



Exactly your chemistry.

Annual Report 2003

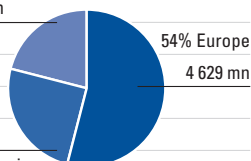
The year in summary

Sales by region

Total 2003: CHF 8 516 mn

21% Asia/Africa/Australia

1 782 mn



25% Americas

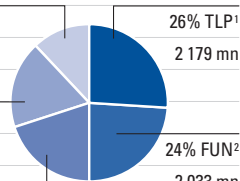
2 105 mn

Sales by division

Total 2003: CHF 8 516 mn

12% MB⁵

1 041 mn



20% PA³ 1 745 mn

¹ Textile, Leather & Paper Chemicals

² Functional Chemicals

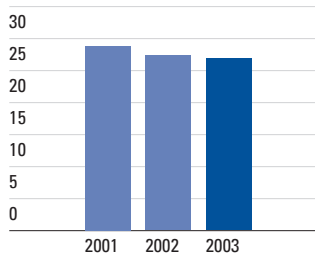
³ Pigments & Additives

⁴ Life Science & Electronic Chemicals

⁵ Masterbatches

Employees

thousand



Key figures

		2003	2002
Divisional sales with third parties	CHF mn	8 516	9 330
Operating income before restructuring, disposals and goodwill amortization		611	690
Net income/loss of the group		161	- 648
Total assets		8 003	8 550
Capital and reserves		1 176	914
Investment in fixed assets		301	339
Research and development		308	352
Staff costs		2 009	2 097
Staff (at year-end)	number	27 008	27 849
Earnings/loss per share	CHF	1.08	- 4.30
Dividend per share	CHF	0.20	-

Thumbnail sketch

Clariant is a global leader in the field of specialty chemicals. Strong business relationships, commitment to outstanding service and wide-ranging application know-how make Clariant a preferred partner for its customers.

Clariant, which is represented on five continents with over 100 group companies, employs about 27 000 people. Headquartered in Muttenz near Basel, it generated sales of around CHF 8.5 billion in 2003.

Clariant's businesses are organized in five divisions: Textile, Leather & Paper Chemicals, Pigments & Additives, Masterbatches, Functional Chemicals and Life Science & Electronic Chemicals.

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

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

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Wind of change

There is no bad weather, just the wrong clothes. True, perhaps – unless you happen across a storm while climbing K2. Even then, the quality of your clothing could be your salvation. You need

bright colors, fabrics that retain heat and repel water and are yet still comfortable. These are the very qualities that Clariant's innovations bring to each fiber of the fabric. For safer, better looking clothes.





Deep blue

It is conceivable that these plastic loungers and toys will still be in use by the children of the children playing here. Thanks to pigments and additives from Clariant, they will last for many years without losing their bright colors, smooth surfaces and high-quality sheen. For a long life.



Windjammer?

There was a time when sails looked white only when viewed from a distance, or when pictured on a postcard against a perfect ocean backdrop. In reality, these sails were dirty, mildewed and rank. Those days are gone. Today's sails are high-tech products – tough, moisture-proof, mold and stretch-resistant, colorfast and heat-resistant. All of these qualities are now possible thanks to the innovative resins and special additives from Clariant. Helping sailors to sail better.





Information for shareholders

Letter from Robert Raeber and Roland Lösser

Dear Shareholders,
Ladies and Gentlemen,

We are pleased to be able to present you with annual accounts for 2003 which, against the background of a weak specialty chemicals market worldwide, illustrate a positive performance by your company.

Following two business years in which large extraordinary goodwill impairments resulted in a loss, we initiated a determined refocusing on our core activities last year. Moreover, important steps were taken to repair the balance sheet and improve earnings.



Financial result

Clariant posted a net profit of CHF 161 million for the last business year. On a comparable basis the operating margin of 7.2% held steady at the previous year's level. Sales in local currencies grew by 1% enabling us to defend our overall market position. In the key Asian market we were partially able to achieve double-digit growth.

A further positive aspect of the annual accounts is the substantial reduction of our net debt, from CHF 3.5 to 2.9 billion. The measures initiated last year to reduce net current assets also led to an improved cash flow in the second half of the year. In addition, we were pleased to see our share price nearly double from its February low to the end of the year.

In order to let our shareholders participate in the positive developments at Clariant, we propose to pay a dividend of CHF 0.20 per share.

Reorientation

As you know, we initiated a wide-reaching transformation program in mid-2003 designed to address the challenges ahead of us. It is comprised of several elements and has made considerable progress during the past year.

We have redefined the company's strategy. It is based on a solid foundation of leading technologies in the fields of synthesis, colors and surface effects, on our capacity for innovation and application development, and on our highly developed customer service. In this way we intend to capture a leading market position in those lines of business where exceptional service generates added value and creates competitive advantage. This will give us an edge in international competition.

A thorough analysis of our strengths and weaknesses supported by external consultants has revealed that Clariant has considerable room for improvement in the short and medium term with regard to cost structure and efficiency in important business areas.

An action program by the name of Clariant Performance Improvement Program (CPIP) has been developed and its timetable set. It is currently in the first stage of implementation.

The goal of the CPIP is to move toward a "best-in-class" position in all cost-related business activities. The structure and future organization of the company are being redesigned with this objective in mind. The key figures for the project are a reduction of CHF 600 million in net working capital, a return on investment of over 12% and a sustained improvement of the EBIT margin. Optimization of business processes and structures will lead to the loss of 15% of all Clariant jobs worldwide over the next two years.

The third element of the transformation program involves divesting businesses which no longer fit into our business strategy. The proceeds will be used to reduce debt and strengthen the balance sheet. In 2003, we have successfully concluded the sale of the cellulose ether business and announced the sale of the Business Unit Electronic Materials. Since then we have prepared two additional units for sale.

Capital increase

Although we have reduced our net debt, it remains very high in relation to our slightly increased shareholders' equity. We therefore want to further strengthen our capital base and are asking you, dear shareholders, to provide us with additional capital. This capital will immediately create a solid financial basis for Clariant and facilitate the successful and timely execution of the transformation program. Moreover, it will allow us to optimize the timing of our divestment program, further reduce debt, facilitate refinancing and reduce our financing costs.

There are several reasons for a capital increase at this time. The transformation program is proceeding according to plan with first results visible and its costs and their timing being known. Capital market conditions are receptive and Clariant's shares have developed favorably. These reasons have convinced a banking syndicate led by UBS and Citigroup to fully underwrite the capital increase.

New developments

Despite all the energy devoted to the reorientation in 2003, we have not neglected our day-to-day business. Four of Clariant's five divisions recorded sales gains in local currency terms with Life Science & Electronic Chemicals being the exception.

Numerous new products and services were successfully brought to market by all divisions. For example, the Masterbatches Division is directly addressing product designers with a service called ColorWorks™. Designers can see their color concepts for plastic articles directly on screen at ColorWorks™ design centers in New York, Singapore, Taipei and Frankfurt. The laborious production of color samples is eliminated and development costs are reduced.

Clariant invested over CHF 300 million in research and development in the past business year, or 3.6% of sales. This illustrates the importance assigned to innovation in our company.

Clariant increasingly works with major universities and scientific institutes on fundamental technologies of strategic significance. Among these partners are the Institute for Surface Modification in Leipzig, the Interuniversity MicroElectronic Center in Leuven and the University of Akron in the United States. Joint projects with start-up companies, for example in the field of nanotechnology, are also gaining in importance.

Personnel changes

Following the resignation of Reinhard Handte, Roland Lösler took over as Chief Executive Officer on March 11, 2003. In addition, three new heads of division were appointed, Dominik von Bertrab, Siegfried Fischer and Uwe Nickel. These changes markedly reduced the average age of the Board of Management.

At the upcoming Annual General Meeting, Pierre Bourgeaud, long-standing member of the Board of Directors, will step down after reaching the statutory retirement age. The Board proposes the following new members to the Annual General Meeting for election: Dr Peter R. Isler, attorney, a partner with the Zurich law firm Niederer Kraft & Frey, and the Frankfurt-based businessman Dr Kajo Neukirchen.

Guardedly optimistic

Although we cannot yet see a sustainable improvement in demand, our outlook is more optimistic than in the fall of 2003. The measures we have put in place to turn around Clariant give us confidence that our company will continue to make progress.

In closing, we would like to thank everyone, in particular our employees, who have contributed to the positive result in the past year. We would also like to express our gratitude to you, our esteemed shareholders, for your trust and loyalty to Clariant.

Sincerely yours,



Robert Raeber
Chairman of the
Board of Directors



Roland Lösler
Chief Executive Officer

Corporate bodies

Board of Directors

Pierre Borgeaud

Vice Chairman

Heinrich Bossard

Roland Lösler

Robert Raeber

Chairman

Tony Reis

Prof. Dieter Seebach

Herbert Wohlmann
Secretary of the Board
of Directors

Shareholder approval

The 8th Annual General Meeting of Clariant AG was held on April 11, 2003, at the convention center of the Messe Basel trade fair center. Shareholders attending approved the Annual Report for 2002 and the netting of the majority of the loss carryover with the reserves in excess of the required minimum. They also ratified the actions of the Board of Directors and the Board of Management.

The meeting was attended by 655 shareholders, who directly or indirectly represented 43 261 008 shares or 28.2% of the 153 440 000 shares in total.

The Annual General Meeting approved an amendment to the Articles of Association, according to which the Board of Directors shall in future comprise at least six and no more than ten members.

Changes in group management

At its meeting of March 11, 2003, the Board of Directors of Clariant appointed Roland Lösler Chief Executive Officer unanimously and with immediate effect. Lösler has been a member of the Board of Directors since 2000 and prior to this spent five years serving as Clariant's Chief Financial Officer. Roland Lösler therefore succeeds Reinhard Handte, who had asked to be relieved of his duties as CEO and member of the Board of Directors.

Following Reinhard Handte's resignation, Stephen Hannam also announced his resignation as a member of the Board of Directors. Both were thanked for their services on behalf of the company. Tony Reis was reelected as a member of the Board of Directors for a four-year period.

On April 1, 2003, three new members were appointed to the Board of Management. Nico Gontha succeeded François Dennefeld as Head of the Textile, Leather & Paper Chemicals Division. The position he vacated, that of Head of the Masterbatches Division, was filled by Dominik von Bertrab. Uwe Nickel succeeded Günther Hencken to become Head of the Pigments & Additives Division. Siegfried Fischer was entrusted with the position of Head of the Functional Chemicals Division and thus succeeded Reinhart S. Meyer. The Board of Management members Dennefeld, Hencken und Meyer left the company.

Board of Management

Dominik von Bertrab, Head of the Masterbatches Division since April 2003

Peter Brandenburg, Head of Regions, Human Resources, ESHA and Corporate Communications since April 2003

Siegfried Fischer, Head of the Functional Chemicals Division since April 2003

Nico Gontha, Head of the Textile, Leather & Paper Chemicals Division since April 2003

Roland Lösler, Chief Executive Officer since March 2003

Joachim Mahler, Head of the Life Science & Electronic Chemicals Division since 2002

Uwe Nickel, Head of the Pigments & Additives Division since April 2003

François Note, Chief Financial Officer since 2001

Hartmut Wiezer, Head of Technology & Innovation since 2000



Uwe Nickel

François Note

Siegfried Fischer

Roland Lösner

Joachim Mahler

Hartmut Wiezer

Dominik von Bertrab

Peter Brandenburg

Nico Gontha

Value-driven focus

In the 2003 business year, Clariant set itself binding targets and values and a new strategic focus in response to the challenges it faces in the market. In doing so, it paved the way to safeguard its continued market success and effectively increase the value of the company.

Strength in services

Clariant's vision is the blueprint for the future. It formulates the goal to which corporate activity is geared. By establishing itself as strong on service, Clariant intends to promote long-term customer loyalty and assume a leading position in the market. The mission statement sets out the company's purpose, which is to build relationships of trust and to combine skills and competencies effectively to the benefit of its customers.

In line with its mission and vision, Clariant's values guide the thinking and behavior of management and employees as they go about their daily business. These values are the cornerstones of a lively corporate culture as reflected in concepts, actions and practices in a way that transcends site and divisional boundaries.

Vision

We aim to be the leading service-driven company and the preferred partner in the specialty chemicals industry.

Mission

Our commitment to service contributes to the success of our customers. We combine leading-edge technology and innovations with superior applications and customer service skills.

Values

Customer Focus. We concentrate our efforts on the individual requirements of our customers and help them strengthen their competitive position and performance.

Personal Engagement. We achieve results through individual commitment, continual skills development and entrepreneurial behavior.

Team Orientation. We rely on the strength of teamwork to achieve synergies and realize our full potential.

Innovation. We utilize our extensive know-how and experience throughout the company to continuously bring new services, applications and products to the market.

Shareholder Commitment. We strive for enduring value creation for the benefit of our shareholders.

Integrity. We are a trustworthy, loyal and respectful partner in all our internal and external relationships.

Sustainability. We contribute towards sustainable development by finding the best balance between environmental, social and economic needs.

Strategy

In 2003, Clariant adapted to changing market conditions by adopting a new strategic focus. As part of its strategy, Clariant concentrates on proven strengths: leading-edge technologies in synthesis, colors and surface effects, superior innovation and application-development capabilities, and a strong emphasis on customer service.

In areas of activity exposed to strong competition and price pressure, results are being improved by adapting the capacities available to actual requirements and rigorously cutting costs. Restructuring programs are therefore inevitable. Those affected include the Custom Synthesis Business Unit, which will close four agrochemical plants in the US and in Germany.

Strategic priorities				
Portfolio	% of sales	Market attractiveness	Competitive position	Strategy
Service-driven businesses	60–70	high	strong	expand
Technology-driven/ niche businesses	10	high, but volatile	strong in certain areas	selectively develop
Cost-driven businesses	20–30	low	weak – medium	restructure

With these strengths, which are powered in particular by the know-how of its employees, Clariant aims to achieve a leading market position, especially in those fields where exceptional service is instrumental in gaining a competitive edge. As well as creating substantial added value for the customer, this service-focused strategy enables further growth, which is especially important given the steadily increasing competition from Asia. The relevant activities are therefore being specifically expanded.

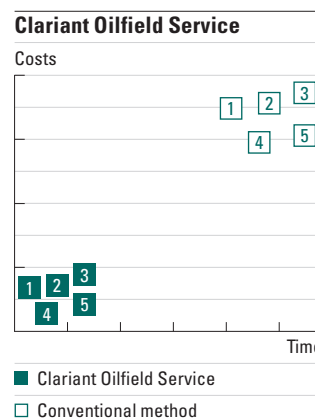
Various company units, such as Process and Performance Chemicals, Textile Chemicals and the Masterbatches Division, have already achieved success by focusing heavily on service.

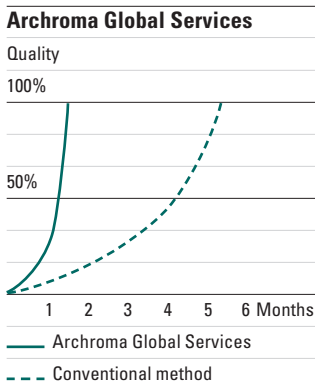
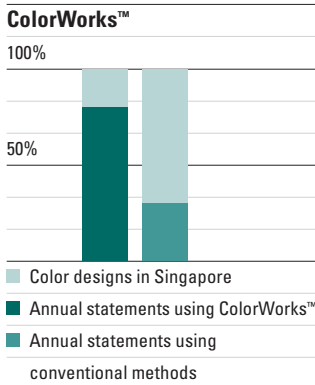
In contrast, businesses that depend mainly on their underlying technologies are being expanded only selectively. These only contribute to the company's growth if the right customer focus is found. The Pharma Business Unit, for example, will focus on the attractive "small molecules" market by developing tailor-made systems for its business with pharmaceutical companies. Small molecules are biologically active compounds that can be produced by means of traditional synthesis processes.

Examples of service-oriented businesses

Clariant Oilfield Service. The Functional Chemicals Division is permanently working on new services, thereby helping customers in the oil and gas producing industry to improve their competitive position. For example, when producing oil, problems with corrosion or deposits in the well are a regular occurrence. Crude oil samples are then sent from the production platform to a lab on land for analysis. Chemical processes aimed at solving the problem are subsequently developed and tested on the platform. It usually takes several attempts to solve the problem. This in turn takes months and costs a lot of money.

This is why the Functional Chemicals Division has developed the Clariant Oil Service, a mobile analysis lab with the help of which the Clariant experts can analyze the crude oil samples directly at the oil field. As a result, the problem is solved within just a few weeks. The advantage for the customer is a cost saving of more than 90 percent.





ColorWorks™. With this integrated service, the Masterbatches Division has opened the door to the design processes of manufacturers of brand-name items. In the ColorWorks™ Design Centers in New York, Singapore, Taipeh and Frankfurt – other centers are to follow – product designers can translate their color ideas for packaging, camera cases and other plastic items directly into three-dimensional images on the screen.

The calibrated computer systems show what colors the item in question would be if the appropriate masterbatches were applied, removing the need to laboriously produce color samples. Misunderstandings, for example about the “green of a beech leaf at twilight,” which were a regular occurrence when traditional working practices were used – designer commissions plastics processors, who in turn commissions the masterbatch producer – are no longer an issue. The success rate, i.e., the percentage of color designs that also lead to business for Clariant, has risen from 30 to 80 percent as a result of the new service in Singapore.

Archroma Global Services. The Textile, Leather & Paper Chemicals Division has also developed a new service that provides faster and better solutions to color-related problems. Using computer-assisted processes, Archroma enables textile manufacturers to produce globally so that a T-shirt dyed in China does not differ from one produced in South America. Furthermore, as the color standards can be quickly set up and disseminated worldwide, textile producers using Archroma gain a decisive time advantage. What previously took up to six months is now possible in a few weeks.

Brand management

In communicating its brand too, Clariant will this year emphasize its focus on providing value-creating services and building relationships of trust with its customers. The brand is being positioned in line with the strategy and given a stronger profile in terms of the messages it communicates and its visual appearance.

The streamlining of the brand portfolio goes hand in hand with this. Many of Clariant’s world-famous products and services appear in the market without a clear and direct reference to the corporate brand. In future, these will be clearly attributed to the brand, thereby strengthening the Clariant brand and making it easier to launch new products and services, open up new markets and achieve market penetration.

At the same time, internal brand management and communication processes are being made more efficient and common standards and tools put in place. Communication can thus be made more efficient without increasing costs.

Diversified markets

In line with its corporate strategy, Clariant is developing not only a number of new chemical products but also ever more new services geared to its customers' business processes.

Clariant's customers come from a wide variety of industries, from automotive industry right through to

wood-processing production. This range shows the extent of Clariant's know-how in almost every relevant area of industrial production.

This diversified portfolio also affords the company a certain amount of protection against the consequences of economic cycles, for the different industries follow different cycles. Thus, it may be possible to offset negative effects partly.

Customer structure

Textile, Leather & Paper	Pigments & Additives	Masterbatches	Functional Chemicals	Life Science & Electronic Chemicals
Textile industry	Coatings industries ¹	Resin Producers	Detergent industry	Pharma industry
Leather industry	Plastic industries	Compounders ³	Cosmetics industry	Agro industry
Paper & pulp industry	Printing industries	Polymer Converters ⁴	Oil and gas industry	Semiconductor industry
Construction industry	Specialized industries ²	Manufacturers of industrial & consumer goods ⁵	Construction industry	Electronics industries
			Agro industry	
			Metal working industry	
			Mining industry	
			Paint industry	

¹ Manufacturers of automotive and industrial paints, fire protection coatings and decorative paints

² Including cosmetics, leather and writing implements

³ Manufacturers of compounds using polymers and additives, such as flame retardants and light stabilizers

⁴ Manufacturers of products from synthetic materials

⁵ Carpets, textiles & upholstery, industrial, food & beverage packaging, personal care, automotive, business machines

Corporate governance

Value-driven and transparent management is the foundation for a successful business. At Clariant, this is reflected in a responsible and efficiently structured organization, in its management and in its control processes.

Tried and proven rules

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.

Clariant participated in the drafting of the "swiss code of best practice for corporate governance," initiated by *economiesuisse*, in order to benchmark its own organization against tried and proven rules and practices and to optimize it where possible.

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

Professional management and control

The Board of Directors, reduced from eight to six members, reflects Clariant's efficient structures at the highest management level. All directors have a proven track record in terms of their professional and strategic competencies. To help them assess the company's potential realistically, most of them also have many years of executive experience gained with other companies.

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 Chairmen, and the other members. In accordance with the Articles of

Association, the number of members must be at least six and no more than ten. The Chairman and the Vice Chairman/Chairmen together constitute the Executive Committee of the Board of Directors. The Board of Directors analyzes current and future market opportunities and risks in order to define Clariant's corporate vision as well as its business, organizational and financial strategies. As the supreme control body, it monitors the Board of Management's implementation of its targets.

During the year under review, the company paid CHF 400 000 in cash as remuneration for the services of the Board of Directors. In the same period, the total compensation paid to members of the Board of Management amounted to CHF 7.9 million in cash. Over and above this, the members of the corporate bodies also received shares and options.

Effective committees

The Board of Directors (BoD) meets at least once a quarter. The members of the Board of Management may attend the meetings of the Board of Directors for the purpose of imparting information, as may other employees or third parties. The committees report on their activities and results to the Board of Directors. They prepare the business of the Board of Directors in their respective areas but do not usually have any decision-making authority.

The Board of Directors currently has four committees: the Strategy Committee, the Appointments and Compensation Committee, the Audit Committee, and the IT, Technology and Innovation Committee.

The Executive Committee. Comprising the Chairman and the Vice Chairman/Chairmen, the Executive Committee prepares the meetings of the Board of Directors. When matters cannot be postponed, it passes resolutions provided it is deemed inopportune or impossible to convene an extraordinary meeting of the Board of Directors.

The Strategy Committee. The members of the committee prepare the strategy discussions and make recommendations to the Board of Directors, in particular on strategic projects, financial transactions, funding and deployment of funds, organizational and management structure, and investments.

The Appointments and Compensation Committee. Together with the Chairman, the committee draws up principles for the selection of candidates for the Board of Directors, for the election and reelection of members of the Board of Directors, and for their compensation. It considers the proposals of the CEO concerning suitable candidates for the positions of Division Head, other member of the Management Board, function head and Head of major subsidiaries. It also approves the employment contracts for these positions and the employment contract with the CEO.

The Audit Committee. The committee reviews the activities of the external auditors, their collaboration with the internal auditors, and organizational adequacy. It also reviews the performance, compensation and independence of the external auditors. Furthermore, the committee assesses the efficacy of the internal audit system and internal risk management and reviews compliance with standards in the company.

IT, Technology and Innovation Committee. The committee assesses the innovative activities of the group and recommends measures to stimulate Research and Development.

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 semiannual report is published and is delivered the next day.

The company's website www.clariant.com is a regular source of information, where relevant information is published. It also lists addresses and contact persons.

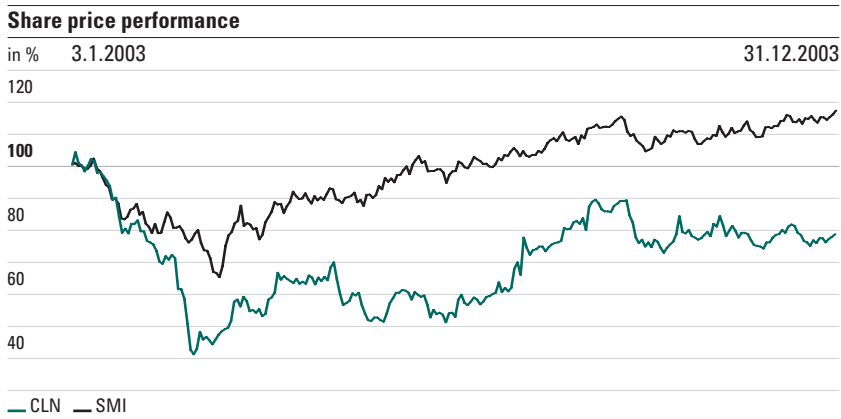
The entire report on corporate governance at Clariant can be found in the 2003 Financial Report or at www.governance.clariant.com.

Regular information

Clariant pursues an active communication 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 and CFO respectively. On basic matters of general corporate policy, Corporate Communications receives its guidelines from the Executive Committee.

Share price trend

In 2003, the share price performance was volatile, reflecting considerable general uncertainty in the markets and major group-specific events.



Share price performance in 2003

Shares in Clariant Ltd are listed on SWX Swiss Exchange as registered shares with the symbol CLN. They form part of the Swiss Market Index (SMI).

For fiscal 2002, Clariant posted the second consolidated loss in its history as a result of writing down the remaining goodwill in its life sciences business. Furthermore, in the run-up to the publication of the 2002 annual results, speculation of a possible capital increase sent the share price tumbling, causing it to hit a new all-time low at the end of February. However, with the appointment of the new CEO and other changes to the senior management team, Clariant was able to regain much investor confidence. Amid high volatility and at a low level, the share price then recovered slightly towards the middle of the year.

At the beginning of August, Clariant presented its new corporate strategy and published revised financial and performance targets. Both met with a very positive response from the financial community with the result that, in the course of the third quarter, the stock almost managed to reach the price seen at the start of the year. Restrained business forecasts for 2004 shaped share price performance in the fourth quarter, during which the stock moved nearly in parallel with the SMI.

Meetings with investors

In the course of last year, Clariant staged two roadshows and held various meetings with investors and analysts. The focus of these events was on explaining the new corporate strategy. For example, a conference entitled "Clariant the way forward – strategy and performance" took place at the beginning of August when the company published its semiannual results. Fifty investors and analysts took the opportunity to be briefed on the group's new focus. Therefore, the significant improvement in the share price in the third quarter also reflects the confidence in the share as an attractive long-term investment.

Shareholder structure

November 2003 saw a major change to the shareholder structure. On November 4, Aventis AG, Strasbourg, France, sold its 11.8 percent stake to new financial investors via two banks in an accelerated bookbuilding. The free float of Clariant Ltd shares is therefore 100 percent, which is entirely in the investors' interests. The largest shareholder is now Artisan Partners Ltd Partnership, based in Milwaukee, Wisconsin, USA, which holds five to ten percent of the equity capital. The company is controlled by its general partner, Artisan Investment Corporation.

Share information as per 31 December 2003		
Number		153 440 000
Nominal value	CHF	5
Listing		SWX
Symbol		CLN
Issue price adjusted for split: IPO on June 29, 1995, 80 million shares	CHF	19.25
No. of treasury shares as per 31 December 2003		3 532 869
Price at the start of the year	CHF	23.30
High for the year on June 1, 2003	CHF	24.20
Low for the year on February 27, 2003	CHF	9.53
Price at the year-end	CHF	18.25
Performance for the year	%	- 21.3
All-time high on June 18, 1998	CHF	104
All-time low on February 27, 2003	CHF	9.53
Performance since issue	%	- 5.2
Average daily trading volume		1 276 670
EBITDA* per share	CHF	3.98
Earnings per share	CHF	1.08
Dividend per share	CHF	0.20

* Operating income before restructuring, disposals and goodwill amortization

No. of shares by regions as per 31 December 2003				
Region	Shareholders	in %	Shares	in %
Switzerland	32 997	94.4	52 795 721	34.4
Europe	1 741	5.0	27 348 515	17.8
Outside of Europe	224	0.6	8 848 574	5.8
<i>USA portion</i>	45	0.1	8 061 877	5.3
Shares not registered	–	–	64 447 190	42.0
Total	34 962	100.0	153 440 000	100.0

Five-year overview dividend					
	2003	2002	2001	2000	1999
Shares in issue	153 440 000	153 440 000	153 440 000	153 440 000	146 008 280
Dividend per share in CHF	0.20	–	0.30	1.10	1.00
Dividend total in CHF mn	30.7	–	46	149	146
As a percentage of consolidated profit	19.1	–	33*	29	24

* Before one-off special depreciation/amortization

"Gentlemen, start your engines."

When you start your car in the morning, it probably won't occur to you that the fuel powering your car has already traveled thousands of miles to reach you. Without gelling. Without degrading or corroding the pipelines. Without changing its character-

istics. To make this possible, Clariant partners with lots of oil companies and refineries. Virtually all mineral oil products contain at least one component made by Clariant. Because we like to know that your car will start in the morning.





Operativer Bereich
Raffinerie
110



Inner beauty

Quality is not a question of fashion – even when fashion is involved. There's more to leather, though, than just design and brand. Companies that make leather goods know that their customers are interested in the feel of the products, too.

So, products that don't appeal to the senses don't make commercial sense. Suppleness, the color, the quality and durability of the finish are all image factors, particularly for high-profile brands. Here, too, Clariant offers solutions that get under the skin.





Secret service

The fluids used today for cooling and lubricating go about their work discreetly. Intelligent additives from Clariant work hard to

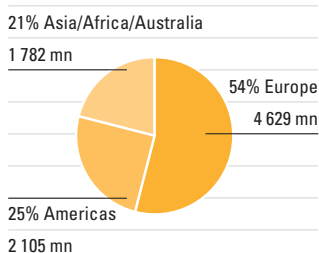
maximize power and protect from the harmful effects of rust, mold and other undesirable things. Saving you money by protecting your tools and machinery.



Economic environment

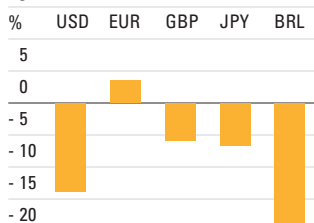
Sales by region

Total 2003: CHF 8 516 mn



Changes in exchange rates

against CHF



In the year under review, the end of the Iraq war marked the beginning of a possible economic turnaround. The mood on Clariant's most important markets ranged from cautious to moderate optimism, although customers were still keeping a tight rein on spending.

Market conditions

The German economy was all but stagnant for the third year in a row, with production in the chemical industry increasing by a modest 0.5% over the previous year. Sales prices remained under pressure. While domestic sales stagnated, exports grew by 2.5%. The year 2004 is expected to bring a moderate upswing.

In the United States, industrial production and capacity utilization both improved. The fourth quarter saw an upturn on many of Clariant's most important end-user markets. The US economy is poised for further growth in 2004.

The Brazilian economy was also sluggish in the first half of the year. Once the new administration had succeeded in getting inflation under control, however, it was able to implement a series of interest rate cuts. These stimulated industrial demand, which in turn translated into modest growth. The year 2004 is expected to bring still more growth and an increase in exports.

After a long period of stagnation, the Japanese economy grew by more than 2% in 2003. The chemical industry, however, is still confronted with the fact that many of its customers are shifting their production sites to China, Taiwan and other Asian countries. Chemical producers are therefore expecting sales to be flat throughout 2004.

China once again enjoyed robust growth in 2003. Exports to the US and Europe increased significantly, receiving further tailwind from advantageous exchange rates. This buoyant growth is expected to continue in 2004.

Exchange rate trends

With the exception of the euro, which was up 3.5%, all the currencies important to Clariant lost substantial ground to the Swiss franc in the course of the year. Most serious for Clariant was the 13.7% fall in the US dollar, the 6.6% fall in the Japanese yen, the 5.9% fall in the pound sterling and 18.6% fall in the Brazilian real. These currency fluctuations led to a 5% drop of Clariant's sales revenues on a comparable basis.

Regional contributions to total sales

The European group companies accounted for 54% of sales in 2003. In local currencies, sales fell by 2% on a comparable basis. In Swiss francs, however, there was a slight increase due to the strength of the euro against both the Swiss franc and the US dollar. While gross margins remained more or less at the previous year's level, operating income declined, mainly due to restructuring costs and higher insurance premiums.

Group companies in the Americas contributed 25% of the 2003 group turnover. While their sales rose by 2% in local currencies, this translated into a 13% decline in Swiss francs. The fall in operating income are attributable above all to the costs of terminating a project for a large-scale plant for detergent starting materials in the US.

Group companies in Asia, Africa and Australia together accounted for 21% of total sales. In local currencies, sales in this region grew by 9%, although this increase was completely absorbed by translation into a strong Swiss franc. Due to these currency effects, overall gross margins were slightly below the previous year, although there was an increase in operating income.

Business trend

Amid harsh macroeconomic conditions, Clariant grew sales 1% in local currencies and generated net income of CHF 161 million. The operating margin remained on a par with the previous year.

Result

Clariant generated sales of around CHF 8.5 billion during the year under review, with four of its five divisions posting a year-on-year increase in sales in local currencies. Only the Life Science & Electronic Chemicals Division reported a fall in sales.

While, in Europe, sales fell 2% in local currencies, in North and South America they rose 2%. The trend was positive in the Asia, Africa and Australia region, with growth reaching 9% in local currencies and the increases being particularly encouraging in South Korea (+29%) and China (+16%).

Clariant reduced net debt substantially to around CHF 2.9 billion. Equity increased by over CHF 200 million to around CHF 1.2 billion, lifting the equity ratio to almost 15%.

The short-term measures introduced during the year under review in an effort to reduce net current assets brought an improvement in cash flow during the second half of the year.

In November, Aventis SA sold its 11.8% stake in Clariant without any negative repercussions for the share price. The free float of Clariant shares has therefore increased to 100% to the benefit of the shareholders and the company.

Transformation program

In mid-2003, Clariant started to implement a transformation program with which it intends to bring about a sustained improvement in the company's competitive strength. This program combines extensive measures aimed at improving the result with various asset disposals.

As part of this program, Clariant sold the Cellulose Ethers Business Unit of the Functional Chemicals Division at the end of 2003. In the UK, it sold AP Chemicals, which belonged to the Life Science & Electronic Chemicals Division, and closed the last remaining hydrosulfite production plant. With this move out of the hydrosulfite business, Clariant continued to implement its strategy of concentrating on its core business.

The announced sale of the Electronic Materials Business Unit is intended to further reduce the company's debt and strengthen the balance sheet. More businesses will be sold during 2004 as the company focuses on its strategic business lines.

The first of the measures aimed at improving the result were implemented successfully in the areas of purchasing, logistics and production.

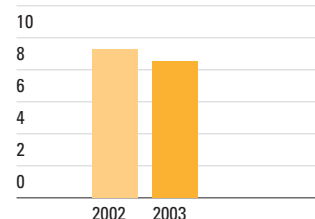
Extraordinary events

The Functional Chemicals Division experienced technical problems as it tried to set up a large US plant for starting materials for detergents, as a result of which the plant had to be fully written off even before it went into production. Clariant was able to fully offset the CHF 120 million write-off by introducing short-term cost-cutting measures.

Consolidated sales

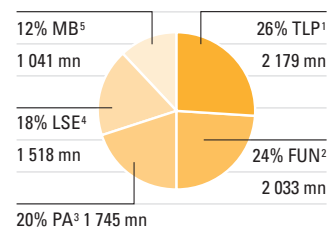
Total 2003: CHF 8 516 mn

CHF bn



Sales by division

Total 2003: CHF 8 516 mn



¹ Textiles, Leather & Paper Chemicals

² Functional Chemicals

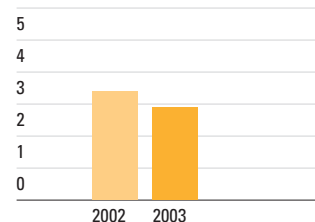
³ Pigments & Additives

⁴ Life Science & Electronic Chemicals

⁵ Masterbatches

Net debt

CHF bn



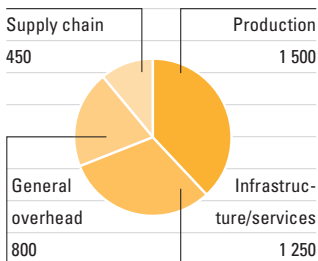
Clariant Performance Improvement Program

Objectives of the CPIP

- A CHF 400 mn increase in EBIT by 2007
- A CHF 600 mn reduction in net working capital by 2007

Job losses

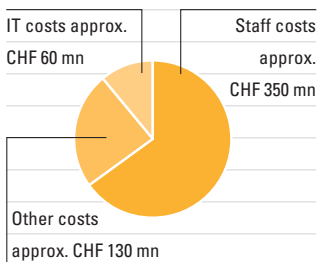
Total: 4 000 by the end of 2005



- 14% in production
- 18% in infrastructure/services
- 22% in general overhead
- 14% in supply chain management

Restructuring costs

Total: approx. CHF 500–600 mn



Breakdown by year

- 2004: approx. CHF 200 mn
- 2005: approx. CHF 300 mn
- 2006: remaining costs

In order to increase profitability over a sustained period, Clariant has launched a broad initiative designed to improve its performance. As part of its transformation program, this initiative aims to increase the group's operating result and reduce net working capital. The changes that need to be made to its processes and structures in order to achieve these aims will result in the loss of around 4 000 jobs across the company over the next two years.

Objective

The Clariant Performance Improvement Program (CPIP) was initiated by the Management Board in mid-2003 in view of the fact that operating performance was consistently disappointing. The program aims to increase EBIT by CHF 400 mn over the next three to four years, to cut costs by around CHF 100 mn in 2004, and to reduce net working capital by CHF 600 mn by 2007.

The CPIP is made up of nine separate projects, some concerned with operational improvements and some with structural improvements. Each project is allocated a sponsor from the Management Board. This sponsor assumes responsibility for the project in question and supports the project team. All nine projects are managed centrally by a program manager who reports directly to the CEO. The success of the individual measures carried out within the projects is closely monitored.

The five operational projects aim to bring about a substantial and lasting improvement in the company's operating performance. They are being implemented within the existing organizational structure and result in comparatively small costs. The projects are geared towards increasing EBIT and reducing net working capital. They are expected to produce initial results in 2004 and to be fully successful by 2007.

The four structural projects aim to bring about a significant and sustained reduction in costs across all parts of the company and its functions and to take the entire organization close to best in class status. The projects are being implemented by small specialist teams which are concentrating their efforts on the company's organization in order to make its structures and processes simpler and much more effective. The result of this will be extensive restructuring.

Operational projects

Logistics network. The project will reduce the cost of storing and distributing Clariant products over a sustained period. Processes are to be optimized while ensuring a more competitive service for customers. The project has initially been concerned with the transportation of packaged goods by road and the warehousing structure in Europe. The number of logistics companies transporting Clariant products by road is to be reduced from over 100 to less than 5 by mid-2004. The number of warehouses is to be reduced by more than 50%.

Purchasing. The aim is to substantially reduce the cost of purchasing raw materials, technical materials and services. This is not only restricted to purchasing better-value goods and services. In addition, products are to be standardized and underlying processes optimized. The CPIP purchasing team is also analyzing the potential for short-term savings on indirect costs.

Production. Clariant has identified considerable potential for cost savings in this area, too. The project aims to improve efficiency at the group's 30 main production sites over a sustained period by cutting production costs and, in particular, the cost of overhead, service and infrastructure functions. Adapted methods are being made available to smaller sites.

Marketing. The marketing project is focusing on measures with which the market potential of Clariant's products can be better exploited. It also aims to calculate the correct prices of products and

Projects	Areas	Objectives
Logistics network	Transport and warehousing costs	Cost reduction of 4–6% (CHF 40–60 mn)
Purchasing	Raw materials costs and indirect costs	Cost reduction of 4–5% (CHF 200–250 mn)
Production	Production costs and site services	Cost reduction of 4–5% (CHF 170–220 mn)
Marketing	Pricing, market and customer penetration	Rise in sales of 1.5–2% (CHF 120–170 mn)
Net working capital	Inventories, accounts receivable and liabilities from sales and services	Reduction in net working capital of 20–30% (CHF 600 mn)
Structural projects	Processes and structures	Cost reduction of 15–20% (CHF 150–210 mn)

services and to establish these prices in the market. At the same time, services are to be adapted so that they more closely reflect specific customer requirements.

Net working capital. Net working capital is to be reduced by CHF 600 mn by 2007 in an effort to improve the company's capital structure. To do this, the time between invoicing and receipt of payment for customer receivables and that between receipt and payment of suppliers' invoices will be optimized. In addition, stocks of both raw materials and finished products are to be substantially reduced.

expected to be a reduction in headcount of around 14% in both supply chain management and production, a reduction of 18% in infrastructure and services and a reduction of 22% in general overhead.

Costs in these areas are to be cut by 15 to 20% or CHF 150 to 210 mn. The design projects also aim to optimize the company's taxation ratio, reducing it to below 30%, a normal level for swiss companies.

The total cost of the Clariant Performance Improvement Program will be between CHF 500 and 600 mn. Clariant will spend around CHF 200 mn in 2004, CHF 300 mn in 2005 and the remainder in 2006.

Structural projects

The teams working on the structural projects legal design, production site design, supply chain design and finance & administration design have initially been concerned with analyzing the status quo. Their analysis has revealed that insufficient use is being made of the resources available due to a lack of standardized work processes and inadequate coordination between different areas of the company. This is true of almost all functions within the company.

By optimizing processes and structures, costs will be reduced quite considerably by 2007. This will result in the loss of 4 000 jobs. The reduction in headcount will affect all areas of the company. There is

Operational projects/sponsor

Logistics network

Joachim Mahler

Purchasing

Nico Gontha

Production

Uwe Nickel

Marketing

Dominik von Bertrab

Net working capital

Siegfried Fischer

Structural projects/sponsor

Legal design

François Note

Production site design

Hartmut Wiezer

Supply chain design

Joachim Mahler

Finance & administration design

Peter Brandenburg

Risk management

During the business year, Clariant continued to develop its central risk management system. Targeted interviews were conducted to update and expand the systematic documentation of the main business risks.

Control and optimization

Internal and external audits review and constantly optimize all the elements of risk management. In 2004, increasing attention is to be paid to checking business processes and assessing their risks. The central risk management team supplements specific risk evaluations assigned to the internal audit, Treasury, ESH, legal, insurance management and other areas, enabling management to carry out an integrated risk assessment.

Environment, safety and health

In order to minimize possible risks for the environment, safety and health, the relevant parameters from all the company's sites are analyzed centrally. Operational risks can be pinpointed by means of a software-assisted risk portfolio. You can find further information on this subject on page 34.

Financial risks

In line with the directives issued by the Board of Directors and the Board of Management, the Treasury department records, monitors and manages financial risks by means of a comprehensive analysis and evaluation system. The financial instruments used are simple and can be evaluated at any time.

Currency risks. International exchange rate fluctuations impact on the company's assets and earnings, which are reported in Swiss francs. Transaction risks arise from imbalances in the payment streams between the various currencies. Clariant hedges partly such risks by means of options, spot transactions or forward transactions.

Clariant addresses translation risks by adopting a business behavior geared to defensible exchange rates. The aim is "natural" hedging.

Interest rate risks. Clariant manages the risks associated with changes in interest rates primarily by maintaining the right balance between fixed and variable interest rates and their maturities. The exchange rates of liabilities are carefully managed.

Investment risks. The corporation invests on the international financial markets in order to manage its liquid assets. Cash reserves are invested with first-class banks.

Liquidity risks. Current and future cash flows are carefully monitored. Imbalances can be offset at any time through cash reserves, realizable securities and credit lines from the company's banks.

Computer risks

Business-critical software is operated in a central computer center with two physically separated server parks. The company's global network is managed centrally, and its architecture is parallel to deal with failures or breakdowns. Reliable and permanently updated tools guard against virus attacks. Emergency procedures are practised on a regular basis.

Contingency risks

The company makes reserves or concludes insurance policies to protect it against risks arising from product liability or litigation. Additional security comes from credit lines from banks and liquidity reserves. Potential inherited liabilities arising from acquisitions or spin-offs are limited through contractual agreements whenever possible.

Employees

Clariant systematically develops senior technical and managerial staff and rewards personal initiative as well as entrepreneurial thinking and behavior. Common values and rules serve as a code of conduct for all stakeholders.

Fostering successors

Clariant sets store by the individual development of senior technical and managerial staff. Through a broad range of training programs, it equips employees with state-of-the-art expertise and builds basic managerial skills. Global development programs have been put in place at various levels so that Clariant is able to competently fill key positions from within its own ranks. In 2003, more than 50 managers from four continents took part in programs designed to prepare them for senior management roles.

Binding values

Clariant's values and the "Clariant Competencies" manual serve as a code of conduct for all employees, laying the foundations for a groupwide culture. The values set out on page 14 guide the thinking and behavior of everyone employed at Clariant. The "Competencies," on the other hand, lay down the central principles of internal management work.

Groupwide standards

With the functional expansion of the Clariant Human Resource Information System – CHRIS – another step has been taken towards standardizing personnel processes and making them more efficient. The system supports internal personnel development since groupwide screening makes the identification of suitable candidates faster and simpler. Standardized records of agreed objectives and assessments also make the appraisal process fair and transparent to staff, as well as ensuring that remuneration reflects performance.

Results-driven remuneration

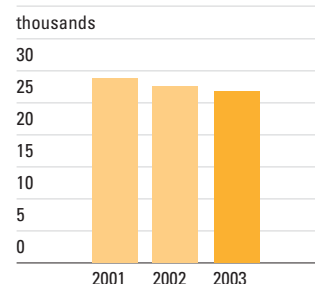
Clariant's remuneration system consists of fixed and variable components. Under the group Bonus Plan, around 600 managers draw performance-related salaries. The performance-related component, which varies according to the management level, can be as much as 50% of annual salary. As well as depending directly on the achievement of individually agreed objectives, actual remuneration thus also hinges on the success of the business unit and the group as a whole. The Long Term Incentive Plan provides for an equity-participation program involving shares, with a stock option program as an alternative for the 50 most senior managers. As the company finds itself in a difficult position at present, the programs for 2003 and 2004 have been suspended and replaced with a payout fixed at 50% of the target value (retroactive payout in both 2004 and 2005 for the previous business year).

Social responsibility

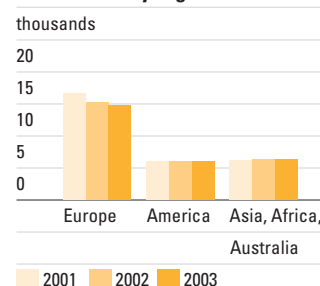
Clariant does everything it can to be an attractive, reliable partner to its employees because translating its corporate strategy into measurable success requires every one of them to make a contribution. Their performance and dedication are the engine that will drive the continued development of our core competencies in fast-growing markets.

The total payroll declined by 3% in 2003. Besides natural attrition, this was due to disposals and restructuring programs. In the year under review, these included the sale of the cellulose ethers business to the Japanese company Shin-Etsu Chemical Co. Ltd., the closure of a hydrosulfite plant in Widnes, UK, and the closure of four facilities producing agrochemicals. The rights of the employees affected were secured by transfer agreements whenever possible.

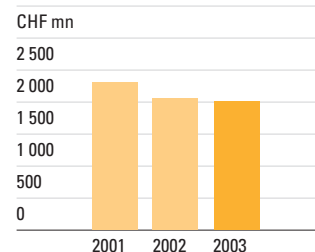
Number of staff



Breakdown by region

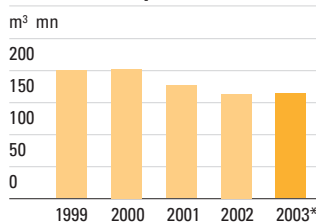


Staff costs

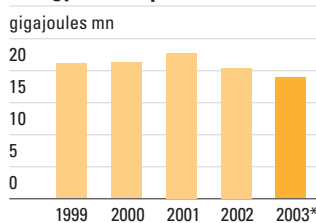


Environment, safety and health

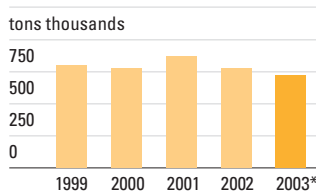
Water consumption



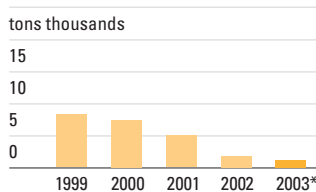
Energy consumption



CO₂ emissions



N₂O emissions



* These figures had not yet been finalized as we went to press.

Definitive figures are available at www.esha.clariant.com

Clariant is committed to generating genuine, sustainable added value. This requires the best possible balance between ecological, social and economic needs, the highest priorities being personal safety and environmentally sound products and processes.

Commitment to sustainability

Clariant's mandatory principles on environment, safety and health (ESH) are laid down in the group's ESH rules. They form an integral part of our business processes and strategic planning.

Corporate ESHA has built on the group's principles by drawing up an ESH strategy and a set of guidelines and targets that are mandatory worldwide and by assigning responsibilities.

As well as complying with national laws and regulations, the ESH policy also fulfills the goals of the "Business Charter for Sustainable Development" of the International Chamber of Commerce and the "Responsible Care" initiative of the chemical industry. With regard to social responsibility, Clariant's models include the precepts of the International Labor Organization.

EU White Paper. The European Union is currently drafting a new, standardized chemicals policy. The legislative process moved to the next stage with the publication of the Commission's White Paper. A project team of experts and a steering committee have been set up specifically to support management. The aim is to promptly identify effects and take appropriate action.

Coordinated cooperation

Direct cooperation and a continuous exchange of information are at the heart of the ESH management system. Installed in 2002 and regularly updated, a ESH know-how database facilitates the exchange of information between the ESH officers for the group, the divisions, the companies and the sites.

At all sites, specially trained ESH officers cooperate directly with their responsible line management and thus ensure that the guidelines are implemented effectively.

In addition, all employees are briefed on how to deal with ESH risks correctly at regular workshops. As a result of this continuous know-how transfer, each individual employee makes a contribution towards the attainment of Clariant's ambitious targets that is in line with his or her function and competencies.

Effective mechanisms

The ESH officers for the individual sites and the group have at their disposal a series of effective and easy-to-use mechanisms and controls with which to implement the guidelines. These are defined centrally, standardized worldwide and adapted on a continual basis, with the ESH measures ensuring that risks are monitored efficiently. Damage potential and liability risks are promptly identified, thus ensuring preventive monitoring.

Operational risks are identified with the assistance of a software-supported risk portfolio. This gives detailed information on the most effective use of available resources, thus permitting targeted corrective measures to be taken and their implementation to be monitored.

Resource consumption, emissions, waste management and safety at work are monitored at all facilities under 40 key indicators, which are then evaluated centrally. The data collected is compared against internal and external benchmarks. This enables success to be measured, and weaknesses – together with their possible causes – to be detected and eliminated.

Regular internal and external audits ensure that monitoring of compliance with laws and guidelines is independent. With their wealth of experience spanning the different sites, the auditors also support the transfer of experience across the group in their audits.

Integrated product policy

For Clariant, integrated product policy means the inclusion of environmental and safety aspects in all processes along the entire value chain. Even at the stage of supplier selection, price and quality are not the only criteria: a special appraisal mechanism is used to assess suppliers' compliance with ESH requirements. At the same time, Clariant provides its customers with comprehensive information and services to ensure that its products are used in ways that are safe and not harmful to the environment, and can be properly disposed of.

Efficient emergency management

Clariant has a global system for event reporting and emergency management. All information concerning products, processes, technologies and the necessary measures can be retrieved whenever the need arises. Incidents are reported to the group within the shortest time, triggering an emergency procedure structured around various levels. This procedure is tested repeatedly in extensive drills at all three levels – local, national and group.

Constant improvement

As in 2002, the company further reduced both energy consumption and CO₂ emissions. This is due in part to more efficient processes but also to the disposal of business units. The number of accidents in 2003 was again as low as in previous years.

ESH remained at the previous high level in 2003. Each year Clariant invests substantial sums in safety and environmental protection. For years it has been working to develop new methods of reducing green-

house gases effectively, for example at its Lamotte facility in Oise, France, where Clariant produces glyoxal and glyoxylic acid. The by-product of this production process is nitrogen oxide (N₂O), which has a greenhouse effect 310 times greater than that of CO₂.

A new method of converting the N₂O into oxygen and nitrogen has now been developed in cooperation with the research institute Institut de Recherche sur les Matériaux Avancés and the company Grande Paroisse. The reaction takes place even at relatively low temperatures and therefore energy-efficiently when catalytic activity is high.

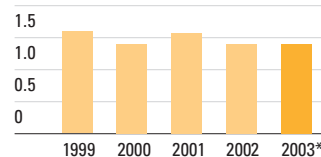
With the lab and pilot phase complete, the method has been put into operation successfully in Lamotte, reducing the amount of N₂O in the production exhaust-air by 95%. This project was supported by the French environmental agency Agence de l'Environnement et de la Maîtrise de l'Energie (ADEME). The amount invested in the project came to EUR 2.3 million in total, and the annual operating costs are around EUR 280 000.

Clariant's principle of incorporating ideas for environmental protection as early as the product development stage is increasingly paying off. It has been applied successfully to production of the highly authentic red-tinged blue pigment for car paints, for example. In transferring the process from the lab to manufacturing, Clariant was able to shrink it from a five-stage to a three-stage process, thereby reducing water consumption, polluted process waste water and the amount of energy required for insulating and drying during each of the interim stages. As a result, production costs are also reduced.

Further information can be found at www.esha.clariant.com

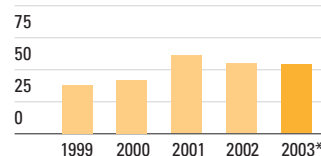
No. of accidents

involving loss of working time
per 200 000 working hours



ESH investments

CHF mn

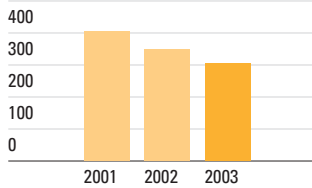


* These figures had not yet been finalized as we went to press. Definitive figures are available at www.esha.clariant.com

Research and Development

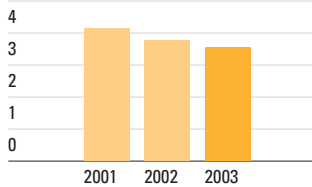
Total R&D costs

CHF mn



R&D ratio

as a percentage of total sales



Patent families

Around 180 new applications in 2003

Leading-edge technology and innovative strength combined with intensive customer focus, applications know-how and a service mindset – these are the cornerstones of the new business strategy. Clariant's outstanding ability to translate new developments into value for its customers makes it the preferred partner for innovation.

Innovations that meet market requirements

To translate market potential and customer needs as efficiently as possible into business solutions, Research and Development – R&D – is decentralized. The divisions prioritize their projects on the basis of market requirements and the prospects of success, and assume full responsibility for their implementation. They are supported in this by the group function Technology & Innovation.

Around 60% of the 2003 R&D budget was spent on refinements and innovations in existing application fields. A further 25% was spent on improving manufacturing processes and on measures to safeguard our cost and technology leadership. The remaining 15% went on new products, applications and services in new markets.

Groupwide projects. Competitive core technologies and processes are a basic requirement if innovations are to be translated rapidly into products. Since mid-2003, the relevant group function has therefore been called Technology & Innovation. Where projects involve developments for new business fields or new technologies that are of interest to more than one division, it assists with project management and start-up financing. But the operational implementation of these – often higher-risk – projects with attractive growth prospects lies with the divisions. In the year under review, more than 10 projects with potential sales of over CHF 100 million were conducted.

Cross-divisional knowledge management

Business-specific know-how is made available throughout the group in order to accelerate the innovation process. An integrated intellectual property strategy ensures extensive patent protection for the results.

Apart from IT-supported data management, the most important source of knowledge transfer is personal dialogue. Within the New Business Development framework, global and regional interdivisional teams generate new ideas for the innovation pipeline from regional trends in markets and technologies. At the same time, core technology teams work on extending know-how in the key technologies that are most important to Clariant and promote its interdivisional use.

One example is the Process Development Network, an interdivisional team of process engineering experts who critically assess new processes and larger investment projects.

Selected partnerships

Where subjects are of fundamental and strategic importance, Clariant frequently cooperates with universities and scientific institutions of international standing, such as Leipzig's Institute for Surface Modification, the Interuniversity Micro Electronic Center in Leuven and the University of Akron in the US.

By taking part in special trade fairs and conventions it also forges links with young companies in areas such as nanotechnology. Thus, in 2003, it began to cooperate with the start-up company Welco, which has developed an innovative method of producing solder materials for the integrated circuits used in complex devices such as cell phones and notebooks. The result, ultrafine solder powder, is an ideal addition to Clariant's products for the production of chips.

Outlook

Although Clariant does not yet see a sustained revival in the markets relevant to the company, it is more optimistic at the start of 2004 than it was in fall 2003. The measures introduced in an effort to turn Clariant around will ensure that the company continues to develop in a positive direction.

Strategic measures

In 2004, a great deal of effort will be invested in continuing to implement the transformation program launched during the year under review. The individual projects will extend their work to other parts of the group, processes and organizational structures will be optimized and the new models gradually introduced.

The company will also forge ahead with its disposal program, with the Electronics Materials Business Unit and two other businesses earmarked for sale in 2004. Clariant will examine additional options and, if market conditions are appropriate, offer other parts of the company for sale.

Market coverage

The trend towards relocating production capacity to Asia, particularly in the textiles and leather industry, will persist. With its existing production facilities in China and Hong Kong, the Textiles, Leather & Paper Chemicals Division is well placed to capitalize on this trend. However, price pressure and surplus capacity will continue to effect the industry and support the migration to low-wage countries over the coming year.

For 2004, the Pigments & Additives Division forecasts a rise in sales units and overall growth above the market average, driven mainly by the launch of a series of new and innovative products. In the fourth quarter, for example, the division will put into operation a new production plant for DPP pigments, thereby greatly extending its range of high-quality pigments for paints. With the development of new service concepts and improved sales and marketing activities, its strong customer focus will be emphasized further.

As part of the strategic growth plan for the Asia region, the Masterbatches Division intends to set up further production facilities in China in 2004. In Shanghai, capacity is to be doubled and a new building constructed. The promising ColorWorks™ initiative will be taken forward with two new design centers in North America. With the largest production network of any color concentrate manufacturer worldwide, the division expects to build market share again in 2004.

Intending to improve capacity utilization rates again, the Functional Chemicals Division targets further growth in 2004.

The Life Science & Electronic Chemicals Division will focus on intensifying and broadening its customer base and improving costs in 2004. In addition to reducing general overheads and fixed assets, this will involve increasing capacity utilization rates at its plants. With future growth in mind, it will continue to implement business-specific strategies and to adjust its organizational structures.



No man's land.

Elbow room. Time to think. The freedom to be oneself. The microreactor team from Clariant is encouraged to invest ten percent of its time – over a month each year – in the unknown. In creativity. The aim is to explore uncharted territory. The team ventures into the realm of the

unexplored in search of new understanding. And they are successful. So successful that they are able to turn their knowledge into products that the chemical industry finds exceptionally interesting. The world needs minds. Our times need ideas. From Clariant.







“ut sit ...”

“Cura ut sit mens sana in corpore sano” – to quote in full. “Let there be sound mind in a sound body.”

This state is not always as easy to achieve as we would hope. Keeping both your mind and body sound means doing something about it, like having a regular checkup, for example. That’s why Clariant provides an occupational health care program for its employees. For the well-being of their bodies and of their minds.

Spirit of challenge

They say that the best comes from within. At Clariant, this seems to apply. To the products and production methods, which are optimized using Clariant technology. And, in a figurative sense, to the workforce, too. We created the Pioneer Program

with the aim of training as many specialist and senior management staff as possible from within our own ranks. A breeding ground for talent, in which Clariant's best minds learn to develop their strengths. For their own future and for that of the company.





Report on the divisions

Overview

Profile

Textile, Leather & Paper Chemicals

The division is one of the leading providers of specialty chemicals and dyes for the textile, leather and paper industries. Textile dyes include disperse, reactive, acid and sulfur dyes. Textile chemicals include specialty chemicals for pretreatment, dyeing, printing and refining of textiles. Optical brighteners and chemicals for functional treatment

are also offered. The Paper Chemicals Business Unit supplies paper dyes, optical brighteners and process and pulping chemicals. The Leather Business Unit produces chemicals for refining. It supplies all chemicals used in finishing and dyeing and a complete range of wet-end chemicals.

Pigments & Additives

The division develops and produces pigments for paints and lacquers, for plastics and for specialized industries. The product range includes high-performance pigments to meet the exacting demands of the automotive and electronics industries. Printing pigments are supplied to the printing ink industry. The business also includes additives to improve heat

resistance as well as light and weather resistance of plastics and paints. Halogen-free flame retardants are used in protective coatings, resins, thermoplastics and polyester fibers. The division's portfolio also includes high-quality waxes based on various raw materials.

Masterbatches

The Masterbatches Division supplies color and additive concentrates and special mixtures of these components. A combination of worldwide presence and strong local partnerships makes Clariant a

preferred supplier for plastics processors and the textile industry. On the local level, each of the division's 54 production plants furnishes complete technical service for all products and applications.

Functional Chemicals

This division's products are based on surfactants and polymers. The Detergents Business Unit is a partner to the detergents industry, furnishing anionic and cationic surfactants and bleach activators. Performance Chemicals supplies such industries as body care products, aviation, automotive,

plant protection, paints, lacquers and plastics. The Process Chemicals unit markets products and services for the oil and gas extracting and refining industry and for the metallurgy and mining industry.

Life Science & Electronic Chemicals

The division consists of four business units: Electronic Materials, Pharmaceuticals, Custom Synthesis and Specialty Fine Chemicals. Electronic materials are chemicals for the lithography process used in production of semiconductor elements and newly developed foils for light management. The Specialty Fine Chemicals Business Unit covers a diverse range of industrial applications with silane deriva-

tives, glyoxalic acid derivatives and diketene-based chemicals. The Pharma Business Unit is a service partner in the introduction of new drugs, supplying customer-specific late-stage intermediates, patented active ingredients and some 30 different generic drugs. At Custom Synthesis, the emphasis is on intermediates and active ingredients for agrochemical products.

Markets	Brands and products
Clothing, home textiles, technical textiles, garment leather, automotive leather, paper, packaging, construction	UV absorbers, fluorochemicals, paper dyes (Cartasol®), disperse dyes (Foron®), reactive dyes (Drimarene®)
Paints, lacquers, coatings, plastics, automotive industry	Hostaperm® pigments, PV Fast®, Graphtol®, Novoperm® pigments, Reflex Blue® grades, Exolith®, Ceridust®
Automotive, textile and technical fibers, electronic and electrical devices, home appliances, toys, medical devices, sporting goods, packaging	Cesa®, Hydrocerol®, Remafin®, Renol®, Omnicolor®, ColorWorks™
Detergents, rinses and cleansers, body care products, aviation, automotive and machine tools, agrochemicals, paints and lacquers, plastics, construction, oil and gas extraction, mining	Oxethylate, polyethylene glycols, Peractive® Hostapur SAS® corrosion inhibitors and biocides, Genamin®, Genapol®, Calcogen®, Klebosol®, Arkopal®, Safeway®, Safewing®, Antifrogen®, Safebreak®, Genosorb®, Dodiflow®, Dissolvan®, Scaletreat®, Phasetreat®
Semiconductor and electronics industry, pharmaceuticals and agrobusiness, industries such as coatings, plastics, scents and flavorings	Pharmaceutical and agrochemical active ingredients, generic products, intermediates, building blocks, AZ® photoresists

Textile, Leather & Paper Chemicals

Business performance

The Textile, Leather & Paper Chemicals Division raised its sales in local currencies by 1%. This translates into a decline in sales of 6% in Swiss franc terms. EBITDA came to CHF 243 million, equating to a margin of 11.2%.

The Textile Dyes Business Unit experienced weak demand in 2003 due, among other things, to strong competition from Asia. As companies continue to shift textile production to Asia, demand slumped, particularly in the US and Europe. The Textile Dyes Business Unit is countering this trend by expanding its production capacity in Tianjin, China. The result was further depressed by unremitting price pressure and strong currency effects.

The performance of Archroma, Clariant's color management service for the textile industry, was encouraging. The novel concept has gained a foothold in the market, and the opening of a further design studio in New York marks yet another milestone.

Volume growth in the Textile Chemicals Business Unit was encouraging. Demand for water-, soil- and oil-repelling products for technical textiles based on Nuva remained buoyant, but rising raw material prices had an adverse impact on margins.

A number of factors impacted on the performance of the Leather Business Unit. Margins were hit by rising raw material prices and price pressure. The leather industry too is witnessing a shift of production capacity to Asia, in particular to China.

Business in the paper industry was largely stable, despite ongoing downsizing of capacity, which reflects a clear trend to leaner structures. The adjustment process opened up additional opportunities in technical services, for which companies are increasingly turning to external providers.

Portfolio

The division is one of the world's leading suppliers of specialty chemicals and dyes for the textile, leather and paper industries. It has decentralized structures and a broad product range.

The Textile Dyes Business Unit's product lines include dispersion, reactive, acid and sulfur dyes.

The product range of the Textile Chemicals Business Unit encompasses specialty chemicals for pretreatment, dyeing, printing and finishing of textiles. Optical brighteners and chemicals for functional treatment of technical and other textiles are also offered.

The Paper Chemicals Business Unit supplies paper dyes, optical brighteners and process and pulping chemicals.

The Leather Chemicals Business Unit is one of the leading suppliers of finishing chemicals. Its offering includes all chemicals for finishing and dyeing as well as a complete range of wet-end chemicals.

Changes. In the review period, Clariant closed its last hydrosulfite plant in Widnes, UK. The North American hydrosulfite business had already been hived off at the end of 2002.

Innovation

The division developed a broad range of new products in 2003. Last year saw the successful market launch of the new textile dye Nilosan S. The newly developed optical brightener Hostalux CPA also enjoyed buoyant demand.

A new generation of Nuva products was launched for technical textiles. The Leather Business Unit developed a number of new finishing products that have already established themselves on the market.

Outlook

The trend to shifting production capacity, especially in the textile and leather industries, continues unabated. With its production plants in the greater China region, Clariant is well positioned to utilize this development. Price pressures and overcapacity will effect the industry in the coming year too, thus reinforcing the trend to relocating in low-wage areas.

Profit/loss

CHF mn

	2003	2002
Sales	2 179	2 306
EBITDA*	243	299
EBITDA margin	11.2%	13.0%

* Before restructuring and disposals

Business units

Textile Dyes, Textile Chemicals, Leather, Paper

Headquarters

Muttenz, Switzerland

Pigments & Additives

Business performance

The Pigments & Additives Division raised its sales in local currencies by 1%. This translates into a decline in sales of 4% in Swiss franc terms. EBITDA came to CHF 236 million, equating to a margin of 13.5%.

All business units contributed to this result amidst a difficult economic environment. The division offset the steep cuts in prices for many products partly through substantial volume increases.

The Coating Industries Business Unit suffered from weak demand in its European and North American markets, though this was offset by the strong performance in Asia and Latin America. In addition, good capacity utilization and strict cost management resulted in satisfying margins.

In the plastic industries, pigments for masterbatch production and antioxidants turned in a better-than-average performance.

While demand for traditional printing pigments remained unsatisfactory, nonimpact printing continued to gain in importance.

Business in specialized industries was satisfactory. This business unit benefited from the trend to environmentally compatible products, especially for cosmetics and detergents. Customers are showing considerable interest in our innovative metallocene waxes.

Portfolio

The division develops and produces pigments for paints and lacquers, for plastics and for specialized applications. Its know-how and worldwide presence make Clariant a market leader for pigments and additives.

With its broad product spectrum comprising high-performance pigments such as inkjet pigments, Clariant meets the exacting demands of the automotive and electronics industries.

Clariant is also one of the leading providers of pigments and waxes for the printing ink industry, where it is able to meet the most stringent demands, such as for security pigments used in printing banknotes.

The core business also includes additives to improve heat resistance as well as light and weather resistance of plastics and paints. Halogen-free flame retardants are used in protective coatings in the construction industry, in resins for construction and electronics, and in thermoplastics and polyester fibers.

The division's comprehensive core portfolio also includes waxes based on various starting materials. These products play a leading role in their fields of application.

Innovation

Owing to the resounding market success of the new waxes based on metallocene technology, Clariant is planning to build a new plant for low-molecular high-performance polymers at the Hoechst Industrial Park. The products are marketed under the name Licocen, and are used in composites, hot-melt adhesives and in the manufacture of polystyrene foam. The new facility will come on stream early in 2006.

Clariant's new halogen-free flame retardants are a big success story. They were developed specially for protecting plastic in electric and electronic devices against fire. In the period under review, Clariant started construction of a plant in Knapsack, near Cologne, that will come on stream in 2004.

New and modified products accounted for 20% of the division's total sales in 2003, 2% up on the previous year.

Outlook

For the coming year, the division is forecasting higher sales and earnings growth that is above the market average. The expansion will be driven mainly by the launch of a number of new and innovative products.

In the fourth quarter, production will start up at the new plant for DPP pigments, thus enabling the division to significantly expand its offering of high-quality pigments for paints.

The division's strong customer focus is to be reinforced by developing new service concepts and by improving sales and marketing activities.

Profit/loss

CHF mn

	2003	2002
Sales	1 745	1 814
EBITDA*	236	285
EBITDA margin	13.5%	15.7%

* Before restructuring and disposals

Business units

Coating Industries, Plastic Industries, Printing Industries, Specialized Industries

Headquarters

Sulzbach am Taunus, Germany

Masterbatches

Business performance

The Masterbatches Division raised its sales in local currencies by 5%. This equates to an increase of 1% in Swiss francs. EBITDA came to CHF 114 million, corresponding to a margin of 10.9%.

All four regional business units increased their sales in the period under review. Sales in Asia and Latin America showed an especially encouraging trend. The North America and Europe regions did not expand at the same pace, though a sharp recovery took shape in North America in the second half of the year.

Overall, the Masterbatches Division grew faster than the market. However, the division's operating result was depressed by pricing pressure and higher wage costs.

Portfolio

The Masterbatches Division's worldwide production network supplies color and additives concentrates and special multifunctional mixtures of these components. The combination of a worldwide presence and strong local partnerships makes Clariant a preferred supplier for plastics processors and the textile industry.

On the local level, each of the division's 54 production plants provides complete technical service for all products and applications. Clariant thus enjoys unique technological competency in all the world's major markets and segments.

Changes. Clariant Masterbatches continued pursuing its growth strategy in the past business year. Its acquisition of the Canadian firm Quality Colour, a supplier of color and additive concentrates, enabled it to expand its presence in the North American market. In Asia, the division opened a new plant in the emerging Vietnamese market.

Innovation

Innovations are crucial in the Masterbatches Division. The vast majority of the division's developments are tailored to individual customer needs or to specific requirements of a market segment. Accordingly, the division renews more than 25% of its product portfolio every year.

As part of its global ColorWorks™ initiative launched last year, the division opened two further design centers in New York and Frankfurt in fiscal 2003. ColorWorks™ offers designers a comprehensive service to help them design their products. Using computer-aided design tools, the centers can visualize customer products three-dimensionally, develop them in color in real time and place them in virtual settings.

In the review period, ColorWorks™ helped with the development of innovative packaging for personal care products which take on different hues depending on sunlight and temperature.

In the fast-growing market for PET bottles, Clariant started to market a new product line of bright, translucent colors. The sharp reduction in the quantities of pigments needed helps cut manufacturing costs for PET bottles substantially.

Outlook

It is planned to open further production sites in China in the course of 2004 as part of the strategic growth plan for Asia. Capacity in Shanghai is to be doubled, and a new building will be erected.

Clariant will forge ahead with its promising ColorWorks™ initiative and it has plans to open two more design centers in North America.

The Masterbatches Division, which has the best global presence of any color concentrate manufacturer, expects to gain further market share in 2004.

Profit/loss

CHF mn		
	2003	2002
Sales	1 041	1 027
EBITDA*	114	127
EBITDA margin	10.9%	12.4%

* Before restructuring and disposals

Business units

Europe, Asia Pacific, NAFTA,
Latin America

Headquarters

Muttenz, Switzerland

Functional Chemicals

Business performance

The Functional Chemicals Division raised its sales in local currencies by 2%. This corresponds to a 2% decline in sales in Swiss franc terms. EBITDA came to CHF 245 million, equating to a margin of 14.0%.

The Detergents Business Unit kept its volumes at a high level. Thanks to the launch of new surfactant mixtures, Clariant gained market share particularly in the U.S.

At Performance Chemicals, deicing agents generated good results, especially in the NAFTA region. As a result, the unit substantially improved capacity utilization. Comarketing of personal care biocides (preservatives) together with the other cosmetic raw materials was well received by customers.

In the cosmetics industry, branded goods continued to lose ground. The trend towards inexpensive distributor trade brands put considerable pressure on raw material prices in personal care. Nevertheless, the business performed well especially in Europe.

Process Chemicals was able to further increase business in Europe at a high level. Despite the difficult situation in Venezuela, the unit captured market share in Latin America. The robust growth of the oil business in the strategic North American market was encouraging.

Portfolio

The products of the Functional Chemicals Division are based on nonionic, anionic and cationic surfactants and on polymers. The key products are high-quality raw materials for detergents and cosmetics as well as products for the oil industry, combined with extensive service.

The Detergents Business Unit, which offers anionic, cationic and special nonionic surfactants, as well as bleach activators, is a global partner of the detergent industry.

Performance chemicals, based on the division's entire product range, supplies industries such as personal care, aviation, automotive, crop protection, paints and coatings, or plastics and industrial chemistry.

The Process Chemicals Business Unit markets products and services for the production and refining of oil and natural gas. It also offers products for metal working, mining and the chemical industry.

The Biocides Business Unit produces and formulates a broad spectrum of biologically active additives for cosmetics, paints, polymers and disinfectants.

Changes. As part of the group's strategic refocusing on strongly service-oriented businesses, Clariant sold the Cellulose Ethers Business Unit in the period under review. Cellulose ethers are used mainly by the construction industry, which is no longer a target market for Clariant.

Clariant Oilfield Services opened a new laboratory with 40 employees in Macae, Brazil, in order to bring even faster and better services and technical support to its local customers.

Innovation

The Detergents Business Unit successfully launched new fabric softeners and laundry additives.

The division has developed a new generation of aircraft deicers that feature especially environmentally compatible properties.

In the personal care field, the division launched new hair care substances with an improved safety profile and a new, iron-free generation of active substances for antiperspirants with improved effectiveness.

The Process Chemicals Business Unit is working intensively on the development of new hydrate inhibitors that prevent the formation of gas hydrates in natural gas production.

Outlook

The Functional Chemicals Division is targeting further growth in 2004. It plans to raise capacity utilization, while lowering costs and current assets.

Profit/loss

CHF mn		
	2003	2002 ¹
Sales	1 752	1 790
EBITDA	245	156
EBITDA margin	14.0%	8.7%

* Before restructuring and disposals

¹ Restated

Business units

Detergents, Performance Chemicals, Process Chemicals, Cellulose Ethers & Dispersion Powders, Biocides

Headquarters

Sulzbach am Taunus, Germany

* The Biocides Business Unit was integrated into the Performance Chemicals and Process Chemicals Business Units at the end of 2003.

Life Science & Electronic Chemicals

Business performance

Sales in the Life Science & Electronic Chemicals Division decreased by 9% in local currency terms. This translates into a 12% decline in sales in Swiss franc terms. EBITDA came to CHF 56 million, equivalent to a margin of 5.2%.

In the Electronic Materials Business Unit, the gradual recovery of the semiconductor industry and robust growth rates in the flat-screen market had a major impact on the result. The business unit took full advantage of its growth potential on the strength of its leading position in new photoresist technology and in flat screens. The efforts to grow with new technologies for the electronics market – for instance, light management films, liquid crystals and insulation materials for integrated circuits – have excellent prospects.

The Pharmaceuticals Business Unit benefited from the implementation of its new strategy. It strengthened its activities in the generics market while at the same time initiating targeted measures to boost efficiency. For one thing, the business unit restructured its plants in Italy and France. All improvements are driven by a focus on the customer and customer needs, and this is reflected in the extension of services in research, piloting and small-scale production. While the weak dollar continues to depress exports to the North American market, the business developed in line with expectations overall.

The Custom Synthesis Business Unit was negatively impacted by the ongoing trend to insourcing. Market conditions remained difficult, and the situation is being exacerbated by the strong euro and increased price pressures as more Asian providers enter the market. The business unit responded to the new conditions by radically readjusting its capacity in Germany and the U.S. in a bid to define a viable strategy for the future.

Specialty Fine Chemicals performed well, with higher capacity utilization enabling it to beat the year-back result by a wide margin. Intensive research and development activities in glyoxal chemistry led to the development of very promising product lines. The unit is currently working on further optimization of silicones and their polymers.

Portfolio

Electronic Materials. The business unit's portfolio comprises all chemicals for the lithography process used in production of semiconductor elements such as memory chips, processors, hard-disk reader heads and flat-screen displays. Clariant announced in 2003 that it plans to sell the Electronic Materials Business Unit in 2004.

Specialty Fine Chemicals. The business unit provides silane derivatives, glyoxalic acid derivatives and diketene-based chemicals for a wide range of applications. In 2002, it transferred the chlorine- and acetic-acid-based synthetic building blocks of the Organic Chemicals business line to an autonomous company, Clariant (Acetyl Building Blocks) GmbH & Co. KG, or CABB. This wholly owned subsidiary, which began operations on January 1, 2003, enables Clariant to position its products on the market more precisely and to enhance performance appreciably.

Pharmaceuticals. The business unit supplies active ingredients, demanding customer-specific late-stage intermediates and some 30 different generic drugs. It is also a service partner in the introduction of new drugs. The spectrum includes products for various therapeutic purposes including active ingredients to combat Aids. Pharmaceutical manufacturers the world over are among its customers.

Custom Synthesis. The business unit supplies products to different industries. A focal point is precursors and active ingredients for crop protection agents. The unit also has customers in the fragrances and flavors sectors, photochemicals and other areas. It produces exclusively for individual customers, but also has catalog products in its program.

Innovation

The Research & Development departments in all business units and the technical units attached to them ensure that the division pursues new, efficient and forward-looking paths in the production of high-quality products.

The Pharmaceuticals Business Unit, for example, launched an initiative that concentrates on a promising approach known as microreactor technology, which has numerous advantages over conventional synthesis.

The division further expanded its activities in the field of organometallic chemistry. Glyoxalic derivatives are opening up entirely new applications, and the potential uses of silane polymers are far from being fully explored.

Outlook

In 2004 the division will intensively focus on broadening its customer base and on improving the cost situation. Its efforts will be directed towards reducing overheads and fixed assets as well as increasing the capacity utilization of its facilities.

The division will continue to implement business-specific strategies and gear its organizational structures to ensuring future growth.

Profit/loss

CHF mn		
	2003	2002 ¹
Sales	1 076	1 222
EBITDA*	56	97
EBITDA margin	5.2%	7.9%

* Before restructuring and disposals

¹ Restated

Business units

Electronic Materials, Specialty
Fine Chemicals, Pharmaceuticals,
Custom Synthesis

Headquarters

Sulzbach am Taunus, Germany

Financial Report 2003

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Financial review

Clariant in 2003

Overview

For the year ending December 31, 2003, sales totaled CHF 8.5 billion in local currency terms, up 1% compared to 2002. In Swiss franc terms, sales were down 4% from a year earlier. Net profit for the year was CHF 161 million compared to a net loss of CHF 648 million in 2002.

Four of Clariant's five divisions recorded sales gains in local currency terms, with Life Sciences & Electronic Chemicals being the exception.

Measures initiated in 2003 improved working capital management, resulting in significantly improved cash flow in the second half of the year.

Net debt was reduced from CHF 3.7 billion in the middle of the year to CHF 2.9 billion by year-end. Shareholders' equity increased by CHF 200 million to total approximately CHF 1.2 billion, lifting the equity ratio to approximately 15%.

In mid-2003, Clariant initiated a Transformation Program designed to create a substantially more competitive company. It includes the sale of noncore assets as well as a wide range of measures to improve performance.

The sale of the Cellulose Ethers Business Unit was successfully completed at the end of 2003. Negotiations to sell Electronic Materials are well advanced. In addition, two other units are now ready for sale.

Clariant successfully implemented projects to improve efficiency in the areas of purchasing, logistics and production in selected parts of the company in the second half of 2003, and these will now be extended throughout the group.

In addition, measures to improve the efficiency of the organizational structure and of business processes will lead to the reduction of 4 000 jobs worldwide over the next two years. The main areas affected are general administration, infrastructure, production and the supply chain. The areas of sales and client service will be unaffected. Various functions previously carried out elsewhere will henceforth be concentrated in the Muttenz headquarters.

Market conditions

Economic trends

The first half of the year was overshadowed by geopolitical uncertainties such as the Iraq war and the SARS syndrome, adding pressure to the weak economic climate. The end of the war marked the beginning of a possible turnaround of the economic trend. However, a divergence in economic recovery was found among major countries and regions. The US economy gained dynamic momentum. East Asia, particularly China and to some extent Japan, were on the path of economic recovery and growth, while Europe's economy was moving mainly sideward. Short-term interest rates remained low, while long-term interest rates began to rise. Despite rising commodity prices, global inflation was on a low level. After all-time lows in spring, fueled by worries about deflation, stock markets worldwide developed positively in 2003 since a deflation was unlikely and economies began to recover. A weak to slightly positive economic confidence showed up in most of Clariant's end user markets. Customers still were keeping a restrictive capital expenditure policy. Main industries, comprising the chemicals industry, continued to reduce overcapacity and concentrated on cost reduction measures and reorganization. After more than two years of recession, many companies are now ready to participate in the beginning upswing.

Exchange rate trends

Except for the euro (+3.5%) all the currencies important to Clariant lost substantial ground against the Swiss franc throughout 2003. The trend already seen in 2002 continued in 2003 especially for the US dollar, the yen and the Brazilian real. The following changes in exchange rates affected Clariant most: US dollar (-13.7%), yen (-6.6%), British pound (-5.9%) and Brazilian real (-18.6%). Many other currencies with importance for Clariant also weakened considerably. These currency fluctuations led to a 5% drop of Clariant's sales revenues in CHF on a comparable basis.

Developments in important markets

For the third year in a row **Germany's** economy has been almost stagnant. In 2003, the German chemical industry increased the production output by modest 0.5% compared to previous year. Sales prices continued to be under pressure. Domestic sales were stagnant, while export sales grew by 2.5%. For 2004 a moderate upswing is expected.

Market conditions in the **United States** were influenced by political uncertainty in the first part of 2003. In the second half of 2003 the industrial production and capacity utilization were improving. Many of our end user markets began to turn around in the last quarter of 2003. Namely, the plastic and semi-conductor markets saw significant sales growth. This positive trend is expected to continue and the US economy is poised for further growth in 2004.

In **Brazil** the economy was sluggish in the first part of 2003 due to concerns about the politics of the newly appointed socialist government and high interest rates. However, the new administration kept inflation under control and consistently lowered interest rates. The industrial demand increased and the Brazilian economy grew slightly in 2003. For 2004 stronger growth and increasing exports, especially to China, are expected.

After a long period of economic stagnation **Japan's** economy grew by more than 2% in 2003. However, the chemical industry is still facing the difficult situation that many customers are transferring their production sites to China, Taiwan, and other Asian countries. Therefore, sales of chemical companies are expected to remain stagnant in 2004.

China recovered fast from the SARS related slight economic slowdown and showed strong growth in 2003. Exports to the US and Europe increased substantially supported by favorable exchange rates. In the future economic growth will be driven by exports, foreign investment and increasingly by private consumption. For 2004 continued strong growth is expected.

Sales and operating results

Sales for the group on a comparable basis increased by 1% over last year measured in local currencies and declined by 4% in Swiss francs. Growth from higher volume was 3%, partly offset by a 2% decline in average prices. All divisions achieved growth in volume, and all divisions except LSE increased sales in local currencies.

On a comparable basis, **costs of goods sold** in percent of sales rose from 67.2% in 2002 to 67.9% in 2003. This was the result of various effects. Production capacity and corresponding depreciation charges were substantially reduced in the restructuring program initiated in 2001. This benefit was more than offset by higher raw material prices and increased production labour cost.

Marketing and distribution costs increased in relation to sales from 14.7% in 2002 to 15.2% in 2003. This was mainly due to the impact of higher insurance premiums relevant to distribution and labor costs on the fixed cost ratio. Variable expenses like freight costs and rebates were reduced and thus held stable in percent of sales.

Administration and general overhead in percent of sales declined from 7.6% in 2002 to 6.4% in 2003. Several effects had an impact on this development. A provision for the Functional Chemicals Division in 2002 was reversed in 2003. Specific cost savings measures, including cuts in bonuses, reduced expenses by some CHF 100 million. These savings were partly due to release of provisions, but will benefit the cash flow in 2004.

Restructuring and impairment includes the costs for the termination of the project for a large-scale plant for detergent raw materials in the US. The close down of that plant and the subsequent write-down and provisions amounted to CHF 153 million. Due to declining market demand and overcapacities restructuring and impairment costs of CHF 63 million incurred for the Custom Synthesis sites in Germany and in the US. The closure of the hydrosulfite site in Widnes (UK) and the Indian production site consolidation in Roha were other major restructuring projects.

Financial Income decreased mainly due to a gain from the disposal of a financial asset recorded in 2002. Interest income however increased as a result of an improved liquidity situation.

Financial Expenses were lower as well based on a further reduction in financial debt as well as a lower average interest rate paid on financial debt due to a shift in the FX mix group-wide.

This favorable development was in part overshadowed by currency losses incurred on loans denominated in euro and on liquid funds denominated in US dollars. As a result of all this financial expenses increased compared to last year, even though net interest expenses could be reduced substantially.

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. As in prior years the US operations failed to generate any taxable income. In addition the complete impairment and subsequent write-off of a plant in the US in spring 2003 generated substantial additional expenses on which no tax asset could be capitalized. By specifically adapting parts of the group structure to the economic circumstances, tax losses unused up to now could be capitalized in several countries. These one-time effects helped to substantially lower the tax rate for 2003. Clariant continues to promote activities in fiscally advantageous countries to further reduce tax expenses. However the tax rate reported for 2003 will be achieved on a sustainable basis in a few years' time only.

Balance sheet

Total assets fell from CHF 8 550 million in 2002 to CHF 8 003 million in 2004. 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. Also, a tight management of the operating capital was enforced, which became especially 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 4 141 million at the year-end compared to CHF 4 453 million one year previously.

Gearing, which reflects net financial debt in relation to equity capital including minorities, declined from 345% in 2002 to 249%. The development was caused mainly by the disposal of business activities, which helped to reduce the net financial debt substantially and to a lesser extent also by currency developments, which increased equity substantially compared to the year-end 2002.

After the elimination of the effect of the divestitures net current assets (defined as inventories plus accounts receivable and liabilities from sales and services) only rose minimally. Even though the current economic conditions make it difficult to enforce any tight payment terms on customers, trade receivables could be reduced slightly. Inventories saw a minimal increase. At the year-end net current assets stood at CHF 2 197 million (27.2% of sales of continuing activities), compared to CHF 2 363 million (26.8% of sales of continuing activities) at the end of the previous year.

Cash flow

The cash flow statement is marked by the impact of the 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 "Consolidated statements of cash flows."

This makes it a bit more difficult to reconcile the development of balance sheet items from the prior to the current year with the changes shown in the cash flow statement. The numbers reported in the cash flow statement are shown net of the effect of disposals and changes in foreign currency exchange rates.

Net of these effects Clariant reports a minimal increase in inventories and a slight decrease in accounts receivable. Capital expenditure ran substantially below those reported for the prior year and also below depreciation.

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

Another important feature of the cash flow statement was the repayment of more than CHF 230 million of financial debt.

Earnings per share

The total number of shares was 153 440 000 at the end of 2003. Of these, 149 907 131 were in circulation at the year-end, the remaining 3 532 869 were treasury stock. The average number of outstanding shares used to calculate earnings per share was thus 149 823 102, compared with 150 890 166 for the previous year. Earnings per share amounted to CHF 1.08 compared with a loss per share of CHF 4.30 in 2002.

Dividends

The Board of Directors proposes payment of a dividend of CHF 0.20 per registered share. The total sum earmarked for dividend payments thus comes to CHF 30.7 million or 19.1% of net income of the group.

Sale of business operations and participations

In the reporting period Clariant sold its activities in Cellulose Ethers belonging to the division Functional Chemicals. The large part of this business is located in Germany with distribution networks in other European countries, in the US and in Asia.

In England the activities of the company AP Chemicals were sold, which were part of the division Life Science & Electronic Materials.

Divisions

Textile, Leather & Paper Chemicals

		2003	2002
Sales	CHF mn	2 179	2 306
EBITDA*	CHF mn	243	299
EBITDA margin	%	11.2	13.0

* Before restructuring and disposals

The Textile, Leather & Paper Chemicals Division raised its sales in local currencies by 1%. This corresponds to a 6% decline in sales in Swiss franc terms. EBITDA came to CHF 243 million, equating to a margin of 11.2%.

The Textile Dyes Business Unit experienced weak demand due to strong competition from Asia. The result was also depressed by unremitting price pressure and strong currency effects. As companies continue to shift textile production to Asia, demand slumped, particularly in the US and Europe. The Textile Dyes Business Unit is countering this trend by expanding its production capacity in Tianjin, China.

The performance of Archroma, Clariant's color management service for the textile industry, was encouraging. The novel concept has gained a foothold in the market, and the opening of a further design studio in New York marks yet another milestone.

The result of the Textile Chemicals Business Unit was helped by gratifying sales volume, but rising raw material prices had an adverse impact on margins. Demand for water, soil and oil repelling products for technical textiles based on Nuvu remained buoyant.

A number of factors impacted on business in the Leather Business Unit. Margins were hit by rising raw material prices and constantly high price pressure. The leather industry too is witnessing a shift of production capacity to Asia, in particular to China.

Business in the paper industry was largely stable, despite ongoing downsizing of capacity, which reflects a clear trend to leaner structures. The adjustment process opened up additional opportunities in technical services, for which companies are increasingly turning to external providers.

Pigments & Additives

		2003	2002
Sales	CHF mn	1 745	1 814
EBITDA*	CHF mn	236	285
EBITDA margin	%	13.5	15.7

* Before restructuring and disposals

The Pigments & Additives Division raised its sales in local currencies by 1%. This corresponds to a 4% decline in sales in Swiss franc terms. EBITDA came to CHF 236 million, equating to a margin of 13.5%.

All business units contributed to this positive result amidst a difficult economic environment. The division offset the steep cuts in prices for many products partly through substantial volume increases.

The Coatings Business Unit suffered from weak demand in its European and North American markets, though this was offset by the strong performance in Asia and Latin America. In addition, good capacity utilization and strict cost management resulted in satisfying margins.

In the plastics industry, pigments for masterbatch production and antioxidants turned in a better-than-average performance.

While demand for traditional printing pigments remained unsatisfactory, nonimpact printing continued to gain in importance.

Business in specialized industries was satisfactory. This business unit benefited from the trend to environmentally compatible products, especially for cosmetics and detergents. Customers are showing considerable interest in our innovative metallocene waxes.

Masterbatches

		2003	2002
Sales	CHF mn	1 041	1 027
EBITDA*	CHF mn	114	127
EBITDA margin	%	10.9	12.4

* Before restructuring and disposals

The Masterbatches Division raised its sales in local currencies by 5%. This equates to an increase of 1% in Swiss francs. EBITDA came to CHF 114 million, equating to a margin of 10.9%.

All four regional business units raised their sales in the period under review. Sales in Asia and Latin America showed an especially encouraging trend. The North America and Europe regions did not expand at the same pace, though a sharp recovery took shape in North America in the second half of the year. On the whole, the Masterbatches Division grew faster than the overall market.

The division's operating result was depressed by pricing pressure and higher wage costs.

Functional Chemicals

		2003	2002 ¹
Sales	CHF mn	1 752	1 790
EBITDA*	CHF mn	245	156
EBITDA margin	%	14.0	8.7

* Before restructuring and disposals

¹ Restated

The Functional Chemicals Division raised its sales in local currencies by 2%. This corresponds to a 2% decline in sales in Swiss franc terms. EBITDA came to CHF 245 million, equating to a margin of 14.0%.

The Detergents Business Unit kept its volumes at a high level. Thanks to the launch of new surfactant mixtures, Clariant gained market share particularly in the US.

At Performance Chemicals, deicing agents generated good results, especially in the NAFTA region. As a result, the unit substantially improved capacity utilization. Comarketing of personal care biocides (conservation agents) and other cosmetic raw materials was well-received by customers.

In the cosmetics industry, branded goods continued to lose ground. The trend to inexpensive distributor brands put considerable pressure on raw material prices in personal care. Nevertheless, the business performed well especially in Europe.

Process Chemicals chalked up gains in Europe at a high level. Despite the difficult situation in Venezuela, the unit captured market share in Latin America. The robust growth of the oil business in the strategic North American market was encouraging.

The cellulose ethers business was sold successfully at the end of the year.

Life Science & Electronics Chemicals

		2003	2002 ¹
Sales	CHF mn	1 076	1 222
EBITDA*	CHF mn	56	97
EBITDA margin	%	5.2	7.9

* Before restructuring and disposals

¹ Restated

Sales in the Life Science & Electronic Chemicals Division declined by 9% in local currency terms. This corresponds to a 12% decline in sales in Swiss franc terms. EBITDA came to CHF 56 million, equivalent to a margin of 5.2%.

In the Electronic Materials Business Unit, the gradual recovery of the semiconductor industry and robust growth rates in the flat screen market had a major impact on the result. The business unit took full advantage of its growth potential on the strength of its leading position in new photoresist technology and in flat screens. Electronic Materials is forging ahead with its efforts to generate growth in new technologies for the electronics market – for instance, light management films, liquid crystals and insulation materials for ICs – and the prospects are very good.

The Pharmaceuticals Business Unit benefited from the implementation of its new strategy. It strengthened its activities in the generics market while at the same time initiating targeted measures to boost efficiency. For one thing, the business unit restructured its plants in Italy and France. All improvements are driven by a focus on the customer and customer needs, and this is reflected in the extension of services in research, piloting and small-scale production. While the weak dollar continues to depress exports to the North American market, the business developed in line with expectations overall.

The Custom Synthesis Business Unit was negatively impacted by the ongoing trend to insourcing. The market conditions remain difficult, and this is being exacerbated by the strong euro and greater price pressure as more Asian providers enter the market. The business unit responded to the new conditions by radically readjusting its capacity in Germany and the US in a bid to define a viable strategy for the future.

Specialty Fine Chemicals performed well, with higher capacity utilization enabling it to beat the year-back result. Intensive R&D activities in glyoxal chemistry led to the development of very promising product lines. The unit is currently working on further optimization of silicones and their polymers.

Regional developments

Europe

In 2003, the European group companies contributed 54% of sales. In local currencies, sales decreased by 2% on a comparable basis. In Swiss francs, sales increased slightly due to the strength of the euro against the Swiss franc and the US dollar. Gross margins could be maintained almost at the same level as in 2002. Operating income declined mainly due to restructuring costs and higher insurance premiums. Capital expenditures in 2003 increased by 6% to CHF 191 million. More than half of this amount was invested in Germany.

In Central Europe (Germany, Switzerland and Austria), sales grew by 2% in Swiss francs, while they decreased by 1% in local currencies reflecting the sluggish market development in those countries. Due to efficiency improvements gross margins remained at 2002 level. However, the operating income was strongly affected by restructuring measures for the Custom Synthesis site of Griesheim in Germany.

In Southern Europe (Italy, Spain, Portugal, Greece), sales increased by 1% in Swiss francs and declined by 2% in local currencies. This negative development is partly due to some Italian customers that transferred their production facilities to Eastern European low cost countries. Gross margins decreased slightly because of higher raw material prices and lower production capacity utilization. The operating income was negatively influenced by restructuring costs for efficiency improvement initiatives in Spain and Portugal.

In Western Europe (France, Benelux), sales grew both in local currencies (1%) and in Swiss francs (4%). Gross margins declined mainly because of lower production capacity utilization. Restructuring costs for the production site of Huningue in France was the main reason for the lower operating income.

The businesses in the UK and Ireland were influenced by site consolidations and price decreases. Sales declined both in local currencies (9%) and in Swiss francs (14%). Gross margins went considerably down due to negative currency effects arising from the weak British pound. The closure of the production site in Widnes had a negative impact on the operating income. The UK operations were further consolidated with the sale of the hydrosulfite business and the AP Chemicals activities.

The group companies in Northern Europe (Sweden, Finland, Norway, Denmark) decreased sales both in local currencies (6%) and in Swiss francs (3%). The sales growth in Norway and Denmark was over-compensated by declining businesses in Sweden and Finland that were mainly caused by changes in the supply chain. Gross margins were maintained while operating income slightly decreased.

Americas

Group companies in the Americas contributed 25% of the 2003 group turnover. Sales of the companies within this region grew by 2% in local currencies, but declined by 13% in Swiss francs. All currencies in the region weakened substantially against the Swiss franc. Overall, the American operations achieved lower gross margins and operating income which was strongly influenced by termination costs of the project for a large scale plant for detergent raw materials in the US.

In the NAFTA region sales remained stagnant in local currencies but declined by 13% in Swiss francs. Due to strong price pressure gross margins were slightly below 2002 level. Operating income was considerably affected by the costs for a plant closure.

In 2003 Latin American countries like Brazil and Venezuela experienced significant currency devaluations. Despite this adverse effect, price increases and higher sales were achieved in local currencies (6%). Sales in US dollars, which is the functional currency in many countries of the area, were stagnant. Gross margins and operating income were lower than in 2002.

Asia, Africa, Australia

Group companies in Asia, Africa and Australia contributed 21% to group turnover in 2003. In local currencies sales grew by 9% in this region, fully absorbed by the translation into a strong Swiss franc. Most of the currencies in the region lost significant ground against the Swiss franc. Due to these currency effects, overall gross margins were slightly below previous year. However, higher operating income was achieved in the region.

With a sales increase of 29% in local currencies South Korea was the strongest growth area in the region. The electronic materials business grew strongly and boosted gross margins and operating income.

Clariant once again achieved above-average, double-digit growth in China. Because of start-up costs for new production facilities and further strengthening of the local sales force Clariant's operating income was below previous year.

The economic recovery continued in Turkey which had an excellent performance in terms of sales growth and operating income.

Clariant's operations on the Indian subcontinent increased sales by 10% in local currencies. At the end of 2003 the Indian operation was moving large parts of the production from its Thane site to Roha and shed around 500 jobs. This downsizing came as part of an efficiency program aimed at concentrating the majority of production at a single site.

The ASEAN development was mixed. In a difficult political and market environment sales and operating income declined in Indonesia. Singapore's business growth was slightly below 2002, while Thailand and Malaysia expanded sales and boosted operating income.

In Japan, domestic sales and operating profit rose despite the difficult economic environment.

Research and Development

Clariant is committed to R&D as the engine for innovation-based sustainable growth. Thus the 2003 R&D expenditures with 3.6% of sales on a comparable basis were kept in an appropriate range to secure the future business.

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.

On a comparable basis a total of CHF 308 million was spent on R&D in 2003. Clariant has some 1 500 people working in Research and Development.

Research and Development		2003	2002
Expenditure	CHF mn	308	352
As of % of sales	%	3.6	3.9

Corporate governance

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 regulations are likely to be adapted in 2004 as part of upcoming restructuring programs. 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 highest-level operating units – bear full responsibility for their business activities. The divisions section 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 company has been listed on the Swiss stock exchange, SWX Swiss Exchange, since 1995 (symbol: CLN, ISIN number: CH0012142631). As at December 31, 2003, the market capitalization stood at CHF 2.8 billion.

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

Listed company	Registered office	Listing	Capitalization	Shareholdings	ISIN no.
				%	
Clariant (India) Ltd	Mumbai	The Stock Exchange, Mumbai (BSE), and National Stock Exchange of India, Mumbai (NSE)	2 703 993 750 INR	50.94	INE221A01014
Colour-Chem Ltd*	Mumbai	The Stock Exchange, Mumbai (BSE), and National Stock Exchange of India, Mumbai (NSE)	3 046 475 000 INR	50.10	INE492A01029
Clariant (Pakistan) Ltd	Karachi	The Karachi Stock Exchange (KSE)	2 136 775 300 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/Ebita Chemiebeteteiligungen 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.

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	Shareholdings
		CHF mn	%
Clariant GmbH	Frankfurt/M, D	436.3	100.0
Clariant Corporation	Charlotte/NC, USA	926.6	100.0
Clariant UK Ltd	Leeds, UK	94.2	100.0
Clariant (France)	Paris La Défense Cedex, F	160.1	100.0
Clariant S.A.	São Paulo, BR	131.1	100.0
Clariant (Schweiz) AG	Muttenz, CH	150.0	100.0
Clariant (Italia) S.p.A.	Mailand, I	48.4	100.0
Clariant Ibérica S.A.	Barcelona, E	126.6	100.0
Clariant (China) Ltd	Hong Kong	38.4	100.0

Other companies, see p. 104

1.2 Significant shareholders

According to the available information, as at December 31, 2003, there was one shareholder holding over 5% of the share capital.

- Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA), owns between 5.12% and 10% of the share capital on 31 December 2003 (2002: 5.12%). The company is controlled by its general partner, Artisan Investment Corporation.

1.3 Cross-shareholdings

There are no cross-shareholdings.

2. Capital structure

2.1 Capital

The ordinary capital and the conditional capital are described in Note 4 of the Notes to the financial statements of Clariant Ltd, Muttenz.

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 bonds 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 2002 and 2003 can be found on page 79 of this Financial Report. The details for 2001 can be found on page 25 of the 2002 Financial 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

The Articles of Association of Clariant Ltd were amended after a motion was passed at the 8th Annual General Meeting on April 11, 2003, according to which the Board of Directors (BoD) of Clariant Ltd shall in future comprise at least six and no more than ten members (previously between eight and twelve). At the same meeting, Reinhard Handte and Stephen Hannam resigned from their posts. Since then, the Board of Directors has had six members.

3.1 Members of the Board of Directors

Pierre Borgeaud, 69, 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 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, 60, 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.

Roland Lösler, 61, German citizen

Roland Lösler 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, 67, 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 early 1996 he joined the Executive Board of Nestlé SA in Vevey, Switzerland, where he was responsible for the European market.

Tony Reis, 62, 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, 66, 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. Dieter Seebach was Professor of Organic Chemistry at the Federal Institute of Technology in Zurich between 1977 and 1993. 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 Roland Lösner (group CEO), all Board of Directors members are non-executive.

Roland Lösner is also 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*; Nestlé Waters AG*, Mainz (D); GfK AG (Gesellschaft für Konsumforschung); Maus Frères SA, Geneva; Schöller Holding GmbH, Nürnberg (D).

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) until November 2002; Dresdner Bank AG (Supervisory Board).

Pierre Borgeaud

Board of Directors/supervisory mandates: Bühler AG, Uzwil; SV-Service, Zürich.

Activities on behalf of companies and representative functions: None

Heinrich Bossard

Board of Directors/supervisory mandates: Bossard Group*.

Activities on behalf of companies and representative functions: None

Roland Lösner

Board of Directors/supervisory mandates: Clariant GmbH*.

Activities on behalf of companies and representative functions: None

Tony Reis

Board of Directors/supervisory mandates: 5E Holding AG, Zug; Metallwarenholding AG und V-ZUG AG, Zug; ROLEX Manufacture SA, Biel; redIT, Zug; Private Equity Holding AG, Zug; Karl Steiner AG, Generalunternehmung, Zug.

Activities on behalf of companies and representative functions: None

Prof. Dieter Seebach

Board of Directors/supervisory mandates: None

Activities on behalf of companies and representative functions: Consultant to Novartis Pharma, Syngenta 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
Roland Lösner	2000	2004
Tony Reis	1999	2007
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 Chairmen, and the other members. In accordance with the Articles of Association, the number of members must be at least six and no more than ten. 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:

- Strategy Committee
- Appointments and Compensation Committee
- Audit Committee
- IT, Technology and Innovation Committee

Committee	Executive Committee	Audit	Strategy	Appointments/ Compensation	IT, Technology and Innovation Committee
Robert Raeber	■		■	■	
Pierre Borgeaud	■		■	■	
Heinrich Bossard		■			
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 Board of Directors 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 Board for the purpose of reporting or imparting information. The committees report on their activities and results to the Board of Directors. They prepare the business of the Board 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 on them specifically. In such cases they decide together with the Chairman. The overall responsibility of the Board of Directors is not limited by the committees.

The Executive Committee (EC) prepares the meetings of the Board of Directors. The EC meets as needed but at least before each meeting of the Board of Directors. When matters cannot be postponed, the EC passes resolutions for which the Board of Directors is responsible, according to the current agenda, provided the EC deems it either inopportune or impossible to convene an extraordinary meeting of the Board of Directors. (The inalienable duties of the Board of Directors 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 Board of Directors, provided they are not expressly allocated to another committee. The STC makes recommendations to the Board of Directors in particular on the following:

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

The Appointments and Compensation Committee (ACC) comprises two members of the EC. The Chairman must be an independent, non-executive member of the Board of Directors. 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 reelection to the Board of Directors and prepares the corresponding recommendations. In particular, it considers and submits to the Board of Directors the proposals of the CEO concerning candidates for the positions of Division Head, other members of the Management Board, function heads and heads of subsidiaries with sales of CHF 200 million 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 Board of Directors 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 million or more or with particular strategic importance. All appointments and dismissals that fall within the remit of the Board of Directors must be submitted in advance to the ACC, which makes a recommendation to the Board of Directors. 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 Board of Directors. The Chairman must be an independent, non-executive member of the Board of Directors. The AUDC reviews the activities of the external auditors, their collaboration with the internal auditors, and organizational adequacy. It also reviews the performance, compensation and independence of the external auditors. 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 Board of Directors. 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 IT, Technology and Innovation Committee (ITIC) comprises two members of the Board of Directors with experience in the research segments, in innovation management and in the group's information technology. It meets at least twice a year. The tasks of the ITIC include assessing the innovative activities on behalf of the Board of Directors and recommending measures to stimulate Research and Development in the group. The ITIC also recommends measures to optimize exploitation of innovative potential.

3.6 Definition of areas of responsibility

The Board of Directors decides on all group activities for which it has responsibility in accordance with the law (especially Art. 716a of the Code of Obligations on non-transferable 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 the proposals to be made by the Board of Directors plus approving the Annual Report including the balance sheet and income statement for the AGM
- Approving financial transactions of considerable scope (over CHF 100 million) 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 million
- 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 million
- 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 adequate 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 Board of Directors in line with the proposal of the Appointments and Compensation Committee. Subject to responsibility of a higher-ranking corporate Board of Directors, the Management Board is responsible for:

- Operational implementation of the group strategies, 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 Board of Directors 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 Board of Directors 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 Board of Directors receives direct, immediate information.

4. Board of Management

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

4.1 Members of the Board of Management

Dominik von Bertrab, 44, Swiss citizen, Head of the Masterbatches Division

Dominik von Bertrab is an economist and was appointed Head of the Masterbatches Division in April 2003. He has held several positions with Clariant since its formation in 1995, including COO of Clariant (Hong Kong) Ltd, Head of Controlling for the Textile, Leather & Paper Chemicals Division, Head of Business Unit Paper in the TLP Division and Head of corporate human resources.

Dominik von Bertrab began his career in 1985 with group Auditing of Sandoz. He then became Managing Director of Polyrem South Africa (a joint venture of Sandoz and Hoechst) in 1989 and finally Head of the Chemical Division of Sandoz South Africa in 1991. Dominik von Bertrab studied business administration in Switzerland.

Peter Brandenburg, 56, Swiss citizen, Head of Regions and Human Resources

Peter Brandenburg is an economist and was appointed Head of Regions in 2003. Prior to this he was Head of German Operations and CEO of Clariant GmbH, Germany. From 1997 until 1999 he managed the former Process & Performance Products Division and from 1995 until 1997 the Textile Division. 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. Peter Brandenburg studied business administration in Switzerland and the US.

Siegfried Fischer, 48, German citizen, Head of the Functional Chemicals Division

Siegfried Fischer is an engineer and was appointed Head of the Functional Chemicals Division in April 2003. Following the merger of Clariant and Hoechst's specialty chemicals business, he joined the company in 1997 as Head of Production and Technology in the Process & Performance Products Division. In 1998 he became Head of the Performance Chemicals Business Unit in the Functional Chemicals Division. Siegfried Fischer began his career in 1984 at Hoechst, where he held various positions, last of all as Head of Engineering, ESHA & Production in the Tensides and Additives Department. He studied mechanical and process engineering in Germany.

Nico Gontha, 55, Swiss citizen, Head of the Textile, Leather & Paper Chemicals Division

Nico Gontha is an economist and was appointed Head of the Textile, Leather & Paper Chemicals Division in April 2003. He had previously been Head of the Masterbatches Division since 2001. In the six years prior to this, 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. Nico Gontha studied business administration in Switzerland.

Joachim Mahler, 51, 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. Joachim Mahler 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. He studied physics in Germany and engineering management in the UK.

Uwe Nickel, 45, German citizen, Head of the Pigments & Additives Division

Uwe Nickel was appointed Head of the Pigments & Additives Division in April 2003. Since 1997, he has held several managerial positions at this division, including Global Head of Technology, Sector AZO Pigments, Global Head of Pigments Technology, and Global Head of Business Unit Specialized Industries. Uwe Nickel began working for Cassella AG in 1986 and held positions ranging from Head of Laboratory within the Research Department to Head of Production. Following the consolidation of Cassella with Hoechst, he took over the position of Business Process Excellence Manager for a Global Change Management Project of the Strategic Business Unit Surfactants and Additives. Uwe Nickel studied chemistry in Germany.

François Note, 44, 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. François Note studied business administration and applied economics in France.

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

Hartmut Wiezer is a chemist and has been Head of Research and 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. Hartmut Wiezer studied chemistry in Germany.

4.2 Other activities and functions

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 determination

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

The 600 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 system that rewards the financial results achieved in the business year at the group and operative business unit level and the achievement of individual targets. The target bonus accounts for anywhere from 15% of the annual target remuneration for middle management and up to 50% for members of senior management. The actual bonus 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 shares allocated depends on the hierarchical level and the annual bonus actually paid out.

Senior management (top 50) may choose between options and registered shares. The options have a term to maturity of ten years and are also vested for three years. The amount of the options allocated 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 Group Bonus Plan, the Long Term Incentive Plan and local bonus plans were suspended for the 2003 and 2004 business years and replaced with a payout fixed at 50% of the target value (retroactive payout in both 2004 and 2005 for the previous business year). This is management's contribution to Clariant's restructuring efforts.

Compensations for acting members of governing bodies

Total compensation for members of the Board of Directors and the Board of Management amounted to CHF 8.3 million (2002: CHF 12.55 million). This includes cash compensation of CHF 6 million (2002: CHF 7.25 million) and expenses for pension schemes of CHF 2.3 million (2002: CHF 5.3 million).

As part of the Long Term Incentive Plan of Clariant Ltd, the members of the governing bodies received 61 952 shares worth CHF 1.03 million and 41 387 options worth CHF 328 500 (2002: 57 803 shares worth CHF 1.77 million and 25 091 options worth CHF 291 000). Shares and options are subject to a three-year vesting period.

The premature termination of the employment contracts of four outgoing members of governing bodies resulted in contractual payments of CHF 7.8 million (2002: CHF 1.59 million).

Members of executive bodies

Total compensation for members of the Board of Management amounted to CHF 7.9 million (2002: CHF 12.1 million). It can be broken down as follows:

		2003	2002
Cash compensations	CHF mn	5.6	6.8
Expenditure on pension schemes	CHF mn	2.3	5.3
Total	CHF mn	7.9	12.1
Number of allocated shares		42 973	47 999
Number of allocated options		41 370	25 091

Members of the Board of Management 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:

		2003	2002
Cash compensations	CHF mn	0.40	0.45
Total	CHF mn	0.40	0.45
Number of allocated shares		18 979	9 804

Compensations for former members of governing bodies

Compensations of CHF 190 000 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	109 209	24 601	66 461	104 060
Non-executive members of governing bodies	31 223	4 300	0	23 780
Total	140 432	28 901	66 461	127 840

Additional remuneration

The members of the governing bodies did not receive any further remuneration above and beyond the compensations disclosed here.

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 the Board of Directors in the 2003 business year was CHF 0.6 million as a basic salary on a pro rata basis. The Bonus and Long Term Incentive for the 2003 business year will be determined and paid out in 2004.

6. Shareholders' participation rights

The shareholders' participation rights are described in the Articles of Association, section 3, Articles 9 to 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 Art. 704 of 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. Shareholders representing shares with a par value of CHF 1 million have until February 15, 2005, if they wish to request that an item be included on the agenda for the 10th Annual General Meeting, which is to be held on April 7, 2005.

6.5 Entry in the share register

There are no special 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.

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.

Rodolfo Gerber has been the Head Auditor since the audit of the present report.

8.2 Auditing honorarium

PricewaterhouseCoopers received a fee of CHF 4.1 million for auditing the 2003 financial statements.

8.3 Additional honorariums

PricewaterhouseCoopers received a total fee of CHF 5.8 million 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 an active 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 and CFO respectively. 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 semiannual report is published and is delivered the next day.

The company's website www.clariant.com is another regular source of information, where relevant information is published. It also lists addresses and contact persons.

2003 Consolidated financial statements of the Clariant Group

Consolidated balance sheets

at 31 December 2003 and 2002

Assets	Notes ¹	2003		2002	
		CHF mn	%	CHF mn	%
Long-term assets					
Tangible fixed assets	2	2 776		3 055	
Intangible assets	4	451		489	
Investments in associated companies	3	312		312	
Other financial assets	7	107		100	
Deferred tax assets	19	291		395	
Total long-term assets		3 937	49.2	4 351	50.9
Current assets					
Inventories	8	1 569		1 689	
Trade accounts receivable	9	1 259		1 379	
Other current assets	10	309		413	
Cash and short-term deposits		929		718	
Total current assets		4 066	50.8	4 199	49.1
Total assets		8 003	100.0	8 550	100.0

Equity and liabilities	Notes ¹	2003		2002	
		CHF mn	%	CHF mn	%
Equity					
Share capital		767		767	
Treasury shares (par value)		- 18		- 19	
Reserves		427		166	
Total equity		1 176	14.7	914	10.7
Minority interests		64	0.8	63	0.7
Liabilities					
Long-term liabilities					
Financial debts	13	2 620		3 102	
Deferred tax liabilities	19	384		583	
Provisions and other long-term liabilities	14	893		882	
Total long-term liabilities		3 897		4 567	
Short-term liabilities					
Trade accounts payable		632		705	
Financial debts	15	1 214		1 092	
Taxes payable		141		130	
Provisions and other short-term liabilities	16	879		1 079	
Total short-term liabilities		2 866		3 006	
Total liabilities		6 763	84.5	7 573	88.6
Total equity and liabilities		8 003	100.0	8 550	100.0

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

Consolidated income statements

for the years ended 31 December 2003 and 2002

	Notes ¹	2003		2002	
		CHF mn	%	CHF mn	%
Sales		8 516	100.0	9 330	100.0
Cost of goods sold		- 5 787		- 6 275	
Gross profit		2 729	32.0	3 055	32.7
Marketing and distribution		- 1 292		- 1 380	
Research and Development		- 308		- 352	
Income from associated companies	3	29		36	
Administration and general overhead cost		- 547		- 669	
Operating income before restructuring, disposals and amortization of goodwill		611	7.2	690	7.4
Disposal of business activities and financial fixed assets	5	239		81	
Restructuring and impairment	6	- 260		- 100	
Amortization of goodwill	4.6	- 31		- 873	
Operating income/loss after restructuring, disposals and amortization of goodwill		559	6.6	- 202	- 2.2
Financial result	20	- 275		- 248	
Income/loss before taxes and minority interests		284		- 450	
Taxes	19	- 111		- 189	
Income/loss before minority interests		173	2.0	- 639	- 6.8
Minority interests		- 12		- 9	
Net income/loss of the group		161		- 648	
Earnings/loss per share (CHF/share)		1.08		- 4.30	
Diluted earnings/loss per share (CHF/share)		1.08		- 4.30	

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

Consolidated statements of cash flows

for the years ended 31 December 2003 and 2002

	2003	2002
	CHF mn	CHF mn
Net income/loss	161	- 648
Depreciation of tangible fixed assets	520	512
Amortization of intangible assets	40	883
Change in long-term liabilities	- 100	108
Profit before taxes from disposal of business activities and financial assets	- 239	- 81
Other noncash items	33	41
Cash flow before changes in working capital	415	815
Change in inventories	- 19	- 21
Change in trade accounts receivable and other current assets	12	- 93
Change in trade accounts payable	- 68	80
Other	- 5	- 30
Cash flow from operating activities	335	751
Investment in tangible fixed assets	- 301	- 339
Change in intangible and financial assets	- 4	- 5
Sale of tangible and intangible assets	26	24
Acquisition of companies, businesses and participations (net of cash acquired)	- 3	- 32
Disposal of business activities and financial assets	371	284
Dividends received	32	105
Cash flow from investing activities	121	37
Treasury share transactions	5	- 83
Change in long-term financial debts	- 454	- 539
Change in short-term financial debts	209	83
Dividends paid to third parties	-	- 46
Cash flow from financing activities	- 240	- 585
Currency translation effect on cash and short-term deposits	- 5	- 29
Net change in cash and short-term deposits	211	174
Cash and short-term deposits at the beginning of the period	718	544
Cash and short-term deposits at the end of the period	929	718
Additional information to the consolidated statements of cash flows:		
Interest paid	- 176	- 184
Income taxes paid	- 136	- 229

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

Consolidated statement of changes in equity

for the years ended 31 December 2003 and 2002

	Share premium	Retained earnings	Cumulative translation differences	Total reserves	Total share capital	Treasury shares par value	Total equity
Balance 31 December 2001	1 888	- 616	- 76	1 196	767	- 5	1 958
CHF mn							
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
Dividends to third parties		-		-			-
Dividends of treasury shares		-		-			-
Valuation of cash flow hedges (cross currency swaps)		- 5		- 5			- 5
Treasury share transactions		4		4		1	5
Appropriation of losses incurred to share premium	- 1 614	1 614		-			-
Translation effect			101	101			101
Net income		161		161			161
Balance 31 December 2003	274	396	- 243	427	767	- 18	1 176

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 Board (IASB).

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 is equivalent to actual costs on a first in, first out basis. 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 desig-

nates 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 health care 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. The reason for this practice is that the structure of R&D in the industries that Clariant is engaged in, is such that no cash flow projections can be allocated to singular intangibles on a reasonable basis.

2. Tangible fixed asset movements

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total 2003	Total 2002
Costs							
At 1 January	621	2 297	5 130	570	256	8 874	9 885
Changes in consolidation scope	–	–	–	–	–	–	–
Additions and reclassifications	5	71	281	37	- 93	301	339
Disposals	- 12	- 36	- 421	- 47	- 3	- 519	- 538
Translation effects	23	60	142	17	3	245	- 812
At 31 December	637	2 392	5 132	577	163	8 901	8 874
Accumulated depreciation							
At 1 January	- 89	- 1 401	- 3 861	- 466	- 2	- 5 819	- 6 131
Changes in consolidation scope	–	–	–	–	–	–	–
Additions and reclassifications	- 53	- 77	- 345	- 47	2	- 520	- 512
Disposals	–	24	347	44	–	415	377
Translation effects	- 9	- 54	- 124	- 14	–	- 201	447
At 31 December	- 151	- 1 508	- 3 983	- 483	–	- 6 125	- 5 819
Book value at 31 December	486	884	1 149	94	163	2 776	3 055
Insured value at 31 December						10 934	10 605

The capitalized cost of tangible fixed assets under lease contracts at 31 December 2003 amounts to CHF 20 million with a book value of CHF 7 million (2002: CHF 18 million and CHF 7 million respectively).

As of 31 December 2003, commitments for purchases of tangible fixed assets totalled CHF 51 million (2002: CHF 20 million).

3. Investments in associated companies

	Participation		Balance sheet value		Effect on the income statement	
	%	%	CHF mn	CHF mn	CHF mn	CHF mn
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	2003	2002
Infraserv GmbH & Co. Höchst KG	32	32	141	129	15	12
SF-Chem AG	25	25	59	61	2	5
Infraserv GmbH & Co. Gendorf KG	50	50	32	31	1	3
Infraserv GmbH & Co. Wiesbaden KG	23	47	20	32	6	4
Infraserv GmbH & Co. Knapsack KG	21	21	18	16	2	1
Clariant Emulsion Norden AB	–	–	–	–	–	6
Others	–	–	42	43	3	5
Total	–	–	312	312	29	36

4. Intangible asset movements

CHF mn	Goodwill	Other	Total 2003	Total 2002
Costs				
At 1 January	2 811	128	2 939	2 993
Changes in consolidation scope	–	–	–	–
Additions	2	4	6	40
Disposals	- 2	- 5	- 7	- 81
Translation effects	- 4	2	- 2	13
At 31 December	2 807	129	2 936	2 939
Accumulated amortization				
At 1 January	- 2 360	- 90	- 2 450	- 1 573
Changes in consolidation scope	–	–	–	–
Amortization and reclassifications	- 31	- 9	- 40	- 883
Disposals	2	4	6	3
Translation effects	1	- 2	- 1	3
At 31 December	- 2 388	- 97	- 2 485	- 2 450
Book value at 31 December	419	32	451	489

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 2002 and 2003, Clariant disposed of several business activities in a number of transactions with various partners.

Cellulose Ethers. In December 2003 Clariant sold the operations of Cellulose Ethers pertaining to the Functional Chemicals Division to the Shin-Etsu Group. The transaction comprised production facilities in Germany and net current assets and distribution networks in several other European countries, in the United States and in Asia. In a number of countries, Clariant has entered or will enter into sales and distribution agreements with Shin-Etsu, based on which Clariant will continue to serve the Cellulose Ethers market as a service partner to Shin-Etsu.

Emulsion business. In December 2002 Clariant sold large parts of the Business Units Emulsions and Emulsion Powders pertaining to the Textile Leather & Paper Chemicals and Functional Chemicals Division to the Celanese Group.

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 operation of the business line of producing hydrosulfite in the US and in Canada to Chemtrade Inc., Canada. The activities pertained to the Textile, Leather & Paper Chemicals Division.

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.

Electronic Materials. In August 2003 Clariant announced its intention to sell the activities of Electronic Materials, pertaining to the Division Life Science & Electronic Materials. As a consequence these activities are now reported as a discontinuing operation. However, they were not sold in 2003.

Discontinuing operations CHF mn	Electronic Materials		Cellulose Ethers ¹		Emulsions Business	
	2003	2002	2003	2002	2003	2002
Sales	442	396	281	269	–	344
Operating costs	- 401	- 378	- 236	- 233	–	- 312
Operating income before restructuring and amortization of goodwill	41	18	45	36	–	32
Restructuring and impairment	–	–	–	–	–	–
Amortization of goodwill	–	–	–	–	–	- 2
Operating result	41	18	45	36	–	30
Financial result	- 1	–	–	–	–	–
Result before tax	40	18	45	36	–	30
Taxes	- 20	- 12	- 13	- 9	–	- 1
Minority interests	–	–	–	–	–	–
Income after tax and minority interests	20	6	32	27	–	29
Cash flows of discontinuing operations						
Operating cash flows	47	19	42	39	–	16
Investing cash flows	- 21	- 17	- 3	- 3	–	- 36
Financing cash flows	5	- 1	–	–	–	–
Total cash flows	31	1	39	36	–	- 20
Net assets of discontinuing operations						
Tangible fixed assets	184	200	67	73	–	54
Investment in associated companies	12	12	16	17	–	26
Goodwill	–	–	–	–	–	22
Other intangibles	13	15	–	–	–	–
Current assets	195	175	100	78	–	63
Total assets	404	402	183	168	–	165
Total liabilities	- 106	- 89	- 59	- 61	–	- 44
Net assets	298	313	124	107	–	121
Number of employees	622	631	500	560	–	525

¹ Sold in December 2003

* Restated

Resiquímicas Resinas		Hydrosulfite		Total discontinuing operations*	
2003	2002	2003	2002	2003	2002
-	38	-	124	723	1 171
-	- 35	-	- 109	- 637	- 1 067
-	3	-	15	86	104
-	-	-	-	-	-
-	-	-	-	-	- 2
-	3	-	15	86	102
-	-	-	-	- 1	-
-	3	-	15	85	102
-	- 1	-	-	- 33	- 23
-	- 1	-	-	-	- 1
-	1	-	15	52	78
-	-	-	17	89	91
-	- 1	-	- 3	- 24	- 60
-	2	-	-	5	1
-	1	-	14	70	32
-	7	-	44	251	378
-	-	-	-	28	55
-	-	-	-	-	22
-	-	-	-	13	15
-	20	-	7	295	343
-	27	-	51	587	813
-	- 16	-	- 1	- 165	- 211
-	11	-	50	422	602
-	117	-	113	1 122	1 946

In addition to this, the activities of the company AP Chemicals Inc., UK, pertaining to the Life Science and Electronic Chemicals Division, were sold in 2003. In 2002 disposals also included the subsidiary ProBioSint Srl, Italy, and the Silicate activities in France.

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

CHF mn	2003	2002
Proceeds from sale	387	284
Net assets sold including disposal-related expenses	- 148	- 203
Gain on disposal	239	81
Tax thereon	- 25	- 14
After tax gain on disposal	214	67
The net cash inflow from sale is determined as follows:		
Proceeds from sale	387	284
Less: cash and cash equivalents in subsidiary sold	- 16	-
Net cash inflow from sale	371	284

6. Restructuring and impairment

As a result of the changing market conditions and the need for further realignment of the group activities, Clariant is currently undergoing a restructuring process. The goal of this effort is 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 involves subsidiaries worldwide and comprises the reduction of redundant staff, the closure of sites and the

critical assessment of the recoverable value of tangible fixed assets in the companies concerned.

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 and was consequently written off. The expenses for restructuring and impairment in 2003 and in 2002 were as follows:

CHF mn	Total group		Corporate	
	2003	2002	2003	2002
Cash out expenses	21	–	2	–
Noncash expenses				
Provisions for:				
Leaving indemnity	25	–	3	–
Others	48	–	–	–
Total provisions	73	–	3	–
Impairment of tangible fixed assets:				
Land and buildings	66	11	–	–
Others	100	89	–	–
Total impairment of tangible fixed assets	166	100	–	–
Total restructuring and impairment	260	100	5	–
Thereof noncash expenses	239	100	3	–
Impairment of goodwill		790		

* Restated

7. Other financial assets

CHF mn	31.12.2003	31.12.2002
Prepaid pensions	105	97
Other investments	2	3
Total	107	100

8. Inventories

CHF mn	31.12.2003	31.12.2002
Raw material, consumables, work in progress	617	717
Finished products	952	972
Total	1 569	1 689

Total divisions		Discontinuing operations		TLP		PA		MB		FUN*		LSE*	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
19	–	–	–	–	–	- 2	–	1	–	19	–	1	–
22	–	–	–	10	–	–	–	–	–	1	–	11	–
48	–	–	–	6	–	3	–	1	–	34	–	4	–
70	–	–	–	16	–	3	–	1	–	35	–	15	–
66	11	–	–	4	–	4	–	–	–	–	–	58	11
100	89	–	–	7	–	3	–	–	–	101	–	- 11	89
166	100	–	–	11	–	7	–	–	–	101	–	47	100
255	100	–	–	27	–	8	–	2	–	155	–	63	100
236	100	–	–	27	–	10	–	1	–	136	–	62	100
	790												790

9. Trade accounts receivable

CHF mn	31.12.2003	31.12.2002
Receivables gross	1 332	1 464
Allowance for doubtful receivables	- 73	- 85
Total net	1 259	1 379

In 2003 no receivables were pledged as a collateral (2002: CHF 76 million).

10. Other current assets

CHF mn	31.12.2003	31.12.2002
Other receivables	230	230
Short-term financial assets	39	102
Prepaid expenses/accrued income	40	81
Total	309	413

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 2003 and 2002, respectively.

Financial instruments CHF mn	Contract or underlying principal amount		Positive fair values		Negative fair values	
	2003	2002	2003	2002	2003	2002
Currency-related instruments						
Forward foreign exchange rate contracts and currency swaps	515	139	5	2	- 30	-
Interest-related instruments						
Interest rate swaps	-	750	-	31	-	- 24
Total financial instruments	515	889	5	33	- 30	- 24

Financial instruments by maturity CHF mn	1-12 months		1-5 years		Over 5 years		Total	Total
	2003	2002	2003	2002	2003	2002	2003	2002
Currency-related instruments								
Forward foreign exchange rate contracts and cross currency swaps	118	135	318	4	79	-	515	139
Interest-related instruments								
Interest rate swaps	-	527	-	223	-	-	-	750
Total financial instruments	118	662	318	227	79	-	515	889

Financial instruments by currency		
Forward foreign exchange rate contracts and currency swaps		
CHF mn		
	2003	2002
USD	118	134
JPY	396	–
EUR	–	4
Other	1	1
Total	515	139
Interest rate swaps	–	750
Total financial instruments	515	889

All counterparties are A-rated at least.

Financial instruments effective for hedge-accounting purposes		
CHF mn		
	2003	2002
Fair value of cash flow hedges		
Interest rate swaps	–	- 1
Forward foreign exchange contracts	–	1
Cross currency swaps	- 30	–
Fair value of fair value hedges		
Interest rate swaps	–	21
Forward foreign exchange contracts and currency swaps	–	- 25
Fair value of hedges of net investments in foreign entities		
Contracts with positive fair values		
Cross currency swaps	–	24
Contracts with negative fair values		
Borrowings denominated in foreign currencies	- 748	- 297
Cross currency swaps	–	- 6

The cross currency swaps designated as cash flow hedges concern the hedge of the payback of loan denominated in Japanese yen. The

payback will take place in five equal instalments in the years between 2005 and 2009, with each instalment amounting to JPY 13.6 billion.

Volumes of securitization of trade receivables		
CHF mn		
	2003	2002
Trade receivables denominated in euros	169	104
Trade receivables denominated in US dollars	94	101
Total	263	205

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 the trade receivables are insured against any risk of default, Clariant does not retain any obligation or interest in the receivables.

12. Changes in share capital and treasury shares

Registered shares each with a par value of CHF 5	Number of shares 2003	Par value 2003 CHF mn	Number of shares 2002	Par value 2002 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	- 3 532 869	- 18	- 3 787 828	- 19
Outstanding capital 31 December	149 907 131	749	149 652 172	748

Treasury shares (number of shares)	2003	2002
Holdings at 1 January	3 787 828	1 052 396
Shares purchased at strike prices fixed in 2002	–	3 150 000
Shares sold at fair market value	–	- 306 240
Shares for employees	- 254 959	- 108 328
Holdings at 31 December	3 532 869	3 787 828

13. Long-term financial debts

CHF mn	Interest rate	Term	Original amount 31.12.2003	Repurchased	Net amount 31.12.2003	Net amount 31.12.2002
Straight bonds	4.625	1996–2003	150	- 150	–	135
Straight bonds	4.125	1996–2006	200	- 46	154	154
Straight bonds	3.375	1997–2004	300	- 50	250	250
Straight bonds	3.750	1997–2007	200	- 25	175	175
Straight bonds	3.000	1998–2005	250	- 49	201	201
Straight bonds	4.250	2000–2008	500	- 116	384	384
Total straight bonds			1 600	- 436	1 164	1 299
Liabilities to banks and other financial institutions					1 710	1 949
Obligations under finance leases					2	–
Subtotal					2 876	3 248
Less current portion					- 256	- 146
Total					2 620	3 102
Breakdown by maturity				2004	–	489
				2005	687	702
				2006	548	548
				2007	641	617
				2008	563	–
				thereafter	181	746
Total					2 620	3 102
Breakdown by currency				CHF	1 615	1 480
				EUR	286	451
				USD	274	324
				JPY	430	834
				other	15	13
Total					2 620	3 102
Fair value comparison						
Straight bonds					1 154	1 304
Others					2 036	1 964
Total					3 190	3 268
Total value of the security given, mainly against tangible fixed assets					101	146
Total secured long-term financial debts					28	34

In 2003 bonds in the amount of CHF 135 million were paid back on expiry. In order to reduce financial debts, Clariant repurchased bonds in the amount of CHF 98 million in 2002.

14. Movements in provisions and other long-term liabilities

CHF mn	Provisions for pension plans	Environmental provisions	Other long-term provisions	Total 2003
At 1 January	457	252	173	882
Additions and reclassifications	103	1	96	200
Amounts used	- 82	- 19	- 64	- 165
Unused amounts reversed	- 3	- 12	- 31	- 46
Changes due to passage of time and changes in discount rates	15	1	- 4	12
Translation effects	8	- 5	7	10
At 31 December	498	218	177	893

15. Short-term financial debts

CHF mn	31.12.2003	31.12.2002
Banks and other financial institutions (including employees' accounts)	958	946
Current portion of long-term financial debts	256	146
Total	1 214	1 092

16. Provisions and other short-term liabilities

CHF mn	31.12.2003	31.12.2002
Provisions for restructuring	45	66
Liabilities from personnel costs	129	160
Other short-term provisions	189	234
Total short-term provisions	363	460
Accruals	330	393
Other payables	186	226
Total	879	1 079

Movements in short-term provisions CHF mn	Restructuring provisions	Liabilities from personnel costs	Other short-term provisions	Total 2003
At 1 January	66	160	234	460
Additions and reclassifications	43	111	163	317
Amounts used	- 52	- 137	- 187	- 376
Unused amounts reversed	- 12	- 8	- 23	- 43
Translation effects	-	3	2	5
At 31 December	45	129	189	363

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.

Net liabilities recognized in the balance sheet:

CHF mn	31.12.2003	31.12.2002
Pension funds defined benefit plans	- 359	- 316
Prepayments recognized in other financial assets and other current assets	105	122
Pension funds net liability for defined benefit plans	- 254	- 194
Other postretirement benefit plans	- 110	- 113
Pension funds defined contribution plans	- 29	- 28
Net liabilities recognized in the balance sheet	- 393	- 335

Defined contribution pension and termination plans. In 2003, CHF 34 million were charged to the income statements of the group companies as contributions to these plans (2002: 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	31.12.2003	31.12.2002*
Present value of funded obligations	- 1 420	- 1 384
Fair value of plan assets	1 243	1 122
Deficit	- 177	- 262
Present value of unfunded obligations	- 344	- 306
Unrecognized actuarial losses	267	374
Net liability in the balance sheet	- 254	- 194

* Restated to be compliant with the new structure of disclosure.

The net liability in the balance sheet consists of:

CHF mn	31.12.2003	31.12.2002
Accrued pension costs recognized in provisions and other long-term liabilities	- 359	- 316
Prepaid pension expense included in other financial assets	105	97
Prepaid pension expense included in other current assets	-	25
Net liability recognized in the balance sheet	- 254	- 194

The pension plan assets include registered shares issued by the company with a fair value of CHF 68 000 at 31 December 2003 (2002: CHF 4 million).

The amounts recognized in the income statement are as follows:

CHF mn	31.12.2003	31.12.2002
Current service cost	- 73	- 80
Interest cost	- 81	- 81
Expected return on plan assets	62	70
Net actuarial losses recognized in current year	- 26	- 8
Effect of curtailments and settlements	- 8	-
Total expense	- 126	- 99

The actual return on plan assets in 12 months was CHF 122 million (2002: CHF -126 million).

Movement in the net liability recognized in the balance sheet:

CHF mn	2003	2002*
1 January	- 194	- 187
Translation effect	- 16	16
Reduction in obligations due to divestitures	10	-
Total expense as above	- 126	- 99
Contributions paid	63	76
Effect of curtailments and settlements	9	-
31 December	- 254	- 194

* Restated to be compliant with the new structure of disclosure.

The principal actuarial assumptions used for accounting purposes were:

Weighted average %	2003	2002
Discount rate	5.3	5.4
Expected return on plan assets	5.4	6.0
Expected inflation rate	3.0	2.5

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	2003	2002
Present value of unfunded obligations	- 113	- 107
Unrecognized actuarial gains/losses	3	- 6
Liability in the balance sheet	- 110	- 113

The amounts recognized in the income statement are as follows:

CHF mn	2003	2002
Current service cost	- 3	- 2
Interest cost	- 7	- 8
Net actuarial gain recognized in current year	1	-
Total included in personnel costs	- 9	- 10

Movement in the liability recognized in the balance sheet:

CHF mn	2003	2002
1 January	- 113	- 129
Translation effect	10	21
Total expense as above	- 9	- 10
Benefits paid	2	4
Other	-	1
31 December	- 110	- 113

In addition to the assumptions used for the pensions schemes, the main actuarial assumption is a long-term increase in health costs of 10.0% 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 2003						
Base year	Granted	Exercisable from	Expiry date	Exercise price	Number 31.12.2003	Number 31.12.2002
Options						
1997	1998	2001	2007	28.65	81 780 ¹	81 780 ¹
1997	1998	2001	2007	42.15	145 100 ¹	145 100 ¹
1998	1999	2002	2008	69.50	307 680 ²	308 820 ²
1999	2000	2003	2009	54.00	103 550 ²	103 550 ²
2000	2001	2004	2010	47.00	11 950 ²	11 950 ²
2001	2002	2005	2011	30.60	147 732 ²	159 113 ²
2002	2003	2006	2012	16.60	150 206 ²	–
Total					947 998	810 313
Shares						
2000	2001	2004			265 910 ²	302 420 ²
2001	2002	2005			306 595 ²	355 882 ²
2002	2003	2006			778 342 ²	–
Total					1 350 847	658 302

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	2003	2002
Current income taxes	- 221	- 207
Deferred income taxes	110	18
Total	- 111	- 189

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

	2003	2002
	%	%
Expected tax rate	35.0	35.0
Tax effect of different tax rates in other countries	2.4	4.4
Tax effect of items additionally taxable	7.0	4.0
Tax expense relating to changes in tax rates	- 2.0	1.0
Net effect of valuation of tax losses	- 1.1	13.8
Tax effect of other items	- 2.3	- 2.6
Effective tax rate	39.0	55.6

CHF mn	31.12.2003	31.12.2002
Deferred tax liabilities on: Tangible and intangible assets	279	414
Prepaid pensions, other accruals and provisions	105	169
Total deferred tax liabilities	384	583
Deferred tax assets on: Tangible and intangible assets	33	52
Employee benefit liabilities	61	127
Other accruals and provisions	197	216
Total deferred tax assets	291	395

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

	31.12.2003	31.12.2002
Expiry by:		
2003	–	7
2004	14	15
2005	22	21
2006	16	16
2007	105	14
2008	1 303	–
after 2008	1 165	2 028
Total	2 625	2 101

CHF mn	31.12.2003	31.12.2002
Unrecognized tax credits	4	4

The tax credits expire between 2005 and 2010.

20. Financial income and expense

CHF mn	2003	2002
Interest income	19	15
Fair value gains on financial instruments:		
Interest rate swaps	1	2
Other financial income	6	26
Financial income	26	43
Interest expense	- 164	- 193
Fair value losses on financial instruments:		
Foreign exchange forward contracts and currency swaps:		
Transactions classified as trading activities	- 2	- 4
Other financial expense	- 40	- 32
Financial expense	- 206	- 229
Currency result, net	- 95	- 62
Total	- 275	- 248

21. Earnings per share (EPS)

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

	2003	2002
Net income/loss CHF mn	161	- 648
Diluted net income/loss CHF mn	161	- 648
Shares		
Holdings on 1 January	149 652 172	152 387 604
Effect of transactions with treasury shares on average number of shares outstanding	170 930	- 1 497 438
Average number of shares outstanding	149 823 102	150 890 166
Average diluted number of shares outstanding	149 823 102	150 890 166
Earnings/loss per share (CHF/share)	1.08	- 4.30
Diluted earnings/loss per share (CHF/share)	1.08	- 4.30

22. Personnel expenses

CHF mn	2003	2002
Wages and salaries	- 1 534	- 1 637
Pension and social security costs	- 475	- 460
Total	- 2 009	- 2 097

23. 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.	
	2003	2002*	2003	2002*	2003	2002*
Europe	3 963	3 886	438	- 181	14 363	14 670
<i>thereof in Germany</i>	1 138	1 073	279	184	7 203	7 139
The Americas	2 108	2 453	- 62	- 243	5 844	5 942
<i>thereof in USA</i>	1 131	1 327	- 152	- 387	2 186	2 315
Asia/Africa/Australia	1 722	1 820	97	120	6 179	6 046
Total continuing operations	7 793	8 159	473	- 304	26 386	26 658
Europe	276	678	31	52	185	718
<i>thereof in Germany</i>	108	218	31	34	154	660
The Americas	105	230	- 2	9	183	192
<i>thereof in USA</i>	100	190	- 2	9	181	190
Asia/Africa/Australia	342	263	57	41	254	281
Total discontinuing operations	723	1 171	86	102	622	1 191
Total group	8 516	9 330	559	- 202	27 008	27 849

Region CHF mn	Investments in tangible fixed assets		Depreciation of tangible fixed assets		Net operating assets at 31.12. ³	
	2003	2002*	2003	2002*	2003	2002*
Europe	191	172	281	248	2 465	2 610
<i>thereof in Germany</i>	105	83	165	122	794	792
The Americas	53	102	165	163	623	659
<i>thereof in USA</i>	26	47	146	138	227	218
Asia/Africa/Australia	30	34	31	34	759	764
Total continuing operations	274	308	477	445	3 847	4 033
Europe	10	18	21	35	50	143
<i>thereof in Germany</i>	9	14	20	33	39	125
The Americas	4	5	11	20	86	108
<i>thereof in USA</i>	4	5	11	20	86	108
Asia/Africa/Australia	13	8	11	12	162	169
Total discontinuing operations	27	31	43	67	298	420
Total group	301	339	520	512	4 145	4 453

¹ Allocated by region of third-party sale's destination.

* Restated for changes in discontinuing operations.

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.

24. Divisional breakdown of key figures 2003 and 2002

In 2002 Clariant sold the activities of Emulsions in Europe and Hydrosulfite in North America. In August of 2003 Clariant announced its intention to sell the activities of Cellulose Ethers which are part of the division

Functional Chemicals and Electronic Materials, which pertain to the division Life Science & Electronic Chemicals. At the end of 2003 Cellulose Ethers were sold, while Electronic Materials, although still considered a discontinuing activity, continue to be part of Clariant's activities. As a consequence, the columns for discontinuing operations comprise

Divisions continuing operations CHF mn	Textile, Leather & Paper Chemicals (TLP)		Pigments & Additives (PA)		Masterbatches (MB)	
	2003	2002	2003	2002	2003	2002
Sales divisions	2 203	2 320	1 814	1 882	1 043	1 030
Sales to other divisions	- 24	- 14	- 69	- 68	- 2	- 3
Total sales	2 179	2 306	1 745	1 814	1 041	1 027
Systematic depreciation of tangible fixed assets	- 75	- 85	- 72	- 75	- 28	- 26
Amortization of intangible assets without goodwill	-	-	-	-	-	- 1
Income from associates	4	4	18	16	-	3
Other operating expenses	- 1 940	- 2 011	- 1 527	- 1 545	- 927	- 903
Operating income before restructuring, disposals and amortization of goodwill	168	214	164	210	86	100
Disposal of business activities and financial fixed assets	8	79	-	-	-	-
Restructuring and impairment	- 27	-	- 8	-	- 2	-
<i>Thereof impairment of tangible fixed assets</i>	- 11	-	- 7	-	-	-
Amortization of goodwill	- 22	- 22	- 5	- 7	- 4	- 2
Operating income after restructuring, disposals and amortization of goodwill	127	271	151	203	80	98
EBITDA before restructuring and disposals	243	299	236	285	114	127
EBITDA after restructuring and disposals	235	378	235	285	112	127
Total assets	2 013	2 130	1 684	1 511	573	510
Liabilities	- 159	- 181	- 156	- 160	- 68	- 63
Total equity and minority interests	1 854	1 949	1 528	1 351	505	447
Net debts	-	-	-	-	-	-
Total net operating assets¹	1 854	1 949	1 528	1 351	505	447
Thereof:						
Investments in tangible fixed assets for the period	63	70	63	54	35	31
Investments in associated companies	61	59	176	165	4	7

¹ Within net operating assets, fixed assets including infrastructure, inventory, trade payables, 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

Emulsions, Hydrosulfite, Cellulose Ethers and Electronic Materials for 2002. For 2003 discontinuing activities comprise Cellulose Ethers and Electronic Materials.

	Functional Chemicals (FUN)*		Life Science & Electronic Chemicals (LSE)*		Total divisions continuing operations*		Discontinuing operations*		Total divisions		Corporate*		Total group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	1 807	1 850	1 193	1 317	8 060	8 399	723	1 207	8 783	9 606	–	–	8 783	9 606
	- 55	- 60	- 117	- 95	- 267	- 240	–	- 36	- 267	- 276	–	–	- 267	- 276
	1 752	1 790	1 076	1 222	7 793	8 159	723	1 171	8 516	9 330	–	–	8 516	9 330
	- 56	- 51	- 77	- 83	- 308	- 320	- 43	- 67	- 351	- 387	- 3	- 25	- 354	- 412
	–	–	–	–	–	- 1	- 3	- 3	- 3	- 4	- 6	- 6	- 9	- 10
	5	4	–	–	27	27	2	9	29	36	–	–	29	36
	- 1 513	- 1 638	- 1 020	- 1 125	- 6 927	- 7 222	- 593	- 1 006	- 7 520	- 8 228	- 51	- 26	- 7 571	- 8 254
	188	105	- 21	14	585	643	86	104	671	747	- 60	- 57	611	690
	238	2	- 7	–	239	81	–	–	239	81	–	–	239	81
	- 155	–	- 63	- 100	- 255	- 100	–	–	- 255	- 100	- 5	–	- 260	- 100
	- 101	–	- 47	- 100	- 166	- 100	–	–	- 166	- 100	–	–	- 166	- 100
	–	- 1	–	- 839	- 31	- 871	–	- 2	- 31	- 873	–	–	- 31	- 873
	271	106	- 91	- 925	538	- 247	86	102	624	- 145	- 65	- 57	559	- 202
	244	156	56	97	893	964	132	174	1 025	1 138	- 51	- 26	974	1 112
	428	158	33	97	1 043	1 045	132	174	1 175	1 219	- 56	- 26	1 119	1 193
	903	1 134	983	1 166	6 156	6 451	404	570	6 560	7 021	1 443	1 529	8 003	8 550
	- 116	- 139	- 89	- 102	- 588	- 645	- 106	- 150	- 694	- 795	- 6 069	- 6 778	- 6 763	- 7 573
	787	995	894	1 064	5 568	5 806	298	420	5 866	6 226	- 4 626	- 5 249	1 240	977
	–	–	–	–	–	–	–	–	–	–	2 905	3 476	2 905	3 476
	787	995	894	1 064	5 568	5 806	298	420	5 866	6 226	- 1 721	- 1 773	4 145	4 453
	51	82	40	53	252	290	27	31	279	321	22	18	301	339
	45	71	2	3	288	305	12	–	300	305	12	7	312	312

25. Related-party transactions

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

Income and expense	2003	2002
CHF mn		
Income from the sale of goods to related parties	39	51
Income from the rendering of services to related parties	20	16
Expense from the purchase of goods from related parties	- 26	- 19
Expense from the purchase of services from related parties	- 435	- 474
Payables, receivables and loans	31.12.2003	31.12.2002
Trade accounts receivable from related parties	8	13
Trade accounts payable to related parties	53	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.

26. Commitments and contingencies

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

CHF mn	2003	2002
2003	–	83
2004	90	66
2005	75	50
2006	55	41
2007	47	38
2008	46	–
thereafter	67	35
Total	380	313
Guarantees in favor of third parties	76	120

Expenses on operating lease were CHF 99 million in 2003 and CHF 101 million in 2002.

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.

Environmental risk. Clariant is exposed to environmental liabilities and risks 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.

27. Exchange rates of principal currencies

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

	31.12.2003	31.12.2002
1 USD	1.24	1.39
1 GBP	2.20	2.23
100 JPY	1.16	1.17
1 EUR	1.56	1.45

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

	2003	2002
1 USD	1.35	1.56
1 GBP	2.20	2.33
100 JPY	1.16	1.24
1 EUR	1.52	1.47

28. Important affiliates, joint ventures and associated companies

At 31 December 2003		Participation %	Holding/ Finance	Sales	Production	Research
Argentina	Clariant (Argentina) S.A., Buenos Aires	100.0		●	●	
Australia	Clariant (Australia) Pty Ltd, Melbourne	100.0		●	●	
Austria	Clariant (Österreich) GmbH, Vienna	100.0		●	●	
Belgium	Clariant (Benelux) S.A., Louvain-La-Neuve	100.0		●	●	●
Brazil	Clariant S.A., São Paulo and Resende	100.0		●	●	
Canada	Clariant (Canada) Inc., Québec	100.0		●	●	
Chile	Clariant Colorquímica (Chile) Ltda., Santiago de Chile	100.0		●	●	
China	Clariant Chemicals (China) Ltd, Shanghai	100.0		●	●	
	Clariant Chemicals Trading (Shanghai) Ltd, Shanghai	100.0		●		
	Clariant (China) Ltd, Hong Kong	100.0		●	●	
	Clariant Guangzhou Masterbatch Ltd, Guangzhou	90.0		●	●	
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		●	●	
	Clariant (Tianjin) Ltd, Tianjin	94.8		●	●	
	Tianjin Hua Shi Chemicals Co. Ltd, Tianjin	25.0		●	●	
Colombia	Clariant (Colombia) S.A., Santa Fé de Bogotá	100.0		●	●	
Czech Republic	Clariant CR s.r.o., Prague	100.0		●		
Denmark	Clariant (Danmark) A/S, Glostrup	100.0		●	●	
Egypt	Clariant (Egypt) S.A.E., Cairo	86.0		●	●	
	The Egyptian German Company for Dyes and Resins S.A.E., Cairo	100.0		●	●	
Finland	Clariant (Finland) Oy, Helsinki	100.0		●		
France	Clariant (France), Paris La Défense	100.0		●	●	●
	Clariant Huningue, Huningue	100.0		●	●	●
	Clariant Life Science Molecules (France) S.A.S., Paris La Défense	100.0		●	●	
Germany	Clariant (Deutschland) GmbH, Leinfelden-Echterdingen	100.0		●	●	●
	Clariant GmbH, Frankfurt	100.0		●	●	●
	Clariant Masterbatch GmbH & Co. OHG, Lahnstein	100.0		●	●	●
	Clariant Verwaltungsgesellschaft mbH, Leinfelden-Echterdingen	100.0	●			
Great Britain	BTP Ltd, Manchester	100.0	●			
	BTP Chemicals plc, Manchester	100.0	●	●	●	●
	Clariant Holdings UK Ltd, Horsforth/Leeds	100.0	●			
	Clariant UK Ltd, Horsforth/Leeds	100.0		●	●	●
	Lancaster Synthesis Ltd, Horsforth/Leeds	100.0		●	●	●
Greece	Clariant (Hellas) S.A., Lykovrisi	100.0		●	●	
Guatemala	Clariant (Guatemala) S.A., Guatemala City	100.0		●	●	
Hungary	Clariant Hungaria Kft, Budapest	100.0		●		
India	BTP India Private Ltd, Chennai	100.0		●	●	●
	Clariant (India) Ltd, Mumbai	50.9		●	●	●
	Colour-Chem Ltd, Mumbai	50.1		●	●	●
Indonesia	P. T. Clariant Indonesia, Tangerang	100.0		●	●	
Ireland	Masterplast Ltd, Naas	100.0		●	●	
Italy	Clariant (Italia) S.p.A., Milan	100.0		●	●	●
	Clariant Life Science Molecules (Italia) S.p.A., Origgio	100.0		●	●	●

		Participation %	Holding/ Finance	Sales	Production	Research
Japan	Clariant (Japan) K.K., Tokyo	100.0		●	●	●
	Clariant Polymers K.K., Tokyo	100.0		●	●	●
Korea	Clariant Industries (Korea) Ltd, Seoul	87.1		●	●	●
	Clariant (Korea) Ltd, Seoul	100.0		●		
	Clariant Sang Ho Ltd, Yangsan-Si	64.7		●	●	
	Clariant Songwon Color Co., Ltd, Ulsan	99.8		●	●	
Luxemburg	BTP World S.A., Luxembourg	100.0	●			
Malaysia	Clariant (Malaysia) Sdn. Bhd., Shah Alam	100.0		●	●	
Mexico	Clariant (México) S.A. de C.V., Naucalpan de Juárez	100.0		●	●	
	Clariant Productos Químicos S.A. de C.V., Santa Clara	100.0		●	●	
Morocco	Clariant (Maroc) S.A., Casablanca	100.0		●	●	
Netherlands	Dick Peters BV, Denekamp	100.0		●	●	
New Zealand	Clariant (New Zealand) Ltd, Takapuna-Auckland	100.0		●	●	
Norway	Clariant (Norge) AS, Bergen	100.0		●		
Pakistan	Clariant Pakistan Ltd, Karachi	75.0		●	●	
Peru	Clariant (Perú) S.A., Lima	91.4		●	●	
Philippines	Clariant (Philippines) Corp., Makati City, Manila	100.0		●		
Poland	Clariant Polska Sp. z.o.o., Warsaw	100.0		●		
Portugal	Clariant Químicos (Portugal) Lda., Mem Martins	100.0		●	●	
Singapore	Clariant (Singapore) Pte. Ltd, Singapore	100.0		●	●	
South Africa	Clariant Southern Africa (Pty) Ltd, Weltevreden Park	100.0		●	●	
Spain	Clariant Ibérica S.A., Barcelona	100.0		●	●	●
	Clariant Masterbatch Ibérica S.A., Sant Andreu de la Barca	100.0		●	●	
Sweden	Clariant (Sverige) AB, Mölndal	100.0		●	●	
Switzerland	Clariant International AG, Muttenz	100.0	● ¹			
	Clariant (Schweiz) AG, Muttenz	100.0		●	●	●
	SF-Chem AG, Pratteln	25.0		●	●	●
Taiwan	Clariant (Taiwan) Co. Ltd, Taipei	100.0		●	●	
Thailand	Clariant Chemicals (Thailand) Ltd, Bangkok	100.0		●	●	
	Clariant Masterbatches (Thailand) Ltd, Bangkok	100.0		●	●	
Tunisia	Clariant Tunisie S.A., Cherguia-Tunis	49.9		●		
Turkey	Clariant (Türkiye) A.S., Istanbul	100.0		●	●	
UAE	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		●		
USA	Clariant Corporation, Charlotte, N.C.	100.0		●	●	●
	Clariant Life Science Molecules (America) Inc., Elgin, S.C.	100.0		●	●	●
	Clariant Life Science Molecules (Florida) Inc., Gainesville, FL.	100.0		●	●	●
	Clariant Life Science Molecules (Missouri) Inc., Springfield, M.O.	100.0		●	●	
	Lancaster Synthesis Inc., Pelham, N.H.	100.0		●	●	
Venezuela	Clariant (Venezuela) S.A., Maracay	100.0		●	●	
Vietnam	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0			●	

¹ Management and support

29. Events subsequent to the balance sheet date

In 2003 Clariant started a large-scale project to critically review all structures of the Group and find ways to make them more efficient, with the goal to improve operational performance substantially. Leading members of Clariant Management were assigned to this project and elaborated new solutions with the help of external consultants.

The review demonstrated that many functional processes can be handled in a more efficient manner by reassigning them from the divisions, where they have been managed up to now, to either regional responsibility centers or headquarters directly. As a result of these findings, deep-going measures of reorganization to reassign these functional responsibilities will be introduced in the course of 2004. Furthermore Clariant will thoroughly reorganize its manufacturing and supply chain structure in order to optimize the internal streams of goods and revenues.

Altogether, these measures will entail a reduction of the workforce by about 4 000 employees, which will take place in the years 2004 and 2005. It is estimated that 40% of this reduction will occur in manufacturing, while 60% will concern administration, supply chain and infrastructure.

Clariant expects the costs of these measures to amount to about CHF 500–600 million mainly spread over the next three years, whereby most of this will be cash out expenses. Savings from the program are expected to reach CHF 100 million in 2004. They will increase continuously over the next years and reach their full impact by 2007. In line with the announcement made in August 2003, Clariant expects to implement measures with an EBIT impact of CHF 700–900 million. After accounting for business risks and price erosion, Clariant expects to reach a sustainable EBIT improvement of at least CHF 400 million by the end of 2007.

On February 19, 2004, the Board of Directors decided to propose to the shareholders at the upcoming General Meeting to deliberate the increase of the current share capital of CHF 767 200 000 by way of an ordinary capital increase by a maximum par amount of CHF 460 320 000 to up to a maximum par amount of CHF 1 227 520 000. The preemptive rights of existing shareholders shall be granted. The rights issue is announced as a fully underwritten transaction at standard market conditions on February 24, 2004. As a result, Clariant will see a total net increase in equity of approximately CHF 880 million if the shareholders approve the Board's proposal for a capital increase.

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 76 to 106) of the Clariant Group for the year ended 31 December 2003.

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

Dr. R. Gerber R. Bächinger

Basel, 20 February 2004

Review of trends

Five-year group overview

Five-year group overview 1999–2003		2003	2002	2001	2000	1999 restated	1999
Divisional sales	CHF mn	8 783	9 606	10 195	11 006	9 158	9 158
Change relative to preceding year							
in Swiss francs	%	- 9	- 6	- 7	16	- 2	- 2
in local currency	%	- 4	2	- 2	12	- 4	- 4
Group sales¹	CHF mn	8 516	9 330	9 871	10 583	9 256	9 256
Change relative to preceding year							
in Swiss francs	%	- 9	- 5	- 7	14	- 3	- 3
in local currency	%	- 4	3	- 2	10	- 5	- 5
Operating income before restructuring, disposals and amortization of goodwill	CHF mn	611	690	631	1 135	1 082	1 082
Change relative to preceding year	%	- 11	9	- 44	5	- 1	- 1
as a % of sales		7.2	7.4	6.4	10.7	11.7	11.7
Operating income after restructuring, disposals and amortization of goodwill	CHF mn	559	- 202	- 877	1 010	1 064	1 030
Change relative to preceding year	%	—	—	—	- 5	1	- 3
as a % of sales		6.6	- 2.2	- 8.9	9.5	11.5	11.1
EBITDA after restructuring and disposals	CHF mn	1 119	1 193	1 395	1 657	1 646	1 646
Change relative to preceding year	%	- 6	- 14	- 16	1	- 2	- 2
as a % of sales		13.1	12.8	14.1	15.7	17.8	17.8
Net income before minority interests	CHF mn	173	- 639	- 1 233	513	596	562
Change relative to preceding year	%	—	—	—	- 14	14	7
as a % of sales		2.0	- 6.8	- 12.5	4.9	6.4	6.1
Investment in tangible fixed assets	CHF mn	301	339	505	535	425	425
Change relative to preceding year	%	- 11	- 33	- 6	26	- 8	- 8
as a % of sales		4	4	5	5	5	5
Personnel costs	CHF mn	2 009	2 097	2 346	2 395	2 168	2 168
Change relative to preceding year	%	- 4	- 11	- 2	10	2	2
as a % of sales		24	22	24	23	23	23
Employees at year-end	number	27 008	27 849	28 904	31 546	28 993	28 993
Change relative to preceding year	%	- 3	- 4	- 8	9	- 1	- 1

¹ Incl. trading.

Trend in group sales by division	2003		2002		2001*		2000*		1999*	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Textile, Leather & Paper Chemicals	2 179	26	2 769	30	2 965	31	3 211	31	2 799	31
Pigments & Additives	1 745	20	1 814	19	1 872	19	2 108	20	1 896	21
Masterbatches	1 041	12	1 027	11	1 038	11	1 145	11	1 065	12
Functional Chemicals	2 033	24	2 102	23	2 183	23	2 280	22	2 140	24
Life Science & Electronic Chemicals	1 518	18	1 618	17	1 616	17	1 651	16	1 087	12
Total divisions	8 516	100	9 330	100	9 674	100	10 395	100	8 987	100
Other (mainly trading activities)	–		–		197	–	188	–	269	–
Total group	8 516		9 330		9 871	–	10 583	–	9 256	–

* Restated

Trend in group sales by region	2003		2002		2001		2000		1999	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Europe	4 239	50	4 564	49	4 867	49	5 152	49	4 780	52
The Americas	2 213	26	2 683	29	2 863	29	3 093	29	2 596	28
Asia/Australia	1 895	22	1 910	20	1 955	20	2 143	20	1 683	18
Africa	169	2	173	2	186	2	195	2	197	2
Total	8 516	100	9 330	100	9 871	100	10 583	100	9 256	100

Share information

	31.12.2003	31.12.2002	31.12.2001	31.12.2000	31.12.1999
Number of registered shares issued (at par value CHF 5 each)	153 440 000	153 440 000	153 440 000 ¹	153 440 000	146 008 280 ¹
Number of shares created by conversion within the limits of the conditional capital	–	–	–	7 431 720	551 920
Number of shares eligible for dividend	153 440 000	153 440 000	153 440 000	153 440 000	146 008 280
Dividend per share in CHF	0.20 ²	–	0.30	1.10	1.00
Year-end price in CHF	18.25	22.10	31.25	58.10	75.90
Stock exchange capital in mn CHF	2 800	3 391	4 795	8 915	11 082
High/low in CHF	24.20/9.53	40.30/21.50	59.40/16.50	79.90/46.10	79.30/62.20

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 2003

Number of shares	Shareholders		Shares	
		in %		in %
1-999	27 334	78.2	8 255 964	5.4
1 000-9 999	7 062	20.2	14 662 144	9.5
10 000-99 999	471	1.3	11 962 260	7.8
100 000 and more	95	0.3	54 112 442	35.3
Total registered shares			88 992 810	58.0
Shares not registered	–	–	64 447 190	42.0
Total	34 962	100.0	153 440 000	100.0

Shareholders' structure according to regions at 31 December 2003

Region	Shareholders		Shares	
		in %		in %
Switzerland	32 997	94.4	52 795 721	34.4
Europe	1 741	5.0	27 348 515	17.8
Outside of Europe	224	0.6	8 848 574	5.8
<i>USA portion</i>	45	0.1	8 061 877	5.3
Shares not registered	–	–	64 447 190	42.0
Total	34 962	100.0	153 440 000	100.0

Shareholders holding 5% and more of the shares issued: Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA), owns between 5.12% and 10% of the share capital on 31 December 2003 (2002: 5.12%).

2003 Financial statements of Clariant Ltd, Muttenz

Clariant Ltd balance sheets (prior to dividend proposal)

Assets	31.12.2003		31.12.2002	
at 31 December 2003 and 2002	CHF	%	CHF	%
Shareholdings in group companies	1 913 624 928		2 148 543 389	
Loans to group companies	2 229 841 196		2 015 527 061	
Total long-term assets	4 143 466 124	85.1	4 164 070 450	88.3
Current assets				
Receivables from group companies	77 867 709		14 523 854	
Other receivables	6 762 916		9 066 833	
Accrued income	1 444 124		3 482 618	
Marketable securities	64 474 859		83 710 999	
Cash and short-term deposits	573 299 571		441 792 722	
Total current assets	723 849 179	14.9	552 577 026	11.7
Total assets	4 867 315 303	100.0	4 716 647 476	100.0

Equity and liabilities	31.12.2003		31.12.2002	
at 31 December 2003 and 2002	CHF	%	CHF	%
Equity				
Total share capital	767 200 000		767 200 000	
Reserves				
Legal reserves	153 440 000		1 767 307 991	
Reserve for treasury shares	129 710 039		142 677 809	
Free reserves	12 967 770		—	
Total reserves	296 117 809		1 909 985 800	
Unappropriated earnings				
Balance from prior year	- 148 887 504		- 1 139 387 812	
Net income/loss	244 751 885		- 623 367 683	
Total unappropriated earnings	95 864 381		- 1 762 755 495	
Total equity	1 159 182 190	23.8	914 430 305	19.4
Liabilities				
Long-term liabilities				
Straight bonds	918 715 000		1 169 075 000	
Other long-term liabilities	907 332 114		1 098 219 614	
Total long-term liabilities	1 826 047 114		2 267 294 614	
Short-term liabilities				
Provisions	863 710		16 791 490	
Liabilities to group companies	1 351 793 498		972 230 480	
Other liabilities	445 407 602		469 390 814	
Accrued expenses	84 021 189		76 509 773	
Total short-term liabilities	1 882 085 999		1 534 922 557	
Total liabilities	3 708 133 113	76.2	3 802 217 171	80.6
Total equity and liabilities	4 867 315 303	100.0	4 716 647 476	100.0

The notes form an integral part of the financial statements.

Clariant Ltd income statements

	2003	2002
	CHF	CHF
Income		
Income from financial assets	727 490 357	369 195 394
Income from cash, marketable securities and short-term deposits	35 453 781	131 229 536
Other income	57 502 649	43 384 717
Total income	820 446 787	543 809 647
Expenses		
Financial expense	217 158 219	243 590 627
Administrative expense	11 208 472	6 152 286
Depreciation on financial fixed assets	335 577 565	915 392 627
Other expense (including taxes)	11 750 646	2 041 790
Total expenses	575 694 902	1 167 177 330
Net income/loss	244 751 885	- 623 367 683

The notes form an integral part of the financial statements.

Appropriation of available earnings

The Board of Directors proposes to set off the net income of the year in the amount of CHF 244 751 885 with the loss carried forward from prior years. From the available earnings a dividend in the amount of CHF 0.20 per share shall be paid out, amounting to a total of CHF 30 688 000. The remainder of available earnings in the amount of CHF 65 176 381 shall be transferred to free reserves.

Available unappropriated earnings	CHF
Balance from prior year	- 148 887 504
Net income of the year	244 751 885
Total available earnings	95 864 381

Appropriation	CHF
Payment of a gross dividend of CHF 0.20 per share	- 30 688 000
Transfer to free reserves	- 65 176 381
Balance to be carried forward	-

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

The principal direct and indirect affiliated companies, joint ventures and other holdings of Clariant Ltd are shown on pages 104 to 105 of the Financial Report of the Clariant Group.

3. Cash, marketable securities and short-term financial assets

Securities include treasury shares valued at fair market value in the amount of CHF 64 million (prior year CHF 84 million) (see also footnote 5).

During a regular review of the cash flow generation capabilities of all subsidiaries of Clariant Ltd, the investments in some of these companies were written down by CHF 336 million (prior year CHF 915 million).

6. Reconciliation of equity

CHF	Registered shares	Legal reserves	Reserve for treasury shares	Free reserves	Unappropriated retained loss/profit	Total
Balance 31.12.2002	767 200 000	1 767 307 991	142 677 809		- 1 762 755 495	914 430 305
Sale of treasury shares			- 12 967 770	12 967 770		-
Appropriation of loss carried forward to reserves		- 1 613 867 991			1 613 867 991	-
Profit for the year					244 751 885	244 751 885
Balance 31.12.2003	767 200 000	153 440 000	129 710 039	12 967 770	95 864 381	1 159 182 190

4. Share capital

	31.12.2003	31.12.2002
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	31.12.2003	31.12.2002
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

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)

	2003	2002
Holdings on 1 January	3 787 828	1 052 396
Shares purchased at strike prices fixed in 2001 and 2002	-	3 150 000
Shares sold at market value	-	- 306 240
Shares to employees	- 254 959	- 108 328
Holdings on 31 December	3 532 869	3 787 828

7. Straight bonds

CHF thousand	Interest rate	Term	Amount 31.12.2003	Amount 31.12.2002
Straight bond	4.625	1996–2003	–	134 505
Straight bond	4.125	1996–2006	159 460	159 460
Straight bond	3.375	1997–2004	250 360	250 360
Straight bond	3.750	1997–2007	174 610	174 610
Straight bond	3.000	1998–2005	200 605	200 605
Straight bond	4.250	2000–2008	384 040	384 040
Total			1 169 075	1 303 580

In 2003 Clariant Ltd paid back bonds in the amount of CHF 134 505 000 on expiry. In order to reduce financial debts, Clariant Ltd repurchased bonds in the amount of CHF 93 255 000 in 2002.

8. Legal reserves

At the beginning of the year, general reserves amount to 20% of the share capital of Clariant Ltd. This is the minimum amount required by Article 671 al. of the Swiss Code of Obligations.

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. The amount pertaining to the treasury shares sold in 2003 was transferred to the free reserves.

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

CHF mn	Outstanding liabilities 31.12.2003	Outstanding liabilities 31.12.2002
Outstanding liabilities as guarantees in favor of group companies	843	863

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, Artisan Partners Ltd Partnership, Milwaukee, Wisconsin (USA), owns between 5.12% and 10% of the share capital on 31 December 2003 (2002: 5.12%).

Report of the statutory auditors

13. Events subsequent to the balance sheet date

In 2003 Clariant started a large-scale project to critically review all structures of the Group and find ways to make them more efficient, with the goal to improve operational performance substantially. Leading members of Clariant Management were assigned to this project and elaborated new solutions with the help of external consultants.

The review demonstrated that many functional processes can be handled in a more efficient manner by reassigning them from the divisions, where they have been managed up to now, to either regional responsibility centers or headquarters directly. As a result of these findings, deep-going measures of reorganization to reassign these functional responsibilities will be introduced in the course of 2004. Furthermore Clariant will thoroughly reorganize its manufacturing and supply chain structure in order to optimize the internal streams of goods and revenues.

Altogether, these measures will entail a reduction of the workforce by about 4 000 employees, which will take place in the years 2004 and 2005. It is estimated that 40% of this reduction will occur in manufacturing, while 60% will concern administration, supply chain and infrastructure.

Clariant expects the costs of these measures to amount to about CHF 500–600 million mainly spread over the next three years, whereby most of this will be cash out expenses. Savings from the program are expected to reach CHF 100 million in 2004. They will increase continuously over the next years and reach their full impact by 2007. In line with the announcement made in August 2003, Clariant expects to implement measures with an EBIT impact of CHF 700–900 million. After accounting for business risks and price erosion, Clariant expects to reach a sustainable EBIT improvement of at least CHF 400 million by the end of 2007.

On February 19, 2004, the Board of Directors decided to propose to the shareholders at the upcoming General Meeting to deliberate the increase of the current share capital of CHF 767 200 000 by way of an ordinary capital increase by a maximum par amount of CHF 460 320 000 to up to a maximum par amount of CHF 1 227 520 000. The preemptive rights of existing shareholders shall be granted. The rights issue is announced as a fully underwritten transaction at standard market conditions on February 24, 2004. As a result, Clariant will see a total net increase in equity of approximately CHF 880 million if the shareholders approve the Board's proposal for a capital increase.

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 112 to 116) of Clariant Ltd for the year ended 31 December 2003.

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 and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Dr. R. Gerber Ph. Speck

Basel, 20 February 2004

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.

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