Clariant

Exactly your chemistry.

Launching
World-Class Performance

Annual Report 2006

>> 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 around 21 500 people. Headquartered in Muttenz near Basel, Switzerland, it generated sales of around CHF 8.1 billion in 2006.

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

Clariant is committed to sustainable growth springing from its own innovative strength. 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 – Exactly your chemistry.

>> PIONEER IN PACKAGING

"More of a glossy lemon effect? Or how about a light maize-like shimmer instead?" For a Clariant Masterbatches Division consultant, who provides advice on the colors, properties and surface effects of plastics for packaging and consumer articles, questions like these are routine. With hundreds of color and surface samples to choose from as well as cutting-edge CAD simulation technology at his disposal, an answer is always close at hand. Clariant's pool of knowledge regarding color effects, manufacturing processes and the latest design trends is a dream for any potential product designer – a service that is quite simply best in class, helping you save both time and money. If you need any more emphatic testimony to Clariant's wealth of expertise, look no further than what is a roll call of successful global brands that have become synonymous for entire lines of products.

TEXTILE, LEATHER & PAPER CHEMICALS

Textile
Leather
Paper

PROFILE

The division is one of the world's leading suppliers of specialty chemicals and dyes for the textile, leather and paper industries. Textile Business includes dispersion, reactive, acid and sulfur dyes and encompasses special chemicals for pretreatment, dyeing, printing and finishing of textiles. Optical brighteners and chemicals for functional treatment are also part of the range. The Paper Business supplies paper dyes, optical brighteners and process and pulping chemicals. The Leather Business produces chemicals for refining. Its offering includes all chemicals for finishing and dyeing as well as a complete range of wet-end chemicals.

MARKETS

Clothing, home textiles, technical textiles, garment leather, automotive leather, paper, packaging, construction

PRODUCTS AND SERVICES

UV absorbers, fluorochemicals, paper dyes (Cartasol®), disperse dyes (Foron®), reactive dyes (Drimarene®), optical brighteners, and water-, oil- and dirt-repellent equipment

PIGMENTS & ADDITIVES

Coating
Plastic
Printing
Specialties

PROFILE

The division develops and produces pigments for paints and lacquers, for plastics and for special applications. 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 and, increasingly, for non-impact printing, ink jet and laser printing. 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, resins, thermoplastics and polyester fibers. The division's portfolio also includes high-quality waxes based on various raw materials.

MARKETS

Paints, lacquers, coatings, plastics, automotive industry

PRODUCTS AND SERVICES

Hostaperm® pigments, PV Fast®, Graphtol®, Novoperm® pigments, Reflex Blue® grades, Exolith®, Ceridust®, Licocene®, DPP pigments, aluminum paints

MASTERBATCHES
Plastics Processing

PROFILE
The division supplies color and additive concentrates and special 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. At the local level, each of the division's 55 production plants provides a complete technical service for all products and applications.

MARKETS
Automotive, textile and technical fibers, electronic and electrical devices, home appliances, toys, medical devices, sporting goods, packaging

PRODUCTS AND SERVICES
Cesa®, Hydrocerol®, Remafin®, Renol®, Omnicolor®, ColorWorks™

FUNCTIONAL CHEMICALS
Detergents
Performance Chemicals
Process Chemicals

PROFILE
The division's products are based on surfactants and polymers. The key products are products for the oil industry and high-quality raw materials for detergents and cosmetics, combined with comprehensive services. The Detergents Business, which offers anionic, cationic and special non-ionic surfactants as well as bleach activators, is a global partner to the detergent industry. Performance Chemicals, spread across the division's entire product range, supplies such different industries as personal care, crop protection, paints and coatings, plastics, construction chemicals as well as the pharmaceutical industry. The Process Chemicals Business markets products and services for the production and refining of oil and natural gas. It also supplies products for the metal-working, polyester, mining chemical, aviation, heating and cooling and the automotive industry. Custom Manufacturing develops and supplies intermediates and active ingredients used in crop-protection agents. In addition, it supplies raw materials and building blocks for pharmaceuticals, polymers, photochemicals and other industrial fine chemicals.

MARKETS
Detergents, rinses and cleaners, personal care products, deicing products for the aviation industry, automotive and machine tools, crop protection, paints and coatings, plastics, polyester, high performance polymers, construction, oil and gas production and refining, fuel additives, mining, pharmaceutical industry, heating and cooling fluids and chemical industry.

PRODUCTS AND SERVICES
Anionic, nonionic and cationic surfactants (Genapol®, Hostapur SAS®, Emulsogen®, Präpagen®, Genamin®), polymers and preservatives, Safewing®, Safeway®, Dodiflow®, Dodiwax®, Dissolvan®, Peractive®, Antifrogen®, Genantin®, Genosorb®, pharmaceutical and agrochemical precursors and building blocks, polymer raw materials, additives for films, papers and coatings

Editor
Clariant International Ltd
Group Communications

Concept, text, design
Ramstein Ehinger Associates AG
Basel/Zurich

Lithography
Blue Horizon AG, Winterthur

Print
Neidhart + Schön Group AG, Zurich

Rothausstrasse 61
CH-4132 Muttenz 1, Schwitzerland

This publication is also available in German language. The English version is binding.

FURTHER SALES GROWTH

Organic sales up 7% in Swiss francs; organic growth of 5%

IMPROVED RESULT

EBIT before exceptionals rose by 11%;
EBIT margin up to 7.3% from 6.9%

CONSISTENT MARKET PERFORMANCE

Selling prices stable with raw material and energy costs remaining at high levels

Key figures		**2006**	2005[1]
Divisional sales with third parties	CHF mn	8 100	7 728
Operating income/loss before restructuring, impairment and disposals		592	533
Net income/loss of the Group		- 78	192
Total assets		7 188	7 180
Capital and reserves		2 433	2 591
Investment in property, plant and equipment		358	348
Research and development		207	197
Staff costs		1 917	1 952
Staff (at year-end)	number	21 748	22 132
Earnings/loss per share	CHF	- 0.37	0.81
Distribution per share	CHF	0.25	0.25

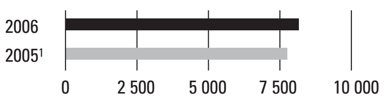
[1] Restated for discontinuing operations

SOLID QUARTERLY RESULT
Solid fourth quarter with 3% organic growth year on year

STABLE DIVIDEND
Unchanged payout of CHF 0.25 per share via par-value reduction proposed

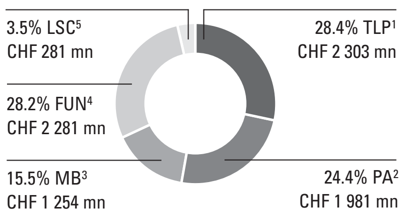
ON THE RIGHT TRACK
Positive outlook for 2007; in line with strategic goals

Sales trend
CHF mn



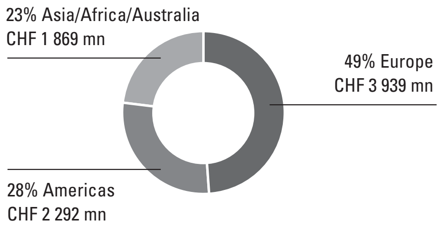
[1] Restated for discontinuing operations

Sales by division
Total 2006: CHF 8 100 mn



[1] Textile, Leather & Paper Chemicals
[2] Pigments & Additives
[3] Masterbatches
[4] Functional Chemicals
[5] Life Science Chemicals

Sales by region
Total 2006: CHF 8 100 mn



INFORMATION FOR SHAREHOLDERS

DEAR SHAREHOLDER,
DEAR MADAM, DEAR SIR,

Clariant continued to grow in 2006 benefiting from favorable market conditions with strong demand from our customers all over the world. Sales in Swiss francs from continuing operations came to CHF 8 100 million, a 7 percent organic growth compared to the year before. The operating income before exceptionals rose by 11 percent to CHF 592 million and the operating income improved from 6.9 percent to 7.3 percent. Despite the improvement, we missed our original target for the operating income. The results were significantly impacted by an unexpected steady rise in raw materials, energy and logistics costs, while average selling prices remained stable.

NET INCOME AFFECTED BY IMPAIRMENT CHARGE

Net income from continuing operations fell to CHF 131 million from CHF 262 million, mainly impacted by an impairment charge of CHF 100 million in the leather business. Including discontinued operations – Pharmaceutical Fine Chemicals and Custom Manufacturing – the company posted a net loss of CHF 78 million compared to a net income of CHF 192 million a year earlier.

Although operating cash flow improved to CHF 284 million, it failed to reach the value targeted. Only by maintaining a sharp focus on cash flow we will be able to implement the necessary measures and boost performance.

Based on these full-year results, the Board of Directors will propose to the 12 Annual General Meeting on April 2, 2007, a payout of CHF 0.25 per share by reducing par value from CHF 4.50 to CHF 4.25. The proposed payout remains unchanged from the previous year.

ON A FIRM FINANCIAL FOOTING

Clariant remains on a firm financial footing with a solid balance sheet. The gearing, which expresses net debt as a percentage of equity, is at 64 percent, the equity ratio at 34 percent.

In April 2006, Clariant successfully launched a EUR 600 million bond. The seven-year bond serves as a basis for the long-term refinancing of the company's debts.

PRESENCE IN FAST-GROWING MARKETS EXPANDED

Last year, Clariant expanded its presence in fast-growing markets, and strengthened its customer-oriented approach. In Hangzhou, China, for example, a new joint-venture plant was commissioned in summer 2006 to produce high-performance pigments. As a result, these pigments meeting higher requirements can now be supplied not only to international customers but for the first time to local markets too. In India, we combined the strengths of the various subsidiaries by merging them into the new Clariant Chemicals (India). The company can now better respond to the customer's needs in the rapidly growing Indian market.

Other powerful examples of our ability to quickly adapt changes in the markets are the recent conversion of a dyestuffs plant in the US to produce optical brightening agents and thereby meet the significantly increased domestic customer demand. Or the further focusing of the textiles product portfolio not just to improve operational efficiency and reduce costs but enabling us to optimize the technical service to customers by becoming more selective.

In Shanghai we started building service labs for personal care applications in order to benefit from the Chinese middle class increasingly spending on higher-quality consumer products which contain more of our value-added products. We also plan further investments to build up sufficient local manufacturing capabilities.

In the design capital Milan, the company opened the latest ColorWorks™ Design Center, which offers a combination of inspiration, creativity and technical expertise. The center allows designers, manufacturers and traders of plastic products to dive into a completely new world of unlimited possibilities in the color design of masterbatches. Similar design centers include places like New York, Singapore and São Paulo.

In line with our strategy of strengthening fast-growing, service-driven businesses through acquisitions that supplement our portfolio, we acquired Ciba Specialty Chemicals' masterbatches business, thereby further expanding our leading global position in color and additive concentrates for plastic products.

In 2006 we continued to focus the portfolio on core businesses, selling the Pharmaceutical Fine Chemicals Business to a private investor and initiating the process of selling the Custom Manufacturing Business. The remaining operations of the Life Science Chemicals Division, which closed at the end of 2006, have been integrated into the Functional Chemicals Division.

HEADING IN THE RIGHT DIRECTION, BUT NOT YET WHERE WE WANT TO BE

2006 was a groundbreaking year for Clariant's future too. The changes under way in specialty chemicals and the increased pressure on costs called for a detailed review of our strategy, organizational efficiency, portfolio and operating practices. In carrying out this

We are investing in growth areas and are cutting costs

review, we took a close look at the company from three very distinct perspectives – Clariant versus the industry, Clariant as seen by its customers and Clariant as seen by its employees. The results show that, having put itself back on a firm financial footing and implementing the Clariant Performance Improvement Program, Clariant is headed in the right direction in many areas and has considerable long-term potential. Overall, however, the company needs to significantly improve its performance. Therefore, in November 2006, we embarked on a journey with the ultimate goal of being among the best in specialty chemicals, an endeavor for which our motto is "Clariant 2010 – Launching world-class performance."

AMONG THE BEST IN THE SPECIALTY CHEMICALS INDUSTRY

We are sharpening our focus on value creation with a clear strategy combining growth and innovation elements with reductions in complexity and costs, through disciplined execution and with dedicated employees. In a first step, we intend to generate an above-peer average return on invested capital (ROIC) by 2010. We also intend to achieve growth above GDP and to improve the profitability of our businesses by cutting overheads and net working capital.

Already, we have started to implement a number of measures to achieve these goals including the reduction of the number of products by 25 percent and the closing of approximately three sites per year. Clariant still has around 50 000 different products and 130 sites worldwide. These measures – together with our efforts to substantially reduce sales and general administrative costs – will result in a 10 percent reduction in the 22 000-strong workforce by the end of 2009. Clariant's current structures and results leave us no other choice if we intend to achieve ongoing improvements and to become a leading player with a secure future.

We firmly believe we are building on the right portfolio platform and we must leverage the differences between product-driven businesses which have no or little service component, where price is a main decisive factor in our customer's decision process and service-driven businesses with a moderate to very high service component. The service-driven businesses currently account for about 60 percent of our portfolio. We need to achieve cost leadership in areas where price is the differentiating factor, while sharing the benefit created for the customer in areas where the focus is on value-adding services.

Clariant will be supported in this by best-in-class methods to segment the various markets we serve and to define their value proposition. We will apply this by in-depth training of our entire sales force in the newly formed Clariant Academy. Furthermore, Clariant will back this comprehensive focus on its marketing and sales capabilities with PRIMA, a customer-specific pricing management system, tailored to the company's requirements, which all in all will help to improve the company's pricing performance and optimize its value creation.

GENERATING NEW GROWTH

We are to generate new growth by investing in service-driven segments, increasing our presence in fast-growing regions such as Asia and exploiting our innovative potential.

Over the next four years, we will build on Clariant's strengths in colors, surfaces and performance chemicals by focusing our investments on businesses where we can offer customers substantial added value through application technology, advice and solutions. This allocation of resources to businesses generating better returns will be a key factor in the company's overall value creation.

We will also boost growth in fast-growing markets, particularly China and India, where we already have significant operations. In Asia, we anticipate sales growth for Clariant to be double the growth in GDP in the region until 2010.

In order to reinforce innovation, we intend not only to exploit our own creative potential but also to build on our recent successful investments, our strategy of creating alliances with start-up companies and universities as well as scouting for new technologies. Over the next four years, we intend to invest a total of CHF 100 million in early stage "incubator projects," paving the way for innovations in areas including multifunctional coatings, membrane technology and nanomaterials. These incubators will run as start-up companies within Clariant Group Technology.

A CULTURE OF EXCELLENCE

Implementation of "Clariant 2010 – Launching world-class performance" requires employees who are committed to a performance-oriented corporate culture in which they take on full responsibility. We therefore consider it extremely important to develop leadership talent and foster an entrepreneurial mindset. With this aim in mind, we have intensified our internal talent management efforts and launched the Clariant Academy, which will provide professional development and in particular help to enhance performance management skills and build knowledge-sharing platforms across the Group.

Jan Secher Roland Lösser

The Continuous Improvement Process (CIP) will be a constant companion in the day-to-day work. A team is currently in the process of drawing up pilot projects, providing the necessary tools and preparing training. The CIP aims at supporting the businesses in the challenging task of continuously finding improvements in terms of growth, cost and quality as well as innovation and production processes. Together with an increased focus on performance management, these are all integral parts of our strategy to become a world-class performer. Only if we continue to improve in everything we do will we be able to achieve this goal.

EXCELLENT LONG-TERM PROSPECTS

Throughout 2007, the company will take measures to ensure it is on course to reach the mid-term ROIC target.

We expect improved sales in local currency terms based on expectations of a broadly stable macroeconomic environment as well as continued high raw material and energy prices. We anticipate an increase in operating income before exceptionals from continuing operations, with margins remaining stable. We also expect higher cash flow from operations before exceptional items, as well as an improvement in recurring net income.

From the many conversations we have had with investors, we know that they consider the new "Clariant 2010 – Launching world-class performance" to be a good and convincing strategy. We have also clearly understood the strong desire from their side to see concrete result improvements leading to value creation. We intend to seize this opportunity – backed by our thousand of committed employees which get our sincere thanks for their great efforts. We trust that you, our shareholders, will continue to support us in becoming a leading company in the specialty chemical industry.

Jan Secher
Chief Executive Officer

Roland Lösser
Chairman of the
Board of Directors

We have assembled an outstanding line-up of executives

Jan Secher

Hartmut Wiezer Dominik von Bertrab Uwe Nickel

CORPORATE BODIES

Shareholders attending the 11th Annual General Meeting of Clariant Ltd in Basel adopted each of the motions proposed by the Board of Directors, including that to repay the par value of CHF 0.25 per registered share. In addition, Robert Raeber and Prof. Dieter Seebach stepped down from the Board of Directors effective April 2006. Roland Lösser took over from Robert Raeber as Chairman and Peter Chen was elected as a new member of the Board of Directors.

SHAREHOLDER APPROVAL

Shareholders of Clariant Ltd, Muttenz, Switzerland, attending the 11th Annual General Meeting in Basel adopted each of the motions proposed by the Board of Directors by a large majority. These included a motion to repay the par value of CHF 0.25 per registered share instead of distributing an ordinary dividend.

The share capital has therefore been reduced by CHF 57 540 000, from CHF 1 093 260 000 to CHF 1 035 720 000, and the par value of each registered share by CHF 0.25, from CHF 4.75 to CHF 4.50. The CHF 0.25 reduction has been paid to shareholders in cash.

CHANGES ON THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT

Having reached the age limit, Robert Raeber and Prof. Dieter Seebach stepped down as members of the Board of Directors. Peter Chen, full Professor of Physical-Organic Chemistry at ETH Zurich, was elected as a new member of the Board of Directors for a four-year term of office. Roland Lösser, a long-serving member of the Board of Directors and Clariant's Chief Executive Officer until April 2006, was elected as the new Chairman. Jan Secher was installed as Chief Executive Officer at the same time.

WORKING METHODS OF THE BOARD OF DIRECTORS

The law and the Articles of Association define the Board of Directors as the supreme management body of the Group. In accordance with the Articles of Association, the number of members must be at least six and no more than ten. The Board of Directors elects a Chairman and a Vice Chairman from among those members. Together, the Chairman, Roland Lösser, and the Vice Chairman, Tony Reis, constitute the Executive Committee of the Board of Directors. The Board of Directors also forms various committees.

STRATEGY COMMITTEE

Members: Peter Chen, Roland Lösser, Kajo Neukirchen, Tony Reis

The Strategy Committee prepares all strategic discussions for the Board of Directors, provided they are not expressly allocated to another committee. The focus of the Strategy Committee's work is on:

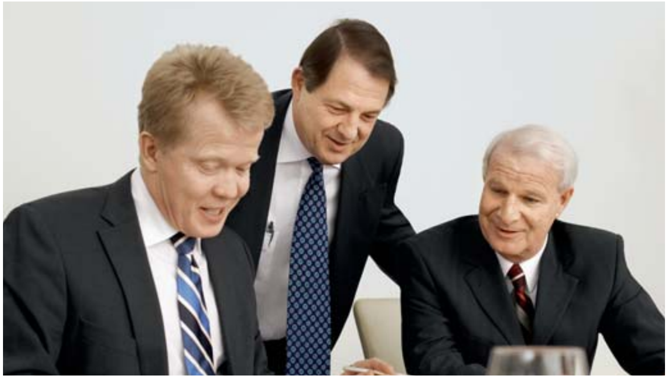
> Strategic projects
> Financial transactions
> Funding and deployment of funds
> Organizational and management structure
> Investments

APPOINTMENTS AND COMPENSATION COMMITTEE

Members: Roland Lösser, Tony Reis

Together with the Chairman, the Appointments and Compensation Committee draws up principles for the election and reelection of members of the Board of Directors. It also prepares the corresponding recommendations and draws up principles for the compensation of members of the Board of Directors, which it submits to the latter for approval.

Patrick Jany Siegfried Fischer



Peter Piringer Peter Brandenberg

In addition, the committee considers and submits to the Board of Directors the CEO's proposals concerning candidates for appointment to the Board of Management, and to the positions of division heads, heads of the units reporting to the CEO, and regional presidents. It also approves the employment contracts for the CEO, members of the Management Board, heads of units, and regional presidents plus, at the request of the CEO, the corresponding compensations.

AUDIT COMMITTEE

Members: Peter R. Isler, Klaus Jenny

The Audit Committee reviews the activities of the external auditors and their collaboration with the internal auditors. It also checks the performance, compensation and independence of the external auditors. The committee is notified of all consultancy mandates between the Group and the external auditors. Mandates for which compensation exceeds CHF 200 000 require the Audit Committee's approval.

TECHNOLOGY AND INNOVATION COMMITTEE

Members: Peter Chen, Kajo Neukirchen

The members of the Technology and Innovation Committee have experience in research, innovation management and information technology. The committee assesses the Group's innovative activities and recommends measures to stimulate research and development.

Detailed information on the working methods of the Board of Directors can be found in the Corporate Governance section of this report starting on page 62.

BOARD OF MANAGEMENT

Dominik von Bertrab
Head of the Masterbatches Division

Peter Brandenberg
Head of Group Services and Regions

Siegfried Fischer
Head of the Functional Chemicals and Life Science Chemicals Divisions

Patrick Jany
Chief Financial Officer since January 2006

Uwe Nickel
Head of the Pigments & Additives Division

Peter Piringer
Head of the Textile, Leather & Paper Chemicals Division

Jan Secher
Member of the Board of Management since January 2006, Chief Executive Officer from April 2006

Hartmut Wiezer
Head of Group Technology

BOARD OF DIRECTORS

Peter Chen
from April 2006

Peter R. Isler

Klaus Jenny

Roland Lösser
Chairman from April 2006

Kajo Neukirchen

Robert Raeber
Chairman until April 2006

Tony Reis

Prof. Dieter Seebach
until April 2006

Herbert Wohlmann
Secretary of the Board of Directors

Unique added value through innovative solutions

VALUE-DRIVEN FOCUS

Clariant's goal is to reach an above-average position among its peers in terms of value creation by 2010. From there it will take aim for the top quartile. Clariant intends to trim its cost structure, reduce net working capital, and strengthen its performance-oriented culture so as to achieve profitable long-term growth and sustained cost leadership in the specialty chemicals industry.

INCREASING PROFITABILITY

Clariant has outlined a series of steps aimed at optimizing the company's activities. These are the result of a wide-ranging review of Clariant's strategy, organizational efficiency, portfolio and operating practices carried out during 2006. The review included both an analysis of the macroeconomic outlook and a close look at the company from three distinct perspectives: Clariant as seen by its customers, Clariant versus its competitors, and Clariant as seen by its employees.

It was found that the company is heading in the right direction in most areas, but needs to be developed further in order to achieve world-class performance. That means creating a winning culture of disciplined execution, reducing complexity where it is not required, and adopting strict cost-cutting measures.

Over the next four years, Clariant will invest around CHF 500 million in corresponding operational improvements and cost-saving initiatives, including site closures.

A sharp focus on cash flow will allow the company to implement the necessary measures, thereby boosting performance substantially and creating sustained value for investors.

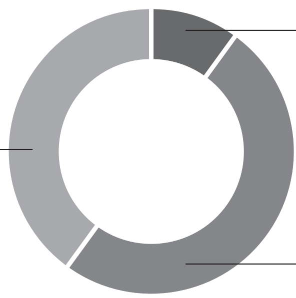
ENSURING AN ATTRACTIVE MARKET PROFILE

To better reflect Clariant's diverse customer structure, the company will reshape its sales and distribution practices to be more customer-focused and more tailored to specific markets. The product-driven businesses, which represent 40% of Clariant's portfolio and where price is key to market success, need to be managed with the focus primarily on competitive cost structures and high efficiency, while service-driven businesses need to combine cost leadership mainly with application technology and expertise in customer-specific solutions.

Over the next four years, Clariant will invest primarily in developing businesses that offer customers maximum added value by providing application, advisory and solution services. In doing so, the company will build on its strengths in colors, surfaces and performance chemicals. This more stringent allocation of resources will be a key factor in the company's overall value creation.

To reinforce long-term innovation, Clariant will build on its successful recent investments and on its alliances with start-up companies and universities. The company also intends to invest a total of CHF 100 million over the next four years in promising, early-stage "incubator" projects, representing a 10% increase in its research and development spending. See also page 34.

Service component in the Clariant portfolio
Approximately 60% of Clariants portfolio is service driven, broken down into application- and solution-driven businesses



EFFICIENT PROCESSES

The group's four divisions – Textile, Leather & Paper Chemicals, Pigments & Additives, Functional Chemicals and Masterbatches – are to be supported by increasingly efficient Group Services and Group Functions, including sourcing, supply chain management, IT and site services. Clariant began centralizing these areas in 2005 and sees considerable potential to improve efficiency further, for example through more effective purchasing and by pooling expertise.

During the period under review Clariant defined a continuous process to drive and support improvement measures within the company. This Continuous Improvement Process (CIP) defines the "Clariant way" to operate, building on initiatives that were already carried out in parts of the company.

In 2006, Clariant began implementing PRIMA, a customer-specific pricing management system. PRIMA is tailored specifically to the company's requirements and will help the company extract more value from its different products and services. PRIMA builds upon best practices relating to marketing strategies and pricing techniques in the market.

Clariant organization[1]

Chief Executive Officer
Jan Secher

Finance/CFO
Patrick Jany

Group Services and Regions
Peter Brandenberg

Group Technology
Hartmut Wiezer

Human Resources
Johann Steiner

Group Communications
Walter Vaterlaus

Group Legal
Herbert Wohlmann

Corporate Development
Monika Riese-Martin[1]

Textile, Leather & Paper Chemicals
Peter Piringer

Pigments & Additives
Uwe Nickel

Masterbatches
Dominik von Bertrab

Functional Chemicals
Siegfried Fischer

[1] as of January 1, 2007

MANAGEMENT SYSTEM

The first ever comprehensive review of Clariant's management system in line with the globally standardized concept for process auditing was carried out in 2006. As a result of this review, a series of measures are now being applied in Clariant and are helping to underpin the continuous improvement process. Based on the external audits, a number of additional locations achieved ISO 14001 and OHSAS 18001 certification status. Two new locations have been integrated into the system.

A management system database has been developed, which enables the documentation of all key tasks, responsibilities and requirements for Clariant employees in a transparent manner. The system is due to be launched worldwide in 2007, with the aim of achieving further integration of all relevant internal and external standards to which Clariant has undertaken to comply.

REDUCE COMPLEXITY THROUGH PORTFOLIO PRUNING AND SITE CLOSURES

The number of products Clariant sells will be reduced by at least 25%. This approach is about strategic simplicity and greater versatility, being intelligent about how to reduce complexity and achieving long-term reductions in production, sales and delivery costs. It has already started to bear fruit in Clariant's textile dyes business, where the portfolio has been reduced from approximately 3 500 products to around 700 products, significantly improving operational efficiency.

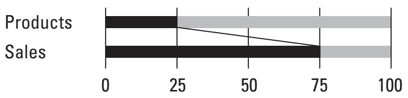
Clariant aims to become a world-class player in the specialty chemicals industry by optimizing its global production network. A number of sites will close over the next four years as a result. The initiative will reduce costs further across the Group and cut jobs by around 10% by the end of 2009. Clariant currently employs around 22 000 people, down from approximately 28 000 three years ago. See also page 21.

DISPOSALS AND ACQUISITIONS

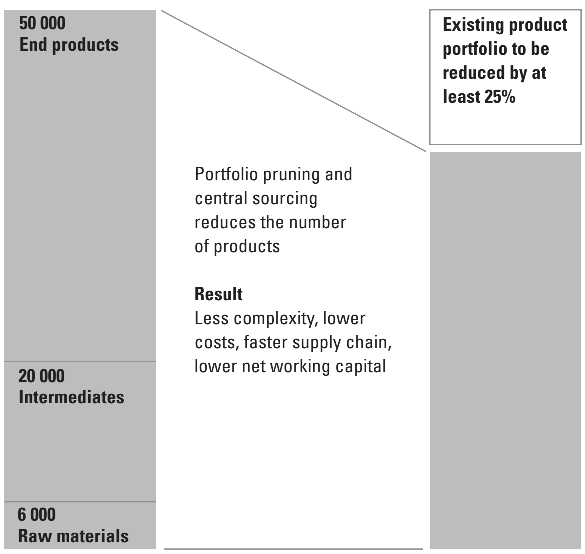
During the reporting period, Clariant sold its Pharmaceutical Fine Chemicals unit to TowerBrook Capital Partners, L.P. The sale marked a further step in Clariant's strategy to dispose of any businesses that do not count among its core activities. The unit manufactures building blocks, regulatory starting materials, intermediates and active pharmaceutical ingredients (APIs) for both the innovative and the generic pharmaceutical industry.

A review in 2006 of the strategic options for the underperforming Life Science Chemicals Division (LSC) led to a series of actions, including initiating the process of selling the Custom Manufacturing Business, which is now reported under Discontinued operations. As of January 1, 2007, the remaining Specialty Intermediates Business was integrated into the Functional Chemicals Division and the Life Science Chemicals Division ceased to exist.

Product/sales ratio
%



Product pruning reduces complexity



In September 2006, Clariant sold its subsidiary Industriepark Gersthofen Servicegesellschaft (IGS) in Germany to MVV Energiedienstleistungen GmbH. Employing 290 staff, IGS operates the industrial site Gersthofen and provides services to all companies located at the site.

In April 2006, Clariant acquired KiON Corporation, a US company based in Huntingdon Valley, Pennsylvania. Thanks to its patented manufacturing process, KiON is the world's sole supplier of cost-competitive polysilazane resins and composites thereof. This acquisition is a major milestone in Clariant's strategy of bringing to market innovative technology for the coatings and ceramics industries. To expand Clariant's capacity in polysilazane production Clariant acquired Chemtreat Composites India, Pvt., Ltd. See also page 34.

In fall 2006, Clariant acquired the entire masterbatches business of Ciba Specialty Chemicals' in order to further strengthen its leading global position in color and additive concentrates for plastic products. For details see also note 24 of the consolidated financial statement. The acquisition will enable the Masterbatches Division to significantly enhance its position in France, in Saudi Arabia and in Asia Pacific markets. With its production facilities and around 300 employees, the acquiree generates annual sales of approximately CHF 80 million.

STRENGTHENING LEADERSHIP

During the reporting period, the company launched the Clariant Academy with a view to fostering its corporate culture. This is where current and future generations of Clariant leaders will receive training and continuing development. The Academy will play a key role in improving capabilities, sharing and spreading best practices within the company and creating a culture of excellence. The first workshops about the price management approach PRIMA and about value-based selling were well received by all participants.

In order to further develop its leadership base, Clariant has reinforced its internal talent management process and recruits outside talent where necessary.

Performance management was introduced in 2006 as an additional core element in Clariant's employee development approach. It provides methods for identifying objectives for organizational units as well as individual employees and determining performance measurement benchmarks. Performance dialogues facilitate the career development of every employee by helping to define individual development goals and appropriate training measures. See also page 40.

GROWTH IN ASIA

Initiatives are under way across the Group to boost growth in the fast-growing markets of Asia, particularly in China and India, where Clariant already has substantial operations. The primary focus is on creating additional capacity to meet increasing domestic demand, with exports to other regions as secondary effect. Detailed plans are now beeing implemented. See also page 21.

April 1, 2006, marked the start of operations at Clariant Chemicals (India) Limited. The new company is the result of the successful integration of four autonomous Clariant companies – Clariant (India) Limited, Vanavil Dyes and Chemicals Limited, BTP India Private Limited and Kundalika Investments Limited – into Colour-Chem Limited and the latter's subsequent renaming as Clariant Chemicals (India) Limited.

The company is headquartered in Mumbai and employs approximately 1 500 people. It is listed on the Bombay Stock Exchange, Mumbai, and the National Stock Exchange of India, Mumbai.

CLARIANT SUCCESSFULLY LAUNCHES ITS FIRST EUROBOND

During the reporting period, Clariant refinanced its debt through a successful debut on Europe's debt capital market with the launch of a seven-year EUR 600 million Eurobond. Among the subscribers were major institutional asset managers, banks, pension funds and insurance companies. The bond is listed on the London Stock Exchange.

We aim to offer long-term investors significant added value

SHARE PRICE TREND

Amid gratifying sales revenue gains, the performance of the share was influenced by higher energy, raw materials and logistics costs as well as various takeover rumors. Long-term financial goals coupled with the new strategy "In touch with you – Clariant 2010," which was well received by analysts, will help to leverage Clariant to a top position within its sector and enhance corporate value.

SHARE PRICE PERFORMANCE IN 2006

In 2006, the Clariant share price declined by 4% in a positive stock market overall. Despite good top line growth Clariant's results were impacted by combination of higher costs for energy, raw materials and logistics having a substantial impact on the performance. The average Brent crude quotation, for instance, rose 20% as high as USD 66.

The announcement of the first quarter results in early May was well received reflected in a positive share price development. In April Clariant successfully entered the European Debt Capital Markets for the first time with the launch of a seven-year EUR 600 million Eurobond. Also in April, Clariant announced the sale of its Pharmaceutical Fine Chemicals unit to TowerBrook Capital Partners. The share price fell following the announcement of disappointing first half results in August.

Share price performance

Since then the share price constantly recovered following improved 3rd quarter figures and given that issues were systematically addressed: In October, the company announced its intention to acquire the Ciba Specialty Chemicals' Masterbatches business to further strengthen its globally leading position for color and additive concentrates for plastic products. With the publication of the 3rd quarter results, Clariant announced also its intention to sell the custom manufacturing business.

In November Clariant published their new financial long-term targets and their increased focus on value creation by reducing the company's cost structure, cutting net working capital and strengthening its performance culture. All this came amidst rumours of consolidation in the industry that contributed to major changes in share price and traded volumes towards the year-end.

The year was marked by several activities towards investors, to introduce the new CEO and CFO to the financial markets in several roadshows and meetings. A milestone in the year was the announcement of the new strategy "In touch with you – Clariant 2010" mid-November was well received by analysts and investors. More than 70 investors and analysts benefited from the possibility to visit Clariant's headquarters and production sites and to have a detailed insight into Clariant's operations.

In 2006, the market capitalization of Clariant declined by CHF 253 million. Overall, the company's market capitalization decreased to CHF 4.2 billion at year-end 2006 from CHF 4.4 billion the year before. The average trading volume amounted to 2 million shares a day. The share price traded within a range of CHF 14.1 and CHF 20.54 in 2006.

SHAREHOLDER STRUCTURE

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. On 31 December 2006 the free float of Clariant Ltd shares was 100%. No single investor owned more than 5% of Clariant.

Share information as at 31.12.2006		
Symbol		CLN
Listing		SWX
Nominal value	CHF	4.50
Issue price[1], adjusted for split: IPO on June 29, 1995, 80 million shares	CHF	17.10
Number of treasury shares		3 601 273
All-time high on June 18, 1998[1]	CHF	92.38
All-time low on February 27, 2003[1]	CHF	8.47
Performance since issue[1]	%	6.7
Average daily trading volume		2 031 647

Five-year overview and dividend		**2006**	2005	2004	2003	2002
Number of registrated shares issued[1]		**230 160 000**	230 160 000	230 160 000	172 734 437	172 734 437
Number of shares created by conversion within the limits of the conditional capital		**–**	–	–	–	–
Number of shares eligible dividend		**230 160 000**	230 160 000	230 160 000	172 734 437	172 734 437
Price at the year-end[1]	CHF	**18.25**	19.35	18.35	16.21	19.63
High for the year[1]	CHF	**20.54**	21.30	19.99	21.50	35.40
Low for the year[1]	CHF	**14.10**	16.70	14.80	8.47	19.32
Stock exchange capital at year-end	CHF mn	**4 201**	4 454	4 223	2 800	3 391
Earnings/loss per share[1]	CHF	**- 0.37**	0.81	0.72	0.93	- 3.82
Distribution per share[1]	CHF	**0.25**	0.25	0.25	0.18	–
Distribution total	CHF mn	**57.5**	57.5	57.5	30.7	–
As a percentage of consolidated profit	%	**–**	30.0	38.4	19.1	–

[1] Owing to the capital increase conducted in April 2004, share prices and dividends for the period prior to April 2004 have been diluted by a factor of 0.8883.

Shareholders'structure as at 31.12.2006				
by regions	**Shareholders**	%	**Shares**	%
Switzerland	28 315	94.7	68 927 103	30
Europe	1 257	4.2	54 233 666	23.6
Outside of Europe	322	1.1	15 061 106	6.5
US portion	*79*	*0.3*	*11 215 280*	*4.9*
Total registered shares	**29 894**	100.0	**138 221 875**	60.1
by number of shares				
1–999	20 010	66.9	7 057 419	3.1
1 000–9 999	9 060	30.3	20 850 067	9.1
10 000–99 999	690	2.3	16 420 628	7.1
10 000 and more	134	0.5	93 893 761	40.8
Total registered shares	**29 894**	100.0	**138 221 875**	60.1
Shares not registered	–	–	91 938 125	39.9
Total	**29 894**	100.0	**230 160 000**	100.0

> CLARIANT MEETS INVESTORS

Clariant intends to achieve its ambitious objectives with customer-specific services and innovative products, a lean, efficient organization and highly motivated employees.

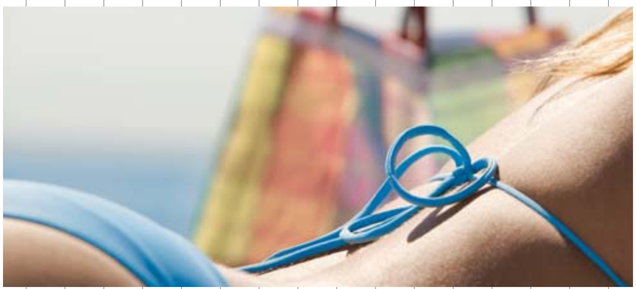
In November 2006, Clariant came up with a completely new approach to presenting its strategic objectives. Instead of following standard practice for such events and inviting investors, analysts, journalists and employees to a conference venue, Clariant set up a temporary exhibition pavilion at its headquarters in Muttenz, Switzerland. This provided a stage for the Clariant brand and, at the same time, served as a conference center.

The objective of Clariant's brand strategy is to strengthen the brand and thus make it easier to introduce new products and services, open up new markets and drive customer penetration. The central message of the current campaign is formulated as a question: "What do you need?" This question highlights Clariant's strengths: customer orientation, tailored services, dialog, partnership and innovative strength. This is what the brand stands for – from the point of view of customers and employees, investors and also the public.

Visitors were given a glimpse of Clariant's innovative strength inside the exhibition pavilion, where all the divisions and the Group Function Technology showed highlights from their innovation pipeline. The exhibits ranged from ceramic composites and recycling systems for airports to the latest generation of DVD technology for the high-definition television format HDTV.

> EFFECT LABELS – THE CLARIANT HALLMARK

Achieving differentiation thanks to value-enhancing effects: individual advice and exclusive formulations especially for brand-name manufacturers and retailers.



Manufacturers of brand-name clothing face the challenge of differentiating their products from cheap, mass-produced items. This is best done by incorporating special features that offer additional benefits for the end customer – something Clariant's textile chemicals help manufacturers to achieve. Items of clothing enhanced with these chemicals have easy-care, breathable, anti-UV, dirt-repelling, or anti-bacterial properties such as those that prevent the build-up of body odor in sportswear.

Swimwear treated with the new "Rapid Dry" effect, for example, absorbs much less water and dries much quicker after swimming than untreated swimwear. Clariant developed this effect in close collaboration with a brand-name manufacturer, which is now adding it to its spring 2007 collection.

Clariant offers suitable effect labels for its textile chemicals so that consumers can see that the items of clothing have special features. Manufacturers can use this hallmark to label their clothing and thus communicate its special properties.

Products such as Rapid Dry add value to meet the needs of brand-name manufacturers and retailers. The Textile, Leather & Paper Chemicals Division is thus highlighting the fact that it is concentrating increasingly on the upper end of the textiles value chain – in a shift away from process chemicals and towards finishing and functional chemicals.

The new Clariant Academy: best-practice models and the intensive exchange of internal expertise are helping to create a culture of excellence.

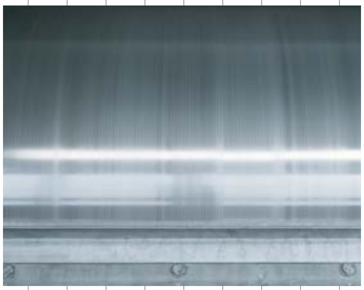
It is better to find the best leaders within the company's own ranks and train them internally than it is to recruit externally. In doing so, Clariant follows best-practice principles.

At the end of 2006, training operations got under way at the Clariant Academy. This combines all existing management training programs under one roof, thereby helping to establish the definitive "Clariant way" and ensure that it is adopted worldwide.

The new training model is based around three pillars: the Leadership School, the Change School and several Function Schools. The Leadership School improves business and personal skills and enables Clariant to recruit future top managers from among its own ranks, while the Change School concentrates on urgent and important change management initiatives derived directly from the strategy. The Function Schools then go into greater detail by applying these initiatives to specific functions.

Around 400 selected managers have now embarked on the first of the Change School's courses on value-oriented selling and pricing. Sales and marketing skills are to be expanded with the aim of increasing Clariant's revenues and margins. The program is therefore tailored to the divisions' diverse needs and covers different markets and customer requirements.

Licocenes® are revolutionizing the properties of waxes made for adhesives and plastics. Clariant has opened a new production facility in Frankfurt Höchst in order to respond to heightened demand and take advantage of attractive growth opportunities.



Waxes are seen as "jacks-of-all-trades" – especially in the adhesives and plastics industries. The varied properties of wax can be used in many different applications. Up until now, each individual type of wax has been subject to its own specific processes and production infrastructure.

This is now a thing of the past, and the magic word is Licocene: a range of fully synthetic polyolefin waxes that are produced via a unique catalysis process perfected by Clariant. Catalysis enables important product properties such as hardness, melting point, and viscosity to be adjusted precisely and combined in a versatile way.

When Licocenes are melted, they bond. Accordingly, adhesives are a favored application for these products in the manufacture of paper, textiles, glass, metals and plastics. The requirements that adhesives have to satisfy vary greatly depending on the surfaces that have to be bonded – in fact, they are just as varied as the possible applications that Licocenes allow. "Licocenes are the future of hot-melt adhesives," as one of the major manufacturers of adhesives reportedly said.

Plastics, the properties of which can be altered by combining different waxes, offer equally exciting possibilities. And, in the same ways as with adhesives, the specific properties of waxes determine the later possibilities for use.

Thanks to this new process, Clariant is able to match a wax's properties exactly to the needs of the customer – rapidly, flexibly and inexpensively. Licocenes thus open up numerous highly innovative areas of application.

COLOR EXPERTISE

Red is not always red! It can come in thousands of different shades. Our customers put a premium on such detail. From special pigments and their areas of application, to the light-dependent effect of colors. For plastics, textiles, leather, car paints, or ink. Clariant offers you the perfect color for every material.

SUSTAINABLE GROWTH

REGIONS

Clariant aims to significantly improve its performance and achieve above average returns in the specialty chemicals sector by 2010. It has therefore formulated a regional strategy to achieve value creation based on growth and innovation.

COMPETITIVE EDGE THROUGH DIVERSIFICATION

This strategy reflects the diverse macroeconomic outlook for the period up to 2010. Clariant will align much of its future investment with the key growth engines globally – focusing on China and India in particular and Asia as a whole. This will enable it in future to exploit the potential in developing economies more effectively, while managing the below-average growth likely in advanced economies.

Clariant's existing regional strengths – in Europe and Latin America, most notably – also play a role. By positioning for the bulk of its growth to come in areas where it is less well established, the company plans to achieve long-term balance in its operations. Similarly, it will distribute its risk exposures more equally and thereby create a balanced portfolio that is geographically diverse.

The IMF's World Economic Outlook anticipates worldwide growth of 4.9% in 2007, following 5.1% in 2006. However, this headline figure disguises significantly different outlooks across the world. Emerging market and developing countries should deliver growth as high as 7.2% this year, thanks mainly to China's 10.0%, India's 7.3%, and Russia's 6.5%. The advanced economies are forecast to achieve 2.7%, with the euro zone and Japan at a level of 2.0% and 2.1%, respectively and the US at 2.9%.

Given the distribution of its presence across the different countries, Clariant expects global "weighted GDP growth" of around 3%.

INVESTMENT FOCUSED ON GROWTH AREAS

Clariant will allocate a high proportion of future growth investments to its top priority regions: China, India, the Middle East and Eastern Europe. Together, these areas account for around 25% of Clariant's sales currently. The company has developed a detailed strategic plan for Asia. Clariant's investments in Asia will consequently more than double over the next few years.

China is the Group's largest Asian market where it is growing at an annual rate of 20%. Accordingly, the Chinese operation will account for one-third of Clariant's revenues in the region by 2010.

Clariant is now accelerating its Chinese manufacturing presence, which dates back to 1995. After expanding the Chemicals joint ventures of the Pigments & Additives (PA) and Textiles, Leather & Paper (TLP) Divisions, building up the Masterbatches (MB) Division presence, and establishing additional, highly automated facilities, it is now building additional plants (plus technical service centers) to respond to the strong domestic demand. From todays 6 plants the company plans to have 12 to 15 plants in China by 2010, housing multidivisional operations in order to leverage internal synergie wherever possible.

In the year under review, the Group made use of its Hong Kong trading company's freedom under the Mainland and Hong Kong Closer Economic Partnership Agreement (CEPA). This permits Clariant Trading (China) to operate as a domestic importer and trader without restrictions.

Japan – where the company began manufacturing during the 1930s – is Clariant's second-largest market in Asia and offers attractive growth opportunities in higher-margin, technology-led niches, such as nonimpact printing and hightech fibers. Its high quality standards represent continuous opportunities for Clariant's high value-added offerings.

In India, Clariant wishes to strengthen its activities on markets for both the Functional Chemicals (FUN) Division and MB, based on its established infrastructure. The company already has a strong presence in the country with 4 production sites mainly dedicated to supplying the important textile and leather markets, as well as pigments. In April 2006, Clariant merged all its Indian operations into a single company, thereby providing a platform for growth across all divisions.

Southeast Asia continues to offer growth opportunities. Indonesia's substantial domestic market, for example, is very attractive, as are Thailand and Singapore's favorable locations as regional hubs. In 2006, Clariant strengthened its position in Malaysia with the acquisition of Ciba SC's masterbatches business.

We are targeting above-average growth worldwide

OPPORTUNITIES FOR DIVISIONS

In terms of sales, FUN is the smallest of the Group's Asian businesses currently, but could have the greatest potential once sufficient local manufacturing is in place. This reflects the increasing appeal of high-quality body care and cosmetics products to the fast-growing middle class across much of the region.

Similarly, the packaging market segment served by MB is growing with this broad trend. However, it is PA and TLP that will still rank as Clariant's biggest Asian divisions over the next three to four years, as paint consumption remains driven by continued booming growth in the construction and transport industry and in the textile business.

In its core textiles operation TLP division recognized additional opportunities with new, value-added offerings to improve weatherproofing and breathability, for example.

EUROPE

Europe will continue to be Clariant's most important market from a sales perspective. Cost-cutting measures and selective investment in high-tech applications will increase profitability. In 2006, sales growth in Europe was above GDP growth, showing the sustained potential of this continent.

Continuing economic expansion in Eastern Europe, particularly Russia, will offer further opportunities to Clariant. This region is locally supported through service centers, while product supply comes primarily from Western European production sites.

In addition, the company is looking to grow selectively in the high-end markets in Western Europe and in Turkey – particularly in the FUN and MB divisions and in PA with coatings. Expansion in Turkey continued in 2006 with a double-digit growth for all divisions. This is underlined by Clariant's commitment to only invest in projects with a high potential added value. The region also provides substantial savings potential, particularly in operational and functional costs, as Clariant will further streamline and regionalize its organization and reduce the number of production sites.

LATIN AMERICA

Clariant already has a strong presence in most Latin American countries, with efficient local and regional production sites. It now wishes to expand sales in this region on a selective basis within its FUN and MB Divisions in particular. Central America is also of growing importance as far as TLP is concerned.

EXPANSION OF NORTH AMERICA BUSINESS

North America contributes 15% of Clariant's sales. This percentage is significantly below the region's overall share of either the global specialty chemicals industry or of the global economy – a one-third representation in both cases. Clariant is aiming for strong growth in North America by expanding in high-end parts of this key market. Selected acquisitions in service-driven segments will support this growth.

Oilfield Services (part of FUN) is a main pillar in Clariant's growth strategy in the US as shown through acquisitions in previous years. It is a major player in this field globally, despite what for historical reasons is only a minimal presence in the important US market.

New technologies, such as ceramic composite materials should provide another driver. In this area, Clariant recently acquired KiON and bought a stake in Starfire Systems – both of the US. The acquisitions became part of Clariant's incubator business in functional coatings and advanced materials.

GROWTH POTENTIAL IN THE MIDDLE EAST

Clariant anticipates strong sales growth in the Middle East, which is experiencing a significant economic expansion based on good availability of raw materials and cheap energy. The Middle East also offers potential as a supply hub to Asia. Clariant is seeking to participate in this expansion. The masterbatches business recently acquired from Ciba will strengthen the company's position in this region.

DRIVING COSTS DOWN FURTHER

While individual divisions are pushing to lower their selling, general and administrative costs and achieve better control of net working capital, the regional perspective is on how Clariant's global presence can be used to lower production and distribution costs. While the geographic focus of cost containment initiatives will be in Western Europe, the US and Japan, the objective is to achieve profitable growth everywhere. Measures are therefore being taken also in growth areas to improve efficiency, simplify organizational structures and optimize sales.

ALL SITES TO BE EVALUATED

The production network comprises some 130 sites in 55 countries. As part of a project aimed at optimizing its entire production, Clariant is in the process of evaluating its site network – considering factors such as business importance, cost structure and country risk, on top of a qualitative assessment. The company will use its findings as a basis for designing an optimum plant network that, among other things, minimizes landed costs. The basis of this effort are the results of Clariants product pruning measures.

It will seek to combine big regional hubs with full chemical infrastructure with local sites with limited infrastructure – the latter providing support for customer-oriented, service-driven businesses that are influenced by transport costs.

Our processes are driven by customer needs and future trends

CUSTOMERS AND MARKETS

Clariant exploits growth opportunities by developing innovative products and services, entering into targeted collaborations and making acquisitions investing in new plants and facilities. Customers benefit from time-to-market advantages and derive clear added value from integrated service concepts and intensive customer support.

PREFERRED PARTNER FOR SPECIALTY CHEMICALS

Within Clariant's defined portfolio of colors, surface effects and performance chemicals, customers come from a wide variety of industries, ranging from automotive right through to wood-processing production. This portfolio highlights the extensive expertise that Clariant has at its disposal in virtually every relevant field of industrial production. Every industry demands specialized products – and, just as importantly, specialized advice from the supplier. Strong, lasting customer relationships are therefore the top priority.

CLEAR BRAND POSITIONING

The Clariant brand personifies Clariant's specific values: commitment to dialog, service leadership and value focus. These values form the basis of the entire customer relationship. In maintaining dialog with customers, Clariant's employees come to know their individual business processes and needs. Dialog also plays a dominant role in customer advisory activities, service and after-sales care.

Service leadership is based on these same values. In close contact with its customers, Clariant provides services that draw fully on the company's innovative strength and are tailored precisely to the customers' processes and requirements.

Value focus ultimately means that Clariant's services offer customers measurable added value, whether by simplifying their manufacturing and treatment processes and thus reducing costs, improving the quality of their end products, or enabling them to develop new products. However, value focus also means that the entire Clariant service process – from development, purchasing and production through to delivery – is based on the principles of sustainable development.

TARGETED MARKET PRESENCE

Clariant's organization and processes are designed in such a way that the divisions can concentrate fully on their core competencies, thereby ensuring that they are as close to their markets as possible. Clariant places great emphasis on targeted cooperation between the divisions and Group Services in order to satisfy the specific needs of the various industries to the maximum possible extent.

Customer structure

Textile, Leather & Paper Chemicals (TLP)	Textile industry, leather industry, pulp and paper industry, construction industry
Pigments & Additives (PA)	Coatings industries[1], plastic industries, printing industries, spezialized industries[2]
Masterbatches (MB)	Resin producers, compounders[3], polymer converters[4], manufacturers of industrial goods[5]
Functional Chemicals (FUN)	Detergent industry, cosmetics industry, oil and gas production and refining industry, construction industry, agro industry, metal-working industry, mining industry, paint industry, aviation industry, heating and cooling industry, polyester and chemical industry, pharmaceutical industry, plastics and polymer 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 and upholstery, industrial, food and beverage packaging, personal care, automotive, business machines

TEXTILE, LEATHER & PAPER CHEMICALS

PROFILE

The Textile, Leather & Paper Chemicals (TLP) Division is one of the world's leading suppliers of specialty chemicals and dyes for the textile, leather and paper industries.

STRATEGIC GOALS

The division intends to grow in mature but promising areas, which are fast-changing and evermore competitive. Its priorities are to

- focus on innovative products;
- enable customers to gain a competitive edge;
- increase the percentage of revenue generated in high-growth sectors;
- take advantage of globalization trends;
- further prune its product portfolio;
- simplify its production network.

MARKET CHALLENGES AND TRANSFORMATION

These steps will continue the process of transformation that TLP has been undergoing over the past two years. This has involved a profound strategic shift – particularly in the key textile area – from a volume dyestuff manufacturer with 3 000 products facing increasingly tough competition from Asia to a specialty and finishing chemicals business with a more streamlined portfolio. Textile dyes have become less important over time, while textile chemicals have come to play an increasingly key role.

In addition, production capacity has been reduced substantially and utilization rates have risen significantly as a result. Commodity products have been eliminated from the range. Together with the merger of two business units (which were integrated into a single less resource-intensive, more cost-driven operation), this has already led to improved profitability.

This reconfiguration highlights a key task for the division going forward: the need to leverage its technological leadership by focusing on high-performance, value-adding products that offer customers benefits relevant to their needs and allow Clariant to consolidate its market position and enhance product prices and margins. Numerous examples of initiatives can be found across the division.

For instance, clothing manufacturers are pushing hard to differentiate their products from lower-cost Asian imports by offering additional features such as easy-care, moisture management, soil release and antimicrobial properties. Clariant's textile chemicals provide these functions and in this way add value to the garments, giving brands and retailers a sales edge.

A compelling illustration is the new "Rapid Dry" treatment, which enables swimwear to repel water and dry much quicker than conventionally treated swimwear. Products like "Rapid Dry" highlight TLP's shift away from process chemicals towards providing finish and function, which tend to be at the higher end of the value chain.

The leather operation supports auto manufacturers' aggressive drive to sell more vehicles with leather upholstery. One up-market European auto company, for example, aims to include leather in 80% of its sales by 2008 – up from 60% currently. These high-margin sales depend to a large extent on Clariant's ability to find innovative solutions to leather's technical challenges, such as its sensitivity to soiling (particularly of the lighter colors favored in the important US market).

Paper, too, underscores how Clariant is using innovation to lift TLP out of low-margin markets. A good example is its Cartapack® barrier coating for fast food packaging. This, the first fluorine-free coating, is highly grease-resistant and can be specifically tailored to customers' requirements, thus providing multiple benefits for the packaging and food industries.

Some products that are only available locally will be removed from TLP's overall portfolio and replaced by global products meeting the same demand. Simplifying the product portfolio will enable the division to improve its technical service.

INNOVATION AND CUSTOMER BENEFITS

TLP's high level of innovation (products launched in the past five years account for 25% of sales) is not restricted to product development. It also extends to activities such as increasing the level of automation at the customers' end and ensuring that the customers' products conform to health and safety standards.

The ever shorter life cycle of fashion-sensitive products has put textiles manufacturers under pressure to deliver quickly to the high street. Thanks to its diversified chemical platform and technical expertise, Clariant can respond quickly to new market requirements. This gives it an important advantage and TLP is committed to staying ahead by continuously developing its technical capabilities.

Traditionally, Clariant's main customers are textile mills. Recent years, however, have seen a power shift to manufacturers and, increasingly, brand owners such as Hugo Boss and retailers like Tchibo, which now source their textiles directly in Turkey, India and Pakistan. Clariant has therefore set up a second marketing arm to provide technical support and service to these customers, who – while knowledgeable about fashion trends and retail – lack textile manufacturing experience.

One important benefit for these customers is that, because of Clariant's expertise, they can be sure that their products conform to strictly monitored ESHA (Environmental Safety Health Affairs) requirements applicable to dyestuffs and other specialty chemicals used in the textiles industry. This gives Clariant another advantage over its Asian competitors because Clariant sets best practice for the industry and operates in full compliance with the applicable legislation.

In paper, Clariant is a market leader in specialized chemicals such as optical brightening agents (OBAs) and in dyestuffs. As this is rapidly becoming a commoditized market, Clariant is seeking to differentiate itself by streamlining services to its customers. In brighteners and colors, Clariant is increasingly sought out by customers to handle the entire process and not just to supply the products. For example, by installing inventory detectors in tanks for optical brightening agents, customers can automatically replenish their supplies by ordering online, increasing efficiency for themselves and Clariant itself.

AUTOMOTIVE INDUSTRY DRIVES THE USE OF LEATHER

Leather, meanwhile, is a less standardized market than either textiles or paper due to the emphasis on tanneries' individual craftsmanship and the wide variations in the quality of hides. Leather market growth is determined mainly by global meat consumption, which is forecasted to be stable.

However, the automotive industry, able to charge much more for leather upholstery than for fabric, is marketing the material actively to consumers and is therefore an increasingly important customer for Clariant.

The main tasks include providing solutions to the manufacturers' requirement for leather that is consistent in look and feel, does not squeak or fade and is soft but at the same time resilient to wear and tear. By helping to meet these requirements, Clariant is enabling auto manufacturers to improve their profitability.

Leather treatments are just one example of Clariant's capacity to provide technical solutions for all major elements of an automotive interior. Clariant is the only company with the chemistry to turn a car designer's full vision into reality – besides dyes and pigments for leather, this includes products from other divisions such as pigments for plastics and dyes and UV absorbers for seats and carpets.

PROACTIVE MANAGEMENT OF THE PRODUCTION NETWORK

Cost reductions are to come not only from pruning the product portfolio but also from the new site strategy. While TLP will continue to draw on the competitive advantage of its global production network, which ensures consistent quality for customers across the world, the structures and processes within this network are to be optimized.

The division will employ a combination of larger and smaller production sites, with the latter operating as "mixing stations" and replace complex structures with simpler solutions wherever possible.

Some sites are being restructured. An idle dyestuffs plant in the United States, for example, has been converted into a production plant for OBAs. This led to a doubling of OBA sales in the US, as TLP was able to benefit from an increase in demand for this product.

PIGMENTS & ADDITIVES

PROFILE

The Pigments & Additives (PA) Division develops and produces pigments for paints and lacquers, for plastics and for specialized applications. Its broad product range comprises numerous high-performance pigments such as inkjet pigments.

The division also produces additives to improve the resistance to heat, light and weather of plastics and paints. Halogen-free flame retardants are used in protective coatings in the construction and the electronics industry, for example.

The division's comprehensive core portfolio also includes waxes based on various starting materials. Its expertise and worldwide presence make Clariant a market leader for pigments and selected additives.

STRATEGIC GOALS

The PA Division intends to further expand its leading market position through a series of ambitious projects in which its three main priorities will be to drive product and service innovation, reduce production capacity and improve working capital. This will require further significant improvements in process technology and a reduction in the European production base.

EXPANDING ACTIVITIES IN INDIA AND CHINA

Expanding production to Asia remains a priority for the PA Division, for example through the Technical Application Center in China and by increasing capacity for nonimpact printing (NIP) processes in Tianjin and high-performance AZO pigments (HPAP) in Hangzhou. As a result of production increase in China and India, Europe's relative weight in 2010 will be significant lower than today.

The challenge posed by Asian competitors is continuing, but it has moderated over the past two years as rising transportation costs have partly offset the costs advantages of Asian production. New environmental standards and rising production costs create further challenges for local suppliers. Indeed, there are some high-quality products which are now produced more cheaply in Europe thanks to highly automated and very efficient processes.

PRODUCT PRUNING AND PRODUCTIVITY INCREASES

The division intends to reduce its portfolio of bulks by 30% in total and has already done so by 10%. Through selective restructuring and outsourcing measures, the introduction of new key performance indicators, and improved collaboration with other group units, it also intends to raise the efficiency of the sales and marketing forces.

As a result of further rationalization, all commodity products will in future be produced at plants operating with a high degree of efficiency and economies of scale, outsourced, or produced close to a customer's location.

The printing inks business provides one example of how the European sales force has been restructured. Here, country sales representatives have been replaced by fewer key account managers and product managers, resulting in a leaner organizational structure. In Specialties, the division has outsourced the European sales activities of its aluminum business to its Swiss-based distributor Omya.

CUSTOMER REQUIREMENTS AND DEVELOPMENT ACTIVITIES

The division invests a relevant amount of its revenue in research and development and technical marketing and has research and application labs worldwide. Clariant was the first company to set up a technical application center in China, for example.

This enables Clariant to provide solutions of a consistent standard of quality to customers all over the world – a key factor differentiating the company from local and regional competitors. Furthermore, through dedicated key account management, the PA Division maintains close dialogue with its customers about future product and color trends.

The division performs well in terms of customer satisfaction by providing technical support and solving customers' individual problems. For example, a paint producer has outsourced its production in Europe and Asia to Clariant, a clear endorsement of its consistent product quality and reliability of supply.

As well as through improvements in productivity, future growth will also come from providing color and service solutions that satisfy customers' specific requirements. Coatings are another area where Clariant will continue to innovate, for example with new products for particular handling forms and applications such as easily dispersible pigments and the range of DPP pigments.

Innovation at Clariant is not restricted to product development. It is equally important to find new ways to reach customers, for example through a no-frills, low-cost, Internet-based sales channel. Tapping completely new markets is another way to leverage innovative strength, e.g. by using special dyes and pigments to store data on DVDs or to provide bright colors on flat-panel TV screens. The latter, with a time to market of less than three years, is a good example of how successfully Clariant's multinational organization can turn ideas into tangible results.

As a result of the decision to prune its product portfolio, Clariant will only undertake further product development for the printing industry as part of joint projects with customers. One example is nonimpact print manufacturing for a leading manufacture of printing devices in China. This innovation improves the weather stability and light resistance of printed ink. The benefit for the customer is that the ink stays brighter and crisper for longer and is no more expensive than lower-quality inks.

INTEGRAL PRICING POLICY

In highly competitive markets, an intelligent pricing policy is a constant challenge. Clariant has set up internal processes to analyze pricing and support the marketing functions. The PA Division is below the average price-cost squeeze of 3.6% for the specialty chemicals industry. Due to over-capacity in the market, however, the scope for further price increases is limited.

A strategy to increase prices needs to be combined with careful capacity management, taking into account expanding production in China and India.

In terms of improving working capital, development of a differentiated supply chain is necessary including stricter management of inventories and receivables and further streamlining of the product portfolio.

MASTERBATCHES

PROFILE

The Masterbatches (MB) Division's global manufacturing network supplies dye and additive concentrates, as well as special multifunctional mixtures of these components. The combination of global presence and strong local partnerships makes Clariant a preferred supplier for synthetics processors and the textile industry.

STRATEGIC GOALS

The division expects above-market growth rates, which it aims to achieve across the regions through a service-oriented approach focusing on fast-growing, strategic market segments, ongoing improvements in operating performance and selective acquisitions such as the recent purchase of masterbatches business run by Ciba Specialty Chemicals.

VALUE-ADDING SERVICES

Masterbatches are highly concentrated pigments and additives preparations for use in the textile and plastics processing industries. Masterbatches are used to enhance the appearance and properties of plastics.

Clariant's offering includes a broad range of specialty masterbatches, plus more standardized products that are underpinned by a wide range of services. Of all four Clariant divisions, MB has the highest percentage of service-oriented and application-based businesses in terms of revenue.

PREFERRED PARTNER FOR LEADING GLOBAL BRANDS

Clariant is the leading supplier to the plastics industry and a special focus on key account results in the division achieving disproportionately high growth in this customer segment. Global consumer brands are placing great emphasis on giving their products a global look and feel. Clariant's global presence with 55 sites in 34 countries and its technical expertise, particularly with respect to international health and safety standards, make it the preferred partner for customers with operations worldwide.

One example is the company's involvement in the packaging for the Herbal Essence haircare products, Procter & Gamble's biggest product launch in 2006. Clariant won the business because of its ability to deliver innovative colors, product shapes and marketing elements to tight deadlines and strict specifications.

Due to the considerable difference in price between the masterbatch for a shampoo bottle and the finished product on the supermarket shelf, Clariant can add considerable value for the brand owner through its first-class service and applications offering. Herbal Essence thus went on to be one of the biggest successes of the year for Procter & Gamble.

INNOVATION LEADER IN COLOR SERVICES

At ColorWorks™ Design Centers, customers can tap Clariant's vast technical and development resources at the start of their product development cycle. Being closely involved in the development of a product gives Clariant a competitive edge when the time comes to choose a supplier for the serial product. Usually, once customers are working with the ColorWorks team, they will also advise the manufacturer of the product to work with Clariant.

Speed to market is an increasingly important success factor in rapidly developing and highly competitive global markets. By working closely with Clariant from the outset, customers can significantly increase the speed to market of their products and cut development costs through optimizing the entire supply chain.

GROWTH THROUGH MARKET SEGMENTATION

Most masterbatch products are customer-specific formulations. Highly trained sales engineers are supported by state-of-the-art service laboratories and technology centers. Clariant's global network can transfer know-how from one country to another like no other company in the industry.

MB has developed its own strategy for each of its key market segments. The packaging segment is the most attractive market due to its size and growth potential. With the support of the Masterbatches Division, both global and local customers are able to achieve brand differentiation through the color and design of their packaging.

Further growth momentum is coming from the increasing functionality of plastics, for example in the automotive and aircraft industries where plastic is replacing heavier and less flexible materials such as metal, wood and glass, and in consumer goods sectors such as sports equipment.

EFFICIENT IN SERVING A LARGELY FRAGMENTED MARKET

While the number of 55 sites around the world might seem large at first glance, the globally fragmented and highly localized nature of the industry requires suppliers to be close to their customers. It is not surprising, therefore, that 80% of MB's customers are located less than 400 km from a Clariant site.

Clariant's global presence allows it to support manufacturers as they relocate. For example, when a leading manufacturer of electrical appliances shifts production from Scandinavia to Eastern Europe, Clariant can follow the company to its new site, at the same time ensuring the usual high standard of service and quality.

The masterbatches market will further globalize and consolidate over time, but it will remain highly fragmented because of the vast range of applications and the huge number of small and highly specialized plastic converters.

AMONG THE MOST PROFITABLE PLAYERS

The Masterbatches Division is the leading player in the industry and among the most profitable. It will always face challenges from competitors seeking to capture its market share.

The MB Division continues however to be successful because of its global reach, extensive technical and process expertise and first-class employees.

The division has significantly increased the efficiency of its global organization by consolidating its 30 local business units into 6 regional units. Each region now has critical mass (CHF 150 to 250 million in sales), greater manufacturing flexibility (6 to 10 production sites), sales and marketing coverage (at least three countries), and technical expertise (at least one leading site).

PRICING FOR SUCCESS

Creating value for customers and offering solutions, either through new products or improvements to the customer's processes, are absolutely essential if the division is to defend its position as market leader. Whether market opportunities can be realized will depend on the division's ability to offer innovative products and superior services at competitive prices.

One of the challenges for Clariant is to better communicate the company's value proposition so that it is reflected in the price of its products. Only then can Clariant balance the requirement to create value for its customers and the need to create value for Clariant itself.

Masterbatches has been quite successful in raising prices, enabling it to more than compensate for substantial increases in raw material costs in recent years. The division intends to continue doing so and, like Clariant's other divisions, will benefit from the PRIMA pricing system being launched in 2007.

FUNCTIONAL CHEMICALS

PROFILE

The division's products are based on surfactants and polymers. The key products are products for the oil industry and high-quality raw materials for detergents and cosmetics, combined with comprehensive services. The Detergents Business, which offers anionic, cationic and special nonionic surfactants as well as bleach activators, is a global partner to the detergent industry. Performance Chemicals, spread across the division's entire product range, supplies such industries as personal care, crop protection, paints and coatings, plastics, construction chemicals and pharmaceuticals. The Process Chemicals Business markets products and services for the production and refining of oil and natural gas. It also supplies products for the metal working, polyester, mining chemical, aviation, heating and cooling and automotive industry.

STRATEGIC GOALS

The division is concentrating on increasing earnings through international expansion, most notably in Asia and North America. It intends to pursue business opportunities stemming from macroeconomic and business trends around the world and to increase its range of higher-margin products. FUN aims to generate added value for its customers and for Clariant by selecting services and products that correspond to customer needs.

In doing so, it is focusing on the main pillars of Clariant's strategy: application-based products such as ingredients for shampoos and skin care products, service-based products such as oil services and cost-driven products such as detergents.

FOLLOWING KEY ACCOUNTS TO CHINA

Rather than build a completely new customer base in China, the division is following its existing big customers as they enter the Chinese market – and therefore leveraging off its presence in the European market.

Most of the key customers supplying detergent, personal care, and industrial products, such as Unilever, Procter & Gamble and L'Oréal, are trying to apply standard formulations worldwide. Clariant has an advantage in that, it already has strong relationships with these customers and is able to benefit from their positioning in the Chinese market.

The division is able to do so thanks to its system of using key account managers who work with big customers worldwide. They coordinate all initiatives with these customers, including new projects and global contracts and therefore function as a single point of contact.

BENEFITING FROM CHINA'S INCREASING AFFLUENCE

The FUN Division's application-based business is benefiting from economic growth in Asia, especially China where there is a growing and affluent middle class. An ever greater percentage of the Chinese population earns enough to be able to afford high-quality consumer goods.

Increasingly, European and US luxury brands, which contain a higher proportion of value-enhancing ingredients, are replacing basic shampoos, soaps and hand creams. Application-based products for paints and coatings, personal care items and functional fluids offer the greatest market potential in China.

Building new production facilities to manufacture essential base chemicals is central to the Asia strategy for FUN. Having the local production capabilities required to supply the region is vital for two reasons. Firstly, transportation costs for a number of products are too high to supply the region from Europe. Secondly, with production capabilities locally, FUN is able to respond faster and more flexibly to customer requirements. The products FUN intends to produce locally are used to make demulsifying agents for oil production, emulsifiers for personal care hydrating creams, detergents, and plasticizers for concrete.

FUN plans further investment in the Shanghai area and has started building service labs in Shanghai for personal care applications such as shampoos, conditioners and lotions.

MULTIPURPOSE PRODUCTION PLANTS OF GREAT IMPORTANCE IN ASIA

On some projects in the Asian market, FUN is working closely together with the TLP Division. The FUN Division makes use of the TLP facility in Tianjin and is currently investing in multipurpose production plants. For example, an additional production unit has been built to manufacture mild surfactants for personal care products.

Another important project in the region involves the construction of a new glyoxylic acid production plant in Zhenjiang in the Chinese province of Jiangsu. It will use new proprietary technology and have the capacity to produce 12 000 tons per annum. This production plant, due for commissioning in 2008, will enable Clariant to further expand its leading market position in glyoxylic acid, a chemical building block for a variety of different applications.

OPPORTUNITIES FOR EXPANSION IN THE UNITED STATES AND CANADA

A large proportion of the growth in sales is expected to come from service-based products. The United States and Canada are key markets for oil-production-related products and services, for deicing, and for personal care and industrial products. FUN has already made sizeable investments in the United States in order to better position itself in this important market.

FIRST-CLASS TECHNOLOGY WINS NEW BUSINESS FROM OIL GIANTS

In oil services, Clariant has the technology to help customers such as BP, Total, Petrobras and other major oil companies extract crude oil from places that are difficult to access. Due to rising oil prices, it is also becoming economically viable to explore oil sands, for example in large Canadian oil fields.

By using chemicals and providing technical services, Clariant Oil Services can help customers achieve significant cost benefits. Customers see a reduction in operating costs and capital expenditure.

The company is also offering oil services to major oil groups such as Chevron and BP in Asia, particularly in Indonesia. The services comprise chemical treatment, corrosion monitoring and treatment and dehydration.

RECYCLING DEICING FLUID

Deicing services at airports have become another important service segment, highlighting how increased environmental awareness in Europe and the United States is driving changes in market demand. Stricter environmental standards and rising costs for waste water treatment are forcing airport operators to change their systems. At present, about 70% of the deicing spray is wasted.

The all-important aspect of the service consists of collecting up and recycling the wasted liquid. The airports benefit significantly, as the cost of cleaning up the waste is high. This business is currently limited to Europe, where the service is already used at Munich, Zurich and at other European airports. The division is expanding the service into North America, where projects for recycling systems are already running with Canadian and US airports.

DETERGENTS A GROWTH AREA IN ASIA

Asia is a growth market for Clariant's main commoditized, cost-driven product: the raw materials for detergents. Clariant's main customers in this segment, companies such as Unilever and Procter & Gamble which sell very large volumes of detergents, are also known as "Big Soapers." These companies are selling more and more of their products in Asia, where Clariant expands production capacity to supply raw materials produced locally.

These Big Soapers have to innovate in order to stand out in the marketplace: not with innovations of blockbuster quality, but with smaller modifications to their products that enable them to stand out from white labels. Typically, the Big Soapers have to update their products every six months to stay ahead of the competition.

Clariant's detergents business has the contacts and skills necessary to support such innovation. Clariant has outstanding expertise in bleach and softener formulations, for example. Although the Big Soapers are looking for the best prices in the market, they are also dependent on sustainable partners.

CUTTING COSTS AND PRUNING THE PORTFOLIO

Sharp cost awareness is vital not just in segments such as detergents but across the board. The FUN Division aims to reduce its sales, general and administrative costs according to the group targets.

The division will prune its portfolio with the aim of reducing the number of products it makes by around 20%.

LIFE SCIENCE CHEMICALS

In 2006, a review of the strategic options for the underperforming Life Science Chemicals (LSC) Division led to a series of actions, including initiating the process of selling the Custom Manufacturing business, which will now be reported under discontinued operations. As of January 1, 2007, the remaining Specialty Intermediates business largely consisting of the glyoxal and glyoxylic acid activities was integrated into the Functional Chemicals Division. The LSC Division ceased to exist.

Targeting new products, new markets and new processes

RESEARCH AND DEVELOPMENT

With the aim of maximizing earnings potential, Clariant is focusing its innovation efforts on commercial opportunities created by the major trends in daily life. In doing so, it is following a strategy of combining "push" from its technology breakthroughs with "pull" from key growth drivers.

TARGETED INNOVATION PROCESSES

Innovation at Clariant is ultimately driven by commercial priorities. Accordingly, it operates no traditional central R&D function whose agenda might be set by "pure" scientists. The company finds that a more efficient alternative is sponsoring research at leading universities such as ETH Zurich and similar institutions worldwide.

Clariant's own R&D activities are lean and divided efficiently among divisions. The Group Technology function ensures that knowledge is shared across the company; its New Business Development (NBD) wing takes responsibility for adding new enabling technologies and developing emerging businesses. Beside these entities, the Technology and Innovation Council ensures a unified company-wide approach to developing strategic technologies and new areas.

The company has also made it a priority to implement "best-in-class" processes to shorten the time it takes to get new innovations to market. These also ensure efficient allocation of resources and spending.

EXPANDING THE INNOVATION PIPELINE

In 2006, Clariant spent around 2.6% (CHF 207 million) of its consolidated sales on R&D leading to an enviable innovation pipeline of CHF 1.4 billion in terms of estimated sales potential by 2010. To facilitate further organic growth, the company's target is now to expand this innovation pipeline by an additional CHF 100 million per year. "Push" factors are based on technical innovations within the company and "pull" focuses on key growth drivers such as the automotive industry, IT and telecommunications, fashion and sports and leisure.

Clariant expects that innovations it launched in 2005 alone will contribute CHF 500 million to sales in 2010, up from CHF 150 million in 2006. Sales of products younger than five years currently account for 24% of the entire portfolio, which is very close to the company's target level of 25%.

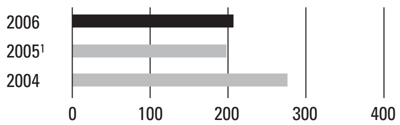
Examples of R&D projects that are enjoying commercial success include DEPAL, a halogen-free retardant for mobile phones and computer motherboards. Another is an organic dye that substantially increases the storage capacity of next-generation "blue laser" HD DVD-Rs.

Clariant's innovative activities have significantly increased over the last three years. It will also use "incubator" models – a strategically important form of venture capital-style funding totaling CHF 100 million over four years – to develop new business areas. Incubators – which are run as start-up companies – are an immediate step from the NBD lab to an established business. NBD is thus relieved of this development task and able to focus its resources on new technologies.

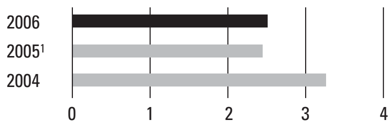
AUTOMOTIVE INDUSTRY A KEY INNOVATION AREA

The automotive industry illustrates the market potential for future chemical innovations. Although the average car already contains more than CHF 1 200 worth of chemical products (including plastic), this is set to grow further as manufacturers seek to make vehicles lighter in order to reduce their energy consumption.

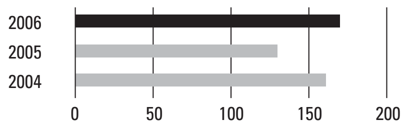
Total R&D costs
CHF mn



R&D ratio
as a percentage of total sales



Patent families
Number of new applications



[1] Restated for discontinuing operations

One way of doing this is to replace metal with plastic and new advanced materials. Another is to improve the quality of the plastic already used by making it more durable and resilient. In either case, Clariant stands to benefit from ongoing development of higher-performance materials.

This trend is not confined to the auto sector. The aircraft industry is looking for similar solutions, as it seeks to fly more safely and scale back its evermounting energy bill.

The same themes of energy costs and durability are also increasing demand for innovative coatings. Examples include barrier coatings that boost solar cells' efficiency or keep cars cleaner or protect metals against rust.

FUNCTIONAL COATINGS AND ADVANCED MATERIALS

Nanotechnology has emerged as an important tool for modifying and improving materials. There are two major trends in this area: the first involves modifying existing materials by improving their durability with nanotechnology-based coatings; the second is using nanotechnology to develop advanced new materials.

In particular, the use of nanomaterials in functional coatings is set for commercial success and has therefore been earmarked as the first incubator. Nanofilms can adapt the properties of surfaces such as lacquer on trains and cars to make it easier to remove graffiti and dirt, for example, as well as prevent scratches and rust. One coating, marketed under the trademark tutoProm®, is already being used by Deutsche Bahn and is now also achieving sales to other international railway companies.

The example of tutoProm® underscores how Clariant targets end-customers as well as specialist producers. Alongside rail companies, others include silverware producers (for antitarnish coatings) and automotive companies and their suppliers (for anti-brake-dust coatings for aluminum rims).

Advanced materials exemplify Clariant's successful strategy of leveraging synergies with innovative small companies in order to shorten its time to market. One example is KiON of the US (acquired by Clariant in 2006), which owns unique polysilazane products, processes and application patents. Chemtreat Composites of India, also acquired by Clariant, has launched production of these products.

Polysilazanes are silicon-containing polymers that can be used, for example, to produce performance coatings on a wide variety of substrates. These coatings are only a few micrometers thick and have excellent adhesive properties, making them ideal for various protective functions like easy-to-clean and anticorrosion coatings.

ENHANCING PROFITABILITY

Polysilazanes also underline Clariant's strategy of finding multiple uses for its R&D results in order to broaden the resulting product range and enhance profitability. In addition, polysilazanes can be used in the preparation of ceramic materials in versatile shapes (such as fibers, layers and boards) and composites, which are lightweight and combine high strength and toughness with exceptionally high temperature durability. This enables them to be used in components for aircraft, turbine engines, microelectronics and in highly corrosive environments.

This technology fits in well with Clariant's extensive expertise in the field of inorganic polysilazanes for functional coatings and rounds out the portfolio established by the cooperation agreement between Clariant and Starfire Systems of the US. Starfire's Starblade™ has already set new standards for ceramic brake rotors, which are currently used on racing motorcycles. The partners are confident of developing ceramic brake rotors for the next generation of production cars.

RESPONDING TO CONSUMER CONCERNS

Consumer demand to optimize the ecological properties of everyday product solutions is another driver of R&D. Innovation in this area allows manufacturers both to fulfill their legal requirements, particularly in heavily regulated markets such as the US, the EU and Japan and to differentiate themselves from lower-cost, less environmentally-sensitive competition, notably from emerging nations.

For example, Clariant has created a new coating to protect food packaging from oil damage. Launched in 2006 and targeted to the needs of packaging manufacturers and end users, Cartapack® is fluorine-free. The new coating is unique to Clariant and specifically formulated for the food industry. Cartapack has been designed to be applied in much the same way as other coatings, but meets additional environmental demands.

Facing steadily rising raw material costs and exhaustible resources renewable raw materials are another promising field for Clariants R&D efforts.

Commitment to our surroundings sets us apart

ENVIRONMENT, SAFETY AND HEALTH

Environmental and safety issues are addressed as part of the focus on sustainability in everything Clariant does. The risks involved are constantly monitored. Furthermore, regular internal and external audits check compliance with laws and guidelines.

COMMITMENT TO SUSTAINABILITY

Mandatory principles on Environment, Safety & Health – ESH – are laid down in the Group's ESH regulations. They form an integral part of business processes and strategic planning at Clariant.

Group Environment, Safety & Health Affairs – 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" defined by the International Chamber of Commerce and the "Responsible Care" initiative of the chemical industry.

EFFECTIVE CONTROL MECHANISMS

The ESH managers for the individual sites and the Group have at their disposal a series of efficient and easy-to-use mechanisms and controls with which to implement the guidelines. They are defined centrally, standardized globally and adapted continually with ESH measures ensuring effective monitoring of risks. Damage potential and liability risks can thus be promptly identified and monitored to prevent escalation.

Operational risks are identified and analyzed with the assistance of professional software. The main risks are recorded and communicated in a group-wide risk portfolio. This risk portfolio provides indications of how the resources available may be used most effectively, thus making it possible to define priorities for preventative measures and monitor implementation.

Resource consumption, emissions, waste management and occupational safety are monitored at all facilities according to 40 key indicators, which are then evaluated centrally. The data collected is compared against internal and external benchmarks. This makes it possible to measure success and to detect and eliminate weaknesses and their possible causes.

Regular internal and external audits ensure independent monitoring of compliance with laws and guidelines. With their wealth of experience spanning the different sites, the auditors also support the exchange of skills throughout the Group.

INTEGRATED PRODUCT POLICY

For Clariant, integrated product policy means the inclusion of environmental and safety issues 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 that they can be properly disposed of.

EFFICIENT EMERGENCY MANAGEMENT

Clariant has a global incident-reporting and emergency-management system. All information concerning products, processes, technologies and the necessary emergency measures can be retrieved whenever the need arises. Incidents are reported to the Group without delay, triggering an emergency procedure structured around various levels. This procedure is tested repeatedly in extensive drills at all three levels – local, national and group.

In 2006, for example, the local emergency procedure was rolled out in Roha, India, starting with an intensive training program for employees. Working in teams, participants practice handling a variety of emergency situations. This gives them the opportunity to improve both their skills and the way they work together.

CONSTANT IMPROVEMENT

In 2006, Clariant launched the "Energy 2010" program with the aim of using all energy sources throughout the Group more intelligently. The program will involve the analysis of all plants or sections of plants that consume considerable amounts of energy, in order to check whether they are state-of-the-art or in need of modernization. In addition, secondary energy sources such as the waste heat from processes are to be put to greater use.

Clariant can thus reduce energy consumption and in turn cut emissions per ton of output. Given the ongoing rise in energy costs, investments in this area are yielding returns ever faster. With the help of "Energy 2010", the company will reduce its energy costs by around CHF 30 million per annum.

Clariant invests considerable sums in safety and environmental protection every year. At around CHF 42 million, the 2006 investment is slightly higher than the prior-year investment of CHF 38 million. Moreover, Clariant now builds environmental protection into the product development stage and the roll-out of new processes and products.

Improvements to existing plants always try to get at the root of the problem rather than merely combating the symptoms. As a result, the improvements take many different forms. Here are some examples.

In all parts of the world, Clariant follows standards comparable with those in Europe in treating effluent. For example, in the reporting period, the capacity of the purification plant at the largest Indonesian site in Tangerang was adapted in line with the sharp increase in the production of textile, leather and paper chemicals and its performance substantially improved. The total amount invested was CHF 650 000. By expanding the purification plant in Bangpoo, Thailand, Clariant was also able to substantially reduce the remaining organic pollutants in the effluent.

Last year at the largest South American production site in Suzano, Brazil, a new flue gas cleaning system was commissioned for the waste incineration plant. As a result, the site is now able to incinerate highly contaminated waste in an environmentally compatible manner. The plant is now used by numerous other companies and thus helping to cut costs for Clariant. Collecting and recycling waste separately has also reduced the volume of waste at this site, bringing a sharp and sustained reduction in costs.

Improvements can also be made in countries that already have very high environmental standards. For example, a new filter has been installed at a production facility for precursors at the Frankfurt Höchst site, substantially reducing the amount of nickel catalysts in the product. As this product is then further processed at another of the site's production facilities to produce an AZO pigment, the overall amount of nickel entering the purification plant has been cut dramatically. By making use of the appropriate legal incentives, it was possible to offset almost the total investment of more than CHF 2 million against the wastewater charge paid. Another example showing that financial and environmental considerations do not have to be mutually exclusive.

Future-oriented thanks to in-depth product knowledge

PRODUCT SAFETY

Clariant kept a close watch on the European legislative process for the new chemicals regulation and has therefore been quick to prepare itself for the changes taking place. REACH aims to enhance protection for consumers and the environment and to harmonize the relevant legislation across Europe. Clariant is currently working to put in place the new arrangements associated with it.

AUTONOMOUS GROUP FUNCTION

Product safety and the associated regulatory affairs have increasingly been in the public spotlight in recent years. Many countries now have chemicals registers, with businesses required to register the products manufactured, imported and placed on the market in those countries or the substances contained in them. And against the backdrop of REACH, the new chemicals regulation adopted by the European Union at the end of 2006, product safety is set to become even more important.

Clariant has responded to this challenge and established Product Safety – previously part of the Group Function ESHA – as an autonomous Group Function at organizational level. This group function coordinates the relevant activities of the divisions, regions and countries, manages REACH registration centrally, monitors the legislation and initiates and assesses toxicological and ecotoxicological work.

REACH – THE EU'S NEW CHEMICALS REGULATION

The name REACH stands for Registration, Evaluation and Authorization of Chemicals. This new legal framework represents a comprehensive reform of European chemicals legislation and combines 40 existing pieces of legislation in a single complex regulation.

KEY ELEMENTS

> The registration requirement applies only to chemical substances and substances in preparations that are produced in or imported into the EU, be they raw materials or end products.

> The authorities will no longer have to demonstrate that a substance is dangerous. Rather, the producer or importer will be required to demonstrate that a chemical is safe or is used safely. The burden of proof has therefore been shifted.

> The registration requirements are essentially volume dependent, with a distinction made between the following tonnage bands: 1–10 tons; 10–100 tons; 100–1 000 tons; and >1 000 tons.

> Numerous substances are excluded from the scope of REACH to the extent that they are, among others, used for medicinal products, food, or feeding stuffs. The same applies to polymers, plant protection products and a number of other substances. Chemical waste and radioactive substances also do not fall with in the scope of REACH. All of these examples are subject to their own specific legal provisions.

> Each substance is only authorized for the predefined uses. If, for example, a pigment is not registered for use in a cosmetic product, it may not be used in that product or authorization must be sought precisely for that purpose.

> Old and newly introduced chemicals are to be registered at the new European Chemicals Agency (ECHA) established in Helsinki. Any substances classified by the ECHA as particularly dangerous must be withdrawn from the market once certain transitional periods have passed.

> A distinction will no longer be made between old and new substances.

INTENSIVE PREPARATIONS

REACH has an impact not just on product safety but on almost every area of any company operating in the chemical industry. Production, purchasing, research and development are affected just as much as marketing, legal affairs, toxicology, information technology, sales, and logistics.

Clariant has therefore been preparing for the EU's new chemicals regulation for several years. A Steering Committee forms the most senior REACH body at Management Board level. Reporting directly to this Steering Committee is the REACH Operating Committee, a group of experts who draw up reports and methodology proposals and thus prepare the ground for Management Board decisions. The operating committee is also responsible for managing implementation of REACH. In addition, Clariant has also set up cross-divisional and cross-functional working groups, which are dealing intensively with implementation of REACH. They have built up an organizational framework and supporting structures and defined important operating processes.

FINANCIAL COST

As yet, there are only cautious estimates of the costs of registration and tests. Depending on the volume, the costs per substance range from several thousand euros for small-volume substances to over EUR 3 million for quantities in excess of 1 000 tons per annum. The ECHA estimates that REACH will cost EUR 2.3 billion in total, while industry estimates range from EUR 4.3 to 9.7 billion.

The EU Commission puts the benefits of REACH at EUR 50 billion within a period of 30 years. This is based on the savings expected in the health care sector, for example due to a reduction in cases of cancer, asthma and allergies.

REVIEWING THE PRODUCT PORTFOLIO

Clariant has until November 2008 to select all substances for preregistration and gather information on them. Only preregistered substances benefit from a transitional period as a result of which the deadline for final registration is another three, five, six, or eleven years after REACH comes into force, depending on the tonnage band.

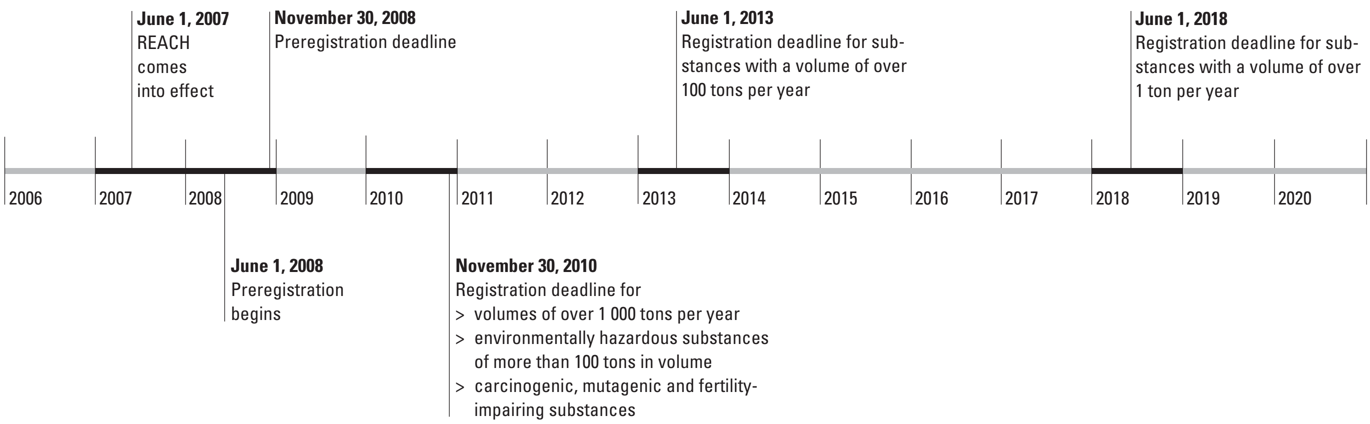
Clariant cannot currently say exactly which substances and therefore which products it will submit for final registration over the next few years, as a number of questions remain unanswered. Furthermore, the implementing provisions for REACH are mostly in draft form only.

Existing gaps in the data must first be closed, often for formal reasons only. Suppliers can register their substances themselves or transfer that task to Clariant. Some compounds will disappear from the market, either because they lack authorization or for cost reasons.

Clariant has extensive product know-how that will be very useful for the coming registration process. The Management Board and divisions are developing strategies for the various business areas so that an optimum portfolio can be registered at a reasonable cost. Clariant will always support its customers and offer attractive alternatives in the event that solutions are eliminated from the portfolio.

The total cost of REACH to Clariant cannot be estimated precisely until after the preregistration phase.

REACH registration



A corporate culture based on excellence and responsibility

EMPLOYEES

During the reporting period, staff training was reviewed and put on a new basis with performance-based appraisals, individual development plans and transparent succession planning as the core elements. In addition, the new Clariant Academy will provide focused training for staff in leadership positions.

OUTCOME OF THE EMPLOYEE SURVEY

In 2006, Clariant reviewed its strategy and in doing so also conducted a survey among its employees. Around 200 interviews were held with leaders from all areas of the company with the aim of establishing how well the new operating model introduced in 2005 is working and where the company needs to make improvements.

An analysis of the interviews revealed that staff motivation and the degree to which employees identify with Clariant are generally high. Those surveyed saw a need for improvement with regard to information flow, understanding the new roles within the organization, and the qualifications required for those roles.

Clariant used the results of the survey to put staff training on a new basis in conjunction with the Group's new strategic direction. The central elements put in place in 2006 were performance management, talent management and the Clariant Academy.

PERFORMANCE MANAGEMENT

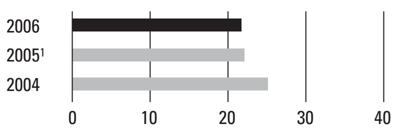
Performance management comprises two elements, each one building on the other. The organizational units agree performance contracts with the level above them, specifying which objectives the unit intends to achieve in a particular financial year and how the unit's performance will be measured, i.e. which key performance indicators will be applied.

The performance contracts build on the performance dialogs held with each unit employee. In the course of the formalized dialog supported by special software, the individual responsibilities and objectives of each employee are set out and the performance indicators identified. The performance dialog also serves each employee's continuing development as individual objectives and appropriate training measures are defined. The individual skills of employees are thus matched with the requirements of the individual positions within the company.

TALENT MANAGEMENT

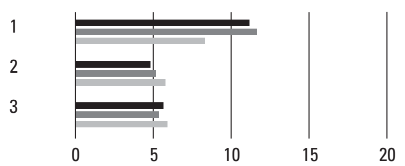
Talent management aims to find the most suitable employees for leadership positions and to make succession planning transparent. Segment panels seek out particularly talented and dedicated employees based on the performance dialogs. There are segment panels for different job categories such as sales and marketing, research and development and finance. Candidates with the potential for higher-level roles are assessed individually with regard to how they can be supported best and what the next steps in their career should be.

Number of staff
thousands



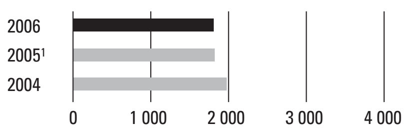
[1] Restated for discontinuing operations

Brakdown by regions
thousands



1 = Europe 2 = Americas 3 = Asia, Africa, Australia
2004 2005[1] 2006

Staff costs
CHF mn



CLARIANT ACADEMY

The Clariant Academy, which was piloted from November 2006 onwards and will be fully operational by the end of the first quarter of 2007, is to train current and future leaders. The Academy is based around three pillars: the Leadership School, the Change School and several Function Schools. The Leadership School improves business and personal skills, while the Change School concentrates on urgent and important change processes derived directly from the strategy. The Function School – for example the School for Sales and Marketing or for Supply Chain Management – then continues to deliver this training content with the focus on the relevant function.

CREATING A LEANER ORGANIZATION AND IMPROVING EFFICIENCY

During the reporting period, the number of employees in the Group fell by 384, from 22 132[1] on December 31, 2005, to 21 748 at the end of 2006. The sale of the Pharmaceutical Fine Chemicals Business with its 800 employees, natural attrition and extensive measures aimed at realigning the company and improving its efficiency all contributed to this fall. An additional 300 employees joined Clariant when the company acquired the Ciba Specialty Chemicals masterbatches business.

In connection with the unavoidable layoffs linked to the restructuring, Clariant established socially responsible plans in all countries affected with the aim of creating suitable conditions for the layoffs in a local context.

As a result of the newly formulated strategy to optimize the company, there will be a further fall in the number of employees in the period to 2010, as around ten percent of Clariant's sites are to be closed and the group structures greatly simplified.

[1] Restated for discontinuing operations

A systematic and forward-looking approach to risks

RISK MANAGEMENT

As a global specialty chemicals company, Clariant is exposed to various general and sector-specific risks. It is absolutely essential, therefore, to thoroughly analyze possible risks and assess their manageability before any important company decisions are made.

MANAGEMENT SYSTEMS

At Clariant, risk management is based on a central risk management system that distinguishes between strategic and operational risks. Strategic risks affect the success of the company's strategy and can be very complex and difficult to quantify. Their evaluation is the responsibility of the Board of Management.

Operational risks, on the other hand, can be clearly assigned. For now the second year running, Clariant allocated material operational risks to what is termed a risk owner. This risk owner is supported by a risk sponsor from the Board of Management. The risk owners report to the Risk Management Steering Committee, which consists of the Chief Financial Officer, the Head of Operations and the Head of Legal.

The central risk management system therefore supplements the specific risk evaluations carried out by functions such as internal audit, Treasury, ESH, legal and insurance management. Furthermore, monthly internal reports on the company's financial exposures (e.g. currency, interest, credit risk) are used to promptly identify risks arising from current business activities and introduce appropriate countermeasures.

Each year, the Audit Committee considers the process, results and developments of the risks identified. In addition, all elements of risk management are checked on an ongoing basis in the course of audits and optimized as and when necessary. Accounting and Controlling also adapt their reporting systems to changing conditions on a regular basis.

PRODUCT AND ENVIRONMENTAL RISKS

To protect it against risks arising from liabilities, the company concludes insurance policies and makes reserves. Additional security comes from credit lines from banks and liquidity reserves. Potential inherited liabilities arising from acquisitions or disposals are limited through contractual agreements whenever possible.

In order to minimize possible risks for the environment, safety and health, the relevant parameters from all the company's sites are analyzed centrally. You can find further information on this subject on page 36.

FINANCIAL RISKS

Based on 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, e.g. marked-to-market.

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 these risks on a selective basis by means of options, spot transactions, or forward transactions.

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

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.

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

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.

LITIGATION

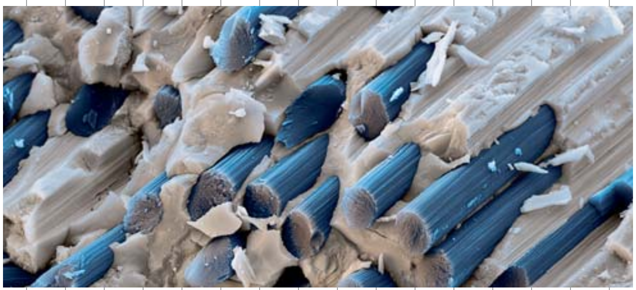
The outcome of litigation in matters of tax law, patent law, product liability, competition and cartel law, or environmental protection cannot always be predicted and therefore poses a risk. In this context, too, insurance policies, liquidity reserves and credit lines limit the risk for the company.

IT 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 practiced on a regular basis.

> NEW MATERIALS FOR BIG BUSINESS

Clariant uses nanotechnology to develop new materials and is already marketing a whole range of innovative products with completely new properties.



Nanotechnology is one of the key technologies of the 21st century. It has the potential to affect almost every aspect of our lives, mainly because it enables specialists in the field to develop innovative properties and materials.

Clariant also uses nanotechnology to develop new materials and is currently a leading player in areas such as polysilazanes. These are polymers to which nanoscale particles can be added to provide individual properties.

One example is Clariant's tutoProm®. This transparent and extremely resistant polysilazane-based coating makes surfaces easier to clean due to its dirt-repelling properties. Surfaces treated with tutoProm® are effectively protected against graffiti and, even after many years, do not tarnish, scratch, or show any other surface damage.

Clariant is also a leader in innovative ceramic fiber composites. A specific process combines carbon fibers and polycarbosilanes to produce a material that is lightweight and yet at the same time extremely tough and corrosion-resistant. Interesting applications include brakes for cars and motorcycles. These are just a quarter of the weight of steel brakes, but with one to three times the durability.

In order to exploit market opportunities most effectively, Clariant specifically draws on the expertise of selected universities and research institutes and collaborates with specialist partners such as KiON and Starfire Systems.

> ECONOMICAL. ECOLOGICAL. CLARIANT.

The global market for aircraft deicers is fast growing due to new airports and continuous growth of air traffic. Clariant is the only company able to offer airports a complete service package and is currently one of the world leaders in this field.

Snow and ice can cause a problem when it comes to flying. To ensure that an aircraft has the necessary aerodynamics for a safe take-off, its wings and the entire aircraft body need to be deiced and kept ice-free.

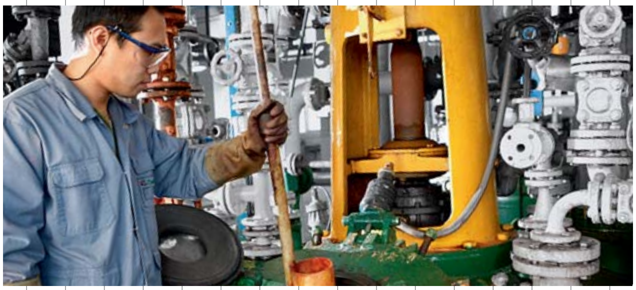
Although glycol and water make up over 99% of the constituents in Clariant's deicing fluid Safewing™, it is the remaining 1% which provides the real key for anti-icing. Safewing™ does not simply run off when applied but sticks to the plane like a gel, thus providing protection against ice reforming while the aircraft is still waiting for take-off. Once the plane is airborne, a protective film like this would affect aerodynamics in the same way as a layer of ice. For that the formulation properties do reduce the viscosity to run off as soon as the aircraft starting speed reaches around 200 kph.

An important additional aspect is the collecting and recycling of used deicing fluids – a service that Clariant offers as part of a complete package for the aviation industry.

Safewing™ does not harm the ground water and is completely biodegradable. However, the waste disposal cost is high – which is why Clariant's deicing service offers airports the twofold advantage: saving on the cost of wastewater treatment and reuse Safewing™ at a more competitive price thanks to the benefits of recycled raw materials.

To round up the portfolio, Clariant also produces and markets a number of runway deicing products under the Safeway™ brand.

Strict environmental, safety and health standards are paying off. Not just in Europe, but increasingly in Asia too.



Clariant's environmental, safety and health (ESH) standards apply at all business units and companies worldwide. ESH management is therefore based at the group's headquarters in Muttenz, Switzerland, with the structure extending down to the ESH departments at the individual sites.

In the Greater China region, which as well as China also includes Hong Kong and Taiwan, Marsha Yan oversees the guidelines' implementation and works on further developing her regional organization. She is a chemical engineer who has been at Clariant since 1997 and was appointed Head of ESH for China in May 2006. One of her most important tasks is to drive knowledge transfer within the company, thereby ensuring that the same processes are established at all sites and the continuous improvement process in particular is actively applied.

Staff training is just as important and is given not only to those who perform functions within the ESH organization, but to all employees since environmental protection, safety and health affect their daily work. One example is the additional three-level ESH training course developed for new employees.

The next objective on Marsha Yan's agenda is to improve the quality of the technical documentation and reports and to systematically review all of Clariant's facilities in China to establish whether they comply with all the local regulations and company standards. "Although we're not yet perfect," she says, "we're on track to play a pioneering role in our industry as regards ESH."

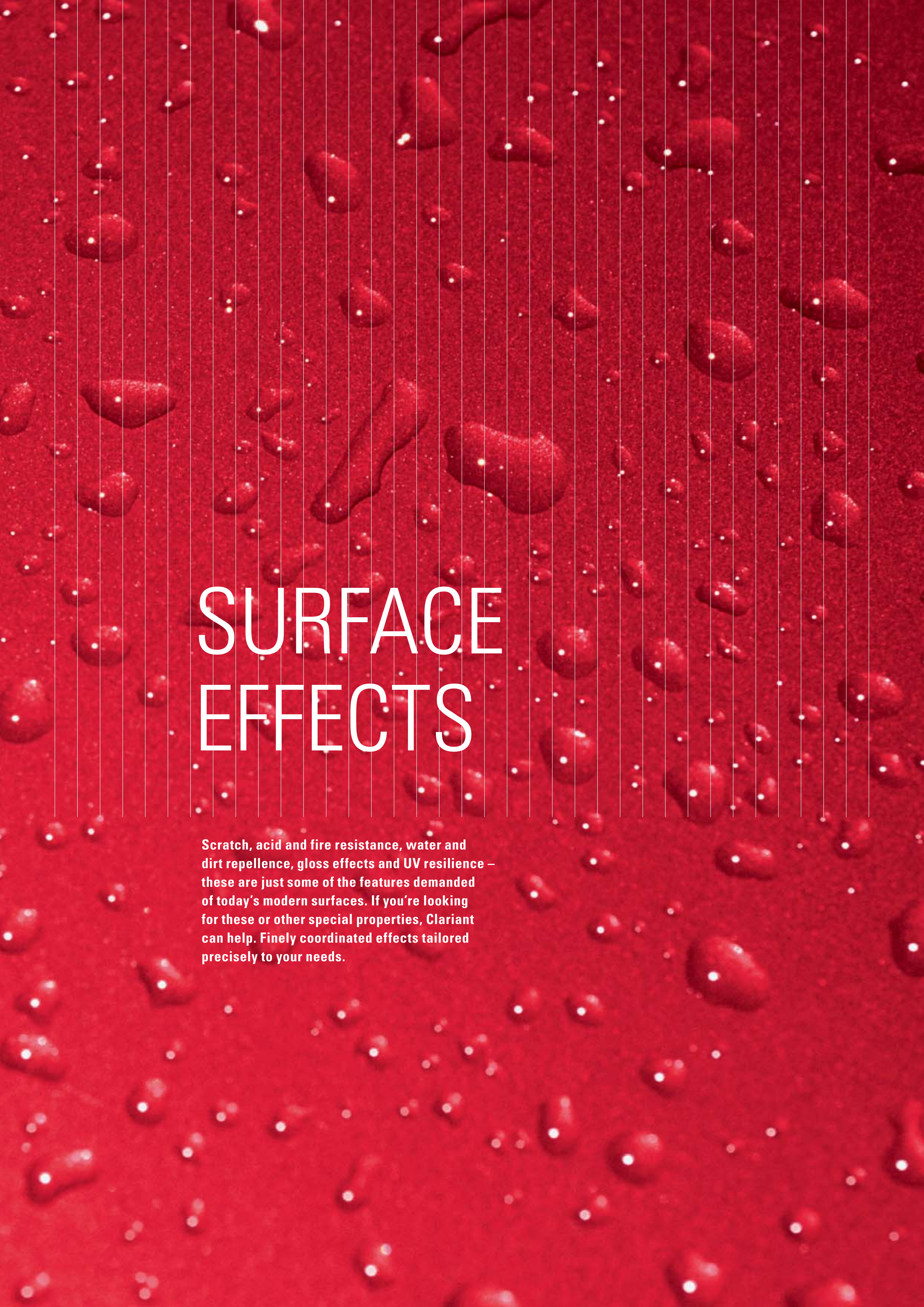
Environmentally-friendly Cartapack® can be ideally tailored to customers' individual requirements – depending on the goods that are to be packaged, the materials that are to be used, and the coating technique that is to be applied.

There is one problem common to food packaging made of paper or board: it is penetrated by the oils and fats in the food. This problem has so far been alleviated by using a coating involving fat-repelling, fluorine-containing materials.

Now Clariant has come up with a forward-looking solution. The extensive program of research and development was based on a series of in-depth interviews with customers in the packaging and global fast food industries. In the course of the program, a method of testing was developed, specifically with the functional deficiencies of previous coating systems and the needs of end users in mind.

Clariant's Cartapack® is an innovative and extremely effective barrier coating. It is easy to recycle and fluorine-free. Depending on the substrate and choice of coating technique, Cartapack® can be ideally tailored to customers' individual requirements and the goods they wish to package.

Cartapack® makes functional deficiencies such as tears in the packaging, sticky hands during consumption, or a reduction in the quality of the packaged goods a thing of the past and therefore meets the packaging industry's rigorous performance and environmental demands.



SURFACE EFFECTS

Scratch, acid and fire resistance, water and dirt repellence, gloss effects and UV resilience – these are just some of the features demanded of today’s modern surfaces. If you’re looking for these or other special properties, Clariant can help. Finely coordinated effects tailored precisely to your needs.

FINANCIAL REVIEW

BUSINESS TREND

Clariant posted a robust rise in sales for the Full Year 2006, with annual organic sales growth of 7% in Swiss francs and organic growth of 5% in local currency terms. Sales reached CHF 8.100 billion during the period from CHF 7.728 billion a year earlier. Overall, selling prices remained at stable levels, with significant improvements in certain businesses. Gross margins for the Full Year increased to 30.7% from 30.5% the previous year, despite raw material and energy costs remaining at high levels over the period. EBIT before exceptionals rose 11% to CHF 592 million from CHF 533 million. The EBIT margin rose to 7.3% from 6.9%. Operating cash flow improved to CHF 284 million from CHF 209 million a year earlier.

IMPROVEMENTS IN CASH FLOW AND LOWER INTEREST EXPENSES

EBITDA before exceptionals rose to CHF 855 million from CHF 795 million a year earlier. The EBITDA margin rose to 10.6% from 10.3% in the period, allowing operating cash flow across all operations to rise to CHF 284 million, up from CHF 209 million in 2005. Net working capital, however, also increased due primarily to the implementation of a new supply chain management system in Europe.

Net income from continuing operations fell to CHF 131 million in 2006 from CHF 262 million in 2005, mainly impacted by an impairment charge of CHF 100 million in the leather business, as announced in the company's third quarter results, and by the sale of site services in Germany amounting to approximately CHF 43 million. Including discontinued operations, the company reported a net loss of CHF 78 million compared to a net income CHF 192 million a year earlier.

STABLE PAYOUT PROPOSED

Clariant's Board of Directors will propose at the Annual General Meeting on April 2, 2007, a payout of CHF 0.25 per share through a reduction of the nominal value of the shares to CHF 4.25, from CHF 4.50. The proposed payout remains unchanged year on year, in line with the company's present dividend policy.

GROWTH ACROSS KEY DIVISIONS

MASTERBATCHES DELIVERS STRONGEST GROWTH

Masterbatches showed the strongest growth over the Full Year. Organic growth rose 8% in local currency terms, fuelled by solid performances in packaging and consumer goods. A marked improvement in pricing continued to more than offset increased raw material costs. The integration of the recently acquired masterbatches business of Ciba Specialty Chemicals is proceeding well.

GROWTH IN FUNCTIONAL CHEMICALS DRIVEN BY PROCESS AND PERFORMANCE CHEMICALS

Functional Chemicals achieved the second-highest growth of all divisions, with a 7% rise in organic growth over the 12-month period. Process Chemicals, as well as Performance Chemicals, showed particularly strong overall growth and measures taken by the company in the second half lifted Detergents. Demand increased in key businesses including Oil Service, Construction Chemical and Personal care products. While the division was able to implement price increases during the period, profitability was affected by rising raw material prices and adverse conditions in the agrochemical market.

PIGMENTS & ADDITIVES EXPERIENCES STRONG DEMAND ACROSS MOST PRODUCT LINES

The Pigments & Additives Division reported organic growth of 4% for the Full Year, with strong demand across most product lines, notably in Coatings and Plastics and increased demand for innovative flames retardants and wax products. Despite pricing pressure in most businesses, strong operational leverage contributed to overall margin improvements during the year.

PAPER LIFTS TEXTILE, LEATHER & PAPER DIVISION

The Textile, Leather & Paper Division posted organic growth of 3% for the Full Year. The division benefited primarily from very strong pick up in sales volumes in the paper business, primarily optical brighteners. After a weak 2005, Leather made progress overall in 2006, with increased sales in South America and Asia, although the business experienced some weakness towards the end of the year. Textiles were stable despite continued challenging market environments in North America and Asia in 2006.

Market performance and earnings to continue improving

CLARIANT ADDRESSES UNDERPERFORMANCE IN LIFE SCIENCE CHEMICALS

Given continued deterioration in market conditions, Clariant has taken active steps to address underperformance. In July 2006, the Pharmaceutical Fine Chemicals unit, part of the LSC Division, was sold to TowerBrook Capital Partners. The Custom Manufacturing business, adversely affected by overall weak demand from agrochemical customers, has been earmarked for sale. As a first step, the company has announced the sale of the DMS business to Grillo Werke AG, Germany. The Specialty Intermediates Business, which experienced weaker demand in 2006, has been integrated into the Functional Chemicals Division and the LSC Division has ceased to exist. Custom Manufacturing is now reported under "discontinued operations."

GROWTH ACROSS ALL REGIONS

ASIA POSTS BIGGEST REGIONAL INCREASE

Asia led Clariant's growth in 2006 with organic sales rising 7% to CHF 1.87 billion. China remains a key growth market and progress there was especially notable with sales increasing by 20%. India and Turkey also contributed significantly, with double-digit growth rates in both countries.

GERMANY DRIVES PROGRESS IN EUROPE

Year-on-year sales in Europe grew by a robust 5% in local currency terms and 6% in Swiss francs to total CHF 3.94 billion. Sales in Germany, which generates a significant proportion of European sales for the company, grew above the regional average at 7% in local currency terms, totalling CHF 1.17 billion. Growth in Eastern Europe was above average for the region.

ROBUST SALES IN AMERICAS

The Americas achieved solid organic sales growth of 4% to CHF 2.29 billion, with the contribution from Latin America, up by 5%. The US market recorded growth of 3%, which was below the regional average, taking sales there to CHF 1.03 billion. Strong demand for plastics and construction drove solid growth during the first three quarters, however, lower plastics demand, combined with weaker macroeconomic conditions led to a weaker fourth quarter.

GREATER INNOVATION

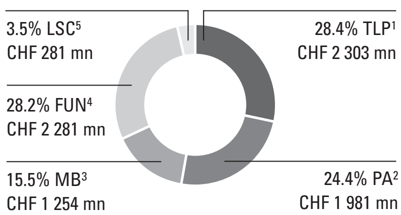
CUSTOMER REQUIREMENTS DRIVING INNOVATION

Clariant is increasingly tailoring its innovations to better match its customers' needs, reflecting the company's greater front-end focus. In the Functional Chemical Division, for example, Clariant has developed a superplasticizer that strengthens cement, an ideal feature for ready-made concrete parts of major construction projects. In 2006, Clariant supplied the superplasticizer for a new bridge between Macao and Taipa Island. With 40% less water the concrete has better durability and improved binding.

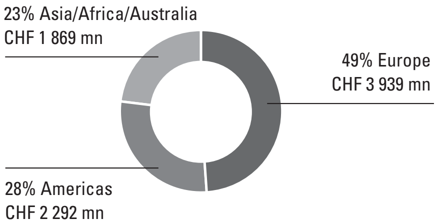
STRATEGIC INVESTMENTS

In 2006, Clariant spent 2.6% of total sales on R&D, from 2.5% a year earlier, while keeping a close eye on the quality of new products and the return on the capital it is investing. In addition, the company will invest a total of CHF 100 million over the next four years in early-stage "incubator" projects, paving the way for new innovations in areas including multifunctional coatings, membrane technology and nanomaterials. These incubators will run as start-up companies within Clariant Group Technology.

Sales by division
Total 2006: CHF 8 100 mn



Sales by region
Total 2006: CHF 8 100 mn



[1] Textile, Leather & Paper Chemicals
[2] Pigments & Additives
[3] Masterbatches
[4] Functional Chemicals
[5] Life Science Chemicals

As a first step, the company last year acquired KiON and made an investment in Starfire, both US-based companies. Clariant will also continue with its strategy of creating alliances with start-up firms and universities. The KiON acquisition gives Clariant the ability to offer products such as anti-grafitti coatings. Starfire uses nanotechnology to produce light materials for such uses as ceramic brakes on motorcycles.

ACHIEVING WORLD-CLASS PERFORMANCE

BUILDING ON STRENGTH, FOCUSING ON EXECUTION

In November, Clariant announced the results of its Strategic Review, outlining how it will achieve World-Class Performance by 2010. The company will focus on generating profitable long-term growth and achieving sustained cost leadership in the specialty chemicals industry. Clariant will build on its strengths in colors, surfaces and performance chemicals, focusing it investments strictly according to value-creation criteria.

Value creation will also be achieved by reducing its cost structure, cutting net working capital and strengthening its performance culture. To reach the mid-term goal, the company aims to achieve a Return on Invested Capital (ROIC) above the average of its peers by the end of 2009. This represents an increase of approximately 25% from current levels. From there Clariant will take aim for a top-quartile ranking among the peers in value creation as a long-term goal.

SOLID FINANCIAL BASIS

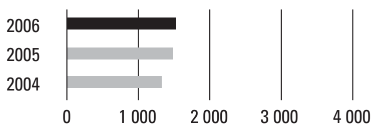
BALANCE SHEET KEY FIGURES

The 2005 balance sheet was restated to reflect the offsetting of deferred tax assets and liabilities where there is a legally enforceable right and the taxes are levied under the same tax jurisdiction. All developments commented hereafter refer to the restated balance sheet.

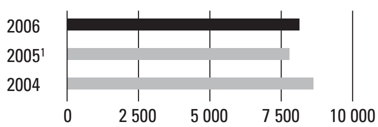
Total assets remained almost stable, increasing only minimally to CHF 7.188 billion on 31 December 2006 from CHF 7.180 billion at the end of 2005. Cash an cash equivalents increased substantially, but there also was a decrease in property, plant and equipment as a result of disposals, reclassification to noncurrent assets held for sale and impairments. Intangible assets also decreased as a consequence of an impairment write-off of goodwill. The net working capital remained largely unchanged.

Cash and cash equivalents increased to CHF 443 million on 31 December 2006 from CHF 223 million at the end of 2005. Short-term financial debts decreased to CHF 623 million at the end of 2006 from CHF 1.137 billion one year earlier. Long-term financial debts increased to CHF 1.376 billion on 31 December 2006 from CHF 599 million at the end of 2005. This is the effect of loans in the amount of CHF 314 million and a bond in the amount of CHF 159 million being paid back on expiry during 2006 and the issuance of a new bond in the amount of EUR 600 million (CHF 961 million).

Net dept
CHF mn



Consolidated sales
Total 2006: CHF 8 100 mn



[1] Restated for discontinuing operations

Equity decreased to CHF 2.433 billion on 31 December 2006 down from CHF 2.591 billion at the end of 2005. This is the effect of the net loss incurred during the year in the amount of CHF 78 million and the share capital reduction of CHF 58 million. FX variances also affected equity negatively, in particular the strengthening of the euro.

Net debt increased slightly to CHF 1.556 billion at the end of 2006 from CHF 1.508 billion one year earlier. To a large extent this is the result of the strengthening of the euro, which increased the value of the bond denominated in this currency issued in April 2006.

Gearing which reflects net financial debt in relation to equity including minorities, increased to 64% at the end of 2006, up from 58% one year earlier.

CASH FLOW

Cash flow from operating activities before changes in working capital was CHF 447 million, compared to CHF 273 million for 2005. Working capital increased by CHF 163 million, compared to CHF 64 million in 2005. Cash flow from operating activities increased to CHF 284 million, compared to CHF 209 million in 2005.

Capital expenditure (PPE) for the year of 2006 amounted to CHF 358 million. This compares to CHF 348 milion for 2005.

Acquisitions resulted in a cash outflow from the Group in the amount of CHF 45 million, net of the cash and cash equivalents acquired with these activities.

The disposal of discontinued operations resulted in a cash inflow of CHF 46 million.

The most important financing measure in 2006 was the issuance of a bond in the amount of CHF 961 million denominated in euro (EUR 600 million). Subsequently a bond in the amount of CHF 159 million was paid back on expiry and also other short-term financial debts of more than CHF 700 million were paid back which had been used as a means of financing before the bond was issued.

EARNINGS PER SHARE

The total number of shares was 230 160 000 at the end of 2006. Of the total number of shares, 226 648 302 were circulating at year-end and the remaining 3 511 698 were treasury stock. The average number of outstanding shares used to calculate earnings per share was thus 226 767 254, compared to 226 431 732 for the prior year. Basic earnings per share amounted to CHF 0.55 for continuing operations and CHF -0.37 for the total company including discontinuing operations in 2006, compared to CHF 1.12 for continuing operations and CHF 0.81 for the total company including discontinuing operations in 2005.

REDUCTION IN PAR VALUE

The Board of Directors proposes a reduction in the par value of the shares by the amount of CHF 0.25 per registered share. The total sum earmarked for capital reduction thus comes to CHF 57.5 million.

SALE OF DISCONTINUING OPERATIONS AND SUBSIDIARIES

On 30 June Clariant sold its Pharmaceutical Fine Chemicals business, belonging to the Life Science Chemicals Division. These activities had before been classified as a discontinuing operation. The transaction resulted in a cash flow of CHF 46 million.

On 30 September 2006 Clariant sold the activities of Site Services, Energy Supply, ESHA Services and Enterprise Functions of the subsidiary Industriepark Gersthofen Servicegesellschaft.

ACQUISITIONS

On 14 February 2006 Clariant acquired the shares of KiON Corporation in the US for a total consideration of CHF 16 million.

On 1 December 2006 Clariant acquired the masterbatch activities from Ciba Specialty Chemicals, which comprised the purchase of companies in France and Saudi Arabia and an asset deal in Malaysia, for the total amount of CHF 30 million.

Targeting growth in mature and highly competitive markets

TEXTILE, LEATHER & PAPER CHEMICALS

Sales of the Textile, Leather & Paper Chemicals Division raised in local currencies by 3% year on year. This translates into sales in Swiss franc terms of CHF 2 303 million. EBITDA[1] came to CHF 232 million, equating to a margin of 10.1%.

BUSINESS PERFORMANCE

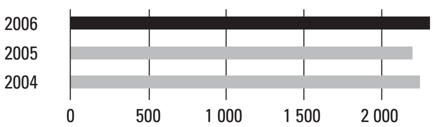
Satisfactory volume growth in the **Textile, Leather & Paper Chemicals Division** led to increased sales compared to the same period a year earlier. Organic growth was 3% and a currency effect of 2% was recorded. Operating margins before exceptionals declined, due to a competitive pricing environment and slightly higher energy and fright costs prices. All the businesses grew, with Paper Chemicals showing the most marked improvement and further increasing its share of divisional sales. Prices were slightly negative in year-on-year terms. Asia, Latin America and Special Markets such as Turkey, India and Pakistan saw the strongest growth; the European market continued to stabilize.

Sales in the **Textile Business** remained at last year's level. The performance was mainly driven by dying and printing and finishing chemicals, whereas the polymer dispersion segment and products for pretreatment were somewhat weaker. The pressure on prices in textile dyes and textile chemicals continued unabated. Looking region by region, a fall in demand in North America was offset by stabilization in Europe and good growth in Latin America, the Middle East and India. One driver for the negative sales development in the US was an extraordinary downturn of one product line for textile coating. In addition, the business saw further migration to low-cost countries for selected product lines. Adverse currency influences led important production countries such as Indonesia to lose some of their competitiveness. The encouraging growth in Greater China was mitigated by declining sales in other key Asian markets.

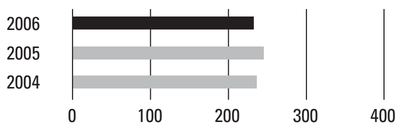
Business conditions in the **Leather Business** continued to show an increasingly positive trend during the reporting period but failed to meet sales expectations in the fourth quarter. In a competitive pricing context, prices were held at the previous year's level. Compared to the same period last year, wet-end dyes and chemicals saw a good demand whereas the market for finishing products was somewhat weaker. Asia continued to see low levels of demand, whereas Europe, especially Italy and Latin America experienced good business conditions. As a result of the critical review of the growth prospects, the goodwill pertaining to this business was written off for impairment by the amount of CHF 100 million.

Optical brighteners, colorants, surface and coating paper chemicals continued to grow at a high rate and led to a further positive result for the **Paper Business**. Paper markets in the US were increasing due to higher whiteness standards. Asia also experienced continued good business conditions. Overall, this led to an increase in market share and, with the business also leveraging its economies of scale, to improved profitability. In the special coatings business, an important milestone was achieved with the FDA approval for Cartafluor, a food-packaging coating.

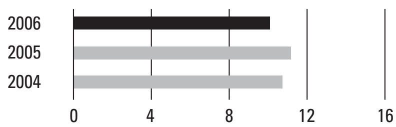
Sales
CHF mn



EBITDA[1]
CHF mn



EBITDA[1] margin
%



[1] Before restructuring and disposals

Systematically strengthening our commitment to Asia

PIGMENTS & ADDITIVES

The Pigments & Additives Division lifted its sales in local currencies by 4% year on year. This translates into CHF 1 981 mn sales in Swiss franc terms. EBITDA[1] came to CHF 293 million, equating to a margin of 14.8%.

BUSINESS PERFORMANCE

The **Pigments & Additives Division** showed satisfactory growth in local currency and in Swiss franc terms compared to the same period a year earlier. Organic growth was 4% while currencies added an additional 1%. There was evidence of increased demand for more colorful products as well as additives and a notably favorable trend in the volume of sales generated in the automotive industry. Volume growth resulted in higher capacity utilization rates, which in turn led to a significant improvement in the margin. However, the competitive environment remains a challenge for the industry. Despite the pressure on prices, the operating result improved. This stemmed primarily from improvements in the efficiency along the process chain and lower overhead costs, together with strong scale effects. A raw material shortage in North Europe limited production and let to lower capacity utilization at the end of the year. At a regional level, the division saw solid growth rates in Asia Pacific, while the European and US markets weakened slightly.

Two new plants, in China for pigments, and in Germany, for Licocene® waxes, became operational providing new products for all applications. The joint-venture production plant for high-performance pigments in Hangzhou southwest of Shanghai was contributing fully to global pigment production in the fourth quarter.

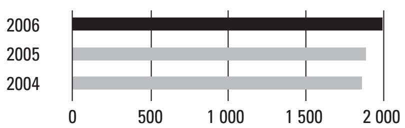
An improved business environment for the **Coatings Industry** resulted in good demand for pigments, especially for industrial coatings and decorative paints. High-performance-pigments and business with key accounts turned in a particularly positive performance. Automotive industry remained difficult, with no shift to more colorful coatings noted. DPP red pigment made increased contributions to sales following its transition from the market launch phase to the growth phase. The seasonal fall in demand for decorative coatings at year-end was slight due to the mild winter months, resulted in Coatings achieving satisfying growth in the fourth quarter.

A strong demand for more colorful products for the **Plastics Industry** led to good growth. In addition, antioxidants for plastics gained additional market share and importance for the business product portfolio. This was all the more encouraging because market share was consequently increased without customers building up inventories. The market pressure on price levels was more than compensated by higher volumes. The importance of wood coating, high-quality pigments and antioxidants was demonstrated by constant growth rates. Following signs of a slowdown demand for plastics weakened slightly at year-end. To meet increasing demand, Clariant in September signed an agreement with a group of Asian industrialists to cooperate in the development, production and distribution of standard antioxidants.

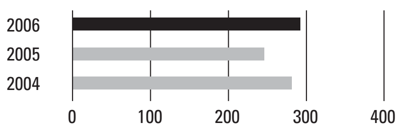
Printing Industry amidst a market environment remaining intensely competitive. Price pressure from competitors continued particularly in packaging and special inks. The picture for traditional printing inks was dominated by a trend towards consolidation and increased competition from Asia. Focusing on special niches in areas such as nonimpact printing proved widely successful. Demand was especially strong in Japan's technologically sophisticated printing market.

The **Specialties Business** reported improved sales compared with the prior-year period. It saw solid demand for intermediates as well as increased sales for the flame retardant range Exolit® and the range of Licocene® waxes. High growth rates were achieved in optical media applications such as color filters for LCD flat panels. The introduction of products for next generation DVDs was delayed due to ongoing discussions on technical standards of end user hardware.

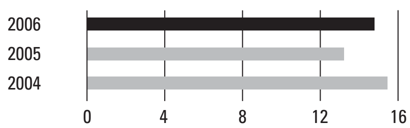
Sales
CHF mn



EBITDA[1]
CHF mn



EBITDA[1] margin
%



[1] Before restructuring and disposals

We are reinforcing our strong position as market leader

MASTERBATCHES

The Masterbatches Division lifted its sales in local currencies by 8% year on year. This translates into CHF 1 254 mn sales in Swiss franc terms. EBITDA[1] came to CHF 152 million, equating to a margin of 12.1%.

BUSINESS PERFORMANCE

The Masterbatches Division showed strong performance in 2006. Organic growth was at 8%; the currency effect was 2%. Higher volumes and increased price levels that more than offset rising raw material costs were achieved across all business segments and regions and led to improved margins.

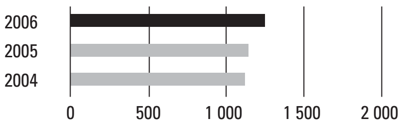
Growth in plastic consumption is being driven by the substitution of plastics for other materials (such as glass, metal and wood) because of cost, functionality and recyclability features. Masterbatches' growth results from the continued strength of the global plastics market, in combination with gains in market share.

The Masterbatches Division grew strongly in the resin producer, textile, consumer goods and packaging segments. During 2006, the newly developed go-to-market segment strategies delivered strong growth opportunities particularly with global customers. Clariant was able to leverage technology leadership with global market coverage to create value for our customers. This was rewarded with record growth at global key accounts.

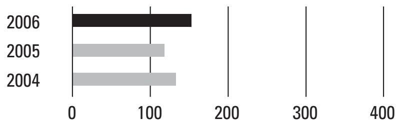
In regional terms, the division experienced good demand in all regions. Growth was especially strong in Western Europe, Eastern Europe and Special Markets. Growth in Asia Pacific developed strongly with continued leadership from Greater China. Sales growth was also strong across the Americas. Investments in Latin America have resulted in excellent sales growth. And in North America, sales developed well although growth slowed at year-end.

During the fourth quarter Clariant signed an agreement with Ciba Specialty Chemicals to purchase its CHF 80 million sales masterbatches business. The business has production facilities in France, Saudi Arabia and Malaysia. The acquisition will help the division optimize its service capabilities to European countries and enhance its presence in the fast growing Middle Eastern and Asia-Pacific markets.

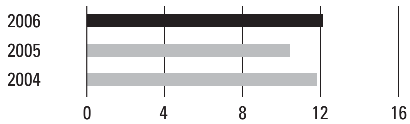
Sales
CHF mn



EBITDA[1]
CHF mn



EBITDA[1] margin
%



[1] Before restructuring and disposals

We will increase the share of high-margin products significantly

FUNCTIONAL CHEMICALS

The Functional Chemicals Division increased its sales in local currencies by 7% year on year, which translates into CHF 2 281 mn sales in Swiss franc terms. EBITDA[1] came to CHF 266 million, equating to a margin of 11.7%.

BUSINESS PERFORMANCE

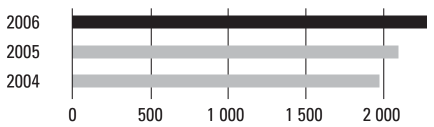
The **Functional Chemicals Division** recorded strong demand across all Businesses especially in the second half of 2006. Organic growth was at 8%. This increase was driven by prices as well as volumes and in particular by the Process Chemicals Business. Currency movement was 2%. The operating margin declined as the good growth in volumes could not totally offset the negative impact from higher input costs. Despite difficult pricing environment, price increases could be achieved in the market. As a first implementation of the new "Clariant 2010" strategy, Functional Chemicals is working closely with the Textile, Leather & Paper Division (TLP) on Asian projects. It makes use of the TLP production facility in Tianjin and has built a production unit to manufacture mild surfactants for personal care on the TLP site.

In the first half of 2006 the competitive environment for **Detergents** remained difficult. Due to ongoing cost pressures in the industry, demand for innovative raw materials for detergents declined. But after a period of inventory and supply chain optimization on the part of customers the business showed excellent growth across all product lines in the second half and allowed Detergents to compensate for the weak business levels. Growth was driven by the high level of orders in North and South America where Detergents was able to additionally increase its market share. Although the environment for raw materials remained volatile, satisfactory price increases acted as a counterbalance. In line with its strategy Clariant shut down its SKS-6 plant in Knapsack, Germany, due to reduced market demand for this specific product segment.

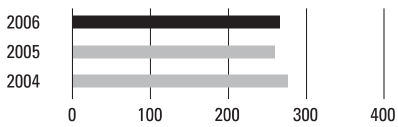
While **Performance Chemicals** reported stable sales for the first half of 2006, it showed a strong development with price increases and strong demand in the second half. Growth was driven in particular by a positive business trend for personal care, biocides and construction chemicals. Precursors for plasticizers for concrete continued to be well received and benefited from the favorable situation in the construction sector. To further boost demand for this product category and heighten market penetration in North America, an additional production unit was commissioned in Mexico in July. Construction Chemicals proved to be a driver of growth in throughout the whole year. This business benefited from continued favorable market conditions and demand for Clariant's innovative product range. On the other hand Crop Protection continued to suffer the effects of weak demand along the complete value chain. The key regions Europe and North America improved relative to the previous year, while Latin America showed normalization again after a difficult start to the year.

Process Chemicals showed excellent growth within the division. Volume expansion coupled with price improvements, led to broad-based growth in revenues. Clariant Oil Services enjoyed strong demand in all regions, especially North America. Functional fluids met with strong sales in Europe and in the heat transfer fluids as well as specialty solvents segments. This sales growth more than offsets the weakness in the deicing business caused by the mild winter. Increased raw material prices continued to affect Process Chemicals. All regions contributed to the excellent sales development, especially Asia and Latin America. The Mining Chemicals Business benefited from the continuing strong demand in iron ore in Latin America.

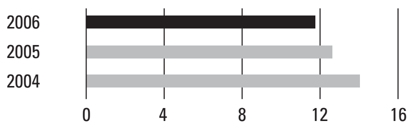
Sales
CHF mn



EBITDA[1]
CHF mn



EBITDA[1] margin
%



[1] Before restructuring and disposals

We have developed solutions for underperforming business areas

LIFE SCIENCE CHEMICALS

Sales of the division's continuing business was CHF 281 mn, declined by 35% year on year in Swiss franc terms. EBITDA[1] came to CHF 30 million, equating to a margin of 10.7%.

BUSINESS PERFORMANCE

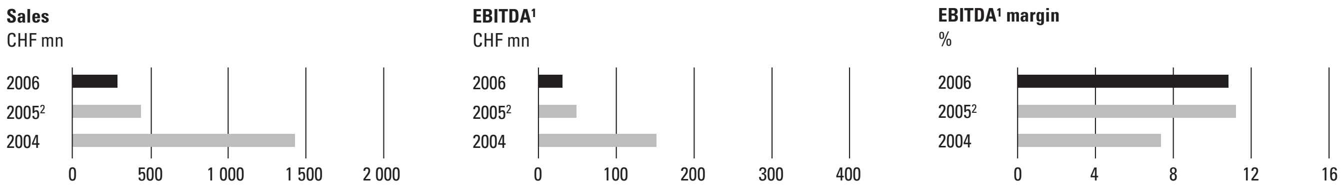
The business trend was challenging in the **Life Science Chemicals Division** (LSC) which, since the sale of the Pharmaceutical Fine Chemicals unit and the decision to sell the Custom Manufacturing Business, consists only of the Specialty Intermediates Business (silicone, glyoxal and glyoxylic acid derivative products). The continuing business suffered a decline in sales compared with the previous year. Sales figures fell by 35% in Swiss franc terms. Operating income was depressed primarily due to the lower capacity utilization rates associated with this and due to one-off repair costs at production plants. These repairs are carried out in three-year cycles. Higher raw material costs also depressed income. By January 1, 2007, the Specialty Intermediate Business was integrated into the Performance Chemicals Business of the Functional Chemicals Division, and the LSC Division ceased to exist.

Higher selling prices in **Specialty Intermediates** were achieved. However, increased raw material cost for the glyoxylic acid downstream products as well as reduced volumes, weighed on the business performance. Routes to a new class of nutraceuticals (polyhydroxphenols) were established using our unique 2-carbon chemistry.

Pharmaceutical Fine Chemicals recorded a rise in sales. In general, business conditions improved with increased growth in generics as well as in innovators. The trend toward outsourcing continued, as the business won several new projects. For example, Roche chose Clariant as supplier of one key raw material in the manufacturing of Tamiflu®. As already reported, the business was sold as of the end of the second quarter and run as an independent operation by its new owner, TowerBrook Capital Partners, as of July 1.

The decline of **Custom Manufacturing** accelerated, due to very weak demand for agrochemical intermediates, especially fungicides, as a result of overstocking along the entire value chain. The resulting drop in capacity utilization at German and American production sites could not be compensated by other industrial chemical segments and cost savings. Additional restructuring measures to improve efficiency were defined.

Clariant Acetyl Building Blocks (CABB), part of the Life Science Chemicals Division, was sold effective end of July 2005. Under IFRS, the disposal did not qualify for reporting as discontinued operations. On June 30, 2006, the Pharmaceutical Fine Chemicals unit was sold, and is consequently shown under discontinued activities. Clariant has started the process to dispose of its Custom Manufacturing business. With immediate effect Custom Manufacturing is reported as a discontinued operation.



[1] Before restructuring and disposals
[2] Restated for discontinuing operations

On the way to becoming one of the leading players

POSITIVE OUTLOOK FOR 2007

Throughout 2007, Clariant will take measures to ensure its mid-term goal for the Return on Invested Capital (ROIC). Clariant aims to achieve a ROIC above the average of its peers by the end of 2009.

SETTING COURSE TO DELIVER ROIC TARGETS

The company expects improved sales in local currency terms in 2007 based on expectations of a broadly stable macroeconomic environment as well as continued high raw material and energy prices. It anticipates an increase in operating income before exceptionals from continuing operations, with margins remaining stable. The company also expects higher cash flow from operations before exceptional items, as well as an improvement in recurring net income.

Clariant expects 2007 to be another good year for top-line growth and is fully committed to delivering on its medium-term goals, with a clear focus in 2007 on improving cash flow.

> THE COLORS OF SUCCESS

Thanks to extensive know-how, unique simulation technology and individualized service, ColorWorks™ offers a real competitive edge to customers in the plastics and packaging industry.

Time to market is a crucial factor in the development of new products. This puts the onus on product designers and developers to avoid making expensive mistakes and to shorten the time it takes to complete the process.

An increasing number of designers are responding to this challenge by turning to ColorWorks™, Clariant's unique service and advisory platform for the plastics and packaging industry.

With the aid of cutting-edge CAD technology, professionals can now visualize the finished product on screen in 3-D and monitor and make alterations according to the color and special effects required. This saves time as it negates the need to create prototypes. What is more, customers can immediately see how a particular effect works and take a decision on the basis of whether a product will stand out from the crowd on store shelves.

Identifying trends quickly in order to anticipate customer needs represents an important element of the ColorWorks™ platform. By evaluating future key social and cultural trends with the aid of input from trend research specialists, it is possible to apply forward-looking design criteria to colors and surface effects.

The growth opportunities offered by ColorWorks™ are promising, not least because plastic is superseding materials such as glass and metal at an ever increasing rate. In future, Clariant wishes to extend this unique service concept to its Textile Business.

> HELP IN THE WAR AGAINST MICROBES

Clariant has proven expertise in handling antimicrobial ingredients, from which customers can now also benefit thanks to AMicroS™.

For microbes, certain products are particularly attractive sources of food. Warm manufacturing plants with plenty of water and nutrients are a paradise. Skin lotions, motor oils, paints and adhesives are a perfect breeding ground. This problem presents manufacturers with a considerable challenge.

It is relatively easy to keep a toxic hotbed free of germs. However, Clariant's modern chemical plants operate at minimum temperatures and pressures. Wherever possible, organic solvents are replaced by water, and highly toxic biocides are eliminated. All of this protects people and the environment, but also makes life easy for microorganisms.

Clariant's worldwide microbiological analytical laboratories help tackle this threat. They are responsible for keeping the company's facilities and products impeccably clean, and specialize in chemicals that prevent microorganisms from multiplying, such as biocides and preservatives.

Since early 2006, Clariant has also been making its know-how in plant and product hygiene available to customers. Provided under the name AMicroS™ (Advanced Microbiological Services), this service involves microbiological audits of chemical plants and assistance in determining how cosmetics and technical chemicals can be optimally preserved.

AMicroS™ has already proved a success within the space of a year, and with health and consumer protection regulations becoming stricter than ever, it will continue to gain in importance.

APPLICATION KNOW-HOW

Tough yet malleable, elegant yet crease proof, hydrorepellent yet soluble. Thanks to the application know-how of its industry-leading specialists, Clariant is able to mould contrasts into one and achieve optimum product characteristics through efficient manufacturing.

CORPORATE GOVERNANCE

Cost savings through harmonization of processes and streamlining of structures

MODERN CORPORATE GOVERNANCE AT CLARIANT

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

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

Until the end of 2006, the Group consisted of five divisions 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. In 2006, Clariant sold the Pharmaceutical Fine Chemicals Business of its Life Science Chemicals (LSC) Division and initiated the process of selling the same division's Custom Manufacturing Business, as a result of which Custom Manufacturing is presented in this report as a discontinued operation. The remaining LSC business, Specialty Fine Chemicals, was integrated into the Functional Chemicals Division. LSC was subsequently closed effective January 1, 2007. The Group Functions Finance, Human Resources, Information Technology, ESHA, Legal, Communications, Supply Chain Management, Production Services and Sourcing bear worldwide responsibility at every level (local, regional and global). The Group Functions 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 30, 2006, the market capitalization stood at CHF 4.2 billion. The scope of consolidation of Clariant Ltd includes the listed companies Clariant Chemicals (India) Ltd and Clariant (Pakistan) Ltd.

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

1.2 SIGNIFICANT SHAREHOLDERS

According to the available information, as at December 31, 2006, there was no shareholder holding over 5% of the share capital.

1.3 CROSS-SHAREHOLDINGS

There are no cross-shareholdings.

Listed company	Registered office	Listing	Capitalization	Shareholdings %	ISIN no.
Clariant Chemicals (India) Ltd[1]	Mumbai	Bombay Stock Exchange, Mumbai (BSE, CLARICHEM) and National Stock Exchange of India, Mumbai (NSE, CLNINDIA)	INR 8 980 mn	63.40	INE492A01029
Clariant (Pakistan) Ltd	Karachi	The Karachi Stock Exchange (KSE)	PKR 4 411 mn	75.00	PK0076701017

[1] Clariant has amalgamated its five companies previously operating in India. These were Clariant (India) Ltd, Colour-Chem Ltd, Vanavil Dyes and Chemicals Ltd, BTP India Private Ltd, and Kundalika Investments Ltd. The new company, Clariant Chemicals (India) Ltd, started operating in April 2006. It is thus positioning itself as a leading industry player and able to continue extending its market position.

2. CAPITAL STRUCTURE

2.1 CAPITAL
The ordinary and the conditional capital are described in note 5 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 38 000 000 by issue of a corresponding maximum of 8 000 000 registered shares of CHF 4.50 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 2005 and 2006 can be found on page 124 (note 28) of this Annual Report. The details for 2004 can be found on page 63 of the 2005 Annual Report.

2.4 SHARES AND PARTICIPATION CERTIFICATES
As at December 31, 2006, 230 160 000 registered shares had been issued, each with a par value of CHF 4.50.

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 the approval of the Board of Directors, which may delegate this function. Approval is granted if the acquirer fulfils the formalities laid down in Article 5 of the Articles of Association. Special rules apply to nominees if they fail to disclose the identity of the persons they represent and their shareholding exceeds 2%.

2.7 CONVERTIBLE BONDS AND OPTIONS
There are no outstanding convertible bonds. In the past, options were issued on registered shares as part of the employee participation scheme. Details of the option programs can be found in note 30 (page 127) of the notes to the Consolidated Financial Statements.

Company At 31 December 2006	**Registered office**	**Equity** CHF mn	**Shareholdings** %
Clariant Produkte (Deutschland) GmbH	Frankfurt a.M., Germany	259	100
Clariant Corporation	Charlotte, N.C., United States	1 122	100
Clariant UK Ltd	Leeds, United Kingdom	102	100
Clariant (France)	Puteaux, France	133	100
Clariant S.A.	São Paulo, Brazil	142	100
Clariant Products (Switzerland) Ltd	Muttenz, Switzerland	80	100
Clariant Prodotti (Italia) S.p.A.	Milan, Italy	7	100
Clariant Ibérica ProducciónS.A.	Barcelona, Spain	101	100
Clariant (China) Ltd	Hong Kong, China	46	100

Other companies, see note 35

3. BOARD OF DIRECTORS

The Board of Directors of Clariant Ltd comprises at least six and no more than ten members. At the 11th Annual General Meeting, Prof. Peter Chen from the United States was elected as a new member of the Board of Directors for a four-year term of office. Having reached the age limit, Robert Raeber and Prof. Dieter Seebach stepped down as members of the Board of Directors. The Board of Directors appointed Roland Lösser, Clariant's former Chief Executive Officer, as its new Chairman.

3.1 MEMBERS OF THE BOARD OF DIRECTORS

Prof. Peter Chen, 46, US citizen
Peter Chen studied chemistry at the University of Chicago and in 1987 received a doctorate from Yale University in New Haven, Connecticut. He then transferred to Harvard University in Cambridge, Massachusetts, where he served as an assistant professor from 1988 until 1991 and as an associate professor from 1991 until 1994. Peter Chen has been full Professor of Physical-Organic Chemistry at ETH Zurich since September 1994 and is currently a member of the ETH Research Commission.

Peter R. Isler, 60, Swiss citizen
Peter Isler studied law at the University of Zurich and then moved to Harvard Law School after finishing his doctorate. He worked for various law firms from 1974 onwards and in 1981 became a partner at the Zurich law firm Niederer Kraft & Frey. He has been a lecturer in commercial law at the University of Zurich since 1978 and a member of the Canton of Zurich's Anwaltsprüfungskommission (lawyer's examination commission) since 1984.

Klaus Jenny, 64, Swiss citizen
Klaus Jenny studied economics at the University of Sankt Gallen. After finishing his doctorate, he held various management positions at Schweizerische Kreditanstalt (now Credit Suisse) before being appointed a member of its senior management in 1987. In 1991 he took over as Head of Corporate Banking worldwide and of Swiss operations. As a member of the Group Executive Board, he took over as Chairman of the Executive Board of the Credit Suisse Private Banking business unit. Klaus Jenny has held a number of directorships since leaving Credit Suisse.

Roland Lösser, 64, German citizen
Roland Lösser is an economist and started his professional life in the business administration department of Vereinigte Leichtmetallwerke in Bonn, Germany. In 1969 he moved to Sandoz AG, where he held a number of leading positions in data processing. In 1986 he took over as head of Finance/Administration at Sandoz AG, Germany, and in 1990 as CFO of Sandoz Corporation in the United States. At the newly established Clariant International Ltd, he was appointed CFO in 1995 and held this position until 2001. In 2003 he assumed responsibility as CEO until 2006. Since then he has been chairman of the board of directors of Clariant Ltd.

Kajo Neukirchen, 64, German citizen
Kajo Neukirchen studied business administration at the University of Bonn. After finishing his doctorate, he began his professional career at Philips Group with various management roles in sales and marketing. In 1977 he became CEO of Felten & Guilleaume Kabelwerke, a subsidiary of Philips. He was subsequently CEO and Chairman of the Management Board at various German manufacturing companies. Between 1993 and 2003 Kajo Neukirchen was CEO of Metallgesellschaft (now mg technologies AG).

Tony Reis, 65, 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, Tony Reis moved to Swisscom, where he held the post of Chief Executive Officer in 1998 and 1999.

All members of the Board of Directors are nonexecutive.

3.2 OTHER ACTIVITIES AND FUNCTIONS

Peter Chen

Board of Directors/supervisory mandates: none

Activities on behalf of companies and representative functions: Consultant at Givaudan, Pfizer and Merck, Stiftung für Stipendien auf dem Gebiet der Chemie (Basel)[1], Gesellschaft zur Förderung der Forschung und Ausbildung im Bereich der Chemie (Zurich)

Peter R. Isler

Board of Directors/supervisory mandates: Clariden Leu AG, Zurich; Clariden Leu Holding AG, Zurich; Schulthess Group AG, Bubikon

Activities on behalf of companies and representative functions: Anwaltsprüfungskommission (lawyer's examination commission) of the Canton of Zurich

Klaus Jenny

Board of Directors/supervisory mandates: Maus Frères SA, Geneva; Bâloise Holding, Basel

Activities on behalf of companies and representative functions: none

Roland Lösser

Board of Directors/supervisory mandates: none

Activities on behalf of companies and representative functions: none

Kajo Neukirchen

Board of Directors/supervisory mandates: Sixt AG, Pullach (Germany); Vossloh AG, Stadtwerke Düsseldorf AG (Germany)

Activities on behalf of companies and representative functions: Gesellschaft der Freunde von Bayreuth e.V.; Gesellschaft der Freunde der Alten Oper Frankfurt e.V.; Vereinigung von Freunden und Förderern der Johann Wolfgang Goethe-Universität Frankfurt am Main e.V.; Stifterverband für die Deutsche Wissenschaft; Stiftung Deutsche Sporthilfe

Tony Reis

Board of Directors/supervisory mandates: Metallwarenholding AG and V-ZUG AG, Zug; Karl Steiner AG, Generalunternehmung, Zurich; esmertec AG, Dübendorf

Activities on behalf of companies and representative functions: none

[1] 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 a maximum of four years. Re-election is possible. The age limit is 70 years of age.

Board of Directors	First elected	Elected until
Roland Lösser	2000	2008
Peter Chen	2006	2010
Peter R. Isler	2004	2008
Klaus Jenny	2005	2009
Kajo Neukirchen	2004	2008
Tony Reis	1999	2007

3.5 INTERNAL ORGANIZATIONAL STRUCTURE

3.5.1 Division of duties

The Chairman of the Board of Directors is Roland Lösser. The Vice Chairman is Tony Reis.

3.5.2 The Board of Directors and its committees

Board of Directors	Executive Committee	Audit	Strategy	Appointments/ Compensation	Technology and Innovation
Roland Lösser	Chairman		Chairman	Member	
Peter Chen			Member		Chairman
Peter R. Isler		Chairman			
Klaus Jenny		Member			
Kajo Neukirchen			Member		Member
Tony Reis	Member		Member	Chairman	

■ Chairman ■ Member

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
> Technology and Innovation Committee

The **Board of Directors** appoints the Chairman, Vice Chairman/ Chairmen and members of the committees. 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 Executive Committee has the power to decide on investments of up to CHF 20 million.

The **Strategy Committee** (STC) comprises the members of the EC and the members of the Technology and Innovation Committee. 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 re-election to the Board of Directors and prepares the corresponding recommendations. The ACC draws up principles for compensation of members of the Board of Directors and submits them to the Board of Directors for approval. 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 reporting directly to the CEO and Regional Presidents. It approves the employment contracts for the CEO, members of the Management Board, function heads and Regional Presidents. At the request of the CEO, it also approves corresponding compensations on a regular basis. 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 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, nonexecutive 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 control 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 **Technology and Innovation Committee** (TIC) 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 TIC include assessing the innovative activities on behalf of the Board of Directors and recommending measures to stimulate research and development in the Group. The TIC also recommends measures to optimize exploitation of innovative potential.

3.5.3 WORKING METHODS

The Board of Directors and its committees meet on a regular basis and carry out a self-assessment once a year. The company's strategy is reviewed and further developed once a year in the course of a two-day meeting. Individual members of the Management Board are invited to attend the Board of Directors' meetings, depending on the matter in hand. The views of external consultants are heard if this becomes necessary as a result of projects of considerable scope.

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 nontransferable and inalienable duties of the Board of Directors), the Articles of Association and the organizational regulations. The Board of Directors has sole authority in particular for the following, in accordance with and supplementary to Art. 716a of the Code of Obligations and Art. 23 of the Articles of Association:

> Convening the Annual General Meeting (AGM), determining the items 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;

Commitees	Number of meetings	Duration/h	CEO/CFO	Other attendees
Board of Directors	7	6–8	yes	Management Board and heads of Group Functions
Executive Committee	6	2–4	yes	Management Board when submitting own proposals
Audit	6	3–5	CFO only	Auditors and Risk Management
Strategy	5*	2–4	CEO only	
Appointments/	6	1	no	
Technology and Innovation	1**			

* Meetings following the Executive Committee meeting or as a teleconference
** One formal meeting and numerous visits to the group's research facilities with subsequent reporting to the Board of Directors.

- Establishment and control of strategic management of the Group;
- Approval of the basic outline of the group organization and the 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 funtions, 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 control 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 body, the Management Board is responsible for:

- Operational implementation of the group strategies and 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.

The divisions are the highest-level operating units and profit centers of the Group and have global responsibility for the activities assigned to them, particularly sales, marketing, product management, research and development, production and technology. The divisions also have global responsibility for short- and long-term trends in the sales revenue and earnings generated from the operations assigned to them. In particular, this includes exploiting existing growth potential and identifying new business opportunities. They pursue a policy of active innovation appropriate to their market and business sector and a policy of active portfolio management with regard to their products and ranges.

The divisions follow the specifications of the Board of Management in developing their targets, strategies and action programs, which must also be based on the strategy approved by the Board of Directors. These targets, strategies and programs are first submitted, together with the personnel and material requirements detailed in the annual budget, to the Board of Management, which in turn submits the budget to the Board of Directors for approval. The budget approved by the Board of Directors is binding on the divisions. The main financial performance indicators are set annually, when the budget is decided upon, for a period of one year.

The Group's divisions are to be supported by Group Services and Group Functions, including procurement, supply chain management, IT and site services.

3.7 INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE BOARD OF MANAGEMENT

Clariant has an internal audit department which, although part of Clariant International Ltd from an organizational perspective, reports directly to the Chairman of the Board of Directors and the Audit Committee of Clariant Ltd. The group audit function is a management control tool and part of Clariant's internal control system. Audit activities worldwide are coordinated and managed centrally from Muttenz. The main tasks within the purview of the group audit function include financial, operational, management, compliance and project audits. Reports are submitted to the appropriate levels of management, the Audit Committee and the Executive Committee. The Audit Committee approves the plans for audit activities and, in addition to the audit reports, also receives a summary of the work performed by the group audit function and the audit results on a six-monthly basis. The Group pursues a risk-oriented approach to auditing and coordinates internal audit activities with the external auditors, PriceWaterhouseCoopers, on a regular basis.

A risk management system is being set up to coordinate and group together the risks (e.g. insurable, environmental protection, financial, commercial and political risks) that were previously handled separately. Detailed information on the risk management system can be found on page 42 of this report.

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;
> Quarterly reports 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).

The Chief Executive Officer and the Chief Financial Officer for a time attend each meeting of the Board of Directors. Depending on the matter in hand, other Management Board members, Clariant leaders or external persons attend the meetings of the Board of Directors or its committees and report directly. The Chairman of the Board of Directors receives the minutes of the Management Board meetings and the minutes of the group finance meeting. The lead auditor also receives the minutes of the meetings of the Management Board and the Board of Directors for his information.

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 Group Services and the five Division Heads.

4.1 MEMBERS OF THE BOARD OF MANAGEMENT

Dominik von Bertrab, 47, 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 the Paper Business in the TLP Division and Head of Corporate Human Resources. Dominik von Bertrab began his career in 1985 in Group auditing at 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 Brandenberg, 59, Swiss citizen,
Head of Group Services and Regions
Peter Brandenberg is an economist and was appointed Head of Regions in 2003. Since the beginning of 2005 he has also been responsible for the service functions within the Corporate Center. From 2000 until 2003 he was CEO of Clariant GmbH, Germany, with responsibility for all German operations. From 1997 until 1999 he managed the former Process & Performance Products Division and from 1995 until 1997 the Textile Division. Peter Brandenberg 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 Brandenberg trained in business administration in Switzerland and the United States.

Siegfried Fischer, 51, German citizen,
Head of the Functional Chemicals and Life Science Chemicals Divisions
Siegfried Fischer is an engineer. He was appointed Head of the Functional Chemicals Division in April 2003, and since June 2004 he has also headed the Life Science Chemicals Division. 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 and Performance Products Division. In 1998 he became Head of the Performance Chemicals Business 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 Surfactants and Additives Department. Siegfried Fischer studied mechanical and process engineering in Germany.

Patrick Jany, 38, German citizen,
Chief Financial Officer (CFO)
Patrick Jany is an economist and has been Chief Financial Officer at Clariant since January 1, 2006. In 1990 he joined Sandoz, one of Clariant's predecessor companies. He held various positions in finance and controlling at Sandoz and Clariant, including Chief Financial Officer for the ASEAN region and Head of Controlling for the Pigments & Additives Division. From 2003 to 2004 he was Head of Country Organization for Clariant in Mexico. Prior to his appointment as CFO, he was Clariant's Head of Corporate Development with responsibility for group strategy and mergers and acquisitions.

Uwe Nickel, 48, German citizen,
Head of the Pigments & Additives Division
Uwe Nickel is a chemist and 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 the Specialized Industries Business. 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 in the Strategic Surfactants and Additives Business. Uwe Nickel studied chemistry in Germany.

Peter Piringer, 55, Austrian citizen,
Head of the Textile, Leather & Paper Chemicals Division
Peter Piringer is a chemical engineer and has been Head of the Textile, Leather & Paper Chemicals Division since January 2005. From 1997 until 1999 he was Head of the Surfactants Division in Latin America and from 1999 until 2004 Head of the TLP Division in Latin America. From 1979 until 1997 Peter Piringer worked for Hoechst AG in Latin America, where he held various positions such as Head of Surfactants Production in Brazil and Chief Technical Officer at Hoechst Venezuela. Peter Piringer obtained his degree in chemical engineering from the University of Paraná in Brazil.

Jan Secher, 49, Swedish citizen,
Chief Executive Officer (CEO)
Jan Secher holds a Masters Degree in Industrial Marketing. Since January 1, 2006, he has been a member of Clariant's Management Board and since April 7 its Chief Executive Officer. He was previously CEO of the Swiss firm SICPA Group, a world-leading supplier of packaging and security inks for bank notes. Jan Secher began his career in 1982 at Asea (now ABB), in sales/marketing and product management, which included a five-year stint in North America. Beginning in 1989 he held various leadership positions at ABB in Asia and Europe. From 1994 until 1997 he was Vice President and Divisional Manager of ABB's Automation & Drives Division in Japan. He was subsequently appointed a member of the Management Board of ABB in Sweden. In 2000 Jan Secher was relocated to ABB's headquarters in Zurich, where in 2001 he was appointed a member of the Management Board and Head of the Manufacturing & Consumer Division.

Hartmut Wiezer, 59, German citizen,
Head of Group Technology
Hartmut Wiezer is a chemist and has been Head of Group Technology 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 Brandenberg is a member of the Board of EBM (Elektra Birseck) and a member of the Board of the Swiss Society of Chemical Industries. Siegfried Fischer is a member of the Board of TEGEWA e.V., Frankfurt, Germany. Hartmut Wiezer is a member of the expert committee "Forschungs- und Bildungspolitik" and of the board of trustees of "Angewandte Chemie." 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. The ACC 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 Clariant Executive Bonus Plan (CEBP) governs the variable component of the salaries of approximately 270 members of senior management. The variable component ranges from one-fifth to two-thirds of the target income, depending on the level of management. The overall bonus paid out under the CEBP is dependent solely upon the Group's financial performance. The performance of the separate divisions and functions determines the allocation of the overall bonus payment. Individual bonuses are only paid to managers with an outstanding track record in one year who are nominated by the members of the Board of Management and approved by the CEO. The CEBP does not include stock options. Bonus payments under the CEBP are made half in cash and half in shares, the latter with a three-year vesting period. All reported compensation is on an accruals basis. In other words, bonuses and share distributions represent payments expected in 2007 for the 2006 business year.

COMPENSATIONS FOR ACTING MEMBERS OF GOVERNING BODIES

Total compensation for members of the Board of Directors and the Board of Management amounted to CHF 9.3 million (2005: CHF 7.9 million). This includes cash compensation of CHF 8.2 million (2005: CHF 5.8 million) and expenses for pension schemes of CHF 1.1 million (2005: CHF 2.1 million).

As part of the Long Term Incentive Plan of Clariant Ltd, the members of the governing bodies were granted 53 464 shares. In the 2006 business year, for the shares that had been allocated but had not yet vested an expense of CHF 1.3 million was recorded according to IFRS 2 (2005: CHF 1.4 million). Shares and options are subject to a three-year vesting period.

MEMBERS OF EXECUTIVE BODIES

Total compensation for members of the Board of Management amounted to CHF 8.5 million (2005: CHF 7.2 million). See table "Compensation for members of executive bodies."

NONEXECUTIVE MEMBERS OF GOVERNING BODIES

Non-executive members of governing bodies receive annual cash compensation and shares as part of the Long Term Incentive Plan. See table "Compensation for nonexecutive 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. See table "Shares and options held by members of governing bodies."

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 2006 business year was CHF 2.27 million consisting of the basic salary, bonus and Long Term Incentives for the 2006 business year.

Compensation for members of executive bodies		2006	2005
Cash compensation	CHF mn	7.4	5.1
Expenditure on pension schemes	CHF mn	1.1	2.1
Total	CHF mn	**8.5**	**7.2**
Number of allocated shares		37 306	18 512
Number of allocated options		0	118 244

Composition for nonexecutive members of governing bodies		2006	2005
Cash compensations	CHF mn	0.80	0.69
Number of allocated shares		16 158	17 634

Shares and options held by members of governing bodies	Shares within the vesting period	Shares privately held	Options within the vesting period	Options exercisable
Executive members of govering bodies	77 554	33 748	154 918	83 357
Nonexecutive members of governing bodies	31 757	49 775	0	1 701
Total	**109 311**	**83 523**	**154 918**	**85 058**

For more information about participation plans see also note 30

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 any voting-rights restrictions laid down in the Articles of Association. The Articles of Association do not contain any rules on participation at the Annual General Meeting that differ from the legal provisions.

6.2 STATUTORY QUORUMS

The quorums laid down in the Articles of Association correspond to Art. 704 of the Swiss Code of Obligations.

6.3 CONVOCATION OF THE ANNUAL GENERAL MEETING

The Articles of Association do not contain any rules that differ from the legal provisions.

6.4 AGENDA

The Articles of Association do not contain any rules that differ from the legal provisions. Shareholders representing shares with a par value of CHF 1 million have until February 1, 2008, if they wish to request that an item be included on the agenda for the 13th Annual General Meeting, which is to be held on April 10, 2008.

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 three to five days before the Annual General Meeting.

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1 DUTY TO MAKE AN OFFER

The limit beyond which the duty to make an offer applies is the same as the statutory minimum, 33 ⅓ percent.

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 LEAD AUDITOR

PricewaterhouseCoopers has held the mandate since Clariant Ltd was established in 1995. The principle of rotation applies to the lead auditor Dr. Matthias Jeger who was appointed as Lead Auditor in May 2004.

8.2 AUDITING HONORARIUM

PricewaterhouseCoopers received a fee of CHF 6.1 million for auditing the 2006 financial statements (2005: CHF 5.0 million).

8.3 ADDITIONAL HONORARIUMS

PricewaterhouseCoopers received a total fee of CHF 5.2 million for consultancy and special audits (2005: CHF 3.8 million). Audit-related services accounted for 40% (CHF 2.1 million) of this amount.

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 five joint meetings and two teleconferences with the representatives of the external auditors. These meetings lasted two to three hours on average and were in general attended by both members of the Audit Committee, one or both of the partners at the audit firm, one of the audit firm's managers, Clariant's CFO and Group Accountant, sometimes the head of the internal audit department and, depending on the matter in hand, the Head of Legal or the Head of Risk Management. The meetings focused, for example, on financial reporting, selected accounting issues such as disposals and acquisitions, the scope of the external audit function, internal auditing and risk management. The auditors communicate audit plans and audit findings to the Audit Committee and issue reports to the Board of Directors in accordance with Art. 729.a SwissCO.

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 Group Communications and Investor Relations departments report directly to the CEO and CFO respectively. On basic matters of general corporate policy, Group Communications receives its guidelines from the Executive Committee. Clariant provides timely information for all shareholders entered in the share register with their name and address. The information is sent by post each time an annual or semiannual report is published and is delivered the next day. The company's web site, www.clariant.com, is another regular source of information, where relevant information is published. It also lists addresses and contact persons.

PERFORMANCE CHEMICALS

From freezeproof diesel to nonoxidizing cooling liquid; from efficient oil pipeline processing to nonflammable lubricant oil. Our chemicals enhance the performance of machines, engines, tools and production facilities. Pioneering innovation from Clariant.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF THE CLARIANT GROUP

REVIEW OF TRENDS

FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ

Consolidated balance sheets

at 31 December 2006 and 2005

Assets	Notes[1]	31.12.2006 CHF mn	%	31.12.2005[2] CHF mn	%
Non-current assets					
Property, plant and equipment	4	2 422		2 605	
Intangible assets	5	335		418	
Investments in associates	6	288		282	
Financial assets	7	63		47	
Prepaid pension assets	15	90		77	
Deferred income tax assets	8	89		106	
Total non-current assets		**3 287**	45.7	**3 535**	49.2
Current assets					
Inventories	9	1 513		1 535	
Trade receivables	10	1 446		1 488	
Other current assets	11	378		344	
Cash and cash equivalents	12	443		223	
Current income tax receivables		24		55	
Total current assets		**3 804**	52.9	**3 645**	50.8
Non-current assets held for sale	22	**97**	1.4	–	0.0
Total assets		**7 188**	100.0	**7 180**	100.0

Equity and liabilities	Notes[1]	31.12.2006 CHF mn	%	31.12.2005[2] CHF mn	%
Capital and reserves attributable to Clariant shareholders					
Share capital	13, 28	1 035		1 093	
Treasury shares (par value)	13, 28	- 16		- 18	
Other reserves	28	648		663	
Retained earnings	28	706		793	
		2 373		**2 531**	
Minority interests	28	60		60	
Total equity	28	**2 433**	33.8	**2 591**	36.1
Liabilities					
Non-current liabilities					
Financial debts	14	1 376		599	
Deferred income tax liabilities	8	183		246	
Retirement benefit obligations	15	495		507	
Provision for non-current liabilities	16	244		289	
Total non-current liabilities		**2 298**	32.0	**1 641**	22.9
Current liabilities					
Trade payables	17	1 207		1 205	
Financial debts	18	623		1 137	
Current income tax liabilities		215		175	
Provision for current liabilities	19	351		431	
Total current liabilities		**2 396**	33.3	**2 948**	41.0
Liabilities directly associated with non-current assets held for sale	22	**61**	0.9	–	0.0
Total liabilities		**4 755**	66.2	**4 589**	63.9
Total equity and liabilities		**7 188**	100.0	**7 180**	100.0

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

[2] Restated for netting of deferred income tax assets and liabilities.

Consolidated income statements
for the years ended 31 December 2006 and 2005

	Notes[1]	2006 CHF mn	2006 %	2005[2] CHF mn	2005[2] %
Sales	20, 21	8 100	100.0	7 728	100.0
Costs of goods sold		- 5 614		- 5 373	
Gross profit		**2 486**	30.7	**2 355**	30.5
Marketing and distribution		- 1 328		- 1 274	
Administration and general overhead costs		- 394		- 374	
Research and development		- 207		- 197	
Income from associates	6	35		23	
Gain from the disposal of subsidiaries and associates	23	4		40	
Restructuring and impairment	27	- 211		- 125	
Operating income		**385**	4.8	**448**	5.8
Finance income	25	33		37	
Finance costs	25	- 143		- 134	
Income before taxes		**275**		**351**	
Taxes	8	- 144		- 89	
Net income from continuing operations		**131**	1.6	**262**	3.4
Discontinued operations:					
Income from discontinued operations	22	- 209		- 70	
Net income		**- 78**	- 1.0	**192**	2.5
Attributable to:					
Shareholders of Clariant Ltd		- 85		184	
Minority interests		7		8	
Net income		**- 78**	- 1.0	**192**	2.5
Basic earnings per share attributable to the shareholders of Clariant Ltd (CHF/share):					
Continuing operations	26	0.55		1.12	
Discontinued operations	26	- 0.92		- 0.31	
Total		**- 0.37**		**0.81**	
Diluted earnings per share attributable to the shareholders of Clariant Ltd (CHF/share):					
Continuing operations	26	0.54		1.12	
Discontinued operations	26	- 0.92		- 0.31	
Total		**- 0.38**		**0.81**	

[1] The notes form an integral part of the consolidated financial statements.
[2] Restated for discontinued operations.

Consolidated statements of cash flows

for the years ended 31 December 2006 and 2005

	Notes[1]	2006 CHF mn	2005 CHF mn
Net income		- 78	192
Depreciation of property, plant and equipment (PPE)	4	269	273
Impairment and reversal of impairment		231	59
Amortization of intangible assets	5	7	10
Changes in provisions and taxes		74	115
Interest paid		- 69	- 165
Income taxes paid		- 75	- 89
Loss from the disposal of discontinued operations	22	101	2
Gain before taxes from the disposal of subsidiaries and associates	23	- 4	- 40
Other non-cash items		- 9	- 84
Cash flow before changes in working capital		**447**	**273**
Changes in inventories		- 156	- 137
Changes in trade receivables		- 48	- 6
Changes in trade payables		- 45	65
Changes in other current assets and liabilities		86	14
Cash flow from operating activities		**284**	**209**
Investments in PPE	4	- 358	- 348
Investments in financial assets and associates		- 4	- 4
Investments in other intangible assets	5	- 4	- 5
Sale of PPE and intangible assets		25	10
Acquisition of companies, businesses and participations	24	- 45	- 33
Proceeds from the disposal of discontinued operations	22	46	- 7
Proceeds from the disposal of subsidiaries and associates	23	33	71
Dividends received	6	22	24
Interest received		22	42
Cash flow from investing activities		**- 263**	**- 250**
Reduction of share capital to shareholders of Clariant Ltd	28	- 58	- 58
Treasury share transactions		- 4	- 8
Proceeds from financial debts		1 135	614
Repayments of financial debts		- 867	- 1 772
Dividends paid to minority shareholders	28	- 7	- 5
Cash flow from financing activities		**199**	**- 1 229**
Currency translation effect on cash and cash equivalents			16
Net change in cash and cash equivalents		**220**	**- 1 254**
Cash and cash equivalents at the beginning of the period	12	**223**	**1 477**
Cash and cash equivalents at the end of the period	12	**443**	**223**

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

Consolidated statements of recognized income and expense

for the years ended 31 December 2006 and 2005

	Notes[1]	2006 CHF mn	2005 CHF mn
Cash flow hedges: Transferred to net income		–	5
Net investment hedge		- 16	- 35
Currency translation differences		1	179
Net income recognized directly in equity		**- 15**	**149**
Net income		- 78	192
Total recognized income and expense for the period	28	**- 93**	**341**
Attributable to:			
Shareholders of Clariant Ltd	28	- 100	318
Minority interests	28	7	23

This statement shows only changes in equity other than those arising from capital transactions with owners and distributions to owners. For a comprehensive presentation of equity, see note 28.

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

Changes in fair value of financial assets classified as available for sale amount to less than CHF 1 million in 2005 and 2006.

Tax on items taken directly to or transferred from equity is zero (2005: zero). The deferred tax on cash flow hedges is immaterial.

Notes to the consolidated financial statements

1. Accounting policies

1.01 General information

Clariant Ltd (the "Company") and its consolidated subsidiaries (together the "Group") are a global leader in the field of specialty chemicals. The Group develops, manufactures, distributes and sells a broad range of specialty chemicals which play a key role in its customers' manufacturing and treatment processes or add value to their end products. The Group has manufacturing plants around the world and sells mainly in countries within Europe, the Americas and Asia.

The company is a limited liability company incorporated and domiciled in Switzerland. The address of its registered office is Rothausstrasse 61, CH-4132 Muttenz, Switzerland. The Company is listed on the Swiss Stock Exchange (SWX).

The Board of Directors has approved the consolidated financial statements for issue on 16 February 2007. They will be subject to approval by the Annual General Meeting of Shareholders scheduled for 2 April 2007.

1.02 Basis of preparation

The consolidated financial statements of the Clariant Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and with the following significant accounting policies. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative instruments at fair value through profit or loss).

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. These affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and circumstances, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed under note 3.

1.03 International Financial Reporting Standards effective in 2006

In 2005 as part of the IASB improvement projects, the IASB published amendments and changes to:

> IAS 19 (Amendment), Employee Benefits
> IAS 21 (Amendment), Net Investment in a Foreign Operation
> IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
> IAS 39 (Amendment), The Fair Value Option
> IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
> IFRS 6, Exploration for and Evaluation of Mineral Resources
> IFRIC 4, Determining whether an Arrangement contains a Lease
> IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
> IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group has adopted these improved standards effective 1 January 2006, with the exception of IAS 21 and part of IAS 19, which were adopted early and applied from 1 January 2005.

> IAS 19 (Amendment), Employee Benefits: The amendment of paragraphs 32A, 34–34B and 61 were adopted early, however this did not result in any substantial changes to the Group's accounting policies. The amendments of paragraphs 120–121 were also adopted early. This has affected the presentation of the reconciliation of the opening and closing balances of the fair value of plan assets and the defined benefit obligations and the elements of the pension plan expenses recorded. Furthermore, this resulted in additional disclosures regarding pension plan assets and actuarial assumptions. The option in paragraphs 93A–93D (recognition of actuarial gains and losses directly in equity) was not adopted.

> IAS 21 (Amendment), Net Investment in a Foreign Operation: At the end of 2005 the standard was amended to confirm that a loan between subsidiaries of the Group ("sister to sister loans") may form part of the net investment in a foreign operation if settlement of the loan is neither planned nor likely to occur in the foreseeable future. It was also confirmed that exchange differences arising from the translation of a monetary item that is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation is recognized in equity in the consolidated financial statements if the criteria for a monetary item qualifying as a net investment in a foreign operation are met.

The amendments to IAS 21 are effective for annual periods beginning on or after 1 January 2006, however, the Group adopted these amendments as of 1 January 2005.

> IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions: The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financials statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into the transaction; and (b) the foreign currency risk will affect consolidated profit or loss. The Group has adopted this amendment as of 1 January 2006 but there was no impact on the classification of financial instruments.

> IAS 39 (Amendment), The Fair Value Option: This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group has adopted this amendment as of 1 January 2006. As a result of this adoption, financial assets previously designated as at fair value through profit or loss have been reclassified to available for sale in accordance with IAS 39 105C (refer to notes 7 and 11).

Other new or improved standards and interpretations had no impact on the Consolidated Financial Statements.

1.04 International Financial Reporting Standards not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted, as follows:

> IFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007): This standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risk arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The Group assessed the impact of IFRS 7 and it was not adopted early as this standard regulates disclosures only. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

> IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 replaces IAS 14 Segment Reporting. This standard requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. This new requirement could have an impact on the segments presented, the items reported and their respective measurement. The Group has not undergone a thorough analysis and therefore no final assessment of the impact can presently be made. The Group will apply this standard from 1 January 2009.

> IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, this interpretation does not have any impact on the Group's accounts.

> IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006): This interpretation requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued, to establish whether or not they fall within the scope of IFRS 2. The Group will apply this interpretation from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

> IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will apply this interpretation from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

> IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006): This interpretation prohibits the reversal of impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost, at a subsequent balance sheet date. The Group will apply this IFRIC from 1 January 2007, but it is not expected to have any impact on the Group's accounts.

> IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007): This interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled payment transaction, regardless of how the equity instruments are obtained. The Group will apply this IFRIC from 1 January 2008, but it is not expected to have any impact on the Group's accounts.

> IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on after 1 January 2008): This interpretation addresses how service operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. This IFRIC is not expected to have any impact on the Group's accounts.

The above mentioned standards and interpretations will be adopted as they become effective.

1.05 Scope of consolidation

> **Subsidiaries:** Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies. These entities are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date control is terminated.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of a minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the costs of acquisition are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

- **Investments in associates:** Associates are entities where the Group has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

  The company's share of the post-acquisition profits or losses of associates is recognized in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

  All associates use the same set of accounting policies (IFRS) that are applied to the consolidated accounts of the Group.

1.06 Principles and method of consolidation

The annual closing date of the individual financial statements is 31 December. The consolidated financial statements are prepared in accordance with the historical cost convention except for the revaluation to market value of certain financial assets and liabilities and applying uniform presentation and valuation principles.

Intercompany income and expenses, including unrealized gross profits from internal Group transactions and intercompany receivables and payables, are eliminated. The results of minority interests are separately disclosed in the income statement and balance sheet.

1.07 Reclassification

Certain prior year balances have been reclassified to conform to the current year presentation (for details, refer to the respective notes).

The 2005 income statement and related notes have been restated to exclude the Discontinued operations of the Pharmaceutical Fine Chemicals Business, sold in June 2006, and for the Custom Manufacturing Business, as a result of the decision of the Board of Directors to sell the business.

Deferred tax assets and liabilities have been restated in the 2005 balance sheet and related notes to reflect the offsetting of the assets and liabilities where there is a legally enforceable right and the taxes are levied under the same tax jurisdiction.

1.08 Revenue recognition

Sales of goods 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.

Interest income is recognized on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity when it is determined that such income will accrue to the Group. Dividends are recognized when the right to receive payment is established.

1.09 Exchange rate differences

- **Functional currency:** Items included in the financial statements of each entity are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs, which is the functional and presentation currency of the parent.

- **Transactions and balances:** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and net investment hedges. Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses.

- **Group companies:** Income statements and cash flows of foreign entities are translated into the Group's presentation currency at sales weighted average exchange rates for the year and their balance sheets are translated at the exchange rates prevailing on 31 December. Exchange rate differences arising on the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Net investments also include loans for which settlement is neither planned nor likely to occur in the foreseeable future. When a foreign entity is sold, such exchange rate differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of foreign entities after 31 March 2004 are treated as assets and liabilities of the foreign entity and translated at the closing rate.

1.10 Property, plant and equipment

Property, plant and equipment are valued at historical acquisition or production costs and depreciated on a straight-line basis to the income statement, using the following maximum estimated useful lives in accordance with Group guidelines:

> Buildings	40 years
> Machinery and equipment	16 years
> Furniture, vehicles, computer hardware	5 to 10 years
> Land is not depreciated	

Financing costs associated with the construction of property, plant and equipment are not capitalized.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the costs of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

1.11 Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

Trademarks and licenses 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.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis to the income statement over their estimated useful lives (three to five years). Costs associated with developing and maintaining computer software programs are recognized as an expense when incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

1.12 Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill and other intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating unit).

An impairment loss is recognized as an expense in the income statement and is first allocated to the goodwill associated with the cash generating unit and then to the other assets of the cash generating unit. An impairment loss may be reversed, for assets excluding goodwill, in subsequent periods if and only if there is a change in the estimates used to determine the asset's recoverable amount.

1.13 Inventories

Purchased goods are valued at acquisition cost, while self-manufactured products are valued at manufacturing costs including related production overhead costs. Borrowing costs are excluded. Inventory held at the balance sheet date is primarily valued at standard cost, which approximates actual costs on a weighted average 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 net realizable value. Unsaleable inventory is fully written off.

1.14 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment of trade receivables. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognized in the income statement.

1.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits and calls with banks, as well as short-term investment instruments with an initial lifetime of 90 days or less. Bank overdrafts are shown within financial debt in current liabilities on the balance sheet.

1.16 Derivative financial instruments and hedging

Under IAS 39 derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Depending on the type of the derivative financial instrument, fair value calculation techniques include, but are not limited to, quoted market value, present value of estimated future cash flows (e.g. interest rate swaps) or corresponding exchange rates at balance sheet date (e.g. forward foreign exchange contracts). The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designated to hedge a specific risk and qualifies for hedge accounting.

On the date a derivative contract is entered into, Clariant designates certain derivatives as either a) a hedge of the fair value of a recognized asset or liability (fair value hedge), b) a hedge of a forecast 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 derivatives 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 as a hedging reserve in shareholders' equity. Where the forecast transaction results in the recognition of a non-financial asset or non-financial 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 income or expense in the same period in which the forecast transaction affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Hedges of net investments in foreign entities are accounted for similar to cash flow hedges. Clariant hedges certain net investments in foreign entities with foreign currency borrowings and cross-currency swaps. All foreign exchange gains and losses on the effective portion of the hedge are recognized in equity and included in cumulative translation differences. Any gains or losses relating to an ineffective portion are recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

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 forecast transaction is ultimately recognized in the income statement. However, if a forecast 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 derivative instruments, while providing effective economic hedges under Clariant policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for cash flow hedge accounting under IAS 39 are recognized immediately in the income statement.

Financial instruments are used in the normal course of business to reduce risk arising from currency translation and interest rate or price movements. Clariant manages and records centrally its cover of various positions arising from existing assets and liabilities as well as future business transactions. To minimize counterparty risk, Clariant enters 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.

1.17 Leases

Leases under which the Clariant Group assumes substantially all of the risks and benefits of ownership are classified as finance leases. At the inception of the lease, the leased asset and a lease liability are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments. In subsequent periods the leased asset is depreciated on a straight-line basis, like other property, plant and equipment, over the shorter of its estimated useful life or the lease term. The depreciation amount of the asset and the interest amount on the finance lease liability are charged to the income statement.

A lease is classified as an operating lease if the substance of the transaction does not meet any of the requirements of a finance lease. Lease payments under an operating lease are charged to the income statement on a straight-line basis over the term of the lease.

1.18 Current income tax

The taxable profit (loss) of Group companies, on which the reporting period's income tax payable (recoverable) is calculated using applicable local tax rates, is determined in accordance with the rules established by the taxation authorities of the countries in which they operate. Current income taxes for current and prior periods, to the extent they are unpaid, are recognized as liabilities. In case income taxes already paid in respect of current and prior periods exceed the income tax liability amount of those periods, the exceeding amounts are recognized as assets. Current income tax receivables and current income tax liabilities are offset if there is a legally enforceable right to set off the recognized amounts and if there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

1.19 Deferred income tax

Deferred income tax is calculated using the comprehensive liability method. This method calculates a deferred tax asset or liability on the temporary differences that arise between the recognition of items in the balance sheets of Group companies used for tax purposes and the one prepared for consolidation purposes. An exception is that no deferred income tax is calculated for the temporary differences in investments in Group companies and associates, provided that the investor (parent company) is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Furthermore, withholding taxes or other taxes on the eventual distribution of retained earnings of Group companies are only taken into account when a dividend has been planned, since generally the retained earnings are reinvested.

Deferred taxes, calculated using applicable local tax rates, are included in non-current assets and non-current liabilities, with any changes during the year recorded in the income statement. Changes in deferred taxes on items that are recognized in equity are recorded in equity.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences or the tax losses carried forward can be utilized.

1.20 Equity compensation benefits

In 2005 Clariant replaced its two equity compensation plans, the Clariant Executive Stock Option Plan (CESOP) and the Management Stock Incentive Plan (MSIP), with the Clariant Executive Bonus Plan (CEBP). Under this new plan, specific groups of executives and managers are granted a certain number of registered shares in Clariant Ltd. The options and shares granted under the old plans up to February 2005 continue to vest. The fair value of the employee services received in exchange for the grant of the shares and options is recognized as an expense. The total amount to be expensed over the vesting and measurement periods is determined by reference to the fair value of the shares and options granted. An adjustment is made for dividends not distributed during the vesting period. Non-market vesting conditions are included in assumptions about the number of shares and options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of shares and options expected to vest. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

1.21 Obligations for pensions and similar employee benefits

Group companies operate various pension schemes. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For **defined contribution plans,** the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. Contributions to defined contribution plans are recorded in the income statement in the period to which they relate.

For **defined benefit plans,** the amount to be recognized in the provision is determined using the Projected Unit Credit Method, according to which, each period of employee service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Actuarial valuation techniques that take into consideration the demographic and financial assumptions are used to determine the carrying value of the net post-employment liability. Independent actuaries perform these valuations on a regular basis, at least every three years.

The portion of the actuarial gains and losses to be recognized as income or expense is the excess of the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year over the greater of 10% of the present value of the defined benefit obligation at that date and 10% of the fair value of any plan assets at that date, divided by the expected average remaining working lives of the employees participating in the plan.

Some Group companies provide **post-retirement health care benefits** to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

Termination benefits are provided for in accordance with the legal requirements of certain countries. Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. The charges for defined benefit plans, defined contribution plans and termination benefits are included in personnel expenses and reported in the income statement under the corresponding functions of the related employees and in expenses for restructuring and impairment.

Other **long-term employee benefits** are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within 12 months after the end of the period in which the employees render the related services. These include long-term compensated absences such as long-service or sabbatical leave and jubilee or other long-service benefits. The accounting policy for other long-term employee benefits is equal to that for post-employment benefits, with the exception that actuarial gains and losses and past service costs are recognized immediately in the income statement.

Short-term employee benefits are employee benefits (other than termination benefits) which fall due wholly within 12 months after the end of the period in which the employees render the related service. Accounting for short-term employee benefits is straightforward and they are measured on an undiscounted basis.

1.22 Provisions

Provisions are recognized when the Group has a binding present obligation. This may be either legal because it derives from a contract, legislation or other operation of law, or constructive because the Group created valid expectations on the part of third parties by accepting certain responsibilities. To record such an obligation it must be probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation. The amount recognized as a provision is the best estimate (most probable outcome) of the expenditure required to settle the present obligation at the balance sheet date. The non-current provisions are discounted if the impact is material.

1.23 Research and development

Research and development expenses are capitalized to the extent that the recognition criteria according to IAS 38 are met. The Group considers that regulatory and other uncertainties inherent in the development of key new products preclude it from capitalizing development costs. At the balance sheet date, no research and development projects met the recognition criteria. Laboratory buildings and equipment included in property, plant and equipment are depreciated over their estimated useful lives. The reason for this practice is the structure of research and development in the industries that Clariant engages in, making it difficult to demonstrate how singular intangible assets will generate probable future economic benefits.

1.24 Segment reporting

Clariant is divided operationally on a worldwide basis into the following five divisions, which are at the same time the Group's reportable business segments:

> Textile, Leather & Paper Chemicals
> Pigments & Additives
> Functional Chemicals
> Life Science Chemicals
> Masterbatches

These divisions, which are based on internal management structures, are best described as follows:

The Textile, Leather & Paper Chemicals Division is a supplier of specialty chemicals and dyes for the textile, leather and paper industries. Textile dyes include dispersion, reactive, acid and sulfur dyes. The Textile Business encompasses special chemicals for pretreatment, dyeing, printing and finishing of textiles. Optical brighteners and chemicals for functional treatment are also part of the range. The Paper Business supplies paper dyes, optical brighteners and process and pulping chemicals. The Leather Business produces chemicals for refining. Its offering includes all chemicals for finishing and dyeing as well as a complete range of wet-end chemicals.

The **Pigments & Additives Division** develops and produces pigments for paints and lacquers, for plastics and for special applications. The product range includes high-performance pigments to meet the specific demands of the automotive and electronics industries. Printing pigments are supplied to the printing ink industry and increasingly for non-impact printing, ink jet and laser printing. The core business also includes additives to improve heat resistance as well as light and weather resistance of plastics and paint. 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 materials.

The **Functional Chemicals Division's** products are based on surfactants and polymers. The Detergents Business, which offers anionic and cationic surfactants, as well as bleach activators, is a partner to the detergent industry. Performance Chemicals supplies such different industries as personal care products, crop protection, paints, lacquers and plastics. The Process Chemicals Business markets products for the production and refining of oil and natural gas and for metalworking, mining and the aerospace and automotive industry.

The **Life Science Chemicals Division** covers a wide range of industrial applications with its silicone, glyoxal and glyoxylic acid derivatives, acid derivatives and diketene-based chemicals. It also supplies precursors, active ingredients and building blocks for agrochemical agents.

The Masterbatches Division supplies color and additive concentrates and special mixtures of these components mainly for plastic processors. At the local level each of the division's production plants provides a complete technical service for all products and applications.

Corporate: Income and expenses relating to Corporate include the costs of the Group headquarters and those of corporate coordination functions in major countries. In addition, Corporate includes certain items of income and expense, which are not directly attributable to specific divisions.

The Group's divisions are business segments that offer different products. These business segments are managed separately because they manufacture, distribute and sell distinct products, which require differing technologies and marketing strategies. These products are also subject to risks and returns that are different from those of other business segments. Geographical segments provide products within a particular economic environment that are subject to risks and returns that are different from those operating in other economic environments. The Group designates business segments as its primary reportable segments and geographical segments as its secondary reportable segments.

Segment revenue is revenue reported in the company's income statement that is directly attributable to a segment and the relevant portion of the company income that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis, including expenses relating to sales to external customers and expenses relating to transactions with other segments.

Intersegment sales are determined on an arm's length basis.

Division and business net operating assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables less operating liabilities. Corporate assets and liabilities principally consist of net liquidity (cash, cash equivalents and other current financial assets less financial debts) and deferred and current taxes.

1.25 Treasury shares

Treasury shares are deducted from equity at their par value of CHF 4.50 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of treasury shares are recorded in retained earnings.

1.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

1.27 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. In non-current assets held for sale Clariant reports assets and associated liabilities of the Custom Manufacturing activities.

1.28 Share capital

All issued shares are ordinary shares and as such are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

1.29 Financial debt

Financial debt is recognized initially at fair value, net of transactions costs incurred. Financial debt is subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value, is recognized in the income statement over the period of the financial debt.

Financial debt is classified as a current liability where it is due within 12 months from the balance sheet date. This includes the portion of non-current debt that is due within 12 months. Financial debt is classified as a non-current liability where the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.30 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments on initial recognition and re-evaluates this designation at every reporting date.

> Financial assets at fair value through profit or loss: This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

> Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money and goods directly to a debtor with no intention of trading the receivable. They are included in current assets in the balance sheet.

> Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

> Available-for-sale financial assets: Available-for-sale financial assets are non-derivatives that are either designated to that category or not classified to any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognized on settlement date, which is the date on which the Group receives or delivers the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest rate method. Realized and unrealized gains and losses arising from changes in the fair value of the "financial assets at fair value through the profit or loss" category are included in the income statement in the period in which they arise. Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

1.31 Emission rights

In 2005 the European Union started a system whereby companies are granted certain amounts of rights to emit carbon dioxide. These rights are initially granted free of charge and can be exchanged with other companies. At present the accounting for such emission rights is not clearly regulated by IFRS. Clariant accounts for these rights as follows:

At the time the Group receives emission rights from the governments, these are recognized as intangible assets at fair value (usually represented by the market price). The difference between the amount paid which is usually nil, since the rights are assigned by the governments free of charge, and the fair value of the emission right, is recognized as a liability.

When the rights are used in operating activities, this is recognized by recording an expense based on the actual emission in the income statement and a liability in the balance sheet. At the same time, the liability recorded on initial recognition of the emission right is released proportionally to the income statement. At the end of the reporting period the liability recorded as a result of the use of the emission rights and the asset initially recognized for emission rights are offset against each other. If any emission rights are purchased from third parties, they are recorded at historical a cost which is usually fair value.

The carrying values of emission rights and the corresponding liability are not revalued due to the subsequent fluctuations in market price.

When emission rights are sold, the respective amount recognized as an intangible asset and the respective amount recognized as a liability in the balance sheet are derecognized. The difference between the sale price obtained in the disposal and the net amount of the intangible asset and the liability derecognized is recorded as an income or an expense in the income statement.

2. Financial risk management

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency rate risk, cash flow risk, interest rate risk and price risk), credit risk, liquidity risk and settlement risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance at reasonable hedging costs. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by a central treasury department (Group Treasury) under policies approved by Management and the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. Written principles for overall foreign exchange risk, credit risk, use of derivative financial instruments, non-derivative financial instruments and investing excess liquidity (counterparty risk) are in place.

Market risk

> - Foreign exchange risk: The Group operates internationally and is exposed to foreign exchange risks arising from various currency exposures, primarily with respect to the Euro and the US dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

  To manage the foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group use forward contracts and FX options, according to the Group's foreign exchange risk policy. Foreign exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible, in close co-ordination with the Group's operating units, for managing the net position in each foreign currency by performing appropriate hedging actions.

  The Group's foreign exchange risk management policy is to selectively hedge net transaction FX exposures in each major currency according to defined hedging ratios.

  The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposures arising from the net assets of the Group's foreign operations are managed primarily through borrowings denominated in the relevant foreign currency.

> - Cash flow and fair value interest rate risk: As the Group has no large interest-bearing assets, the Group's income and operating cash flows are relatively independent of changes in the interest rate markets.

  The Group's interest rate risk mainly arises from financial debt. Financial debt issued at variable rates expose the Group to cash flow interest rate risk. Financial debt issued at fixed rates exposes the Group to fair value interest rate risk. At year-end, 86% of the net financial debt was at fixed rates (2005: 43%).

Credit risk

The Group has no significant concentration of credit risk. It has a Group credit risk policy in place to ensure that sales of products are made to customers only after an appropriate credit limit allocation process. Counterparties to derivative and cash transactions are restricted to high-credit quality financial institutions.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient, but not excessive, cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping reasonable amounts of committed credit lines available.

Settlement risk

Settlement risk is the risk that a settlement in a transfer system does not take place as expected. It is part of operational risk that comprises all kinds of risks that arise from weak or inadequate internal processes within the Group, settlement problems of our counterparties, but also arise from human and system-based failures. The Group manages settlement risk by relying on a safe and efficient payment system, by entering into financial transactions only with established counterparties with a proven record of integrity and which are technically able to settle transactions. Also all deals are monitored by the Treasury middle office.

2.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as derivatives and securities) is based on quoted market prices at the balance sheet date. The quoted market price used for the valuation of financial assets held by the Group is the current bid price; the appropriate quoted market price for the valuation of financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for non-current debt. Other techniques, such as discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the future cash flows according to the appropriate interest curves. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(1) Estimated impairment of goodwill and property, plant and equipment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above in notes 1.11 and 1.12. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. In the same procedure, the recoverable value of property, plant and equipment is also assessed according to the same rules. These calculations require the use of estimates, in particular in relation to the expected growth of sales, discount rates, the development of raw material prices and the success of restructuring measures implemented (see notes 5 and 27).

(2) Environmental liabilities

The Group is exposed to environmental regulations in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for environmental remediation. The Group constantly monitors its sites to ensure compliance with legislative requirements and to assess the liability arising from the need to adapt to changing legal demands. The Group recognizes liabilities for environmental remediation based on the latest assessment of the environmental situation of the individual sites and the most recent requirements of the respective legislation. Where the final remediation results in expenses that differ from the amounts that were previously recorded, such differences will impact the income statement in the period in which such determination was made (see notes 16, 19 and 33).

(3) Income and other taxes

The Group is subject to income and other taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain at the time a liability must be recorded. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

(4) Estimates for the accounting for employee benefits

IAS 19, employee benefits requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any one of these variables may significantly change the Group's retirement benefit obligation and pension plan assets (see note 15).

4. Property, plant and equipment

CHF mn	Land	Buildings	Machinery and equipment	Furniture, vehicles, computer hardware	Plant under construction	Total	Insured value at 31 December
At 1 January 2005							
Cost	593	2 274	4 893	508	147	8 415	
Accumulated depreciation	- 149	- 1 513	- 3 879	- 434	–	- 5 975	
Net book value	**444**	**761**	**1 014**	**74**	**147**	**2 440**	
Additions	6	21	78	18	225	348	
Acquisitions	5		1			6	
Reclassifications	- 7	51	109	10	- 163	–	
Disposals	- 4	- 4	- 23	- 1	- 2	- 34	
Depreciation		- 61	- 182	- 30		- 273	
Impairment	- 5	- 17	- 54			- 76	
Reversal of impairment		1	16			17	
Exchange rate differences	24	76	62	7	8	177	
At 31 December 2005	**463**	**828**	**1 021**	**78**	**215**	**2 605**	
Cost	619	2 480	5 088	526	215	8 928	
Accumulated depreciation	- 156	- 1 652	- 4 067	- 448		- 6 323	
Net book value	**463**	**828**	**1 021**	**78**	**215**	**2 605**	**10 074**
Additions	1	29	110	17	201	358	
Acquisitions	1	6	8	1	1	17	
Reclassifications	9	35	213	13	- 270	–	
Reclassified to held for sale			- 1			- 1	
Disposals	- 28	- 63	- 53	- 4	- 28	- 176	
Depreciation		- 60	- 180	- 29		- 269	
Impairment	- 50	- 9	- 59	- 1	- 8	- 127	
Exchange rate differences	1	1	8		5	15	
At 31 December 2006	**397**	**767**	**1 067**	**75**	**116**	**2 422**	
Cost	564	2 357	5 020	501	124	8 566	
Accumulated depreciation	- 167	- 1 590	- 3 953	- 426	- 8	- 6 144	
Net book value	**397**	**767**	**1 067**	**75**	**116**	**2 422**	**9 571**

As at 31 December 2006, commitments for the purchase of PPE totaled CHF 59 million (2005: CHF 41 million).

Land, buildings, furniture and machinery and equipment include the following amounts where the Group is a lessee under a finance lease:

CHF mn	**2006**	2005
Cost – capitalized finance leases	28	27
Accumulated depreciation	- 11	- 2
Net book value	**17**	**25**

4. Property, plant and equipment (continued)

Finance lease liability – minimum lease payments:

CHF mn	2006	2005
No later than 1 year	3	3
Later than 1 year but no later than 5 years	11	13
Later than 5 years	19	25
Total minimum lease payments	**33**	**41**
Future finance charge on finance leases	- 16	- 16
Present value of finance lease liabilities	**17**	**25**

The present value of finance lease liabilities is as follows:

CHF mn	2006	2005
No later than 1 year	3	3
Later than 1 year but no later than 5 years	7	10
Later than 5 years	7	12
Total minimum lease payments	**17**	**25**

The corresponding liability related to finance lease contracts is disclosed in note 14.

5. Intangible assets

CHF mn	Goodwill	Other	**Total**
At 1 January 2005			
Cost[1]	387	113	500
Accumulated amortization		- 95	- 95
Net Book value	**387**	**18**	**405**
Additions	12	5	17
Amortization		- 10	- 10
Exchange rate differences	4	2	6
At 31 December 2005	**403**	**15**	**418**
Cost	403	122	525
Accumulated amortization		- 107	- 107
Net Book value	**403**	**15**	**418**
Additions	5	4	9
Acquisitions		18	18
Disposals		- 1	- 1
Amortization		- 7	- 7
Impairment	- 100		- 100
Exchange rate differences	- 2		- 2
At 31 December 2006	**306**	**29**	**335**
Cost	406	136	542
Accumulated amortization	- 100	- 107	- 207
Net Book value	**306**	**29**	**335**

[1] Accumulated amortization of goodwill has been eliminated as at 1 January 2005 with a corresponding decrease in the cost of goodwill.

The amount reported as goodwill is the result of a number of acquisitions in various divisions. The principal amount is the goodwill arising on the acquisition of BTP in 2000 with a carrying amount of CHF 231 million (2005: 331 million) pertaining to the Textile, Leather & Paper Chemicals Division. All goodwill is tested annually for impairment. Other intangibles comprise patents, trademarks and software etc. Clariant does not have any internally generated intangible assets. Amortization of intangibles is recorded in Administration and general overhead costs in the income statement.

Additions to the carrying amount of goodwill in 2006 mainly include CHF 3 million arising from the purchase of the Masterbatch activities from Ciba Specialty Chemicals. The remaining addition of CHF 2 million arose from smaller acquisitions in France, the United States and India. In 2005 additions to the carrying amount of goodwill included CHF 3 million of goodwill arising from the purchase of business activities as described in note 24 and CHF 8 million from the purchase of minority shares of Colour-Chem Ltd, Mumbai, a fully consolidated subsidiary of the Group. In addition to that, CHF 1 million of goodwill arising from the purchase of minority shares of various fully consolidated subsidiaries of the Group was recognized.

Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGU). Cash generating units consist of either Business segments in accordance with the Group's segment reporting or, in the case where independent cash flows can be identified, of parts of the respective Business units.

Goodwill is allocated to the following CGU's:

CHF mn	**31.12.2006**	31.12.2005
Textiles	6	6
Leather	231	331
Pigments & Additives	27	29
Masterbatches	35	30
Functional Chemicals	7	7
Net book value at 31 December 2006	**306**	**403**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a four-year period. Cash flows beyond the four-year period are extrapolated. The main assumption used for cash flow projections were EBITDA in percent of sales and sales growth. The assumptions regarding these two variables are based on Management's past experience and future expectations of business performance. The pre-tax discount rates used are based on the Group's weighted average cost of capital adjusted for specific country risks associated with the cash flow projections. The assumed discount rate was 9% for all cash generating units (2005: 9%).

The most important part of goodwill is the amount of CHF 231 million (2005: CHF 331 million) remaining from the BTP acquisition in 2000. This goodwill is allocated to the CGU Leather. For the impairment testing procedure the planning assumptions of prior years were critically reviewed as a result of the recovery of the activities which was realized at a slower pace than originally expected. This review resulted in lower expected cash flows from the Leather Business in the coming years and a reduced estimated amount recoverable from the respective net assets calculated on a value in use basis. Consequently an impairment of the goodwill allocated to the CGU in the amount of CHF 100 million was recorded. This impairment is reported in the line restructuring and impairment in the income statement. For the impairment testing procedure it was assumed that the CGU would achieve sales growth above market growth for the planning period. It was also assumed that EBITDA will increase over present performance due to the optimization of structural costs.

If the assumed growth rate were reduced by 1%, the carrying amount of the CGU Leather would exceed its recoverable amount after the impairment of goodwill by approximately CHF 41 million.

The CGU Textiles holds goodwill in the amount of CHF 6 million, the CGU Pigments & Additives holds goodwill in the amount of CHF 27 million, the CGU Masterbatches holds goodwill in the amount of CHF 35 million and the CGU Functional Chemicals holds goodwill in the amount of CHF 7 million. For all these CGUs it was assumed that they achieve sales growth above market growth. It was also assumed that the EBITDA in percent of sales will improve over present performance as a result of the restructuring measures implemented. For all these CGUs it was determined that the net present value of their expected cash flows exceeds the carrying amount of the net assets allocated on a value in use basis.

6. Investments in associates

CHF mn	2006	2005
Beginning of the year	**282**	**277**
Acquisitions	1	3
Change in scope of consolidation	- 6	- 2
Share of profit/(loss)	35	23
Dividends received	- 22	- 24
Exchange rate differences	- 2	5
End of the year	**288**	**282**

The key financial data of the Group's principal associates are as follows:

CHF mn	Country of incorporation	Assets	Liabilities	Revenue	Profit/ (Loss)	% Interest held
2005						
Infraserv GmbH & Co. Höchst KG	Germany	1 039	525	1 260	35	32
Infraserv GmbH & Co. Gendorf KG	Germany	195	99	306	8	50
Infraserv GmbH & Co. Knapsack KG	Germany	169	64	240	8	21
Others		113	61	239	8	–
Total		**1 516**	**749**	**2 045**	**59**	
2006						
Infraserv GmbH & Co. Höchst KG	Germany	1 229	705	1 324	56	32
Infraserv GmbH & Co. Gendorf KG	Germany	197	97	355	11	50
Infraserv GmbH & Co. Knapsack KG	Germany	173	73	239	- 1	21
Others		102	44	179	–	–
Total		**1 701**	**919**	**2 097**	**66**	

There were no unrecognized losses in the years 2006 and 2005. No accumulated unrecognized losses existed as at the balance sheet date.

7. Financial assets

CHF mn	2006	2005
Beginning of the year	47	47
Exchange rate differences		- 1
Accrued interest	4	3
Additions	12	
Capital reduction and disposals		- 2
End of the year	**63**	**47**

Financial assets include the following:

CHF mn	2006	2005
Vendor loan note	48	44
Other investments	15	3
Total	**63**	**47**

The vendor loan note was accepted as part of the payment for the disposal of Electronic Materials in 2004. It is due to mature on 30 September 2014.

The carrying amounts of these assets are classified as follows:

CHF mn	2006	2005
Held to maturity	58	44
Designated as available for sale	5	3
Total	**63**	**47**

Financial assets designated as available for sale were reclassified from financial assets designated at fair value through profit or loss in accordance with IAS 39 105C.

The value reported for the assets held to maturity is approximately fair value.

8. Taxes

CHF mn	2006	2005[1]
Current income taxes	- 164	- 77
Deferred income taxes	20	- 12
Total	**- 144**	**- 89**

[1] Restated for discontinued operations.

The main elements contributing to the difference between the Group's overall expected tax expense/rate and the effective tax expense/rate for continuing operations are:

	2006		2005[2]	
	CHF mn	%	CHF mn	%
Income before tax	**275**		**351**	
Expected tax expense/rate[1]	**- 74**	26.9	**- 110**	31.3
Effect of taxes on items not tax-deductible	- 57	20.7	- 37	10.5
Effect of utilization and changes in recognition of tax losses and tax credits	- 11	4.0	41	- 11.7
Effect of tax losses and tax credits of current year not recognized	- 8	2.9	- 3	0.9
Effect of adjustments to current taxes due to prior periods	6	- 2.2	5	- 1.4
Effect of tax exempt income	6	- 2.2	5	- 1.4
Effect of other items	- 6	2.2	10	- 2.8
Effective tax expense/rate	**- 144**	52.4	**- 89**	25.4

[1] Calculated based on the income before tax of each subsidiary (weighted average).
[2] Restated for discontinued operations.

Compared to 2005 the expected tax rate was lower in 2006 due to a larger part of the profit in countries with lower tax rates and also as a result of the European reorganization.

The movement of the net deferred tax balance is as follows:

CHF mn	2006	2005[1]
Beginning of the year	- 140	- 129
Effect of acquisitions	- 1	
Effect of disposals	- 4	
Effect of discontinued operations	24	2
Tax on disposal result of discontinued operations	20	
Reclassified to held for sale	- 6	
Tax on vested equity share based payments reversed to equity	- 4	
Income statement charge	20	- 12
Exchange rate differences	- 3	- 1
End of the year	**- 94**	**- 140**

[1] Restated for discontinued operations.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

CHF mn	2006	2005
Deferred tax liabilities on:		
PPE and intangible assets	286	380
Prepaid pensions, other accruals and provisions	11	10
Total deferred tax liabilities	**297**	**390**
Thereof offset with deferred tax assets within the same jurisdiction	114	144
Net deferred tax liabilities	**183**	**246**
Deferred tax assets on:		
PPE and intangible assets	50	68
Retirement benefit obligations	80	84
Tax losses carried forward and tax credits	40	41
Other accruals and provisions	33	57
Total deferred tax assets	**203**	**250**
Thereof offset with deferred tax liabilities within the same jurisdiction	114	144
Net deferred tax assets	**89**	**106**
Net deferred tax balance	**- 94**	**- 140**

Of the deferred tax assets capitalized CHF 10 million refer to tax losses of the French subsidiaries (2005: CHF 18 million) and CHF 20 million to tax losses of the Italian subsidiaries (2005: 0). Clariant is confident it can recover these tax losses as a result of the efforts made both in the restructuring program and in the implementation of the new principal structure.

The total of temporary differences on investments in subsidiaries, for which no deferred taxes were calculated, was CHF 764 million at 31 December 2006 (CHF 1 024 million at 31 December 2005).

8. Taxes (continued)

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

CHF mn	2006	2005
Expiry by: 2006	–	32
2007	128	31
2008	129	699
2009	642	640
2010	46	–
after 2010 (2005: after 2009)	883	753
Total	**1 828**	**2 155**

CHF mn	2006	2005
Unrecognized tax credits	**8**	**6**

The tax credits expire between 2007 and 2012.

9. Inventories

CHF mn	2006	2005
Raw material, consumables, work in progress	559	597
Finished products	954	938
Total	**1 513**	**1 535**

CHF mn	2006	2005
Movements in write-downs of inventories		
Beginning of the year	75	68
Additions	45	71
Reversals	- 52	- 64
Effect of disposals	- 12	
Reclassified to held for sale	- 4	
End of the year	**52**	**75**

As at 31 December 2006, inventories in the amount of CHF 57 million were pledged as collateral for liabilities (2005: CHF 55 million).

The cost of inventories recognized as an expense and included in "Costs of goods sold" amounted to CHF 3 667 million (2005: CHF 3 460 million).

10. Trade receivables

CHF mn	2006	2005[1]
Gross accounts receivable – trade	1 503	1 546
Gross accounts receivable – associates	8	9
Less: provision for impairment of accounts receivable	- 65	- 67
Total trade receivables – net	**1 446**	**1 488**

The following summarizes the movement in the provision for doubtful debts:

CHF mn	2006	2005
At 1 January	- 67	- 65
Charged to the income statement	- 29	- 48
Amounts used	12	22
Acquisitions	- 1	
Unused amounts reversed	18	30
Exchange rate differences	2	- 6
At 31 December	**- 65**	**- 67**

[1] Restated. Receivables from associates reallocated out of trade receivables.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of internationally dispersed customers.

The Group recognizes impairment of trade receivables in "Marketing and distribution" in the income statement.

The amount recognized in the books for trade receivables is equal to their fair value.

11. Other current assets

Other current assets include the following:

CHF mn	2006	2005
Other receivables	270	229
Current financial assets	42	45
Prepaid expenses and accrued income	66	70
Total	**378**	**344**

Other receivables include staff loans, advances, advance payments and deposits.

Current financial assets include desposits with an original maturity exceeding 90 days, securities and loans to third parties and are classified as available for sale. They were reclassified from financial assets designated at fair value through profit or loss in accordance with IAS 39 105C.

12. Cash and cash equivalents

CHF mn	2006	2005
Cash at bank and on hand	328	215
Short-term bank deposits	115	8
Total	**443**	**223**

The effective interest rate on short-term bank deposits in CHF was 1.60% (2005: 0.68%); these deposits have an average maturity of 26 days.

The effective interest rate on short-term bank deposits in EUR was 2.85% (2005: 2.07%); these deposits have an average maturity of 2 days.

There were no major cash flows on short-term bank deposits denominated in other currencies.

13. Changes in share capital and treasury shares

Registered shares each with a par value of CHF 4.50 (2005: CHF 4.75)	**Number of shares 2006**	**Par value 2006** CHF mn	Number of shares 2005	Par value 2005 CHF mn
At 1 January	230 160 000	1 035	230 160 000	1 093
At 31 December	**230 160 000**	**1 035**	**230 160 000**	**1 093**
Treasury shares	- 3 511 698	- 16	- 3 867 293	- 18
Outstanding capital at 31 December	**226 648 302**	**1 019**	**226 292 707**	**1 075**

Treasury shares (number of shares)	**2006**	2005
Holdings at 1 January	3 867 293	3 388 421
Shares purchased at fair market value		1 060 000
Shares purchased on exercise of put options	750 000	
Shares sold at fair market value	- 500 000	- 150 000
Shares transferred to employees	- 605 595	- 431 128
Holdings at 31 December	**3 511 698**	**3 867 293**

All shares are duly authorized and fully paid in.

Dividends are paid out as and when declared and are paid out equally on all shares, including treasury shares.

In accordance with Article 5 of the Articles of Incorporation, no limitations exist with regard to the registration of shares which are acquired in one's own name and on one's own account. 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 the total share capital.

14. Non-current financial debts

CHF mn	Interest rate in %	Term	Notional amount	Net amount 31.12.2006	Net amount 31.12.2005
Straight bonds	4.125	1996–2006	CHF 200 mn	–	159
Straight bonds	3.750	1997–2007	CHF 200 mn	175	175
Straight bonds	4.250	2000–2008	CHF 500 mn	384	384
Straight bonds	4.375	2006–2013	EUR 600 mn	961	–
Total straight bonds				**1 520**	**718**
Liabilities to banks and other financial institutions[1]				**21**	**57**
Obligations under finance leases				**14**	**22**
Subtotal				**1 555**	**797**
Less current portion				**- 179**	**- 198**
Total				**1 376**	**599**
Breakdown by maturity			2007		180
			2008	392	393
			2009	8	
			2010	–	
			2011	–	
			thereafter	976	26
Total				**1 376**	**599**
Breakdown by currency			CHF	384	559
			EUR	977	24
			USD		3
			other	15	13
Total				**1 376**	**599**
Fair value comparison (including current portion)					
Straight bonds				1 509	744
Others				35	79
Total				**1 544**	**823**
Total net book value of assets pledged as collateral for financial debts				**114**	**101**
Total collaterized financial debts				17	22

[1] Average interest rate in 2006: 4.6% (2005: 4.3%).

In 2005, bonds in the amount of CHF 201 million were paid back on expiry in order to reduce financial debt.

In 2005, drawings under two facilities were prematurely repaid in the amount of CHF 964 million.

In 2006, a EUR 600 million (CHF 961 million) Eurobond was issued and bonds in the amount of CHF 159 million were paid back on expiry (November 2006). The net effect from bond transactions was CHF 802 million.

Covenants. Clariant Ltd is borrowing and guaranteeing all obligations under one syndicated bank facility. The facility ranks pari passu with all other unsubordinated third-party debt.

The facility contains customary covenants that restrict the sale of assets, mergers, lines, sale-leaseback transactions and acquisitions and requires the Group to maintain specified interest cover ratios. These ratios are tested at the end of each financial half-year. The facility does not affect the ability of the Group to utilize its accounts receivable securitization program. The Group is in compliance with all covenants.

Exposure to the Group's borrowings to interest rate changes

> Bonds: The interest rates of all bonds are fixed.
> Liabilities to banks and other financial institutions: Mostly consisting of syndicated bank loans with variable interest rates (LIBOR plus applicable margin according to a defined pricing grid based on the Group's performance).
> Other financial debts: Mostly current debt at variable interest rates.

Collateral. The assets are pledged for bank overdraft facilities at the usual market conditions.

15. Retirement benefit obligations

Apart from the legally required social security schemes, the Group has numerous independent pension plans. The assets are principally held externally. For certain Group companies however, no independent assets exist for the pension and other non-current employee benefit obligations. In these cases the related liability is included in the balance sheet.

Defined benefit post-employment plans

Defined benefit pensions 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.

Post-employment medical benefits

The Group operates a number of post-employment 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.

Expenses for net benefits are recorded in the same line and function in which the personnel costs are recorded.

Changes in the present value of defined benefit obligations:

CHF mn	Pension plans (funded and unfunded)		Post-employment medical benefits (unfunded)	
	2006	2005	**2006**	2005
Beginning of the year	2 097	1 828	113	86
Change in the scope of consolidation	1			
Current service cost	72	54	2	2
Interest costs on obligation	84	83	5	5
Contributions to plan by employees	12	11		
Benefits paid out to personnel in reporting period	- 82	- 92	- 4	- 5
Actuarial loss (gain) of reporting period	- 54	155	- 9	12
Past service costs (gain) of reporting period	1			
Termination benefits	2			
Effect of curtailments	- 22	2	- 6	
Reduction in obligations due to divestitures	- 15	- 7		
Reclassifed to held for sale	- 30			
Exchange rate differences	14	63	- 6	13
End of the year	**2 080**	**2 097**	**95**	**113**

Changes in the fair value of plan assets:

CHF mn	**2006**	2005
Beginning of the year	1 567	1 310
Expected return on plan assets	85	72
Contributions to plan by employees	12	11
Contributions to plan by employer	59	69
Benefits paid out to personnel in reporting period	- 58	- 66
Actuarial gain (loss) of reporting period	48	123
Reclassified to held for sale	- 18	
Exchange rate differences	3	48
End of the year	**1 698**	**1 567**

The Group expects to contribute CHF 76 million to its defined benefit pension plans in 2007.

As of 31 December 2006 the pension plan assets included no registered shares issued by the company (2005: CHF 397 000).

15. Retirement benefit obligations (continued)

The amounts recognized in the balance sheet:

CHF mn	Defined benefit pension plans		Post-employment medical benefits		Total	
	31.12.2006	31.12.2005	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
Present value of funded obligations	- 1 667	- 1 653	–	–	- 1 667	- 1 653
Fair value of plan assets	1 698	1 567	–	–	1 698	1 567
Surplus/(Deficit)	**31**	**- 86**	**–**	**–**	**31**	**- 86**
Present value of unfunded obligations	- 413	- 444	- 95	- 113	- 508	- 557
Unrecognized actuarial losses (gains)	142	251	7	16	149	267
Unrecognized past service costs (gains)	1	–	- 15	- 20	- 14	- 20
Limitation on recognition of assets	- 29	–	–	–	- 29	–
Net liabilities in the balance sheet	**- 268**	**- 279**	**- 103**	**- 117**	**- 371**	**- 396**

Thereof recognized in:

CHF mn	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
Retirement benefit obligation	- 358	- 356	- 103	- 117	- 461	- 473
Prepaid pension assets	90	77			90	77
Net liabilities in the balance sheet for defined benefit plans	**- 268**	**- 279**	**- 103**	**- 117**	**- 371**	**- 396**

The amounts recognized in the income statement are as follows:

CHF mn	**2006**	2005	**2006**	2005	**2006**	2005
Current service cost	- 72	- 54	- 2	- 2	- 74	- 56
Interest cost	- 84	- 83	- 5	- 5	- 89	- 88
Expected return on plan assets	85	72			85	72
Net actuarial losses recognized in the current year	- 11	- 9			- 11	- 9
Past service costs recognized in the current year	- 1		4	3	3	3
Termination benefits	- 2				- 2	–
Effect of curtailments	22	- 1	5		27	- 1
Limitation on recognition of assets	- 29				- 29	–
Total expenses	**- 92**	**- 75**	**2**	**- 4**	**- 90**	**- 79**

Thereof the amount of CHF 1 million (2005: CHF 1 million) is reported under discontinued operations.

CHF mn	**2006**	2005	**2006**	2005	**2006**	2005
Actual return on plan assets	133	195	–	–	133	195

Reconciliation to prepaid pension asset and retirement benefit obligations reported in the balance sheet:

CHF mn	**31.12.2006**	31.12.2005
Defined benefit obligation	- 461	- 473
Defined contribution obligation	- 34	- 34
Retirement benefit obligation	**- 495**	**- 507**
Prepaid pension plan asset	**90**	**77**
Net retirement benefit obligation recognized	**- 405**	**- 430**

The major categories of plan assets as a percentage of total plan assets:

	2006 %	2005 %
Equities	47	46
Bonds	31	31
Cash	6	7
Property	12	9
Alternative investments	4	7

Principal actuarial assumptions at the balance sheet date in % weighted average:

	2006 %	2005 %
Discount rate	4.4	4.0
Expected return on plan assets	5.6	5.4
Expected inflation rate	2.0	2.4
Future salary increases	2.6	2.7
Long-term increase in health care costs	10.1	9.5

The weighted average expected long-term rate of return on plan assets represents the average rate of return expected to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns of historical market data for each asset category, as well as historical actual returns on the Company's plan assets. Using this reference information, the Company develops forward-looking return expectations for each asset category and a weighted average expected long-term rate of return for the plan based on target asset allocations contained in the Company's Investment Policy.

A one percentage point change in health care cost trend rates would have the following effects on the obligation for post-employment medical benefits:

CHF mn	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1	- 1
Effect on defined benefit obligation	8	- 3

Amounts for current and previous periods:

Defined benefit pension plans CHF mn	**2006**	2005	2004
Defined benefit obligation for pension plans, funded and unfunded	- 2 080	- 2 097	- 1 828
Fair value of plan assets	1 698	1 567	1 310
Deficit	**- 382**	**- 530**	**- 518**
Experience adjustments on plan liabilities	3	- 23	16
Experience adjustments on plan assets	48	123	31

Post-employment medical benefits CHF mn	**2006**	2005	2004
Defined benefit obligation for post-employment medical plans	- 95	- 113	- 86
Experience adjustments on plan liabilities	- 2	- 3	- 4

15. Retirement benefit obligations (continued)

Defined contribution post-employment plans

In 2006, CHF 32 million were charged to the income statements of the Group companies as contributions to defined contribution plans (2005: CHF 34 million).

In Germany approximately 6 600 Clariant employees are insured in a Defined Benefit Plan which is a multi-employer plan and as such is accounted for as a Defined Contribution Plan. The reason for this accounting practice is that the plan exposes the participating Clariant companies to actuarial risks associated with the current and former employees of other companies, which are members of the same pension plan. There is no consistent or reliable basis for allocating the obligation, plan assets and cost to individual companies participating in the plan.

Based on the statutory actuarial calculation of 2005 the pension fund's obligations are fully funded. Also for 2006 it is anticipated that the pension plan liabilities are covered by the respective assets.

In case the multi-employer plan faces a situation where the pension plan liabilities exceed the assets, this can be remedied either by increasing the employers' and/or employees' contributions to the pension plan or by reducing the benefits which are paid out to the entitled parties. The decision is at the discretion of the board of the pension fund, which is constituted by representatives of the companies participating in the multi-employer plan.

Clariant contributions to this pension plan amounted to CHF 16 million in 2006 (CHF 15 million in 2005).

The multi-employer plan originates in the pension plan scheme of the German companies of the former Hoechst Group, to which a part of the activities of Clariant pertained until 1997. Several of the companies which were formerly part of the Hoechst Group continue to participate in this multi-employer plan.

16. Movements in provisions for non-current liabilities

CHF mn	Non-current environmental provisions	Non-current personnel provisions	Non-current restructuring provisions	Other non-current provisions	**Total provision for non-current liabilities 2006**	Total provision for non-current liabilities 2005
At 1 January	181	50	6	52	289	319
Additions	6	15		36	57	34
Effect of acquisitions	1				1	
Effect of disposals	- 19	- 2	- 2		- 23	
Reclassifications	- 9	- 13	1	- 4	- 25	- 43
Reclassified to held for sale	- 2	- 2			- 4	
Amounts used	- 1	- 4	- 2	- 9	- 16	- 27
Unused amounts reversed	- 22	- 3	- 2	- 8	- 35	- 18
Changes due to the passage of time and changes in discount rates	1				1	5
Exchange rate differences	- 2			1	- 1	19
At 31 December	**134**	**41**	**1**	**68**	**244**	**289**
Debts falling due						
Between 1 and 3 years	37	9	1	22	69	67
Between 3 and 5 years	14	15		9	38	45
Over 5 years	83	17		37	137	177
At 31 December	**134**	**41**	**1**	**68**	**244**	**289**

16. Movements in provisions for non-current liabilities (continued)

Environmental provisions. Environmental provisions for environmental liabilities are made when there is a legal or constructive obligation for the Group which will result in an outflow of economic resources. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of the costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties.

The environmental provisions reported in the balance sheet concern a number of different obligations, mainly in Switzerland, the United States, Germany, the United Kingdom, Brazil and Italy.

Provisions are made for remedial work where there is an obligation to remedy environmental damage, as well as for containment work where required by environmental regulations. All provisions relate to environmental liabilities arising in connection with activities that occurred prior to the date when Clariant took control of the relevant site. At each balance sheet date Clariant critically reviews all provisions and makes adjustments where required. During this review an environmental provision for a site in Italy was also adjusted in 2006. This adjustment is included in the line unused amounts reversed of environmental provisions.

Non-current personnel provisions. Non-current personnel provisions include compensated long-term absences such as sabbatical leave, jubilee or other long-service benefits, non-current disability benefits, profit sharing and bonuses payable 12 months or more after the end of the period in which they were earned.

Restructuring provisions. Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources and which is expected to occur 12 months or more after the end of the reporting period. The term restructuring refers to the activities that have as a consequence, staff redundancies and the shutdown of production lines or entire sites. However, expenses for termination benefits which are borne by the pension and termination plans are included in pension plan liabilities (see note 15).

Other non-current provisions. Other non-current provisions include provisions for obligations relating to tax and legal cases in various countries where settlement is expected after 12 months or more.

All non-current provisions are discounted to reflect the time value of money where material. Discount rates reflect current market assessments of the time value of money and the risk specific to the provisions in the respective countries.

17. Trade payables

CHF mn	**31.12.2006**	31.12.2005[1]
Trade payables	650	685
Payables to associates	19	61
Accruals	351	308
Other payables	187	151
Total	**1 207**	**1 205**

[1] Restated. Payables to associates reallocated out of trade payables.

The amount recognized in the books for trade payables is equal to their fair value.

18. Current financial debts

CHF mn	**31.12.2006**	31.12.2005
Banks and other financial institutions (including employee's accounts)	444	939
Current portion of non-current financial debts	179	198
Total	**623**	**1 137**

19. Movements in provisions for current liabilities

CHF mn	Environmental provisions	Restructuring provisions	Current personnel provisions	Other current provisions	**Total provisions for current liabilities 2006**	Total provisions for current liabilities 2005
At 1 January	21	69	160	181	431	365
Additions and reclassifications	10	46	166	83	305	367
Effect of disposals			- 4	- 1	- 5	
Reclassified to held for sale		- 10	- 4	- 5	- 19	
Amounts used	- 12	- 45	- 166	- 96	- 319	- 290
Unused amounts reversed		- 7	- 1	- 35	- 43	- 29
Exchange rate differences		1	1	- 1	1	18
At 31 December	**19**	**54**	**152**	**126**	**351**	**431**

Environmental provisions. Environmental provisions for environmental liabilities are made when there is a legal or constructive obligation for the Group which will result in an outflow of economic resources. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of the costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties.

The environmental provisions reported in the balance sheet concern a number of different obligations, mainly in Switzerland, the United States, Germany, the United Kingdom and Brazil.

Provisions are made for remedial work where there is an obligation to remedy environmental damage, as well as for containment work where required by environmental regulations. All provisions relate to environmental liabilities arising in connection with activities that occurred prior to the date when Clariant took control of the relevant site.

Restructuring provisions. Restructuring provisions are established where there is a legal or constructive obligation for the Group that will result in the outflow of economic resources and which is expected to occur within the next 12 months. The term restructuring refers to the activities that have as a consequence, staff redundancies and the shutdown of production lines or entire sites. However, expenses for termination benefits which are borne by the pension and termination plans are included in pension plan liabilities (see note 15).

Current personnel provisions. Current personnel provisions include holiday entitlements, compensated absences such as annual leave, profit sharing and bonuses payable within 12 months. Such provisions are provided for in proportion to the services rendered by the employee concerned.

Other current provisions. Other current provisions are recorded for liabilities (comprising tax, legal and other items in various countries) falling due within the 12 months, for which no invoice has been received at the reporting date and/or for which the amount can only be reliably estimated.

20. Regional breakdown of key figures 2006 and 2005

Region CHF mn	Sales[1, 4]		Operating income[2, 4]		Number of employees at 31 December[4]	
	2006	2005	**2006**	2005	**2006**	2005
Continuing operations						
Europe	3 939	3 797	85	205	11 174	11 701
thereof in Germany	*1 173*	*1 124*	*100*	*137*	*5 154*	*5 729*
thereof in Switzerland	*140*	*135*	*40*	*38*	*1 610*	*1 518*
The Americas	2 292	2 172	195	139	4 925	5 069
thereof in the US	*1 031*	*1 012*	*65*	*47*	*1 733*	*1 779*
Asia/Africa/Australia	1 869	1 759	105	104	5 649	5 362
Total continuing operations	**8 100**	**7 728**	**385**	**448**	**21 748**	**22 132**

Region CHF mn	Investments in PPE and intangibles[4]		Depreciation of PPE and intangibles[4]		Net operating assets at 31 December[3]	
	2006	2005	**2006**	2005	**2006**	2005
Continuing operations						
Europe	208	234	332	191	2 339	2 353
thereof in Germany	*104*	*126*	*137*	*80*	*523*	*721*
thereof in Switzerland	*20*	*42*	*36*	*39*	*620*	*287*
The Americas	75	57	48	45	829	908
thereof in the US	*34*	*20*	*23*	*21*	*280*	*362*
Asia/Africa/Australia	46	34	33	30	821	838
Total continuing operations	**329**	**325**	**413**	**266**	**3 989**	**4 099**

[1] Allocated by region of third-party sale's destination.
[2] Allocated by region of production and selling entity.
[3] Non-current and current assets (excluding cash and short-term deposits) less non-interest-bearing liabilities.
[4] Restated for discontinued operations.

21. Divisional breakdown of key figures 2006 and 2005

Inter-segment transfers or transactions are entered into under the normal circumstances and terms and condition that would also be available to unrelated third parties.

Segment assets consist of property, plant and equipment, goodwill, inventories, receivables and investments in associates. They exclude deferred tax assets, financial assets and operating cash. Segment liabilities comprise trade payables. They exclude items such as taxation, provisions for liabilities and corporate borrowings.

Divisions CHF mn	Textile, Leather & Paper Chemicals (TLP)		Pigments & Additives (PA)		Masterbatches (MB)	
	2006	2005	**2006**	2005	**2006**	2005
Divisional sales	2 310	2 204	2 031	1 925	1 255	1 145
Sales to other divisions	- 7	- 12	- 50	- 46	- 1	- 1
Total sales	**2 303**	**2 192**	**1 981**	**1 879**	**1 254**	**1 144**
Operating expenses	- 2 143	- 2 019	- 1 784	- 1 723	- 1 135	- 1 058
Income from associates	1	- 1	19	18	1	2
Gain from the disposal of subsidiaries and associates						
Restructuring and impairment	- 111	- 19	- 5	- 9	- 9	- 16
Operating income	**50**	**153**	**211**	**165**	**111**	**72**
Finance income						
Finance costs						
Income before taxes						
Taxes						
Net income from continuing operations						
Discontinued operations:						
Income from discontinued operations						
Net income						
Total assets	1 905	2004	1 804	1 812	707	614
Liabilities	- 155	- 186	- 150	- 144	- 107	- 88
Total equity and minority interests	**1 750**	**1 818**	**1 654**	**1 668**	**600**	**526**
Net debt[4]						
Total net operating assets[1]	**1 750**	**1 818**	**1 654**	**1 668**	**600**	**526**
Thereof:						
Investments in PPE and intangibles for the period[5]	74	91	79	87	51	33
Investments in associates	13	4	190	208	4	3
Operating income	50	153	211	165	111	72
Add: Systematic depreciation of PPE[5]	71	72	76	71	31	29
Add: Impairment loss on PPE and goodwill	103	3	–	- 12	–	5
Add: Amortization of other intangibles			1		1	1
EBITDA[2]	**224**	**228**	**288**	**224**	**143**	**107**
Add: Restructuring and impairment	111	19	5	9	9	16
Less: Impairment loss on PPE and goodwill (Reported under restructuring and impairment)	- 103	- 3	–	12	–	- 5
Less: Gain from the disposal of subsidiaries and associates	–	–	–	–	–	–
EBITDA before restructuring and disposals	**232**	**244**	**293**	**245**	**152**	**118**
Operating income	50	153	211	165	111	72
Add: Restructuring and impairment	111	19	5	9	9	16
Less: Gain from the disposal of subsidiaries and associates	–	–	–	–	–	–
Operating income before restructuring, impairment and disposals	**161**	**172**	**216**	**174**	**120**	**88**

[1] Within net operating assets, PPE 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.

[2] EBITDA is earning before interest, tax, depreciation and amortization.

[3] Restated for discontinued operations.

[4]

Calculation of net debt CHF mn	**2006**	2005
Non-current financial debt	1 376	599
Add: Current financial debt	623	1 137
Less: Cash and cash equivalents	- 443	- 223
Less: Current deposits 90 to 365 days		- 5
Net debt	**1 556**	**1 508**

Capital expenditure comprises additions to property, plant and equipment and intangibles.

	Functional Chemicals (FUN)		Life Science Chemicals (LSC)[3]		Total divisions continuing operations[3]		Corporate[3]		Total Group[3]	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	2 313	2 095	302	431	8 211	7 800	–	–	8 211	7 800
	- 32	- 12	- 21	- 1	- 111	- 72	–	–	- 111	- 72
	2 281	**2 083**	**281**	**430**	**8 100**	**7 728**	**–**	**–**	**8 100**	**7 728**
	- 2 069	- 1 880	- 270	- 399	- 7 401	- 7 079	- 142	- 139	- 7 543	- 7 218
	7	7	2		30	26	5	- 3	35	23
				28	–	28	4	12	4	40
	- 34	- 13	- 1	- 18	- 160	- 75	- 51	- 50	- 211	- 125
	185	**197**	**12**	**41**	**569**	**628**	**- 184**	**- 180**	**385**	**448**
									33	37
									- 143	- 134
									275	**351**
									- 144	- 89
									131	**262**
									- 209	- 70
									- 78	**192**
	1 168	1 159	267	633	5 851	6 222	1 337	958	7 188	7 180
	- 152	- 162	- 17	- 68	- 581	- 648	- 4 174	- 3 941	- 4 755	- 4 589
	1 016	**997**	**250**	**565**	**5 270**	**5 574**	**- 2 837**	**- 2 983**	**2 433**	**2 591**
							1 556	1 508	1 556	1 508
	1 016	**997**	**250**	**565**	**5 270**	**5 574**	**- 1 281**	**- 1 475**	**3 989**	**4 099**
	90	64	24	14	318	289	11	36	329	325
	61	53	16	3	284	271	4	11	288	282
	185	197	12	41	569	628	- 184	- 180	385	448
	47	49	17	17	242	238	14	14	256	252
	4	2	–	6	107	4	43	–	150	4
					2	1	5	9	7	10
	236	**248**	**29**	**64**	**920**	**871**	**- 122**	**- 157**	**798**	**714**
	34	13	1	18	160	75	51	50	211	125
	- 4	- 2	–	- 6	- 107	- 4	- 43	–	- 150	- 4
	–	–	–	- 28	–	- 28	- 4	- 12	- 4	- 40
	266	**259**	**30**	**48**	**973**	**914**	**- 118**	**- 119**	**855**	**795**
	185	197	12	41	569	628	- 184	- 180	385	448
	34	13	1	18	160	75	51	50	211	125
	–	–	–	- 28	–	- 28	- 4	- 12	- 4	- 40
	219	**210**	**13**	**31**	**729**	**675**	**- 137**	**- 142**	**592**	**533**

[5] **Discontinued operations** CHF mn	**2006**	2005
Investment in PPE and intangibles	33	28
Systematic depreciation	13	21

22. Discontinued operations and assets held for sale

Electronic Materials. In September 2004 Clariant sold the Electronic Materials Business, belonging to the Life Science Chemicals Division, to the Carlyle Group. In 2005 an additional cash flow of CHF 7 million for the settlement was recognized.

Net income and cash flow from the disposal of discontinued operations CHF mn	**2006**	2005
Consideration for sale		- 7
Net assets sold including disposal-related expenses		5
Loss on disposals before tax expense		**- 2**
Tax expense		–
After tax loss on disposal		**- 2**
The net cash flow from sale is determined as follows:		
Total consideration for sale		- 7
Net cash flow from sale		**- 7**

Pharmaceutical Fine Chemicals. On 30 June 2006 Clariant sold its Pharmaceutical Fine Chemicals Business, belonging to the Life Science Chemcials Division, to TowerBrook Capital Partners. As a result, these activities are reported as discontinued operations in accordance with IFRS 5, non-current assets held for sale and discontinued operations.

In 2005 Clariant depreciated for impairment the net assets of this business by an amount of CHF 55 million. The asset values reported for this segment represent the value in use. The discount rate, which was applied to determine the value in use (pretax, risk adjusted, weighted average cost of capital) amounted to 10%.

The transaction comprised the sale of activities in Germany, France, the UK, the United States and in Italy.

The result of discontinued operations is as follows:

CHF mn	**2006** (6 months)	2005
Sales	114	208
Restructuring	- 2	- 8
Impairment		- 55
Operating expenses	- 113	- 215
Operating loss	**- 1**	**- 70**
Financial result	- 4	- 1
Loss from discontinued operations before taxes	**- 5**	**- 71**
Taxes	3	24
Loss from discontinued operations after taxes	**- 2**	**- 47**
Loss on the disposal of the discontinued operation	- 121	
Deferred tax on tax loss generated	20	
Loss from discontinued operations	**- 103**	**- 47**

Cash flow from discontinued operations CHF mn	**2006** (6 months)	2005
Operating cash flows	3	6
Investing cash flows	- 17	- 16
Financing cash flows	14	10
Total cash flow	–	–

22. Discontinued operations and assets held for sale (continued)

Net assets of disposal group: CHF mn	2006[1]	2005
Property, plant and equipment	115	103
Deferred tax assets	5	24
Inventories	75	54
Trade receivables	40	46
Income tax receivables		5
Other current assets	5	3
Cash and cash equivalents	7	6
Trade payables	- 41	- 45
Financial debt	- 8	- 12
Provisions	- 37	- 42
Income tax liabilities	- 3	
Deferred tax liabilities		- 24
Total net assets of disposal group	**158**	**118**
Number of employees of the disposal group	760	760

Net income and cash flow from the disposal of discontinued operations CHF mn	2006	2005
Total proceeds received in 2006	53	
Less: Payment to be made to buyer in 2007	- 8	
Plus: Payment to be received from buyer in 2008	9	
Consideration for sale	**54**	
Net assets sold including disposal-related expenses	- 174	
Loss on disposals before tax expense	**- 120**	
Taxes (current and deferred)	19	
After tax loss on disposal	**- 101**	
The net cash flow from sale is determined as follows:		
Proceeds received in 2006	53	
Less: Cash and cash equivalents in subsidiary sold	- 7	
Net cash flow from sale	**46**	

[1] Net assets transferred at the date of the disposal.

Custom Manufacturing. In September 2006 Clariant launched a project to sell its Custom Manufacturing Business pertaining to the Division Life Science Chemicals. The business comprises sites in Germany and the United States. It is assumed that it will be sold in its present condition within the next 12 months. As a result, these activities are now reported as discontinued operations in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. The related assets and liabilities were reclassified to assets held for sale and associated liabilities in the balance sheet. Based on the sale price expected to be realized on the disposal of this business, the assets were depreciated for impairment by an amount of CHF 81 million.

The result of discontinued operations is as follows:

CHF mn	**2006**	2005
Sales	211	245
Restructuring	- 11	2
Impairment	- 81	
Operating expenses	- 248	- 255
Operating loss	**- 129**	**- 8**
Financial result	- 1	
Loss from discontinued operations before taxes	**- 130**	**- 8**
Taxes	24	- 13
Loss from discontinued operations after taxes	**- 106**	**- 21**

Cash flow from discontinued operations CHF mn	**2006**	2005
Operating cash flows	- 65	39
Investing cash flows	- 17	- 15
Financing cash flows	2	- 3
Total cash flow	**- 80**	**21**

Net assets held for sale: CHF mn	**2006**	2005
Property, plant and equipment	1	
Deferred tax assets	6	
Inventories	48	
Trade receivables	40	
Other current assets	1	
Cash and cash equivalents	1	
Total assets held for sale	**97**	–
Trade payables	21	
Income tax provisions	2	
Provisions	38	
Total liabilities associated with assets held for sale	**61**	–
Number of employees of the disposal group	486	491

Reconciliation of loss from discontinued operations as reported in the income statement:

2005 CHF mn	Electronic Materials	Pharmaceutical Fine Chemcials	Custom Manufacturing	Total 2005
Sales		208	245	453
Restructuring		- 8	2	- 6
Impairment		- 55	–	- 55
Operating expenses		- 215	- 255	- 470
Operating loss	**–**	**- 70**	**- 8**	**- 78**
Financial result		- 1	–	- 1
Loss from discontinued operations before taxes	**–**	**- 71**	**- 8**	**- 79**
Taxes		24	- 13	11
Loss from discontinued operations after taxes	**–**	**- 47**	**- 21**	**- 68**
Loss on the disposal of the discontinued operation	- 2	–	–	- 2
Loss from discontinued operations	**- 2**	**- 47**	**- 21**	**- 70**

2006 CHF mn	Electronic Materials	Pharmaceutical Fine Chemcials	Custom Manufacturing	Total 2006
Sales		114	211	325
Restructuring		- 2	- 11	- 13
Impairment		–	- 81	- 81
Operating expenses		- 113	- 248	- 361
Operating loss		**- 1**	**- 129**	**- 130**
Financial result		- 4	- 1	- 5
Loss from discontinued operations before taxes		**- 5**	**- 130**	**- 135**
Taxes		3	24	27
Loss from discontinued operations after taxes		**- 2**	**- 106**	**- 108**
Loss on the disposal of the discontinued operation		- 121	–	- 121
Deferred tax on tax loss generated		20		20
Loss from discontinued operations		**- 103**	**- 106**	**- 209**

23. Disposal of subsidiaries and associates

On 30 September 2006, Clariant sold the activities of Site Services, Energy Supply, ESHA Services and Enterprise Functions of the subsidiary Industriepark Gersthofen Servicegesellschaft.

On reclassification to non-current assets held for sale in the second quarter of 2006 the net assets of this company were revalued to the lower of their carrying amount and fair value less costs to sell. This revaluation caused an impairment charge of CHF 43 million, which is reported in the income statement line restructuring and impairment.

On 21 June 2005, the Group announced the sale of its subsidiary Clariant (Acetyl Building Blocks) GmbH & Co. KG (CABB) to the Gilde Buyout Fund. CABB, with its main product monochloroacetic acid (MCAA), was focusing on products based on chlorine and acetyl chemistry. The transaction was closed on 29 July 2005 together with the sale of the international MCAA business acitivies belonging to the Life Science Chemicals Division.

On 21 December 2005, Clariant sold its 39% stake in the associate Fuchs Do Brasil S.A., to Fuchs Petrolub AG.

Net income and cash flow from the disposal of subsidiaries and associates CHF mn	**Total 2006** Gersthofen	Total 2005
Consideration for sale	33	85
Net assets sold including disposal-related expenses	- 29	- 45
Gain on disposals before tax expense	**4**	**40**
Tax expense	–	- 7
After tax gain on disposal	**4**	**33**
The net cash flow from sale is determined as follows:		
Total consideration for sale	33	85
Less: Cash and cash equivalents in subsidiary sold		- 13
Less: Tax paid by buyer on behalf of the Group		- 1
Net cash flow on disposal	**33**	**71**

24. Business combinations

KiON. On 14 February 2006 the Group acquired all of the shares in KiON Corporation, located in the USA for a cost of CHF 16 million. The acquired business contributed sales of CHF 1 million and net loss of less than CHF 1 million to the Group for the period from 14 February 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group sales would have increased and net income would have decreased by less than CHF 1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration: CHF mn	
Cash paid	16
Total purchase consideration	**16**
Fair value of net assets acquired	- 16
Goodwill	–

The assets as of 14 February 2006 arising from the acquisition are as follows:

Purchase consideration: CHF mn	Pre-acquisition	Fair value adjustments	Recognized carrying amounts
Property, plant and equipment	1		1
Intangibles		15	15
Net assets acquired	**1**	**15**	**16**
Purchase consideration settled in cash			16
Cash flow on acquisition			**16**

Ciba Masterbatches. On 1 December 2006 the Group acquired the Ciba Specialty Chemicals' masterbatches business for a cost of CHF 30 million. Determination of the final purchase price is provisional upon the audited statements for the year ended 31 December 2006. Also the definitive reports on the valuation of property, plant and equipment and some liabilities are still outstanding. Changes to the valuation of the net assets acquired are therefore still possible, although not expected to be material. This transaction comprised share deals in France and Saudi Arabia and an asset deal in Malaysia. All the shares were acquired in France and 93% of the shares in Saudi Arabia. The acquired business contributed sales of CHF 5 million and net loss of less than CHF 1 million to the Group for the period from 1 December 2006 to 31 December 2006. If the acquisition had occurred on 1 January 2006, Group sales would have increased by CHF 76 million and net income would have increased by CHF 3 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to property, plant and equipment and intangibles had applied from 1 January 2006, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

Purchase consideration: CHF mn	
Cash paid	30
Direct costs relating to the acquisition	1
Total purchase consideration	**31**
Fair value of net assets acquired	- 28
Goodwill	**3**

The goodwill recognized on the acquisition is attributable mainly to the expected synergies from the transaction and the assembled workforce.

The assets and liabilities as of 1 December 2006 arising from the acquisition are as follows:

Purchase consideration: CHF mn	Pre-acquisition	Fair value adjustments	Recognized carrying amounts
Cash and cash equivalents	2		2
Trade receivables	20	- 1	19
Inventories	16	- 1	15
Property, plant and equipment	24	- 8	16
Intangibles		3	3
Short-term liabilities	- 21		- 21
Long-term liabilities	- 4	- 1	- 5
Deferred tax liabilities	- 1	1	–
Net assets	36	- 7	29
Minorities	- 1		- 1
Net assets acquired	**35**	**- 7**	**28**
Purchase consideration settled in cash			31
Cash and cash equivalents			- 2
Cash flow on acquisition			**29**

On 26 May 2005, Data Chem Inc., a Louisiana US corporation, and certain fixed assets necessary to run the entity subsequent to the transaction, were acquired and integrated into the Functional Chemicals Division. Goodwill in the amount of CHF 3 million, being the difference between the total purchase cost of CHF 11 million and the fair value of identified net assets purchased in the amount of CHF 8 million, was recognized.

Also in 2005, minority shares in Colour-Chem Ltd, India, were acquired for CHF 22 million, resulting in additional goodwill of CHF 8 million.

25. Finance income and costs

CHF mn	2006	2005[1]
Finance income		
Interest income	30	28
Other financial income	3	9
Total finance income	**33**	**37**

CHF mn	2006	2005[1]
Finance costs		
Interest expense	- 112	- 132
Realized fair value gains on early repayments of bank loans		13
Penalty for early repayment of bank loans		- 43
Other financial expenses	- 20	- 25
Currency result, net	- 11	53
Total finance costs	**- 143**	**- 134**

[1] Restated for discontinued operations.

Other financial income mainly consists of dividends from securities, market valuation gains due to engagement in interest rate swaps and other investments.

Other financial expenses include losses on the sale of securities, bank charges and miscellaneous finance expenses.

26. Earnings per share (EPS)

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

	2006	2005[1]
Net income attributable to shareholders of Clariant Ltd (CHF mn)		
Continuing operations	124	254
Discontinued operations	- 209	- 70
Total	**- 85**	**184**
Diluted net income attributable to shareholders of Clariant Ltd (CHF mn)		
Continuing operations	124	254
Discontinued operations	- 209	- 70
Total	**- 85**	**184**
Shares		
Holdings on 1 January	226 292 707	226 771 579
Effect of the transactions with treasury shares on weighted average number of shares outstanding	474 547	- 339 847
Weighted average number of shares outstanding	**226 767 254**	**226 431 732**
Adjustment for granted Clariant shares[2]	1 059 753	1 454 678
Adjustment for dilutive share options	43 761	58 934
Weighted average diluted number of shares outstanding	**227 870 768**	**227 945 344**
Basic earnings per share attributable to shareholders of Clariant Ltd (CHF/share):		
Continuing operations	0.55	1.12
Discontinued operations	- 0.92	- 0.31
Total	**- 0.37**	**0.81**
Diluted earnings per share attributable to shareholders of Clariant Ltd (CHF/share):		
Continuing operations	0.54	1.12
Discontinued operations	- 0.92	- 0.31
Total	**- 0.38**	**0.81**

[1] Restated for discontinued operations.

[2] Restated for shares for members of management as at 31 December 2005 of 206 000 shares issued as part of a relocation program in 2005, which were accidentally not reported in this presentation.

Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The dilution effect is triggered by two different items. One is the effect of Clariant shares granted as part of the share-based payment plan, which have not yet vested. To calculate this dilutive potential it is assumed that they had vested on 1 January of the respective period.

The other item is the effect of options granted as part of the share-based payment plan, which have not yet vested. To calculate this dilutive potential it is assumed that all options which were in the money at the end of the respective period had been exercised on 1 January of the same period.

27. Restructuring and impairment

In order to increase profitability over a sustained period, Clariant installed a broad-based program designed to improve the Group's performance, which lasted from 2004 through to 2006. The aim of the program was to increase the Group's operating result and reduce net working capital. The changes that were made to the processes and structures in order to achieve these aims resulted in the loss of several thousand jobs across the Group in those years.

In the fourth quarter of 2006 new wide-reaching measures were initiated to further improve the company's cash generating abilities in a changing environment. Also this initiative will have as a consequence further head count reductions and site closures.

Restructuring. In 2006 the Clariant Group recorded expenses for restructuring in the amount of CHF 61 million in Continuing Operations for projects mainly in Germany, the United Kingdom and the United States, where the head count is being further reduced.

In 2005 staff was reduced and sites were closed mainly in Germany, France, Spain, the United Kingdom and the United States. The costs for the dismissal of personnel in these places in the amount of CHF 121 million were recorded as restructuring costs.

Impairment. As a result of the permanent endeavors to improve the company's performance, PPE are regularly reviewed for their cash generating potential. In numerous cases it was evident that such assets were impaired, as they would no longer be utilized and as a consequence they were written off.

Clariant also assessed the recoverability of the carrying amount of non-current assets of several cash generating units (CGU) in 2005 and 2006. For this purpose, assets were grouped at the lowest levels for which there are separately identifiable cash flows. An impairment loss was recognized as an expense in the income statement in the amount by which the carrying amount of the assets exceeded the recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use.

CHF mn	TLP		PA		MB	
	2006	2005	**2006**	2005	**2006**	2005
Cash out expenses for restructuring	**6**	**8**	**9**	**12**	**3**	**6**
Non-cash expenses for:						
Leaving indemnity	3	9	- 1	14	4	5
Others	- 1	- 1	- 3	- 5	2	–
Total non-cash expenses for restructuring	**2**	**8**	**- 4**	**9**	**6**	**5**
Total restructuring expenses	**8**	**16**	**5**	**21**	**9**	**11**
Impairment of PPE:						
Land and buildings	2	2	–	1	–	–
Machinery and equipment	1	1	–	4	–	5
Total impairment of PPE	**3**	**3**	**–**	**5**	**–**	**5**
Impairment of goodwill	100					
Total impairment	**103**	**3**	**–**	**5**	**–**	**5**
Reversal of impairment of PPE				- 17		
Total impairment and reversal of impairment	**103**	**3**	**–**	**- 12**	**–**	**5**
Total restructuring and impairment	**111**	**19**	**5**	**9**	**9**	**16**
Thereof non-cash expenses	**105**	**11**	**- 4**	**- 3**	**6**	**10**

[1] Restated for discontinued operations.

In 2006 an impairment test was conducted for the CGU Specialty Intermediates as an impairment indicator test showed that the amount recoverable from the net assets allocated to this CGU could possibly be lower than their carrying amount. For the impairment test it was assumed that the CGU will achieve sales growth slightly above market growth. The assumed pre-tax discount rate was 9%. It was also assumed that the EBITDA in percent of sales will improve over present performance as a result of the restructuring measures implemented. It was determined that the net present value of the expected cash flows exceeds the carrying amount of the net assets allocated on a value in use basis. If the assumed growth rate were lowered by 1% the carrying amount of the net assets pertaining to the CGU would be equal to the net present value of the expected cash flows.

In May 2006 Clariant decided to sell its subsidiary Industriepark Gersthofen Servicegesellschaft in Germany, pertaining to Site Services, Energy Supply, ESHA Services and Enterprise Functions. On reclassification to non-current assets held for sale the balance sheet items concerned were revalued to fair value less costs to sell. This revaluation caused an impairment charge of CHF 43 million, which is reported in the column corporate. On 30 September 2006 the company was sold (see note 23).

In 2006 goodwill in the amount of CHF 100 million pertaining to the Leather Business was written off for impairment. This is described in more detail in note 5.

Reversal of impairment. In 2005 in the process of the assessment of the recoverability of the carrying amount of non-current assets it also became evident that the impairment charge of a production site in Höchst, Germany, recorded in 2003, was no longer justified. The cash flows generated by the CGUs Pigments & Additives and Specialty Fine Chemicals are sufficient to recover the carrying amount of the assets in question that would be recorded if the impairment charge had never taken place. The impairment charge was therefore reversed to such an extent that the assets now have the carrying amount that they would have had if the impairment charge had never occurred. This reversal resulted in an income of CHF 17 million.

FUN		LSC		Total divisions		Corporate		Total Group	
2006	2005	**2006**	2005[1]	**2006**	2005[1]	**2006**	2005	**2006**	2005[1]
10	**3**	**4**	**7**	**32**	**36**	**6**	**29**	**38**	**65**
7	5	- 3	4	10	37	2	24	12	61
13	3	–	1	11	- 2	–	- 3	11	- 5
20	**8**	**- 3**	**5**	**21**	**35**	**2**	**21**	**23**	**56**
30	**11**	**1**	**12**	**53**	**71**	**8**	**50**	**61**	**121**
–	2	–	3	2	8	43	–	45	8
4	–	–	3	5	13	–	–	5	13
4	**2**	**–**	**6**	**7**	**21**	**43**	**–**	**50**	**21**
				100	–			100	–
4	**2**	**–**	**6**	**107**	**21**	**43**	**–**	**150**	**21**
				–	- 17			–	- 17
4	**2**	**–**	**6**	**107**	**4**	**43**	**–**	**150**	**4**
34	**13**	**1**	**18**	**160**	**75**	**51**	**50**	**211**	**125**
24	**10**	**- 3**	**11**	**128**	**39**	**45**	**21**	**173**	**60**

28. Consolidated statement of changes in equity

at 31 December 2006 and 2005

CHF mn			Other reserves							
	Total share capital	Treasury shares (par value)	Share premium reserves	Hedging reserves	Cumulative translation reserves	Total other reserves	Retained earnings	Total attributable to equity holders	Minority interests	Total equity
Balance 31 December 2004	**1 151**	**- 17**	**767**	**- 5**	**- 233**	**529**	**595**	**2 258**	**56**	**2 314**
Total recognized income and expense for the period				**5**	**129**	**134**	**184**	**318**	**23**	**341**
Purchase of minority shares						–	14	14	- 14	–
Dividends to third parties						–		–	- 5	- 5
Share capital reduction	- 58					–		- 58		- 58
Employee share and option scheme:										
Effect of employee services						–	7	7		7
Treasury share transactions		- 1				–	- 7	- 8		- 8
Balance 31 December 2005	**1 093**	**- 18**	**767**	**–**	**- 104**	**663**	**793**	**2 531**	**60**	**2 591**
Total recognized income and expense for the period					**- 15**	**- 15**	**- 85**	**- 100**	**7**	**- 93**
Dividends to third parties						–		–	- 7	- 7
Share capital reduction	- 58					–		- 58		- 58
Employee share and option scheme:										
Effect of employee services						–	- 3	- 3		- 3
Equity share options issued							- 4	- 4		- 4
Treasury share transactions		2				–	5	7		7
Balance 31 December 2006	**1 035**	**- 16**	**767**	**–**	**- 119**	**648**	**706**	**2 373**	**60**	**2 433**

During 2005 and 2006 Clariant reduced its share capital by CHF 0.25 per share resulting in a pay-out of CHF 58 million in each year.

In 2006 Clariant Ltd sold 1 000 000 put options on its own shares of which 250 000 were outstanding on 31 December 2006. They have a strike price of CHF 18.00 and will expire in June 2007.

29. Financial instruments

Risk management (hedging) instruments and off-balance sheet risks. Clariant uses forward foreign exchange rate 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 derivative.

Foreign exchange management. To manage the exposure to the fluctuations in foreign currency exchange rates, the Group follows a strategy of hedging both balance sheet and revenue risk, partially through the use of forward 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 tables show 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 value or standard pricing models at 31 December 2006 and 2005, respectively.

Financial instruments CHF mn	Contract or underlying principal amount		Positive fair values		Negative fair values	
	2006	2005	**2006**	2005	**2006**	2005
Currency-related instruments						
Forward foreign exchange rate contracts and cross-currency swaps	111	88	1	–	- 2	- 1
Total financial instruments	**111**	**88**	**1**	**0**	**- 2**	**- 1**

Financial instruments by maturity CHF mn	1–12 months		1–5 years		Total	
	2006	2005	**2006**	2005	**2006**	2005
Currency-related instruments						
Forward foreign exchange rate contracts and cross-currency swaps	111	88	–	–	111	88
Total financial instruments	**111**	**88**	**–**	**–**	**111**	**88**

Financial instruments by currency Forward foreign exchange rate contracts and cross-currency swaps CHF mn	**2006**	2005
USD	75	87
EUR	2	1
BRL	34	–
Total financial instruments	**111**	**88**

Financial instruments effective for hedge-accounting purposes CHF mn	**2006**	2005
Fair value of cash flow hedges:		
Contracts with positive fair values	–	–
Contracts with negative fair values		
Cross-currency swaps	–	–
Fair value of hedges of net investments in foreign entities:		
Contracts with positive fair values	–	–
Contracts with negative fair values		
Borrowings denominated in foreign currencies	- 961	–

On 6 April 2006 Clariant issued a bond in the amount of CHF 961 million, denominated in EUR (see note 14). The bond was designated as a hedge of a net investment in some of Clariant's European subsidiaries. The unrealized foreign exchange loss as at 31 December 2006 in the amount of CHF 16 million resulting from the translation of the bond into CHF was recognized in the cumulative translation reserves in shareholders' equity.

Volumes of securitization of trade receivables CHF mn	**2006**	2005
Trade receivables denominated in Euros	–	93
Trade receivables denominated in US dollars	88	95
Total	**88**	**188**
Related liability in the balance sheet denominated in Euros	–	93
Related liability in the balance sheet denominated in US dollars	88	95
Total	**88**	**188**

Securitization. For a number of years Clariant has been using securitization as a means of financing. Trade receivables from certain companies are sold in asset backed securities (ABS) programs. Clariant retains the credit risk of the trade receivable and the interest rate risk liability incurred. Therefore the trade receivables are not derecognized from the balance sheet until payments from the customers are obtained and a current financial liability is recorded for the amount borrowed under the security of the trade receivables.

30. Employee participation plans

During 2005, the former Clariant Executive Stock Option Plan (CESOP) and Management Stock Incentive Plan (MSIP) were replaced by a new incentive plan called the Clariant Executive Bonus Plan (CEBP).

The number of shares to be granted under CEBP depends both on the performance of the Group and the performance of the division/function in which incentive plan members work.

The granted registered shares of Clariant Ltd become vested and are exercisable after 3 years. No options are granted under the CEBP.

The options granted under the former CESOP entitle the holder to acquire registerd shares in 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.

The expense recorded in the income statement spreads the costs of each grant equally over the measurement period of 1 year and the vesting period of 3 years. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for the vested amounts. As permitted by the transitional rules of IFRS 2, grants of options and shares prior to 7 November 2002 have not been restated.

During 2006 CHF 9 million (2005: CHF 7 million) for equity-settled share-based payments and CHF 1 million (2005: CHF 1 million) for cash-settled share-based payments were charged to the income statement.

As of 31 December 2006 the total carrying value of liabilities arising from share-based payments is CHF 20 million (2005: CHF 23 million). Thereof CHF 19 million (2005: CHF 20 million) was recognized in equity for equity-settled share-based payments and CHF 1 million (2005: CHF 3 million) in non-current liabilities for cash-settled share-based payments.

Options for Board of Directors (non-executive members) as at 31 December 2006[1]

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	**Number 31.12.2006**	Number 31.12.2005
1998	1998	2001	2008	53.80	56.76	10 137	10 137
1999	1999	2002	2009	61.80	60.76	10 418	10 418
2000	2000	2003	2010	48.00	47.97	6 229	6 229
Total						**26 784**	**26 784**

Options for senior members of management as at 31 December 2006[1]

Base year	Granted	Exercisable from	Expiry date	Exercise price	Share price at grant date	**Number 31.12.2006**	Number 31.12.2005
1997	1998	2001	2008	25.50	68.97	127 783	127 783
1997	1998	2001	2008	37.50	73.06	167 001	167 001
1998	1999	2002	2009	61.80	62.09	358 789	358 789
1999	2000	2003	2010	48.00	47.97	106 191	106 191
2000	2001	2004	2011	41.80	42.02	7 229	7 229
2001	2002	2005	2012	27.20	26.87	166 354	166 354
2002	2003	2006	2013	14.80	14.88	124 568	169 136
2003	2004	2007	2014	12.00	18.74	49 326	49 326
2003	2004	2007	2014	16.30	18.74	60 391	60 391
2004	2005	2008	2015	19.85	19.85	130 934	130 934
Total						**1 298 566**	**1 343 134**

[1] Past and current members.

Shares for Board of Directors (non-executives members) as at 31 December 2006

Base year	Granted	Vesting in	Share price at grant date	**Number 31.12.2006**	Number 31.12.2005
2003	2003	2006	14.88	–	13 163
2004	2004	2007	18.74	5 522	14 111
2005	2005	2008	19.85	10 077	17 634
2006	2006	2009	19.60	16 158	–
Total				**31 757**	**44 908**

Shares for members of management as at 31 December 2006

Base year	Granted	Vesting in	Share price at grant date	**Number 31.12.2006**	Number 31.12.2005[1]
2002	2003	2006	14.88	–	617 938
2003	2004	2007	18.74	282 271	317 028
2004	2005	2008	19.85	433 121	474 804
2005	2006	2009	19.60	312 604	–
Total				**1 027 996**	**1 409 770**

[1] The shares for members of management as at 31 December 2005 were restated for the number of 206 000 shares issued as part of a relocation program in 2005, which were accidentally not reported in this presentation. The effect of this share grant was included in the income statement in accordance with the accounting requirements.

All shares granted and shares for all options granted are held as treasury shares.

	Weighted average exercise price	**Options 2006**	**Shares 2006**	**Weighted average exercise price**	Options 2005	Shares 2005[1]
Shares/options outstanding at 1 January	44.90	1 369 918	1 454 678	38.08	1 238 984	1 455 150
Granted (incl. adjustment due to rights issue)			347 826	19.85	130 934	492 438
Exercised/distributed	14.80	- 44 568	- 719 731		–	- 487 549
Cancelled			- 23 020		–	- 5 361
Outstanding at 31 December	**37.07**	**1 325 350**	**1 059 753**	**36.34**	**1 369 918**	**1 454 678**
Exercisable at 31 December	41.44	1 084 699		44.90	960 131	–
Fair value of shares /options outstanding in CHF		3 159 820	19 340 492		3 444 599	24 161 919

[1] The shares for members of management as at 31 December 2005 were restated for the number of 206 000 shares issued as part of a relocation program in 2005, which were accidentally not reported in this presentation. The effect of this share grant was included in the income statement in accordance with the accounting requirements.

No options were granted during 2006. In 2005 the fair value at grant date (CHF 1 million) was calculated based on the trinomial valuation method. The significant inputs into the model were share prices at grant date, exercise date and option life as indicated above. A volatility of 28% and a risk-free interest rate of 2.4% were assumed. Volatility was determined by using historical and implied volatility values.

The fair value of shares granted during 2006 is CHF 6 million (2005: CHF 6 million) calculated based on market value of shares at grant date.

In addition to the Employee Participation Plan in 2005, a total of 206 000 Clariant shares with a fair value of CHF 3 million, were granted to relocates as part of the restructuring program. This amount is charged to the income statement over the vesting period of 3 years.

31. Personnel expenses

CHF mn	2006	2005
Wages and salaries	- 1 462	- 1 521
Social welfare costs	- 323	- 310
Shares and options granted to directors and employees	- 10	- 8
Pension costs – defined contribution plans	- 32	- 34
Pension costs – defined benefit plans	- 92	- 75
Other post-employment benefits	2	- 4
Total	**- 1 917**	**- 1 952**

Thereof the amount of CHF 100 million (2005: CHF 127 million) is reported under discontinued operations.

32. Related party transactions

Clariant maintains business relationships with related parties. One group consists of the associates, where the most important ones are described in note 6. The most important business with these companies is the purchase of services by Clariant (e.g. energy and rental of land and buildings) in Germany. In addition to this, Clariant exchanges services and goods with other parties which are associates, i.e. in which Clariant holds a stake of between 20% and 50%.

The second group of related parties is key management comprising the Board of Directors (non-executive members) and the Board of Management. More information on the relationship with the Board of Directors is given in the chapter **Corporate governance** (non-audited).

The third group of related parties are the pension plans of major subsidiaries. Clariant provides services to its pension plans in Switzerland, the United Kingdom and the United States. These services comprise mainly administrative and trustee services. The total cost of these services is CHF 1 million (2005: CHF 1 million), of which approximately half is charged back to the penison plans. The number of full-time employees corresponding to these are approximately 6 (2005: 6).

Transactions with associates CHF mn	**2006**	2005
Income from the sale of goods to related parties	41	28
Income from the rendering of services to related parties	7	12
Expenses from the purchase of goods from related parties	- 8	- 24
Expenses from services rendered by related parties	- 272	- 303

Payables, receivables and loans with associates CHF mn	**31.12.2006**	31.12.2005
Receivables from related parties	8	9
Payables to related parties	19	61

Transactions with key management CHF mn	**2006**	2005
Salaries and other short-term benefits	8	6
Termination benefits	–	1
Post-employment benefits	1	2
Share-based payments	1	1
Total	**10**	**10**
Number of granted shares in the reporting period	53 464	36 146
Number of granted options in the reporting period	–	118 244

There are no outstanding loans by the Group to any members of the Board of Directors or Board of Management.

33. Commitments and contingencies

Leasing commitments. The Group leases various land, buildings, machinery and equipment, furniture and vehicles under fixed-term agreements. The leases have varying terms, escalation clauses and renewal rights.

Commitments arising from fixed-term operating leases mainly concern buildings in Switzerland and Germany. The most important partners for operating leases of buildings in Germany are the Infraserv companies.

CHF mn	**2006**	2005
2006		73
2007	70	56
2008	54	45
2009	39	32
2010	21	29
2011	13	
thereafter	20	37
Total	**217**	**272**
Guarantees in favor of third parties	53	60

Expenses for operating leases were CHF 87 million in 2006 and CHF 85 million in 2005.

Purchase commitments. In the regular course of business, Clariant enters into relationships with suppliers whereby the Group commits itself to purchase certain minimum quantities of materials in order to benefit from better pricing conditions. These commitments are not in excess of current market prices and reflect normal business operations. At present, the purchase commitments on such contracts amount to about CHF 176 million (2005: CHF 100 million).

Contingencies. Clariant operates in countries where political, economic, social, legal and regulatory developments can have an impact on the operational activities. The effects of such risks on the Company's results, which arise during the normal course of business, are not foreseeable and are therefore not included in the accompanying financial statements.

In the ordinary course of business, Clariant is involved in lawsuits, claims, investigations and proceedings, including product liability, intellectual property, commercial, environmental and health and safety matters. Although the outcome of any legal proceedings cannot be predicted with certainty, management is of the opinion that there are no such matters pending which would be likely to have any material adverse effect in relation to its business, financial position or results of operations.

Environmental risk. Clariant is exposed to environmental liabilities and risks relating to its past operations, principally in respect of remediation costs. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate the action required by Clariant in the future to correct the effects on the environment of prior disposal or release of chemical substances by Clariant or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Clariant at the remediation sites relative to that attributable to other parties. The Group permanently monitors the various sites identified 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, there is no guarantee that additional costs will not be incurred.

34. Exchange rates of principal currencies

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

	31.12.2006	31.12.2005
1 USD	1.22	1.31
1 GBP	2.39	2.27
100 JPY	1.02	1.12
1 EUR	1.61	1.56

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

	2006	2005
1 USD	1.26	1.24
1 GBP	2.31	2.26
100 JPY	1.08	1.13
1 EUR	1.57	1.55

35. Important subsidiaries and associates

Country	Company name	Participation %	Holding/ Finance/Service	Sales	Production	Research
Argentina	Clariant (Argentina) SA, Lomas de Zamora, Buenos Aires	100.0		■	■	
Australia	Clariant (Australia) Pty. Ltd, Chadstone, Melbourne	100.0		■	■	
Austria	Clariant (Österreich) GmbH, Vienna	100.0		■	■	
Bangladesh	Clariant (Bangladesh) Ltd, Dhaka	100.0		■		
Belgium	Clariant Benelux SA, Louvain-la-Neuve	100.0		■	■	■
Brazil	Clariant S.A., São Paulo	100.0		■	■	
Canada	Clariant (Canada) Inc., St-Laurent, Québec	100.0		■	■	
Chile	Clariant Colorquímica (Chile) Ltda., Maipú, Santiago de Chile	100.0		■	■	
China	Clariant (China) Ltd, Hong Kong	100.0		■	■	
	Clariant (Tianjin) Ltd, Tianjin	94.8		■	■	
	Clariant Chemicals (China) Ltd, Shanghai	100.0		■	■	
	Clariant Chemicals Trading (Shanghai) Ltd, Shanghai	100.0		■		
	Clariant Masterbatches (Guangzhou) Ltd, Guangzhou	100.0		■	■	
	Clariant Pigments (Tianjin) Ltd, Tianjin	60.0		■	■	
	Hangzhou Baihe Clariant Pigments Co., Ltd, Hangzhou	49.0			■	
Colombia	Clariant (Colombia) SA, Santa Fé de Bogotá	100.0		■	■	
Czech Republic	Clariant CR s.r.o., Prague	100.0		■		
Denmark	Clariant (Denmark) A/S, Karise	100.0		■		
Ecuador	Clariant (Ecuador) S.A., Quito	100.0		■		
Egypt	Clariant (Egypt) SAE, Cairo	85.6		■	■	
	The Egyptian German Co. for Dyes & Resins SAE, Cairo	100.0		■	■	
Finland	Clariant (Finland) Oy, Vantaa	100.0		■		
France	Clariant Distribution (France), Puteaux	100.0		■		
	Clariant Masterbatches (France), Puteaux	100.0		■	■	■
	Clariant Masterbatches (Saint Jeoire), Saint-Jeoire-en-Faucigny	100.0		■	■	
	Clariant Masterbatches Huningue, Puteaux	100.0		■	■	■
	Clariant Production (France), Puteaux	100.0		■	■	■
	Clariant Service (France), Puteaux	100.0		■	■	■
Germany	Clariant Masterbatches (Deutschland) GmbH, Lahnstein	100.0		■	■	■
	Clariant Produkte (Deutschland) GmbH, Frankfurt-Höchst	100.0			■	■
	Clariant Vertrieb (Deutschland) GmbH und Co. KG, Frankfurt-Höchst	100.0		■		
	Clariant Verwaltungsgesellschaft mbH, Frankfurt-Höchst	100.0	■			
Great Britain	Clariant Holdings UK Ltd, Horsforth/Leeds	100.0	■			
	Clariant UK Ltd, Horsforth/Leeds	100.0		■	■	■
Greece	Clariant (Hellas) SA, Lykovrisi	100.0		■		
Guatemala	Clariant (Guatemala) SA, Guatemala City	100.0		■	■	
Honduras	Clariant Honduras S.A. de C.V., San Pedro Sula	100.0		■		
Hungary	Clariant Hungaria Kft, Budapest	100.0		■		
India	Clariant Chemicals (India) Ltd, Mumbai	63.4		■	■	■
Indonesia	PT Clariant Indonesia, Tangerang	100.0		■	■	
Ireland	Masterplast Limited, Naas	100.0		■	■	
Italy	Clariant Distribuzione (Italia) S.p.A., Milan	100.0		■		
	Clariant Masterbatches (Italia) S.p.A., Milan	100.0		■	■	■
	Clariant Prodotti (Italia) S.p.A., Milan	100.0			■	■
	Clariant Servizi (Italia) S.p.A., Milan	100.0	■			

Country	Company name	Participation %	Holding/ Finance/Service	Sales	Production	Research
Japan	Clariant (Japan) K.K., Tokyo	100.0		■	■	■
Korea	Clariant (Korea) Ltd, Seoul	100.0		■		
	Clariant Masterbatches (Korea) Ltd, Kyungsannamdo	100.0		■	■	
	Clariant Pigments (Korea) Ltd, Ulsan-Si	99.8		■	■	
Malaysia	Clariant (Malaysia) Sdn. Bhd., Shah Alam	100.0		■		
Mexico	Clariant (Mexico) S.A. de C.V., Naucalpan de Juárez	100.0		■	■	
Morocco	Clariant (Maroc) S.A., Casablanca	100.0		■	■	
Netherlands	Dick Peters BV, Denekamp	100.0		■	■	
New Zealand	Clariant (New Zealand) Ltd, Albany-Auckland	100.0		■	■	
Norway	Clariant (Norge) AS, Bergen	100.0		■		
Pakistan	Clariant Pakistan Ltd, Korangi, Karachi	75.0		■	■	
Panama	Clariant Trading (Panamá), SA, Panamá	100.0		■		
Peru	Clariant (Perú) SA, Lima	91.4		■	■	
Philippines	Clariant (Philippines) Corp., Makati City, Manila	100.0		■		
Poland	Clariant Polska Sp. z.o.o., Lodz	100.0		■		
Portugal	Clariant Químicos (Portugal) Unipessoal, Lda., Leça de Balio, Porto	100.0		■		
Russia	Clariant (RUS) LLC, Moscow	100.0		■		
Saudi Arabia	Clariant Ali Al Abdulla Al Tamimi Co. Ltd, Al-Khobar	49.0		■	■	
Singapore	Clariant (Singapore) Pte. Ltd, Singapore	100.0		■	■	
Slovenia	Clariant Distribucija SL, Ljubljana	100.0		■		
South Africa	Clariant Southern Africa (Pty) Ltd, Weltevreden Park, Johannesburg	100.0		■	■	
Spain	Clariant Ibérica Comercial S.L., Barcelona	100.0		■		
	Clariant Ibérica Producción S.A., Barcelona	100.0			■	■
	Clariant Ibérica Servicios S.L., Barcelona	100.0	■			
	Clariant Masterbatch Ibérica S.A., Sant Andreu de la Barca	100.0		■	■	
Sweden	Clariant (Sverige) AB, Göteborg	100.0		■		
	Clariant Masterbatches Norden AB, Malmö	100.0		■	■	■
Switzerland	Clariant Export AG, Muttenz	100.0		■		
	Clariant International AG, Muttenz	100.0	■			
	Clariant Produkte (Schweiz) AG, Muttenz	100.0			■	■
	Clariant Service (Schweiz) AG, Muttenz	100.0	■			
Taiwan	Clariant Chemicals (Taiwan) Co., Ltd, Taipei	100.0		■	■	
Thailand	Clariant Chemicals (Thailand) Ltd, Bangkok	100.0		■	■	
	Clariant Masterbatches (Thailand) Ltd, Bangkok	100.0		■	■	
Tunisia	Clariant Tunisie SA, Bir El Bey-Tunis	49.9		■		
Turkey	Clariant (Türkiye) A.S., Istanbul	100.0		■	■	
UAE	Clariant (Gulf) FZE, Jebel Ali, Dubai	100.0		■		
Uruguay	Clariant (Uruguay) SA, Montevideo	100.0		■		
USA	Clariant Corporation, Charlotte, NC	100.0		■	■	■
	Clariant Life Science Molecules (America) Inc., Elgin, SC	100.0		■	■	■
	Clariant Life Science Molecules (Florida) Inc., Gainesville, FL	100.0		■	■	■
Venezuela	Clariant Venezuela S.A., Maracay	100.0		■	■	
Vietnam	Clariant (Vietnam) Ltd, Ho Chi Minh City	100.0			■	

36. Events subsequent to the balance sheet date

There are no relevant events after the balance sheet date.

Report of the Group auditors

Report of the Group auditors to the general meeting 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 recognized income and expense and notes – pages 80 to 134) of the Clariant Group for the year ended 31 December 2006.

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 Swiss Auditing Standards 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 the International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

PricewaterhouseCoopers AG

D. Suter   Dr. M. Jeger
Auditor in charge

Basel, 16 February 2007

Five-year Group overview

Five-year Group overview 2002–2006		2006	2005 (restated)	2005	2004	2003	2002
Divisional sales	CHF mn	**8 211**	**7 800**	**8 261**	**8 772**	**8 783**	**9 606**
Change relative to preceding year							
in Swiss francs	%	5		- 6	-0	- 9	- 6
in local currency	%	3		- 8	2	- 4	2
Group sales[1]	CHF mn	**8 100**	**7 728**	**8 181**	**8 530**	**8 516**	**9 330**
Change relative to preceding year							
in Swiss francs	%	5		- 4	–	- 9	- 5
in local currency	%	3		- 6	2	- 4	3
Operating income before exceptionals	CHF mn	**592**	**533**	**516**	**636**	**611**	**690**
Change relative to preceding year	%	11		- 19	4	- 11	9
as a % of sales		7.3		6.3	7.5	7.2	7.4
Operating income	CHF mn	**385**	**448**	**368**	**533**	**559**	**- 202**
Change relative to preceding year	%	- 14		- 31	- 5	–	–
as a % of sales		4.8		4.5	6.2	6.6	- 2.2
EBITDA	CHF mn	**798**	**714**	**710**	**918**	**1 119**	**1 193**
Change relative to preceding year	%	12		- 23	- 18	- 6	- 14
as a % of sales		9.9		8.7	10.8	13.1	12.8
Net income	CHF mn	**- 78**	**192**	**192**	**159**	**173**	**- 639**
Change relative to preceding year	%	- 141		21	- 8	–	–
as a % of sales		- 1.0		2.3	1.9	2.0	- 6.8
Investment in property, plant and equipment	CHF mn	**325**	**321**	**348**	**289**	**301**	**339**
Change relative to preceding year	%	1		20	- 4	- 11	- 33
as a % of sales		4		4	3	4	4
Personnel costs	CHF mn	**1 817**	**1 825**	**1 952**	**1 979**	**2 009**	**2 097**
Change relative to preceding year	%	-0		- 1	- 1	- 4	- 11
as a % of sales		22		24	23	24	22
Employees at year-end	number	21 748	22 132	23 383	24 769	27 008	27 849
Change relative to preceding year	%	- 2		- 6	- 8	- 3	- 4

[1] Incl. trading.

Trend in Group sales by division	2006		2005 (restated)		2005		2004		2003		2002	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Textile, Leather & Paper Chemicals	2 303	29	2 192	28	2 192	27	2 203	26	2 179	26	2 769	30
Pigments & Additives	1 981	25	1 879	24	1 879	23	1 828	21	1 745	20	1 814	19
Functional Chemicals	2 281	28	2 083	27	2 083	25	1 977	23	2 033	24	2 102	23
Life Science Chemicals	281	3	430	6	883	11	1 414	17	1 518	18	1 618	17
Masterbatches	1 254	15	1 144	15	1 144	14	1 108	13	1 041	12	1 027	11
Total divisions	**8 100**	100	**7 728**	100	**8 181**	100	**8 530**	100	**8 516**	100	**9 330**	100

Trend in Group sales by region	2006		2005 (restated)		2005		2004		2003		2002	
	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%	CHF mn	%
Europe	3 939	49	3 797	49	4 111	50	4 214	49	4 239	50	4 564	49
The Americas	2 292	28	2 172	28	2 269	28	2 257	27	2 213	26	2 683	29
Asia/Australia/Africa	1 869	23	1 759	23	1 801	22	2 059	24	2 064	24	2 083	22
Total	**8 100**	100	**7 728**	100	**8 181**	100	**8 530**	100	**8 516**	100	**9 330**	100

Clariant Ltd balance sheets

at 31 December 2006 and 2005

Assets	**2006** CHF	%	2005 CHF	%
Non-current assets				
Shareholdings in Group companies	1 702 995 578		1 954 646 642	
Loans to Group companies	664 156 088		1 358 913 816	
Intangible assets	1 724 204		1 479 346	
Total non-current assets	**2 368 875 870**	78.5	**3 315 039 804**	90.5
Current assets				
Receivables from Group companies	324 109 277		210 790 456	
Other receivables	54 427 801		53 681 139	
Accrued income	120 438		5 285	
Marketable securities	59 025 031		69 684 631	
Cash and cash equivalents	211 861 961		11 856 468	
Total current assets	**649 544 508**	21.5	**346 017 979**	9.5
Total assets	**3 018 420 378**	100.0	**3 661 057 783**	100.0

Equity and liabilities	**2006** CHF	%	2005 CHF	%
Equity				
Total share capital	**1 035 720 000**		**1 093 260 000**	
Reserves				
General reserve	646 595 631		646 595 631	
Reserve for treasury shares	97 180 627		111 542 072	
Free reserves	526 480 429		282 568 845	
Total reserves	**1 270 256 687**		**1 040 706 548**	
Unappropriated earnings				
Balance from prior year	–		–	
Net income	63 163 567		229 550 139	
Total unappropriated earnings	**63 163 567**		**229 550 139**	
Total equity	**2 369 140 254**	78.5	**2 363 516 687**	64.6
Liabilities				
Non-current liabilities				
Straight bonds	384 040 000		558 650 000	
Other non-current liabilities	–		1 000	
Total non-current liabilities	**384 040 000**	12.7	**558 651 000**	15.2
Current liabilities				
Provisions	3 145 286		3 184 104	
Liabilities to Group companies	65 317 860		236 998 502	
Other liabilities	177 257 940		476 352 198	
Accrued expenses	19 519 038		22 355 292	
Total current liabilities	**265 240 124**	8.8	**738 890 096**	20.2
Total liabilities	**649 280 124**	21.5	**1 297 541 096**	35.4
Total equity and liabilities	**3 018 420 378**	100.0	**3 661 057 783**	100.0

Clariant Ltd income statements

for the years ended 31 December 2006 and 2005

	2006 CHF	2005 CHF
Income		
Income from financial assets	271 678 974	260 953 051
Income from cash, marketable securities and short-term deposits	21 246 435	15 579 500
Financial income	–	90 862 338
Other income	40 853 674	39 188 026
Exceptional income	633 871 399	–
Total income	**967 650 482**	**406 582 915**
Expenses		
Financial expenses	51 653 490	145 351 544
Administrative expenses	7 857 513	2 987 484
Depreciation of financial assets	694 700 000	–
Other expenses (including taxes)	35 042 203	28 693 748
Exceptional expense	115 233 709	–
Total expenses	**904 486 915**	**177 032 776**
Net income	**63 163 567**	**229 550 139**

Notes to the financial statements of Clariant Ltd

1. Accounting policies

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

Provisions. Provisions are made to cover existing liabilities.

2. Financial assets

After a regular review of the cash generating capabilities of all subsidiaries of Clariant Ltd, the investment (including non-current loans) in some of these companies were written down by CHF 695 million (prior year CHF 0 million).

The principal direct and indirect affiliated companies and other holdings of Clariant Ltd are shown on pages 132 to 133 of the Financial Report of the Clariant Group.

3. Cash, marketable securities and current financial assets

Securities include treasury shares valued at fair market value in the amount of CHF 59 million (prior year CHF 70 million) (see also note 6).

4. Repayment of share capital

On 7 April 2006 the Shareholders' Meeting approved the repayment of share capital in the amount of CHF 57 540 000.

Paid-in share capital was decreased by CHF 57 540 000 to a total of CHF 1 035 720 000.

5. Share capital

	31.12.2006	31.12.2005
Number of registered shares each with a par value of CHF 4.50 (2005: CHF 4.75)	230 160 000	230 160 000
In CHF	1 035 720 000	1 093 260 000

Conditional capital	**31.12.2006**	31.12.2005
Number of registered shares each with a par value of CHF 4.50 (2005: CHF 4.75)	8 000 000	8 000 000
In CHF	36 000 000	38 000 000

6. Treasury shares (number with a par value of CHF 4.50 each [2005: CHF 4.75])

	2006	2005
Holdings on 1 January	3 601 273	3 122 401
Shares bought at market value		1 060 000
Shares purchased on exercise of put options	750 000	
Shares sold at market value	- 500 000	- 150 000
Shares to employees	- 603 995	- 431 128
Holdings on 31 December	**3 247 278**	**3 601 273**

The average price of shares bought in 2006 was CHF 20.00 (2005: CHF 19.81).

The average price of shares sold in 2006 was CHF 20.37 (2005: CHF 19.58).

7. Reconciliation of equity

CHF	Share capital	General reserve	Reserve for treasury shares	Free reserves	Unappropriated earnings	Total
Balance 31.12.2005	**1 093 260 000**	**646 595 631**	**111 542 072**	**282 568 845**	**229 550 139**	**2 363 516 687**
Treasury share transactions			- 14 361 445	14 361 445		–
Appropriation of profit/loss carried forward to reserves				229 550 139	- 229 550 139	–
Repayment of share capital	- 57 540 000					- 57 540 000
Net income					63 163 567	63 163 567
Balance 31.12.2006	**1 035 720 000**	**646 595 631**	**97 180 627**	**526 480 429**	**63 163 567**	**2 369 140 254**

8. Straight bonds

CHF thousand	Interest rate	Term	**Amount 31.12.2006**	Amount 31.12.2005
Straight bond	4.125	1996–2006	–	159 460
Straight bond	3.750	1997–2007	174 610	174 610
Straight bond	4.250	2000–2008	384 040	384 040
Total			**558 650**	**718 110**

The bond falling due in 2007 is recorded in Other liabilities under Current liabilities in the balance sheet.

9. General reserves

The general reserve must be at least 20% of the share capital of Clariant Ltd as this is the minimum amount required by the Swiss Code of Obligations.

10. Reserve for treasury shares

Clariant Ltd has met the legal requirements for treasury shares required by the Swiss Code of Obligations.

11. Contingent liabilities

CHF mn	**Outstanding liabilities 31.12.2006**	Outstanding liabilities 31.12.2005
Outstanding liabilities as guarantees in favor of Group companies	110	–
Outstanding liabilities as guarantees in favor of third parties	24	39

12. Voting and legal registration limitations

In accordance with Article 5 of the Articles of Incorporation, no limitations exist with regard to registration of shares which are acquired in one's own name and on one's own account. 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.

13. Shareholders holding 5 percent or more of total capital

Based on the information available at the time of this report, there were no shareholders with more than 5% of the share capital at 31 December 2006 or 31 December 2005.

Appropriation of available earnings

The Board of Directors proposes to transfer the net income of the year in the amount of CHF 63 163 567 to free reserves.

Available unappropriated earnings	CHF
Balance from prior year	–
Net income of the year	63 163 567
Total available unappropriated earnings	**63 163 567**

Appropriation	CHF
Transfer to free reserves	- 63 163 567
Balance to be carried forward	–

Proposed payout of nominal value reduction

The Board of Directors proposes to repay CHF 0.25 of the nominal value of each registered share, as a result of a reduction of the nominal value from CHF 4.50 to CHF 4.25 per registered share. The proposed payout would reduce the share capital by CHF 57 540 000. The proposed payout of the nominal value reduction of CHF 0.25 each is expected on 1 July 2007, subject to approval by the ordinary General Meeting of shareholders and subject to the fulfillment of the necessary requirements and the entry of the share capital reduction in the Commercial Register of the Canton of Baselland.

Report of the statutory auditors

Report of the statutory auditors to the General Meeting of Clariant Ltd, Muttenz

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes – pages 138 to 141) of Clariant Ltd for the year ended 31 December 2006.

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 Swiss Auditing Standards, 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

D. Suter	Dr. M. Jeger Auditor in charge

Basel, 16 February 2007

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 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.

Exactly your chemistry.

www.clariant.com

Clariant International Ltd
Rothausstrasse 61
CH-4132 Muttenz 1, Switzerland