directors is responsible for evaluating the external auditors on behalf of the Board of Directors. In the reporting year, there were three joint meetings with the representatives of the external auditors.

9. Information policy

Clariant pursues a proactive information policy that is adapted to the relevant situation. The form and content of the information are geared to the needs of the relevant target groups. The Corporate Communications and Investor Relations departments report directly to the CEO. On basic matters of general corporate policy, Corporate Communications receives its guidelines from the Executive Committee.

Clariant provides all shareholders entered in the share register with their name and address with regular "Shareholder information". This information is sent by post each time an annual or semi-annual report is published and is delivered the next day. All shareholders also receive the twice-yearly magazine "Clariant" by mail, which contains information on Clariant's activities in general.

The company's website (www.clariant.com) is a regular source of information, where relevant information is published.

Addresses and contact persons are listed on the inside back cover.

Consolidated Balance Sheets

at 31 December 2002 and 2001

Assets	Notes ¹	2002 CHF mn	%	2001 CHF mn	%
Long-term assets					
Tangible fixed assets	2	3 055		3 754	
Intangible assets	4	489		1 420	
Investments in associated companies	3	312		411	
Other financial assets	7	100		104	
Deferred tax assets	19	395		414	
Total long-term assets		4 351	50.9	6 103	57.8
Current assets					
Inventories	8	1 689		1 984	
Trade accounts receivable	9	1 379		1 452	
Other current assets	10	413		472	
Cash and short-term deposits		718		544	
Total current assets		4 199	49.1	4 452	42.2
Total assets		8 550	100.0	10 555	100.0

Equity and liabilities	Notes ¹	2002 CHF mn	%	2001 CHF mn	%
Equity					
Share capital		767		767	
Treasury shares (par value)		- 19		- 5	
Reserves		166		1 196	
Total equity		914	10.7	1 958	18.6
Minority interests		63	0.7	74	0.7
Liabilities					
Long-term liabilities					
Financial debts	13	3 102		3 801	
Deferred tax liabilities	19	583		617	
Provisions and other long-term liabilities	14	882		938	
Total long-term liabilities		4 567		5 356	
Short-term liabilities					
Trade accounts payable		705		731	
Financial debts	15	1 092		1 025	
Taxes payable		130		168	
Provisions and other short-term liabilities	16	1 079		1 243	
Total short-term liabilities		3 006		3 167	
Total liabilities		7 573	88.6	8 523	80.7
Total equity and liabilities		8 550	100.0	10 555	100.0

¹ The notes form an integral part of the consolidated financial statements.

2002 Consolidated Financial Statements of the Clariant Group

Consolidated Income Statements

for the years ended 31 December 2002 and 2001

	Notes ¹	2002 CHF mn	%	2001 CHF mn	%
Sales		9 330	100.0	9 871	100.0
Cost of goods sold		- 6 275		- 6 787	
Gross profit		3 055	32.7	3 084	31.2
Marketing and distribution		- 1 380		- 1 459	
Research and development		- 352		- 409	
Income from associated companies	3	36		42	
Administration and general overhead cost		- 669		- 627	
Operating income before restructuring, disposals and amortization of goodwill		690	7.4	631	6.4
Disposal of business activities and financial fixed assets	5	81		468	
Restructuring and impairment	6	- 100		- 639	
Amortization of goodwill	4.6	- 873		- 1 337	
Operating loss after restructuring, disposals and amortization of goodwill		- 202	- 2.2	- 877	- 8.9
Financial result	20	- 248		- 246	
Loss before taxes and minority interests		- 450		- 1 123	
Taxes	19	- 189		- 110	
Loss before minority interests		- 639	- 6.8	- 1 233	- 12.5
Minority interests		- 9		- 9	
Net loss of the Group		- 648		- 1 242	
Loss per share (CHF/share)		- 4.30		- 8.14	
Diluted loss per share (CHF/share)		- 4.30		- 8.14	

¹ The notes form an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

for the years ended 31 December 2002 and 2001

	2002 CHF mn	2001 CHF mn
Net loss	- 648	- 1 242
Depreciation of tangible fixed assets	512	924
Amortization of intangible assets	883	1 349
Change in long-term liabilities	108	157
Profit before taxes from disposal of business activities and financial assets	- 81	- 468
Other non-cash items	41	61
Cash flow before changes in working capital	815	781
Change in inventories	- 21	147
Change in trade accounts receivable and other current assets	- 93	127
Change in trade accounts payable	80	- 96
Other	- 30	- 163
Cash flow from operating activities	751	796
Investment in tangible fixed assets	- 339	- 505
Change in intangible and financial assets	- 5	- 12
Sale of tangible and intangible assets	24	77
Acquisition of companies, businesses and participations (net of cash acquired)	- 32	—
Acquisition of minority interests	—	- 20
Disposal of business activities and financial assets	284	558
Dividends received	105	61
Cash flow from investing activities	37	159
Treasury share transactions	- 83	- 107
Change in long-term financial debts	- 539	32
Change in short-term financial debts	83	- 474
Dividends paid to third parties	- 46	- 169
Cash flow from financing activities	- 585	- 718
Currency translation effect on cash and short-term deposits	- 29	- 2
Net change in cash and short-term deposits	174	235
Cash and short-term deposits at the beginning of the period	544	309
Cash and short-term deposits at the end of the period	718	544
Additional information to the consolidated statements of cash flows:		
Interest paid	- 184	- 240
Income taxes paid	- 229	- 140

The notes form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

for the years ended 31 December 2002 and 2001

	Share premium	Retained earnings	Cumulative translation differences	Total reserves	Total share capital	Treasury shares par value	Total equity
Balance 31 December 2000	1 888	929	- 14	2 803	767	- 3	3 567
CHF mn							
Effect of IAS 39		- 26		- 26			- 26
Valuation of cash flow hedges		- 2		- 2			- 2
Dividends to third parties		- 169		- 169			- 169
Dividends on treasury shares		1		1			1
Treasury share transactions ¹		- 107		- 107		- 2	- 109
Translation effects			- 62	- 62			- 62
Net loss		- 1 242		- 1 242			- 1 242
Balance 31 December 2001	1 888	- 616	- 76	1 196	767	- 5	1 958
Dividends to third parties		- 46		- 46			- 46
Valuation of cash flow hedges (interest rate swaps)		1		1			1
Valuation of cash flow hedges (cross currency swaps)		- 1		- 1			- 1
Dividends of treasury shares		1		1			1
Treasury share transactions		- 69		- 69		- 14	- 83
Translation effect			- 268	- 268			- 268
Net loss		- 648		- 648			- 648
Balance 31 December 2002	1 888	- 1 378	- 344	166	767	- 19	914

¹ The treasury share transactions in 2001 included, apart from sales and purchases of shares, an engagement in call/put options, which did not affect the number of shares held by Clariant. By the end of 2002 this engagement was completely dissolved.

The notes form an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Accounting policies

Basis of preparation. The financial statements of the Clariant Group are prepared in accordance with the standards formulated by the International Accounting Standards Committee (IASC).

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 the Group exercises a significant influence.

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

Revenue recognition. Sales are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party and are reported net of sales taxes and rebates. Provisions for rebates to customers are recognized in the same period that the related sales are recorded, based on the contract terms.

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 financing 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 rare cases where 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 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

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 in the same manner as other tangible fixed assets. Financing costs associated with the construction of tangible fixed assets are not capitalized.

Intangible assets. 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. Other purchased intangible assets – such as patents, trademarks and other rights – are capitalized at historical cost and amortized on a straight-line basis to the income statement over their estimated useful lives, with a maximum of ten years. Adjustments are made for any permanent impairment in value.

Financial assets. Associated companies are accounted for using the equity method. Since 1 January 2001, all other financial assets are initially recorded at cost and subsequently carried at fair market value. The changes in fair market values are recognized in the income statement. All purchases and sales of financial assets are recognized on settlement date, which is the date that Clariant settles the transaction.

Inventories. Purchased products are valued at acquisition cost while self-manufactured products are valued at manufacturing costs including related production overhead costs. 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 are made for inventories with a lower market value or which are slow moving. Unsaleable inventory is fully written-off.

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

Cash and cash equivalents comprise cash in hand, deposits and calls with banks as well as short term investment instruments which can be converted to cash within 90 days.

Financial instruments and hedging. Under IAS 39 financial instruments are initially recognized in the balance sheet at cost and subsequently remeasured to their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designated to hedge a specific risk and qualifies for hedge accounting. On the date a derivative contract is entered into, Clariant designates

certain derivatives as either a) a hedge of the fair value of a recognized asset or liability (fair value hedge), or b) a hedge of a forecasted transaction (cash flow hedge) or firm commitment or c) a hedge of a net investment in a foreign entity.

Changes in the fair value of financial instruments in fair value hedges that are highly effective are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives in cash flow hedges are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement. Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. Clariant hedges certain net investments in foreign entities with foreign currency borrowings and cross currency swaps. All foreign exchange gains or losses arising on translation are recognized in equity and included in cumulative translation differences.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the income statement, when the committed or forecasted transaction ultimately is recognized in the income statement. However, if a forecasted or committed transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the income statement.

Certain financial instruments, while providing effective economic hedges under Clariant's policies, do not qualify for hedge accounting. Changes in the fair value of any financial instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the financial result.

Financial instruments are used in the normal course of business to reduce risks arising from currency translation, interest rate or price movement. Clariant manages and records centrally its cover of various positions arising from existing assets and liabilities as well as future business transactions. For minimizing the counterparty risk Clariant entered into financial instruments only with reputable international banks. The result of using financial instruments in Clariant's risk management program is permanently monitored, checked and communicated to Group management.

Deferred taxes. Deferred taxes have been calculated using the comprehensive liability method. These result from the temporary 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. Withholding tax on possible distributions of retained earnings of Group companies is not taken into account since, generally, retained earnings are reinvested. Deferred taxes, calculated using applicable local tax rates, are included in long-term assets, resp.

in long-term liabilities with changes in the year recorded in the income statement.

Pension fund, postretirement and termination benefits

- **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.
- **Postretirement 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 is actuarially determined and accrued over the employees' working lives. Personnel costs and long-term liabilities include the expense and related liability, respectively.
- **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 capitalized 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. Tangible fixed asset movements

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total 2002	Total 2001
Costs							
At 1 January	679	2 564	5 685	654	303	9 885	10 742
Changes in consolidation scope	—	—	—	—	—	—	—
Additions and reclassifications	1	14	82	25	217	339	505
Disposals	- 7	- 19	- 239	- 53	- 220	- 538	- 1 143
Translation effects	- 52	- 262	- 398	- 56	- 44	- 812	- 219
At 31 December	621	2 297	5 130	570	256	8 874	9 885
Accumulated depreciation							
At 1 January	- 90	- 1 467	- 4 052	- 522	—	- 6 131	- 6 322
Changes in consolidation scope	—	—	—	—	—	—	—
Additions and reclassifications	—	- 86	- 376	- 48	- 2	- 512	- 924
Disposals	—	19	302	56	—	377	1 066
Translation effects	1	133	265	48	—	447	49
At 31 December	- 89	- 1 401	- 3 861	- 466	- 2	- 5 819	- 6 131
Book value at 31 December	532	896	1 269	104	254	3 055	3 754
Insured value at 31 December						10 605	10 087

The capitalized cost of tangible fixed assets under lease contracts at 31 December 2002 amounts to CHF 18 million with a book value of CHF 7 million (2001: CHF 21 million and CHF 11 million respectively).

As of 31 December 2002, commitments for purchases of tangible fixed assets totalled CHF 20 million (2001: CHF 41 million).

3. Investment in associated companies

CHF mn	Balance sheet value		Effect on the income statement	
	31.12.2002	31.12.2001	2002	2001
Infraserv GmbH & Co. Höchst KG	129	190	12	18
SF-Chem AG	61	70	5	2
Infraserv GmbH & Co. Wiesbaden KG	32	35	4	6
Infraserv GmbH & Co. Gendorf KG	31	38	3	4
Harco Harlow Chemical Company Ltd	—	—	—	5
Infraserv GmbH & Co. Knapsack KG	16	22	1	2
Clariant Emulsion Norden AB	—	8	6	—
Others	43	48	5	5
Total	312	411	36	42

4. Intangible asset movements

CHF mn	Goodwill	Other	Total 2002	Total 2001
Costs				
At 1 January	2 862	131	2 993	2 982
Changes in consolidation scope	—	—	—	—
Additions	24	16	40	12
Disposals	- 66	- 15	- 81	- 2
Translation effects	- 9	- 4	- 13	1
At 31 December	2 811	128	2 939	2 993
Accumulated amortization				
At 1 January	- 1 490	- 83	- 1 573	- 227
Changes in consolidation scope	—	—	—	—
Amortization and reclassifications	- 873	- 10	- 883	- 1 349
Disposals	2	1	3	1
Translation effects	1	2	3	2
At 31 December	- 2 360	- 90	- 2 450	- 1 573
Book value at 31 December	451	38	489	1 420

The goodwill arising on the acquisition of BTP plc. in 2000 (CHF 2 702 million) was reassessed for recoverability in 2001. The resulting special amortization amounted to CHF 1 226 million. In 2002 a further reassess-

ment of the goodwill resulted in an additional amortization for impairment in the amount of CHF 790 million.

5. Discontinuing operations

During the years 2001 and 2002 Clariant disposed of several business activities in a number of transactions with various partners.

Emulsion business. In December 2002 Clariant sold large parts of the operations of the Business Units Emulsions and Emulsions Powders pertaining to the Textile Leather & Paper Chemicals and Functional Chemicals Divisions to the Celanese Group. The transaction comprised production facilities in Germany and Spain and two companies in Sweden and in Slovenia. In a number of other countries the marketing staff was transferred to the buyer and Clariant has entered into toll manufacturing agreements with Celanese. The most important countries with such agreements are Great Britain and France. For the operations in Spain and in Germany Clariant has entered into service agreements, based on which Clariant will extend administrative and technical services to Celanese for the next twelve to fifteen months.

Emulsion business in Portugal. In November 2002 Clariant sold the company Resiquímicas Resinas, Portugal, pertaining to the Textile Leather & Paper Chemicals Division to the former minority shareholder Socer.

Hydrosulfite, North America. In December 2002 Clariant sold the operations of the business line of producing sodium hydrosulfite in the US and in Canada to Chemtrade Inc., Canada. The business line comprises production facilities, marketing and sales activities in both countries. The activities pertained to the Textile, Leather & Paper Chemicals Division.

PVA/PVB. In 2001 Clariant sold the operations of the Business Unit PVA/PVB pertaining to the Cellulose Ether & Polymerisates Division to Kuraray.

Sales, income, cash flow and net assets of the activities disposed of were as disclosed on the next page for the reporting year and the previous year:

Discontinuing operations		Emulsions Business		Resiquímicas Resinas		Hydrosulfite		PVA/PVB*		Total discontinuing operations*	
CHF mn											
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	
Sales	344	354	38	47	124	129	—	198	506	728	
Operating costs	- 312	- 338	- 35	- 49	- 109	- 121	—	- 162	- 456	- 670	
Operating income before restructuring and amortization of goodwill	32	16	3	- 2	15	8	—	36	50	58	
Restructuring and impairment	—	- 20	—	—	—	—	—	- 3	—	- 23	
Amortization of goodwill	- 2	—	—	—	—	—	—	—	- 2	—	
Operating result	30	- 4	3	- 2	15	8	—	33	48	35	
Financial result	—	—	—	—	—	—	—	—	—	—	
Result before tax	30	- 4	3	- 2	15	8	—	33	48	35	
Taxes	- 1	—	- 1	—	—	—	—	- 9	- 2	- 9	
Minority interests	—	—	- 1	1	—	—	—	—	- 1	1	
Income after tax and minority interests	29	- 4	1	- 1	15	8	—	24	45	27	
Cash flows of discontinuing operations											
Operating cash flows	16	13	—	3	17	10	—	22	33	48	
Investing cash flows	- 36	- 3	- 1	- 2	- 3	- 20	—	- 9	- 40	- 34	
Financing cash flows	—	—	2	- 3	—	—	—	—	2	- 3	
Total cash flows	- 20	10	1	- 2	14	- 10	—	13	- 5	11	

* Restated

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CHF mn	Emulsions Business		Resiquímicas Resinas		Hydrosulfite		PVA/PVB*		Total discontinuing operations*	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Net assets of discontinuing operations										
Tangible fixed assets	54	61	7	7	44	60	—	40	105	168
Investment in associated companies	26	10	—	—	—	—	—	—	26	10
Goodwill	22	—	—	—	—	—	—	—	22	—
Current assets	63	76	20	18	7	7	—	53	90	154
Total assets	165	147	27	25	51	67	—	93	243	332
Total liabilities	- 44	- 62	- 16	- 14	- 1	—	—	- 25	- 61	- 101
Net assets	121	85	11	11	50	67	—	68	182	231
Number of employees	525	645	117	117	113	116	—	258	755	1 136

* Restated

In addition to this shareholdings in the affiliate ProBioSint Srl, Italy, and the Silicate activities in France were sold.

The income resulting from the disposal of business activities and shareholdings was the following:

CHF mn	2002	2001
Proceeds from sale	284	558
Net assets sold	- 203	- 90
Gain on disposal	81	468
Tax thereon	- 14	- 133
After tax gain on disposal	67	335
The net cash inflow from sale is determined as follows:		
Proceeds from sale	284	558
Less: cash and cash equivalents in subsidiary sold	—	—
Net cash inflow from sale	284	558

* Restated

6. Restructuring and impairment

As a result of the slackening economy and the need for further integration of the BTP Group acquired in 2000, Clariant embarked on a large-scale restructuring program in 2001. The goal of this effort was the elimination of idle production facilities, the concentration on fewer but more efficient production sites and the streamlining of organizational

and administrative infrastructure. The program involved more than 60 affiliates worldwide and all divisions. The measures comprised the reduction of redundant staff, the closure of entire sites and a critical assessment of the recoverable value of tangible fixed assets and inventory in the companies concerned. The expenses for restructuring and impairment in 2001 were as follows:

CHF mn	Total Group	Corporate*	Total Divisions	Discontinuing Operations	TLP*	PA	MB	FUN*	LSE*
Cash out expenses	68	3	65	10	12	5	1	11	26
Noncash expenses									
Provisions for:									
Leaving indemnity	70	5	65	4	32	13	1	5	10
Others	121	–	121	5	45	12	8	6	45
Total provisions	191	5	186	9	77	25	9	11	55
Write-off tangible fixed assets:									
Land and buildings	163	117	46	3	8	22	–	3	10
Others	217	–	217	1	52	38	7	10	109
Total write-off tangible fixed assets	380	117	263	4	60	60	7	13	119
Total restructuring and impairment before amortization of goodwill	639	125	514	23	149	90	17	35	200
Impairment of goodwill	1 226	–	1 226	–	–	–	–	–	1 226
Total restructuring and impairment	1 865	125	1 740	23	149	90	17	35	1 426
Thereof noncash expenses	1 797	122	1 675	13	137	85	16	24	1 400

* Restated

In 2002 the value of the assets of the Life Science & Electronic Chemicals Division was reassessed for recoverability. Due to the moderate prospects of the market and the slower than expected pace of recovery of the division, a substantial part of the value of these assets was deemed not recoverable. As a consequence the following devaluation for impairment was recorded in the LSE Division:

CHF mn	
Amortization of goodwill	790
Write-off tangible fixed assets:	
Land and buildings	11
Others	89
Total write-off of fixed assets	100
Total impairments	890

7. Other financial assets

CHF mn	31.12.2002	31.12.2001
Prepaid pensions	97	102
Other investments	3	2
Total	100	104

8. Inventories

CHF mn	31.12.2002	31.12.2001
Raw material, consumables, work in progress	717	849
Finished products	972	1 135
Total	1 689	1 984

9. Trade accounts receivable

CHF mn	31.12.2002	31.12.2001
Receivables gross	1 464	1 558
Allowance for doubtful receivables	- 85	- 106
Total net	1 379	1 452

As of 31 December 2002 receivables in the amount of CHF 76 million were pledged as a collateral.

10. Other current assets

CHF mn	31.12.2002	31.12.2001
Other receivables	230	366
Short-term financial assets	102	36
Prepaid expenses/accrued income	81	70
Total	413	472

11. Financial instruments

Risk management (hedging) instruments and off-balance sheet risks.

Clariant uses forward foreign exchange and option contracts, interest rate and currency swaps, and other derivative instruments to hedge the Group's risk exposure to volatility in interest rates and currencies and to manage the return on cash and cash equivalents. Risk exposures from existing assets and liabilities as well as anticipated transactions are managed centrally.

Interest rate management. It is the Group's policy to manage the cost of interest using fixed and variable rate debt and interest related derivatives.

Foreign exchange management. To manage the exposure to fluctuation in foreign currency exchange rates, the Group follows a strategy of hedging both balance sheet and revenue risk partially through the use of forward exchange contracts and currency swaps in various currencies. In order to minimize financial expenses the Group does not hedge the entire exposure.

Counterparty risk. Financial instruments contain an element of risk that the counterparty may be unable to either issue securities or to fulfill the settlement terms of a contract. Clariant therefore only cooperates with counterparties or issuers that are at least A-rated. The cumulative exposure to these counterparties is constantly monitored by the Group management; therefore, there is no expectation of a material loss due to counterparty risk in the future.

The following table shows the contract or underlying principal amounts and the respective fair value of financial instruments by type at year-end. The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent the amount at risk. The fair values represent market values or standard pricing models at 31 December 2002 and 2001 respectively.

Financial instruments CHF mn	Contract or underlying principal amount		Positive fair values		Negative fair values	
	2002	2001	2002	2001	2002	2001
Currency-related instruments						
Forward foreign exchange rate contracts and currency swaps	139	524	2	5	—	- 100
Interest related instruments						
Interest rate swaps	750	981	31	20	- 24	- 17
Total financial instruments	889	1 505	33	25	- 24	- 117

Financial instruments by maturity	1–12 months		1–5 years		Over 5 years		Total	Total
CHF mn								
	2002	2001	2002	2001	2002	2001	2002	2001
Currency-related instruments								
Forward foreign exchange rate contracts and cross currency swaps	135	75	4	411	–	38	139	524
Interest-related instruments								
Interest rate swaps	527	476	223	240	–	265	750	981
Total financial instruments	662	551	227	651	–	303	889	1 505

Financial instruments by currency		
Forward foreign exchange rate contracts and currency swaps		
CHF mn		
	2002	2001
USD	134	431
JPY	–	69
EUR	4	23
Other	1	1
Total	139	524
Interest rate swaps	750	981
Total financial instruments	889	1 505

All counterparties are A-rated at least.

Financial instruments effective for hedge accounting purposes	2002	2001
CHF mn		
Fair value of cash flow hedges		
Interest rate swaps	- 1	- 14
Forward foreign exchange contracts	1	–
Fair value of fair value hedges		
Interest rate swaps	21	21
Forward foreign exchange contracts and currency swaps	- 25	- 18
Fair value of hedges of net investments in foreign entities		
Contracts with positive fair values		
Cross currency swaps	24	3
Contracts with negative fair values		
Borrowings denominated in foreign currencies	- 297	- 303
Cross currency swaps	- 6	- 50

Securitization. For a number of years Clariant has been using securitization as a means of financing. Trade receivables from certain companies are sold in ABS programs and as a consequence are derecognized

from the balance sheet, as Clariant does not retain obligation or interest in the receivables.

Volumes of securitization of trade receivables CHF mn	2002	2001
Trade receivables denominated in euro	104	214
Trade receivables denominated in US dollars	101	136
Total	205	350

12. Changes in share capital and treasury shares

Registered shares each with a par value of CHF 5 Adapted to the share split 10:1	Number of shares 2002	Par value 2002 CHF mn	Number of shares 2001	Par value 2001 CHF mn
At 1 January	153 440 000	767	153 440 000	767
At 31 December	153 440 000	767	153 440 000	767
Treasury shares	- 3 787 828	- 19	- 1 052 396	- 5
Outstanding capital 31 December	149 652 172	748	152 387 604	762

Treasury shares (number of shares)	2002	2001
Holdings at 1 January	1 052 396	564 760
Shares purchased at strike prices fixed in 2001 and 2002	3 150 000	610 686
Shares sold at fair market value	- 306 240	- 102 410
Shares for employees	- 108 328	- 20 640
Holdings at 31 December	3 787 828	1 052 396
Outstanding shares, accessible to Clariant via a call/put structure	—	3 150 000

13. Long-term financial debts

CHF mn	Interest rate	Term	Original amount 31.12.2002	Repurchased	Net amount 31.12.2002	Net amount 31.12.2001
Straight bonds	4.625	1996–2003	150	- 15	135	135
Straight bonds	4.125	1996–2006	200	- 46	154	161
Straight bonds	3.375	1997–2004	300	- 50	250	263
Straight bonds	3.750	1997–2007	200	- 25	175	186
Straight bonds	3.000	1998–2005	250	- 49	201	218
Straight bonds	4.250	2000–2008	500	- 116	384	434
Total straight bonds			1 600	- 301	1 299	1 397
Liabilities to banks and other financial institutions					1 949	2 418
Obligations under finance leases					–	–
Subtotal					3 248	3 815
Less current portion					- 146	- 14
Total					3 102	3 801
Breakdown by maturity				2003	–	485
				2004	489	503
				2005	702	786
				2006	548	552
				2007	617	–
				thereafter	746	1 475
Total					3 102	3 801
Breakdown by currency				CHF	1 480	1693
				EUR	451	784
				USD	324	395
				JPY	834	914
				other	13	15
Total					3 102	3 801
Fair value comparison						
Straight bonds					1 304	1 321
Others					1 964	2 264
Total					3 268	3 585
Total value of the security given, mainly against tangible fixed assets					146	204
Total secured long-term financial debts					34	42

In order to reduce financial debts Clariant repurchased bonds in the amount of CHF 98 million in 2002 and CHF 203 million in 2001.

14. Movements in provisions and other long-term liabilities

CHF mn	Provisions for pension plans	Environmental provisions	Other long-term provisions	Total 2002
At 1 January	466	252	220	938
Additions and reclassifications	74	54	48	176
Amounts used	- 51	- 23	- 58	- 132
Unused amounts reversed	- 3	—	- 3	- 6
Changes due to passage of time and changes in discount rates	10	—	- 3	7
Translation effects	- 39	- 31	- 31	- 101
At 31 December	457	252	173	882

15. Short-term financial debts

CHF mn	31.12.2002	31.12.2001
Banks and other financial institutions (including employees' accounts)	946	1 011
Current portion of long-term financial debts	146	14
Total	1 092	1 025

16. Provisions and other short-term liabilities

CHF mn	31.12.2002	31.12.2001
Provisions for restructuring	66	172
Liabilities from personnel costs	160	158
Other short-term provisions	234	222
Total short-term provisions	460	552
Accruals	393	441
Other payables	226	250
Total	1 079	1 243

Movements in short-term provisions	Restructuring provisions	Liabilities from personnel costs	Other short-term provisions	Total 2002
CHF mn				
At 1 January	172	158	222	552
Additions and reclassifications	17	170	212	399
Amounts used	- 101	- 140	- 142	- 383
Unused amounts reversed	- 10	- 14	- 44	- 68
Translation effects	- 12	- 14	- 14	-40
At 31 Dezember	66	160	234	460

17. Employee benefits

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 exist for the pension and other long-term employee benefit obligations. In these cases the related liability is included in the balance sheet.

CHF mn	31.12.2002	31.12.2001
Liabilities recognized in the balance sheet:		
Pension funds defined contribution plans	- 28	- 28
Pension funds defined benefit plans	- 316	- 309
Other post retirement benefit plans	- 113	- 129
Total	- 457	- 466

Defined contribution pension and termination plans. In 2002, CHF 30 million was charged to the income statements of the Group companies as contributions to these plans (2001: CHF 30 million).

Defined benefit pension and termination plans. Defined benefit pension and termination plans cover the majority of the Group's employees. Future obligations and the corresponding assets of those plans considered as defined benefit plans under IAS 19 are reappraised annually and reassessed at least every three years by independent actuaries. Assets are valued at fair values. US employees transferred to Clariant with the Hoechst Specialty Chemicals business remain insured with Hoechst for their pension claims incurred prior to 30 June 1997. The following is a summary of the status of the plans:

CHF mn	31.12.2002	31.12.2001
Present value of funded obligations	- 1 384	- 1 327
Fair value of plan assets	1 122	1 259
Deficit	- 262	- 68
Present value of unfunded obligations	- 306	- 284
Unrecognized actuarial losses	252	43
Liability in the balance sheet	- 316	- 309

The pension plan assets include registered shares issued by the Company with a fair value of CHF 4 million at 31 December 2002 (2001: CHF 10 million).

The amounts recognized in the income statement are as follows:

CHF mn	2002	2001
Current service cost	- 80	- 81
Interest cost	- 81	- 78
Expected return on plan assets	70	88
Net actuarial losses recognized in current year	- 8	-
Losses on curtailment	-	- 2
Total included in personnel costs in the Group income statement	- 99	- 73

The actual return on plan assets in 2002 was CHF -126 million (2001: CHF -186 million).

Movement in the liability recognized in the balance sheet:

CHF mn	2002	2001
1 January	- 309	- 312
Translation effect	16	15
Reduction in obligations due to restructuring	-	14
Total expense as above	- 99	- 73
Contributions paid	76	51
Others	-	- 4
31 December	- 316	- 309

The principal actuarial assumptions used for accounting purposes were:

weighted average %	2002	2001
Discount rate	5.4	5.4
Expected return on plan assets	6.0	6.3
Expected inflation rate	2.5	2.4

Postemployment medical benefits. The Group operates a number of postemployment medical benefit schemes in the USA, Canada and France. The method of accounting for the liabilities associated with these plans is similar to the one used for defined benefit pension schemes. These plans are not externally funded, but are covered by provisions in the balance sheets of the Group companies concerned.

The following amounts are recognized in the balance sheet:

CHF mn	2002	2001
Present value of unfunded obligations	- 107	- 105
Unrecognized actuarial gains	- 6	- 24
Liability in the balance sheet	- 113	- 129

The amounts recognized in the income statement are as follows:

CHF mn	2002	2001
Current service cost	- 2	- 3
Interest cost	- 8	- 7
Total included in personnel costs	- 10	- 10

Movement in the liability recognized in the balance sheet:

CHF mn	2002	2001
1 January	- 129	- 119
Translation effect	21	- 2
Total expense as above	- 10	- 10
Benefits paid	4	3
Other	1	- 1
31 December	- 113	- 129

In addition to the assumptions used for the pensions schemes, the main actuarial assumption is a long-term increase in health costs of 8.0% per year.

18. Employee participation plans

I. Executive Stock Option Plan “ESOP.” In 1999, a new Clariant Group Executive Stock Option Plan was introduced. Under this plan, a specific group of executives are granted, as part of their annual remuneration, the choice of either:

a Options

The granted options entitle the holder to acquire registered shares of Clariant Ltd (1 share per option) at a predetermined strike price. They become vested and are exercisable after 3 years and expire after 10 years.

b Shares

The granted registered shares Clariant Ltd become vested and are exercisable after 3 years.

II. Management Stock Incentive Plan “MSIP.” In 1999, a Clariant Group Management Stock Incentive Plan was introduced. Under this plan a specific group of managers are granted, as part of their annual remuneration, registered shares of Clariant Ltd. The shares become vested after 3 years.

The number of options and shares granted in both plans depends on the performance of the individuals and on the performance of the sector in which they work.

The costs of the Plans (I.b) and (II.) are included in personnel expenses. A provision has been made for shares earned in 2002 which will be granted in 2003.

The grant of options (I.a) has no effect on the income statement.

The options granted in 1998 will be covered entirely by the employee share participation foundation.

Share options and shares as of 31 December 2002						
Base-year	Granted	Exercisable from	Expiry date	Exercise price	Number 31.12.2002	Number 31.12.2001
Options						
1997	1998	2001	2007	28.65	81 780 ¹	113 480 ¹
1997	1998	2001	2007	42.15	145 100 ¹	145 100 ¹
1998	1999	2002	2008	69.50	308 820 ²	308 820 ²
1999	2000	2003	2009	54.00	103 550 ²	103 820 ²
2000	2001	2004	2010	47.00	6 420 ²	6 420 ²
2001	2002	2005	2011	30.60	159 113 ²	—
Total					804 783	677 640
Shares						
1999	2000	2003			156 130 ²	176 260 ²
2000	2001	2004			302 420 ²	316 890 ²
2001	2002	2005			355 882 ²	
Total					814 432	493 150

¹ The corresponding number of registered shares is held by the employee share participation foundation.

² The corresponding number of registered shares is held as treasury shares of Clariant Ltd.

19. Taxes

CHF mn	2002	2001
Current income taxes	- 207	- 213
Deferred income taxes	18	103
Total	- 189	- 110

Tax expense on the consolidated earnings before taxes and special amortization of goodwill differs from the expected tax rate as follows:

	2002 %	2001 %
Expected tax rate	35.0	35.0
Effect of deviating tax rates	4.4	- 0.7
Effect of expenses which are additionally taxable	5.0	2.6
Tax effect of restructuring and impairment expenses at present not tax deductible	11.8	68.8
Other items	- 0.6	1.1
Effective tax rate	55.6	106.8

CHF mn	31.12.2002	31.12.2001
Deferred tax liabilities on:		
Tangible and intangible assets	414	444
Prepaid pensions, other accruals and provisions	169	173
Total deferred tax liabilities	583	617
Deferred tax assets on:		
Tangible and intangible assets	52	42
Employee benefit liabilities	127	114
Other accruals and provisions	216	258
Total deferred tax assets	395	414

Tax losses on which no deferred tax was calculated are as follows:

	31.12.2002	31.12.2001
Expiry by:		
2002	—	5
2003	7	42
2004	15	15
2005	21	40
2006	16	19
2007	14	—
after 2007	2 028	1 549
Total	2 101	1 670

CHF mn	31.12.2002	31.12.2001
Unrecognized tax credits	4	19

The tax credits expire between 2005 and 2009.

20. Financial income and expense

CHF mn	2002	2001
Interest income	15	21
Fair value gains on financial instruments:		
Interest rate swaps	2	3
Other financial income	26	28
Financial income	43	52
Interest expense	- 193	- 278
Fair value losses on financial instruments:		
Foreign exchange forward contracts and currency swaps:		
Transactions classified as trading activities	- 4	- 12
Other financial expense	- 32	- 8
Financial expense	- 229	- 298
Currency result, net	- 62	—
Total	- 248	- 246

21. Affiliates, joint ventures and associated companies

The principal affiliates, joint ventures and associated companies are listed on pages 52 to 53.

22. Earnings per share (EPS)

Earnings per share are calculated by dividing the Group net income by the average outstanding number of shares (issued shares less treasury shares).

	2002	2001
Net loss CHF mn	- 648	- 1 242
Diluted net loss CHF mn	- 648	- 1 242
Shares		
Holdings on 1 January	152 387 604	152 875 240
Effect of transactions with treasury shares on average number of shares outstanding	- 1 497 438	- 301 644
Average number of shares outstanding	150 890 166	152 573 596
Average diluted number of shares outstanding	150 890 166	152 573 596
Loss per share (CHF/share)	- 4.30	- 8.14
Diluted loss per share (CHF/share)	- 4.30	- 8.14

23. Personnel expenses

CHF mn	2002	2001
Wages and salaries	- 1 637	- 1 868
Pension and social security costs	- 460	- 478
Total	- 2 097	- 2 346

24. Regional breakdown of key figures

Region CHF mn	Sales ^{1*}		Operating income after restructuring, disposals and amorti- zation of goodwill ^{2*}		Number of employees per 31.12.*	
	2002	2001	2002	2001	2002	2001
Europe	4 182	4 282	- 162	- 557	15 389	15 839
<i>thereof in Germany</i>	1 045	1 044	207	102	7 799	7 888
The Americas	2 559	2 724	- 249	- 503	6 133	5 896
<i>thereof in USA</i>	1 431	1 517	- 393	- 577	2 504	2 433
Asia/Africa/Australia	2 083	2 137	161	148	6 327	6 291
Total continuing operations	8 824	9 143	- 250	- 912	27 849	28 026
Europe	382	585	33	26	—	762
<i>thereof in Germany</i>	246	412	11	31	—	409
The Americas	124	139	15	9	—	116
<i>thereof in USA</i>	86	97	15	9	—	109
Asia/Africa/Australia	—	4	—	—	—	—
Total discontinuing operations	506	728	48	35	—	878
Total Group	9 330	9 871	- 202	- 877	27 849	28 904

Region CHF mn	Investments in tangible fixed assets*		Depreciation of tangible fixed assets*		Net operating assets at 31.12. ^{3*}	
	2002	2001	2002	2001	2002	2001
Europe	185	289	272	690	2 753	3 507
<i>thereof in Germany</i>	94	126	146	437	917	1 172
The Americas	104	139	176	148	767	1 575
<i>thereof in USA</i>	49	100	151	117	326	981
Asia/Africa/Australia	42	43	46	56	933	1 069
Total continuing operations	331	471	494	894	4 453	6 151
Europe	5	14	11	22	—	96
<i>thereof in Germany</i>	3	11	9	19	—	51
The Americas	3	20	7	8	—	67
<i>thereof in USA</i>	3	20	7	8	—	65
Asia/Africa/Australia	—	—	—	—	—	—
Total discontinuing operations	8	34	18	30	—	163
Total Group	339	505	512	924	4 453	6 314

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.

* Restated for changes in discontinuing operations.

25. Divisional breakdown of key figures

At the end of 2001 the Cellulose Ethers & Polymerisates Division was disbanded. Some of the pertaining business units were integrated into the Functional Chemicals Division and others into the Textile, Leather & Paper Chemicals Division. As already reported the Business Unit PVA/PVB was sold to the Japanese firm Kuraray in 2001.

In accordance with IAS 14 segmental information is disclosed here taking into account this realignment for all periods presented, the information for 2001 was restated accordingly. Discontinuing operations for 2001 were restated to include the activities of the operations sold in 2002 in addition to the activities of PVA/PVB, which were sold in 2001. Net assets for 2001 were restated and goodwill was allocated to the divisions.

Divisions continuing operations CHF mn	Textile, Leather & Paper Chemicals (TLP)*		Pigments & Additives (PA)		Masterbatches (MB)	
	2002	2001	2002	2001	2002	2001
Sales divisions	2 320	2 492	1 882	1 934	1 030	1 040
Sales to other divisions	- 14	- 22	- 68	- 62	- 3	- 2
Total Sales	2 306	2 470	1 814	1 872	1 027	1 038
Systematic depreciation of tangible fixed assets ¹	- 85	- 94	- 75	- 66	- 26	- 24
Amortization of intangible assets without goodwill	—	- 1	—	—	- 1	- 1
Income from associates	4	10	16	22	3	1
Other operating expenses	- 2 011	- 2 158	- 1 545	- 1 598	- 903	- 933
Operating income before restructuring, disposals and amortization of goodwill	214	227	210	230	100	81
Disposal of business activities and financial fixed assets	79	50	—	—	—	—
Restructuring and impairment	—	- 149	—	- 90	—	- 17
Amortization of goodwill	- 22	- 17	- 7	- 3	- 2	- 4
Operating income after restructuring, disposals and amortization of goodwill	271	111	203	137	98	60
EBITDA before restructuring and disposals	299	322	285	296	127	106
EBITDA after restructuring and disposals	378	295	285	265	127	98
Total assets	2 130	2 080	1 511	1 639	510	510
Liabilities	- 181	- 132	- 160	- 156	- 63	- 63
Total equity and minority interests	1 949	1 948	1 351	1 483	447	447
Net debts	—	—	—	—	—	—
Total net operating assets³	1 949	1 948	1 351	1 483	447	447
Thereof:						
Investments in tangible fixed assets for the period	70	60	54	64	31	25
Investments in associated companies	59	66	165	230	7	5

¹ Reconciliation of depreciation:

CHF mn	2002	2001
Systematic depreciation	412	544
Depreciation from restructuring and impairment (Note 6)	100	380
Total	512	924

² Corporate: depreciation includes a special write-off charge of CHF 97 million and other operating expenses; the corresponding credit is for a cancelled project of the Functional Chemicals Division.

2002 Consolidated Financial Statements of the Clariant Group

	Functional Chemicals (FUN)*		Life Science & Electronic Chemicals (LSE)		Total Divisions Continuing Operations*		Discontinuing Operations*		Total Divisions		Corporate*		Total Group	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	2 119	2 232	1 713	1 736	9 064	9 434	542	761	9 606	10 195	—	—	9 606	10 195
	- 60	- 85	- 95	- 120	- 240	- 291	- 36	- 33	- 276	- 324	—	—	- 276	- 324
	2 059	2 147	1 618	1 616	8 824	9 143	506	728	9 330	9 871	—	—	9 330	9 871
	- 71	- 63	- 112	- 145	- 369	- 392	- 18	- 30	- 387	- 422	- 25	- 122 ²⁾	- 412	- 544
	- 1	—	- 2	- 3	- 4	- 5	—	—	- 4	- 5	- 6	- 7	- 10	- 12
	7	9	—	—	30	42	6	- 2	36	40	—	2	36	42
	- 1 853	- 1 925	- 1 472	- 1 541	- 7 784	- 8 155	- 444	- 638	- 8 228	- 8 793	- 26	67 ²⁾	- 8 254	- 8 726
	141	168	32	- 73	697	633	50	58	747	691	- 57	- 60	690	631
	2	—	—	—	81	50	—	—	81	50	—	418	81	468
	—	- 35	- 100	- 200	- 100	- 491	—	- 23	- 100	- 514	—	- 125	- 100	- 639
	- 1	- 1	- 839	- 1 312	- 871	- 1 337	- 2	—	- 873	- 1 337	—	—	- 873	- 1 337
	142	132	- 907	- 1 585	- 193	- 1 145	48	35	- 145	- 1 110	- 57	233	- 202	- 877
	213	231	146	75	1 070	1 030	68	88	1 138	1 117	- 26	69	1 112	1 186
	215	208	146	- 7	1 151	859	68	58	1 219	917	- 26	478	1 193	1 395
	1 302	1 406	1 568	1 947	7 021	7 582	—	239	7 021	7 821	1 529	2 734	8 550	10 555
	- 158	- 158	- 135	- 143	- 697	- 652	—	- 76	- 697	- 728	- 6 876	- 7 795	- 7 573	- 8 523
	1 144	1 248	1 433	1 804	6 324	6 930	—	163	6 324	7 093	- 5 347	- 5 061	977	2 032
	—	—	—	—	—	—	—	—	—	—	3 476	4 282	3 476	4 282
	1 144	1 248	1 433	1 804	6 324	6 930	—	163	6 324	7 093	- 1 871	- 779	4 453	6 314
	88	177	70	129	313	455	8	34	321	489	18	16	339	505
	71	88	3	3	305	392	—	10	305	402	7	9	312	411

³ Within Net Operating Assets, fixed assets including infrastructure, inventory, trade payables and receivables and goodwill were allocated to each division. All other balance sheet positions generally included in the calculation of Net Operating Assets, were allocated to corporate.

* Restated

26. Related-party transactions

Transactions with companies which are recorded as shareholdings valued at equity in the consolidated balance sheet:

Income and expense CHF mn	2002	2001
Income from the sale of goods to related parties	51	47
Income from the rendering of services to related parties	16	15
Expense from the purchase of goods from related parties	- 19	- 23
Expense from the purchase of services from related parties	-474	- 558
Payables, receivables and loans	31.12.2002	31.12.2001
Trade accounts receivable from related parties	13	17
Trade accounts payable to related parties	72	72

Others: Compensation paid to the Board of Directors is disclosed in the section "Corporate Governance."

There were no outstanding loans by the Group to any members of the Board of Directors.

27. Commitments and contingencies

Leasing commitments. Commitments arising from fixed-term operational leases mainly from Infraserv companies, at 31 December are as follows:

CHF mn	2002	2001
2002	—	91
2003	83	74
2004	66	61
2005	50	47
2006	41	42
2007	38	—
thereafter	35	39
Total	313	354
Guarantees in favour of third parties	120	96

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.

Clariant is currently striving to meet the requirements to which it committed itself in the contract with a major customer. Failure to comply with the contractual obligations could result in the impairment of property plant and equipment and the payment of damages to the counterparty. The potential loss arising from a possible default of contract could amount to up to CHF 155 million. Management estimates the probability of defaulting to be less than 50%.

Environmental risk. Clariant is exposed to environmental liabilities and risk relating to its past operations, principally in respect to remediation costs. Provisions for nonrecurring remediation costs are made when there is a legal or constructive obligation and the cost can be estimated reliably. The material components of the Group's potential environmental liability consist of a risk assessment based on investigation of the various sites identified by the Group as at risk for environmental exposure.

Clariant believes that its provisions are adequate based upon currently available information, however, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred.

28. Exchange rates of principal currencies

	31.12.2002	31.12.2001
1 USD	1.39	1.68
1 GBP	2.23	2.43
100 JPY	1.17	1.28
1 EUR	1.45	1.48

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

	2002	2001
1 USD	1.56	1.69
1 GBP	2.33	2.43
100 JPY	1.24	1.39
1 EUR	1.47	1.51

29. Events subsequent to the balance sheet date

Due to the insufficient profitability of the Life Science & Electronic Chemicals Division, Clariant will start a restructuring program for this division in 2003. Some sites will be disposed of or closed. Management estimates the costs to be in the range of CHF 30 to 50 million. In addition marketing, distribution and administration will be reorganized and optimized at a regional level in order to reduce cost base by up to CHF 150 million. Costs will amount to up to CHF 200 million over two to three years.

Report of the Group Auditors

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 22 to 46) of the Clariant Group for the year-ended 31 December 2002.

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 Swiss profession and with the International Standards on Auditing, 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 International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee, and comply with Swiss law.

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

PricewaterhouseCoopers AG

U. Vogt

Dr. R. Gerber

Basel, 19 February 2003

Five-Year Group Summary

Five-year Group Summary 1998–2002		2002	2001	2000	1999 restated	1999	1998
Divisional Sales	CHF mn	9 606	10 195	11 006	9 158	9 158	9 341
Change relative to preceding year							
in Swiss francs	%	- 6	- 7	16	- 2	- 2	- 6
in local currency	%	2	- 2	12	- 4	- 4	- 1
Group Sales¹	CHF mn	9 330	9 871	10 583	9 256	9 256	9 535
Change relative to preceding year							
in Swiss francs	%	- 5	- 7	14	- 3	- 3	- 6
in local currency	%	3	- 2	10	- 5	- 5	- 2
Operating income before restructuring, disposals and amortization of goodwill	CHF mn	690	631	1 135	1 082	1 082	1 097
Change relative to preceding year	%	9	- 44	5	- 1	- 1	7
as a % of sales		7.4	6.4	10.7	11.7	11.7	11.5
Operating income after restructuring, disposals and amortization of goodwill	CHF mn	- 202	- 877	1 010	1 064	1 030	1 057
Change relative to preceding year	%	—	—	- 5	1	- 3	7
as a % of sales		- 2.2	- 8.9	9.5	11.5	11.1	11.1
EBITDA after restructuring and disposals	CHF mn	1 193	1 395	1 657	1 646	1 646	1 672
Change relative to preceding year	%	- 14	- 16	1	- 2	- 2	5
as a % of sales		12.8	14.1	15.7	17.8	17.8	17.5
Net income before minority interests	CHF mn	- 639	- 1 233	513	596	562	524
Change relative to preceding year	%	—	—	- 14	14	7	22
as a % of sales		- 6.8	- 12.5	4.9	6.4	6.1	5.5
Investment in tangible fixed assets	CHF mn	339	505	535	425	425	464
Change relative to preceding year	%	- 33	- 6	26	- 8	- 8	- 2
as a % of sales		4	5	5	5	5	5
Personnel costs	CHF mn	2 097	2 346	2 395	2 168	2 168	2 117
Change relative to preceding year	%	- 11	- 2	10	2	2	- 1
as a % of sales		22	24	23	23	23	22
Employees at year end	number	27 849	28 904	31 546	28 993	28 993	29 279
Change relative to preceding year	%	- 4	- 8	9	- 1	- 1	- 5

¹ Incl. trading.

Review of Trends

Trend in Group Sales by Division	2002		2001*		2000*		1999*		1998*	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Textile, Leather & Paper Chemicals	2 769	30	2 965	31	3 211	31	2 799	31	2 814	31
Pigments & Additives	1 814	19	1 872	19	2 108	20	1 896	21	1 882	21
Masterbatches	1 027	11	1 038	11	1 145	11	1 065	12	977	11
Functional Chemicals	2 102	23	2 183	23	2 280	22	2 140	24	2 365	26
Life Science & Electronic Chemicals	1 618	17	1 616	17	1 651	16	1 087	12	1 117	12
Total divisions	9 330	100	9 674	100	10 395	100	8 987	100	9 155	100
Other (Mainly trading activities)	—		197		188		269		380	
Total Group	9 330		9 871		10 583		9 256		9 535	

* Restated

Trend in Group Sales by Region	2002		2001		2000		1999		1998	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Europe	4 564	49	4 867	49	5 152	49	4 780	52	5 231	55
The Americas	2 683	29	2 863	29	3 093	29	2 596	28	2 729	29
Asia/Australia	1 910	20	1 955	20	2 143	20	1 683	18	1 361	14
Africa	173	2	186	2	195	2	197	2	214	2
Total	9 330	100	9 871	100	10 583	100	9 256	100	9 535	100

Share Information

	31.12.2002	31.12.2001	31.12.2000	31.12.1999	31.12.1998
Number of registered shares issued (at par value CHF 50 each)	153 440 000	153 440 000 ¹	153 440 000	146 008 280 ¹	145 456 360 ¹
Number of shares created by conversion within the limits of the conditional capital	—	—	7 431 720	551 920	16 360
Number of shares eligible for dividend	153 440 000	153 440 000	153 440 000	146 008 280	145 456 360
Dividend per share in CHF	— ²	0.30	1.10	1.00	0.90
Year-end price in CHF	22.10	31.25	58.10	75.90	64.20
Stock exchange capital in mn CHF	3 391	4 795	8 915	11 082	9 338
High/low in CHF	40.30/21.50	59.40/16.50	79.90/46.10	79.30/62.20	105.40/54.00

All quotations were adapted to the share split 2:1 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), as well as to the share split 10:1 of May 2001 (every registered share with a par value of CHF 50 each was split into ten registered shares with a par value of CHF 5 each), therefore the values are comparable.

¹ Including shares created by conversions in the respective business year.

² According to the resolution of the Board of Directors.

Shareholders' Structure

Shareholders' structure according to number of shares held at 31 December 2002

Number of shares	Number of shareholders	%	Title	%
1–999	27 830	78.7	8 401 261	5.5
1 000–9 999	6 903	19.5	14 511 910	9.4
10 000–99 999	525	1.5	12 640 494	8.2
100 000 and more	86	0.3	57 333 962	37.4
Total registered shares			92 887 627	60.5
Shares not registered	—	—	60 552 373	39.5
Total	35 344	100.0	153 440 000	100.0

Shareholders' structure according to regions at 31 December 2002

Regions	Number of shareholders	%	Title	%
Switzerland	33 585	95.0	56 488 372	36.8
Europe	1 571	4.5	32 434 079	21.1
Outside of Europe	188	0.5	3 965 176	2.6
thereof USA	40	0.1	3 468 178	2.3
Shares not registered	—	—	60 552 373	39.5
Total	35 344	100.0	153 440 000	100.0

Shareholders holding 5% and more of the shares issued: Frankfurter Spezialchemikalien Verwaltungs GmbH & Co. KG, a 100% owned subsidiary of Hoechst Ltd, Frankfurt, which on its part is a 97% participation of Aventis, Strasbourg, 18 180 000 shares.

Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA), owns 5.12% of the share capital on 31 December 2002 (2001: 0.0%).

Affiliated companies and other holdings

At 31 December 2002		Participation	Holding/ Finance	Sales	Production	Research
● Above 90% ▼ Above 50 and up to 90% ■ 50% and below ¹ Management and Support						
Argentina	Clariant (Argentina) S.A., Buenos Aires	●		●	●	
Australia	Clariant (Australia) Pty Ltd, Melbourne	●		●	●	
Austria	Clariant (Österreich) 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 Chemicals (China) Ltd, Shanghai	●		●	●	
	Clariant (China) Ltd, Hong Kong	●		●	●	
	Clariant Guangzhou Masterbatch Ltd, Guangzhou	▼		●	●	
	Clariant Pigments (Tianjin) Co. Ltd, Tianjin	▼		●	●	
	Clariant (Tianjin) 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, Glostrup	●		●	●	
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 (France), Paris La Défense	●		●	●	●
	Clariant Huningue, Huningue	●		●	●	●
	Clariant Life Science Molecules (France) S.A.S., Nanterre	●		●	●	
Germany	Clariant (Deutschland) GmbH, Leinfelden-Echterdingen	●		●	●	●
	Clariant GmbH, Frankfurt	●		●	●	●
	Clariant Masterbatch GmbH & Co. OHG, Lahnstein	●		●	●	●
	Clariant Verwaltungsges. mbH, Leinfelden-Echterdingen	●	●			
Great Britain	BTP plc, Manchester	●	●			
	BTP Chemicals plc, Manchester	●	●	●	●	●
	Clariant Holdings UK Ltd, Horsforth/Leeds	●	●			
	Clariant UK Ltd, Horsforth/Leeds	●		●	●	●
	Lancaster Synthesis Ltd, Morecambe	●		●	●	●
	TR Oil Services Ltd, Stockport	●		●	●	
Greece	Clariant (Hellas) S.A., Lykovrisi	●		●	●	
Guatemala	Clariant (Guatemala) S.A., Guatemala City	●		●	●	
Hungary	Clariant Hungaria Kft, Budapest	●		●		
India	BTP India Ltd, Chennai	●		●	●	●
	Clariant (India) Ltd, Mumbai	▼		●	●	
	Colour-Chem Ltd, Mumbai	▼		●	●	
Indonesia	P. T. Clariant Indonesia, Tangerang	●		●	●	
	P. T. Pulosynthetics, Jakarta	●		●	●	
Ireland	Masterplast Ltd, Naas	●		●	●	
Italy	Clariant (Italia) S.p.A., Milan	●		●	●	●
	Clariant Life Science Molecules (Italia) S.p.A., Origgio	●		●	●	●
Japan	Clariant (Japan) K.K., Tokyo	●		●	●	●
	Clariant Polymers K.K., Tokyo	●		●	●	●

Principal Companies of the Clariant Group

		Participation	Holding/ Finance	Sales	Production	Research
Korea	Clariant Industries (Korea) Ltd, Seoul	▼		●	●	
	Clariant (Korea) Ltd, Seoul	●		●		
	Clariant Sang Ho Ltd, Yangsan-Si	▼		●	●	
	Songwon Color Co., Ltd, Ulsan	●		●	●	
Luxemburg	BTP World S.A., Luxembourg	●	●			
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	Dick Peters BV, Denekamp	●		●	●	
New Zealand	Clariant (New Zealand) Ltd, Takapuna-Auckland	●		●	●	
Norway	Clariant (Norge) AS, Sande	●		●		
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., Mem Martins	●		●	●	
Singapore	Clariant (Singapore) Pte. Ltd, Singapore	●		●	●	
South Africa	Clariant Southern Africa (Pty) Ltd, Weltevreden Park	●		●	●	
Spain	Clariant Ibérica S.A., Barcelona	●		●	●	●
	Disper S.A., Sant Andreu de la Barca	●		●	●	
Sweden	Clariant (Sverige) AB, Mölndal	●		●	●	
Switzerland	Clariant International AG, MuttENZ	●	● ¹			
	Clariant (Schweiz) AG, MuttENZ	●		●	●	●
	SF-Chem AG, Pratteln	■		●	●	●
Taiwan	Clariant (Taiwan) Co. Ltd, Taipei	●		●	●	
Thailand	Clariant Chemicals (Thailand) Ltd, Bangkok	●		●	●	
	Drycolor Pacific Co. Ltd, Bangkok	●		●	●	
Tunisia	Clariant Tunisie S.A., Cherguia-Tunis	■		●		
Turkey	Clariant (Türkiye) A.S., Istanbul	●		●	●	
USA	Clariant Corporation, Charlotte, N.C.	●		●	●	●
	Clariant Life Science Molecules (America) Inc., Elgin, S.C.	●		●	●	●
	Clariant Life Science Molecules (Florida) Inc., Gainesville, F.L.	●		●	●	●
	Clariant Life Science Molecules (Missouri) Inc., Springfield, M.O.	●		●	●	
	Lancaster Synthesis Inc., Pelham, N.H.	●		●	●	
Venezuela	Clariant (Venezuela) S.A., Maracay	●		●	●	

Clariant Ltd Balance Sheets (Prior to Dividend Proposal)

Assets	31.12.2002		31.12.2001	
at 31 Dezember 2002 and 2001	CHF	%	CHF	%
Shareholdings in Group companies	2 148 543 389		2 467 379 898	
Loans to Group companies	2 015 527 061		2 527 891 613	
Total long-term assets	4 164 070 450	88.3	4 995 271 511	92.1
Current assets				
Receivables from Group companies	14 523 854		74 204 504	
Other receivables	9 066 833		8 279 279	
Accrued income	3 482 618		19 442 319	
Marketable securities	83 710 999		31 724 867	
Cash and short-term deposits	441 792 722		292 793 052	
Total current assets	552 577 026	11.7	426 444 021	7.9
Total assets	4 716 647 476	100.0	5 421 715 532	100.0

Equity and liabilities	31.12.2002		31.12.2001	
at 31 Dezember 2002 and 2001	CHF	%	CHF	%
Equity				
Total share capital	767 200 000		767 200 000	
Reserves				
Legal reserves	1 767 307 991		1 898 272 237	
Reserve for treasury shares	142 677 809		57 745 563	
Total reserves	1 909 985 800		1 956 017 800	
Accumulated loss				
Balance from prior year	- 1 139 387 812		57 149 991	
Loss for the year	- 623 367 683		- 1 196 537 803	
Total accumulated loss	- 1 762 755 495		- 1 139 387 812	
Total equity	914 430 305	19.4	1 583 829 988	29.2
Liabilities				
Long-term liabilities				
Straight bonds	1 169 075 000		1 396 835 000	
Other long-term liabilities	1 098 219 614		1 484 643 034	
Total long-term liabilities	2 267 294 614		2 881 478 034	
Short-term liabilities				
Provisions	16 791 490		17 272 124	
Liabilities to Group companies	972 230 480		661 081 467	
Other liabilities	469 390 814		150 839 073	
Accrued expenses	76 509 773		127 214 846	
Total short-term liabilities	1 534 922 557		956 407 510	
Total liabilities	3 802 217 171	80.6	3 837 885 544	70.8
Total equity and liabilities	4 716 647 476	100.0	5 421 715 532	100.0

The notes form an integral part of the financial statements.

2002 Financial Statements of Clariant Ltd, Muttenz

Clariant Ltd Income Statements

	2002 CHF	2001 CHF
Income		
Income from financial assets	369 195 394	241 606 875
Income from cash, marketable securities and short-term deposits	131 229 536	129 297 660
Other income	43 384 717	46 488 103
Total income	543 809 647	417 392 638
Expenses		
Financial expense	243 590 627	383 035 216
Administrative expense	6 152 286	2 947 928
Depreciation on financial fixed assets	915 392 627	1 225 998 256
Other expense (including taxes)	2 041 790	1 949 041
Total expenses	1 167 177 330	1 613 930 441
Net income	- 623 367 683	- 1 196 537 803

The notes form an integral part of the financial statements.

Proposal for Netting of Accumulated Loss

The Board of Directors proposes to reduce the legal reserves to the required minimum of 20% of the share capital. The reserves in excess of this minimum shall be netted with the unappropriated loss. The resulting unappropriated net loss shall be carried forward.

	CHF
Total legal reserves on 31 December 31 2002	1 767 307 991
Less legally restricted reserves in the amount of 20% of share capital	- 153 440 000
Reserves in excess of legally restricted minimum	1 613 867 991
Total accumulated loss	- 1 762 755 495
Accumulated loss to be carried forward	- 148 887 504

Notes to the Financial Statements of Clariant Ltd

1. Accounting policies

Introduction. Statutory 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 rate 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

Clariant has reassessed the former BTP businesses in terms of their future cash flow generation capabilities and written down the investments in these companies by CHF 915 million (prior year CHF 1 226 million).

The principal direct and indirect affiliated companies, joint ventures and other holdings of Clariant Ltd are shown on pages 52 to 53 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 84 million (prior year CHF 32 million) (see also footnote 5).

6. Reconciliation of equity

CHF	Registered shares	Legal reserves	Reserve for treasury shares	Unappropriated retained loss	Total
Balance 31.12.2001	767 200 000	1 898 272 237	57 745 563	- 1 139 387 812	1 583 829 988
Purchase of treasury shares		- 84 932 246	84 932 246		
Dividends for 2001		- 46 032 000			- 46 032 000
Loss/profit for the year				- 623 367 683	- 623 367 683
Balance 31.12.2002	767 200 000	1 767 307 991	142 677 809	- 1 762 755 495	914 430 305

4. Share capital

	31.12.2002	31.12.2001 ¹
Number of registered shares each with a par value of CHF 5	153 440 000	153 440 000
in CHF	767 200 000	767 200 000

Conditional capital	31.12.2002	31.12.2001
Number of registered shares each with a par value of CHF 5	8 000 000	8 000 000
in CHF	40 000 000	40 000 000

¹ Adapted to the share split 10:1.

8 000 000 registered shares are available for further issuance of convertible or warrant bonds.

5. Treasury shares (number with a par value of CHF 5 each)

	2002	2001
Holdings on 1 January	1 052 396	564 760
Shares purchased at strike prices fixed in 2001 and 2002	3 150 000	610 686
Shares sold at market value	- 306 240	- 102 410
Shares to employees	- 108 328	- 20 640
Holdings on 31 December	3 787 828	1 052 396

7. Straight bonds

CHF thousand	Interest rate	Term	Amount 31.12.2002	Amount 31.12.2001
Straight bond	4.625	1996–2003	134 505	134 505
Straight bond	4.125	1996–2006	159 460	161 450
Straight bond	3.375	1997–2004	250 360	262 900
Straight bond	3.750	1997–2007	174 610	186 230
Straight bond	3.000	1998–2005	200 605	217 925
Straight bond	4.250	2000–2008	384 040	433 825
Total			1 303 580	1 396 835

In order to reduce financial debts Clariant repurchased bonds in the amount of thousand CHF 93 255 in 2002 (prior year thousand CHF 203 165).

8. Legal reserves

Legal reserves arise from premiums paid by shareholders in connection with the founding of the company in 1995, the capital increase in 1997, and the execution of conversion rights. Of this CHF 153 440 000 (20% of share capital) represent restricted reserves according to Art. 671 al.

9. Reserve for treasury shares held by the Group

In accordance with the Swiss Code of Obligations paragraph 659a II, the required reserve for treasury shares has been created from the part of available legal reserves, which exceeds 20% of share capital.

10. Contingent liabilities and events subsequent to the balance sheet date

CHF mn	Outstanding liabilities 31.12.2002	Outstanding liabilities 31.12.2001
Outstanding liabilities as guarantees in favor of Group companies	863	901

The guarantees result from the final financing structure of the acquisition of BTP plc.

An affiliate of Clariant is currently striving to meet the requirements to which it committed itself in the contract with a major customer. Failure to comply with the contractual obligations could result in the impairment of property plant and equipment and the payment of damages to the counterparty. The potential loss arising from a possible default of contract could amount to up to CHF 155 million. Management estimates the probability of defaulting to be less than 50%.

Due to the insufficient profitability of the Life Science & Electronic Chemicals Division, some affiliates of Clariant will start a restructuring program for this division in 2003. Some sites will be disposed of or closed. Management estimates the costs to be in the range of CHF 30 to 50 million. In addition Marketing, Distribution and Administration will be reorganized and optimized at a regional level in order to reduce costs by up to CHF 150 million. Costs will amount to up to CHF 200 million over two to three years.

11. 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.

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

Based on the information available at the time of this report, Frankfurter Spezialchemikalien Verwaltungs GmbH & Co. KG, a 100% owned subsidiary of Hoechst AG, Frankfurt, which on her part is a 97% participation of Aventis, Strasbourg, owns 11.8% of the share capital on 31 December 2002 (2001: 11.8%).

Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA), owns 5.12% of the share capital on 31 December 2002 (2001: 0.0%).

Report of the Statutory Auditors

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 54 to 57) of Clariant Ltd for the year ended 31 December 2002.

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 Swiss 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 comply with Swiss law and the company's articles of incorporation.

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

In addition we confirm that the proposal by the Board of Directors, to partially net accumulated losses with the legal reserves is in compliance with Swiss law and the company's articles of incorporation.

PricewaterhouseCoopers AG

U. Vogt

Dr. R. Gerber

Basel, 19 February 2003

Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to the factors discussed above, among the factors that could cause actual results to differ materially are among others the following: the timing and strength of new product offerings; pricing strategies of competitors; the Company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; and changes in the political, social and regulatory framework in which the Company operates or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

Imprint
Clariant Financial Report 2002
Editor
Clariant International Ltd
Corporate Communications
Concept, Text, Design
Ramstein Ehinger Associates AG, Basel
Photography
Lou Dick, Basel
Lithography
Blue Horizon AG, Zurich
Print
Printlink AG, Wetzikon
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Rothausstrasse 61
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