# Clariant Annual Report 2007


Clariant

Exactly your chemistry.

## *Healthy Sales Growth:*

*Sales up 4 percent in local currency and 5 percent in Swiss Francs*

## *Price Increase Progressing:*

*Prices up more than 1 percent with momentum increasing towards year end*

## *Disappointing profitability:*

*Operating income before exceptionals reached CHF 539 million on continuing business, strongly impacted by continuously rising raw material and energy costs, as well as unfavorable currency effects*

## *Net income at break-even:*

*Net income before minorities at CHF 5 million*

## *Improved Cash Flow:*

*Operating cash flow significantly improved to CHF 540 million from CHF 328 million in 2006*

## *Momentum Built on Operational Performance:*

- *Sales, General and Administrative (SG & A) costs down to 20.8 percent from 21.3 percent in 2006*
- *Site network restructuring on track*
- *Restructuring and impairment costs: CHF 262 million, in line with expectations*
- *Transformation of Clariant 2010 strategy into divisional action plans complete*
- *Strong focus on performance culture with changes in management*

## *Dividend unchanged from 2006:*

*Proposal of CHF 0.25 per share, achieved by reducing nominal value from CHF 4.25 to CHF 4.00*

**What do *you* need?**

A commitment to service is an integral part of the Clariant culture. In posing the question: "What do *you* need?" our long-term advertising concept points the reader to Clariant's service orientation and innovation strength as the solution.

The bold pictures on the cover and in the report are derived from the current campaign, a visual echo of our strengths: to conceive new ideas, invent the unconventional and develop the optimum solution, consistently in alignment with each customer's needs.

For more information about Clariant's advertising campaigns, please visit *www.clariant.com*

*Clariant Annual Report 2007*


**www.clariant.com**

**Clariant International Ltd**
**Rothausstrasse 61**
**4132 Muttenz**
**Switzerland**

# Company Profile

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.

Our company is committed to sustainable growth. We are represented on five continents by more than 100 Group companies, employing more than 20,000 people. Headquartered in Muttenz near Basel, Switzerland, Clariant generated sales of more than CHF 8.5 billion in 2007.

From vibrant colors in luxury goods, to less-visible additives that enhance the value of industrial and consumer products, our products play a key role in our customers' manufacturing and treatment processes. Clariant's success is based on the expertise of its people, their ability to identify new customer needs at an early stage, and an enthusiasm to work together with customers to develop creative, efficient solutions.

**Clariant's businesses are organized in four divisions:**

### › Textile, Leather & Paper Chemicals

The three businesses of the Division TLP are passionate about fashion, leather, and paper, and provide functionality and aesthetics for more quality of life.

Our Textile Business supplies chemicals and dyes to engance the properties of clothing and textiles in applications as diverse as high fashion, construction, and fabrics for the home.

Whether it's the high-tech material you choose for your car seats, shoes, bags, or fashionable clothes that define you as an individual, our Leather Business is dedicated to enhancing the comfort that this versatile natural product brings to your life.

With our broad range of innovative chemicals and colorants, Clariant's Paper Business gives strength to cardboard, texture to luxury packaging, whiteness to stationery, color to napkins, and longer life to laminated paper.

### › Pigments & Additives

We supply high-quality organic colorants that bring paint, coatings, inks and plastics to life, and additives to protect them from the effects of light, weather and heat. We develop non-halogenated flame retardants, used in protective coatings, resins, thermoplastics and polyester fibers. The Pigments & Additives Division's portfolio also includes high-performance waxes for use across a broad range of special industrial and domestic applications. These 'designer' waxes can be tailored to meet exacting property profiles, including viscosity, melt temperature and hardness. We are the global leader, with more than 2,000 different products produced in 19 countries for 12,000 customers in more than 120 countries. You could say we know the business. In fact, we invented a lot of it as well.

### › Masterbatches

Clariant Masterbatches is the global leader in color and additive concentrates and performance solutions for the plastics industry, with strong positions in packaging, consumer goods, automotive and fiber. Recognizing that proximity and speed to market are key success factors, the Division operates 54 manufacturing facilities in 33 countries. Fully 80% of its customers are within 400 kilometers of a production plant.

### › Functional Chemicals

Our portfolio, based on surfactants and polymers, makes Clariant the ideal partner to deliver a broad range of high-performance products, raw materials and services to an equally diverse list of industries. We provide key, high-quality products and services for the oil and gas industry, as well as raw materials for detergent and cosmetics. We also serve the following sectors: automotive, metalworking, crop protection, paint, plastics, construction, mining, aviation, pharmaceuticals, and chemicals.

# Financial Summary

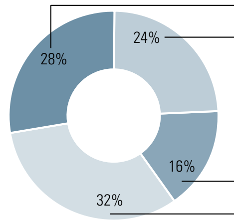
| *KEY FIGURES* | | ***2007*** | *2006* |
|---|---|---|---|
| | | CHF millions | CHF millions |
| Sales [1] | | 8,533 | 8,100 |
| Operating income/loss before restructuring, impairment and disposals [1] | | 539 | 592 |
| Net Group income/loss | | 5 | –78 |
| Operating cash flow [2] | | 540 | 328 |
| Total assets | | 7,285 | 7,188 |
| Total shareholders' equity capital and reserves | | 2,372 | 2,433 |
| Investment in property, plant and equipment | | 312 | 358 |
| Staff costs [3] | | 1,930 | 1,817 |
| R & D costs | | 211 | 207 |
| Earnings/loss per share | CHF | –0.01 | –0.37 |
| Distribution per share | CHF | 0.25 [4] | 0.25 |

[1] Continuing operations
[2] 2006 restated
[3] Staff numbers: **20,931 (2007),** 21,748 (2006 continuing)
[4] Projected

*SALES BY DIVISION*

CHF millions

Total 2007: CHF 8,533



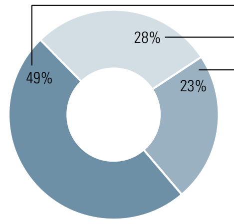

| | |
|---|---|
| TLP [1] | CHF 2,332 |
| PA [2] | CHF 2,076 |
| MB [3] | CHF 1,380 |
| FUN [4] | CHF 2,745 |

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

*SALES BY REGION*

CHF millions

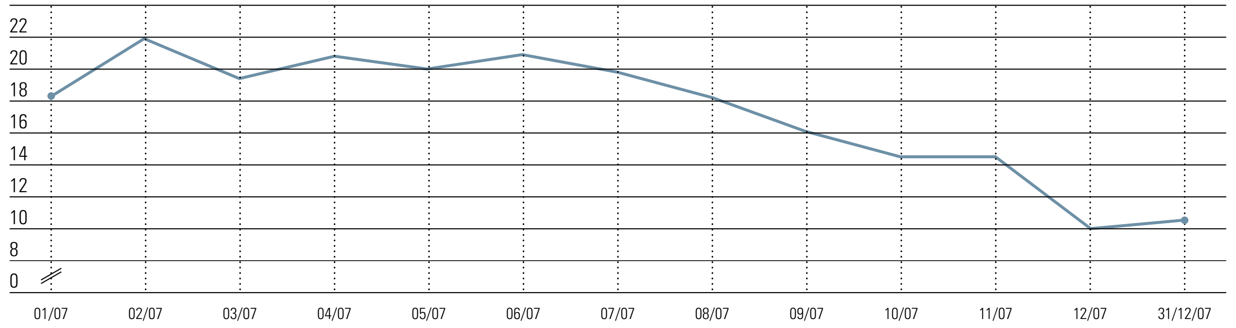
Total 2007: CHF 8,533




| | |
|---|---|
| Europe | CHF 4,155 |
| Americas | CHF 2,364 |
| Asia/Africa/Australia | CHF 2,014 |

*SHAREPRICE DEVELOPMENT* *from 1.1.2007 till 31.12.2007*

Share Price in CHF



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# "In 2007 we have laid the foundation for improved profitability."

***DEAR SHAREHOLDERS,***

For Clariant, 2007 was marked by both positive and negative developments. We have progressed in implementing some key elements of our Clariant 2010 strategy and significantly improved our cash flow. By the same token, operational profitability was considerably below our expectations. As a result of continuously increasing raw material and energy costs on the one hand, and too slow of an uptake of our price increases on the other, margins dropped sharply. In addition, unfavorable currency effects negatively impacted our results. As a consequence, in 2008 Clariant will strongly focus on achieving further cost reductions and price increases in order to improve profitability. We will also more actively manage our portfolio.

In 2007 demand for Clariant products was robust, with different trends in individual businesses and regions. Our company registered healthy sales growth. Sales from continuing operations were up 5 percent in Swiss Francs (4 percent in local currencies) to reach CHF 8.5 billion.

The operating margin contracted to 6.3 percent from 7.3 percent a year earlier. Operating profit before exceptionals came to CHF 539 million. Although we were able to raise our prices overall by 1 percent, this was not enough to offset higher raw material and energy costs. Masterbatches was the only division that could fully compensate for the increase in raw material costs by raising prices. The appreciation of the Euro against other major currencies was another unfavorable development. It negatively impacted our profitability by nearly CHF 70 million.

We have achieved initial gains to cut SG&A costs (Sales, General and Administrative), which we reduced to 20.8 percent of sales, compared with last year's figure of 21.3 percent. In addition, we proceeded with the reduction of our site network according to plan. We have already closed nine smaller facilities and initiated the closure of three medium-sized facilities in November. We also made good progress in reducing complexity by pruning our product portfolio by 20 percent – almost reaching the 25 percent target defined in our Clariant 2010 strategy.

In line with projections, restructuring and impairment costs amounted to CHF 262 million. Net result reached CHF 5 million, compared with the previous year's loss of CHF 78 million.

Cash flow from operating activities significantly increased over the same period last year to reach CHF 540 million. This success can be mainly attributed to a substantially lower net working capital, brought about largely by sustainable inventory reduction and good progress in managing our trade receivables.

In order to sharpen our profitability focus in 2008 and beyond, as well as achieve better performance and higher accountability at all management levels, we decided to evolve our structure with effect from January 1, 2008, and to delegate more responsibility and accountability for operational results to the divisions' regional levels.

Clariant has had a strong emphasis on people management in 2007. The Clariant Academy has been effective by training about 1850 sales managers in Value Based Selling, our approach to achieve better prices with customers, based on greater added value. The Clariant Academy also conducted several other management training and development programs.

We also committed ourselves to performance orientation and performance management by recognizing individual achievements, and draw the consequences where the performance is below our expectations.

The transformation of the Clariant 2010 strategy into divisional action plans in Pigments & Additives, Functional Chemicals and Textile, Leather & Paper Chemicals was finalized in the last quarter of 2007 and ready for implementation as from January 1, 2008. All three divisions are pursuing cost leadership strategies in order to achieve competitive positions in the respective market segments. Furthermore, these strategies will focus on enabling a strict separation between product-driven, more commoditized business on the one hand, and service-driven business on the other. In this latter sector, customers are prepared to pay higher prices for greater added value. The separation will enable us to provide product-driven businesses with low cost structures and service-driven businesses offering value-adding services to our customers still with competitive cost and management structures.

By separating product-driven from service-driven businesses, we are placing the divisions in a position where they will be able to tailor their portfolios strategically. Product-driven businesses will be managed for cash. Service-driven businesses will be managed for growth


where Clariant finds itself in a leadership position. In each business, we will actively manage our portfolio and strive for the most value-generating solutions.

Clariant remains on a firm financial footing with a solid balance sheet. The gearing, which expresses net debt as percentage of equity, was at 57 percent, the equity ratio at 33 percent.

Based on these full-year results, at the 13th Annual General Meeting on April 10, 2008, the Board of Directors will propose a payout of CHF 0.25 per share by reducing nominal value from CHF 4.25 to CHF 4.00. The proposed payout remains unchanged from the previous year.

We want to sincerely thank our employees for their contributions and efforts in 2007. We are well aware that their commitment builds the foundation for the company's success.

Against a backdrop of an increasingly uncertain global macro economic outlook, our focus during the coming year will be on the continuing implementation of price increases and cost leadership which will help offset expected further increases in raw material and energy costs. With the benefits of the operational performance improvements, already underway, we expect to show improving operating margins and continuing strong cash flow from operations in 2008.

We remain confident that we will achieve our strategic goal of an above industry-average ROIC by 2010.

Sincerely,

***Jan Secher***
*Chief Executive Officer*

***Roland Lösser***
*Chairman of the Board of Directors*

**BOARD OF MANAGEMENT** *from left to right:*

***SIEGFRIED FISCHER*** Head of Functional Chemicals Division, ***DOMINIK VON BERTRAB*** Head of Masterbatches Division, ***OKKE KOO*** Head of Pigments & Additives Division, ***JAN SECHER*** Chief Executive Officer, ***PETER BRANDENBERG*** Head of Textile, Leather & Paper Chemicals Division, ***JOHANN STEINER*** Head of Group Human Resources, ***PATRICK JANY*** Chief Financial Officer

*__2007__ was a challenging year for Clariant. However, we remain confident in the future. We have a strong plan and have met key milestones in the first year of its implementation. We are addressing the issue of declining gross margins head on. Our pricing efforts have started to bear fruit, and are expected to continue to do so throughout 2008. Our entire organization is committed to operational excellence.*

*We are convinced that in 2007 we have laid the foundation to improve our profitability in the year to come, and to realize our Clariant 2010 goal of an above industry-average ROIC in the next three years.*

# **Group Strategy:** *"Building on our strengths, focusing on execution."*

- WE WILL BECOME A WORLD-CLASS PERFORMER IN OUR INDUSTRY, FOCUSING ON COLORS, SURFACES AND PERFORMANCE CHEMICALS
- WE ARE COMMITTED TO CREATING VALUE FOR INVESTORS, CUSTOMERS AND EMPLOYEES THROUGH CONSTANT INNOVATION, EFFICIENCY AND FLEXIBILITY, ACHIEVING AN ABOVE INDUSTRY-AVERAGE RETURN ON INVESTED CAPITAL (ROIC) BY 2010
- WE WILL ACHIEVE OUR GOALS BY FOSTERING A CULTURE OF HIGH PERFORMANCE, ABSOLUTE ACCOUNTABILITY AND ENTREPRENEURSHIP

**The Clariant 2010 strategy comprises three building blocks:**

| | | |
|---|---|---|
| **1. BUSINESS PORTFOLIO** | | › Actively manage the portfolio |
| **2. BUSINESS STRUCTURE** | | › Leverage difference between product- and service-driven business |
| **3. OPERATIONAL EXCELLENCE** | *PROFIT DRIVERS* | › Increase prices based on our added value<br>› Simplify production network and product range<br>› Reduce costs aggressively |
| | *GROWTH DRIVERS* | › Invest in service-driven segments<br>› Increase presence in fast-growing regions<br>› Build on our innovation capabilities |
| | *PEOPLE* | › Create a culture of high performance and accountability<br>› Foster leadership and entrepreneurial behavior |

## OPERATIONAL EXCELLENCE

Launching its 2010 strategy in November 2006, Clariant identified a range of operational opportunities. Sales, General and Administration (SG & A) costs and net working capital were high compared to industry peers. The number of products had reached approximately 50,000 (excluding Masterbatches), creating organizational complexity and supply chain management issues. The site network required further restructuring. And, in the context of rising raw material and energy costs, the need for pricing improvement and product pruning across the board was clear. To address these operational issues, Clariant prioritized its efforts in 2007 on reducing SG & A costs, decreasing net working capital and increasing prices.

SG & A costs have decreased to 20.8 percent of sales from 21.3 percent of sales in 2006. The company's cash flow has been more than doubled compared to the previous year, driven by a strong focus on inventory management.

To capture further value from products and services, Clariant launched its Value-Based Selling initiative. All 1,850 sales and marketing employees have participated in the program, resulting in a strong and increasing pricing momentum in Q3 and Q4. To compensate for rising raw material costs, further price increases were announced in December 2007. At the end of 2007 Clariant also launched PRIMA, a global pricing guidance and analysis tool to improve pricing transparency that will enable us to manage the profitability of each product by each customer.

The rationalization of Clariant's site network began in 2007. Nine smaller sites have been decommissioned and a further three medium-sized sites announced for closure: at Selby, UK; Coventry, USA, and Naucalpan, Mexico.

Clariant already has strong positions in the emerging markets (Latin America, India, China) with some of its businesses. To build on this growth, new strategies for Asia (China and India in particular) have been implemented. These strategies are designed to maximize the opportunities in these fast-growing markets. The focus is to establish strong, sustainable customer relations and develop appropriate production capacity.

Significant improvements have been made in the area of people management across the company. The newly-established Clariant Academy, for instance, improves the capabilities of Clariant managers through targeted training programs – the previously-mentioned Value-Based Selling training being just one example. A special emphasis has been laid on performance management. There have been changes in a number of senior management positions, either by recruiting top talent from outside, or promoting internal managers in line with Clariant's talent management program.

### BUSINESS STRUCTURE

A key milestone in the Clariant 2010 process was reached in December with the finalization of the detailed action plan for the Functional Chemicals and the Textile, Leather & Paper Chemicals divisions. Implementation of the new strategies started on January 1, 2008, and complements the new cost leadership strategy from the Pigments & Additives Division (PA), announced in November. Finalizing these divisional strategies means that the transformation of the Clariant 2010 strategy into the divisions is now complete.

### IMPLEMENTATION OF STATE-OF-THE-ART PRICE MANAGEMENT PRACTICES

#### *FACTS*

- We have a leading position in most segments we serve
- We deliver added value to our customers through superior products and services as well as standard products

#### *ISSUE*

***Why don't we share more of the value we create?***

#### *ACTION*

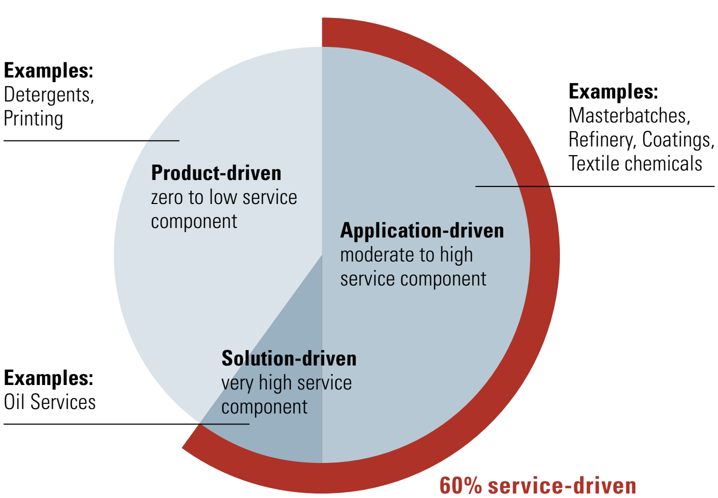
**PRIMA – Clariant's comprehensive pricing management system**

- Managing our pricing performance based on clear customer segmentation, key performance indicators and responsibilities
- Building people skills in pricing performance
- Strategic separation of product- vs. service-driven businesses

***Maximize value extraction – enable higher prices***

A key feature of the new strategy is to clearly separate the more commoditized, product-driven businesses from service-driven ones, where the customer is able to pay for the added-value services that Clariant offers. This separation recognizes that both businesses have very different market drivers, and enables them to be managed according to their needs. Historically, there has been the tendency to manage product-driven elements of the portfolio and the service-driven businesses in the same way. SG & A costs are a prime example. To compete effectively in a market where price is the key differentiator, SG & A costs (excluding transportation) for the product-driven businesses should ideally be less than 10% of sales. Conversely, in a service-driven business, investments in sales and marketing are necessary for successful product positioning. R & D provides another example. In a product-driven business, a strong focus is required on process innovation to continually drive down production costs. In a service-driven business, process innovation remains important but product innovation is also vital. Price increases in the service-driven sector have to be negotiated with the customer, based on the added value we deliver. Price increases in the product-driven business will follow the general mechanism of a more commoditized business and follow the developments in the raw material markets as well as supply and demand dynamics.

**Approximately 60% of Clariant's portfolio is service-driven**




## DIVISIONAL STRATEGIES AT A GLANCE

***Pigments & Additives (PA)***

The PA strategy has been significantly shifted towards cost leadership to address ongoing commoditization. A newly created low cost business unit, Base Products, will manage the most commoditized of our products. Meanwhile, we will reduce costs and deliver real pricing power by streamlining processes and rationalizing the customer base across the Division. About 3,000 small customers will be served by distributors in the future. The Division will address overcapacity by executing previously-announced site closures, and envisage further closures in 2008. At the same time the productivity of the site network will be improved by the introduction of a Lean Six Sigma program.

***Textile, Leather & Paper Chemicals (TLP)***

Cost leadership and focus are the key drivers for TLP. Reducing the complexity of the business through improvements of the site network and selective disposal of smaller, less profitable units will drive down costs and increase profitability. The Emulsions business will be carved out of the textile business and managed for cash, whereas the Division will focus on profitable growth in selected areas of the Textile and Paper Business, where Clariant's market position and value proposition is good. With the closure of Selby site (commodity type products), the leather business will be focused on profitable, service-driven segments and continue to develop the strong market position.

***Functional Chemicals (FUN)***

The FUN strategy is to allocate the entire portfolio into three business models. Product-driven businesses will focus on cash generation, with a strong emphasis on costs. The detergent and specialty intermediates segment, for instance, will operate as a product-focused European business. Application- and solution-driven businesses have a stronger focus on service, innovation and added-value. These businesses, which include Clariant Oil Services and Crop Protection, will be managed for growth.

***Masterbatches (MB)***

MB will continue with its successful growth and service strategy. It builds on strong technical expertise and a market leading position to deliver above-market growth across all regions. A service-driven approach focuses on fast-growing market segments, continuous improvement in operational results, and selective acquisitions – such as the purchase of Ciba Specialty Chemicals' masterbatches business in 2006, or the purchase of MasterAndino S.A., an important manufacturer in Colombia.

In brief, the divisional strategies of PA, TLP and FUN are built on the separation of the product-driven and the service-driven businesses. The former will be managed for cash, whereas service-driven business will be managed for growth. Resources for both businesses will be allocated according to their needs.

## BUSINESS PORTFOLIO

The product-driven/service-driven structure provides complete transparency of portfolio performance, enabling improved management throughout the business. Since July 2007 all divisions have begun to assess which businesses and/or business lines should be strengthened, which ones should continue in their present form, and those from which we should exit. We will focus on businesses in which we enjoy good market positioning and profitability that put us into the position of being or becoming a market leader that drives consolidation. In these areas we are prepared to make acquisitions. In areas where we are not in such a good position, and where we see no realistic chance of getting there, we will pursue value creating strategic options that at the same time provide these businesses with a better home to grow successfully. The portfolio analysis will be finalized within the first quarter of 2008.

**Top priority businesses for growth investment**

| Top priority businesses to grow strategically | Businesses to grow selectively | Businesses to maintain and manage for cash |
|---|---|---|
| › Coatings<br>› Masterbatches<br>› New businesses<br>› Non-impact printing<br>› Process Chemicals | › Performance Chemicals<br>› Process Chemicals<br>› Plastics<br>› Specialties<br>› Paper<br>› Sulfur Dyes<br>› Textile Dyes<br>› Textile Chemicals<br>› Leather | › Biocides<br>› Detergents<br>› Spec. Intermediates<br>› Printing Inks<br>› Raw Materials |
| Percent of Group sales ~30% | Percent of Group sales ~50% | Percent of Group sales ~20% |
| Fund allocation High | Fund allocation Medium | Fund allocation Low |

## CUSTOMERS AND MARKETS

Sometimes appearance is everything. A good first impression is not only pleasing to the eye, it is also the promise of satisfaction in the future. Nobody knows that better than Clariant. Whether it is the textiles that brighten your wardrobe, masterbatches for vivid consumer goods, or packaging to protect and promote your products, Clariant helps its customers make that first magical impact to engage the consumer, perfectly matched and speedily into production. From the spark in a designer's mind, to efficient manufacture, to point-of-sale, our colorants, additives, and services do the job, and do it well … all of which makes our customers' bottom line look even better.

**What do *you* need?**

# **Customers and Markets:** *"Global reach with local service."*

**This is a key strength of Clariant in today's globalized marketplace. Our worldwide plant network is designed to meet the needs of our customers, wherever they are. And, by adopting the same high production standards in every facility, they have the confidence of consistent quality on time, every time.**

## *A TRULY GLOBAL PARTNER*

The pattern of globalized production continues to accelerate. Ensuring consistent quality is a key customer requirement as producers develop global production networks and increase their focus towards low-cost countries. In order to remain close to customers and keep supply chains short, Clariant has made major investments in facilities and people in those locations offering a competitive cost structure. In 2007, Clariant expanded facilities in Asia and approved a new site in Turkey. We also increased our already-strong presence in Latin America by acquisitions in Guatemala for Masterbatches, and in Colombia for both Masterbatches and Functional Chemicals. Low-cost production, however, does not mean low standards. Clariant operates to the same high Environmental, Safety & Health (ESH) mandatory guidelines and other production protocols in all of its 154 facilities worldwide.

## *MATCHING MARKET TRENDS*

The challenges created by globalized production are clearly demonstrated by consumer goods manufacturers. Customers want more choice and lower prices. At the same time environmental and regulatory pressures demand higher performance. Clariant leads the way in being able to deliver customized solutions at a consistently high quality, wherever in the world our customers are based. For example, building on Clariant's core color competence, the Masterbatches Division recently introduced a range of initiatives, including ColorWorks™, to provide global color matching and color development, trend analysis and project management. Seven ColorWorks centers have been strategically located to serve manufacturing hubs around the world. We now have a global platform for color design and science with the ability to tailor needs locally. This service enables customers to outsource the complete process from color matching and formulation transfer through to final production and delivery across multiple continents. This reduces customer costs and speeds up the entire product development process.

Meeting ever stricter environmental standards is another example of Clariant's knowledge, providing customers with added-value service. To reduce the environmental impact of textile mills and processing units, federal and state governments in India recently introduced zero-discharge policies for waste water. Using Clariant's deep understanding of how its dyes and other chemicals degrade, the company now provides environmental consultancy services alongside its products, providing customers with a cost-effective solution to meet environmental standards. In China, greater enforcement of environmental legislation to reduce pollution as well as product safety is also impacting customers' needs. Another example comes from Latin America, where Clariant recently acquired Toschem, a leading supplier of chemicals to the oil and gas and water treatment markets. This acquisition enables Clariant to offer new products and services to reduce the environmental impact of customers' activities.

In the product-driven sectors, such as detergents and printing inks, value-added service is not rewarded by the customer. To ensure Clariant remains competitive in these markets, while still offering innovation and service to those customers who need them, the company has undertaken a complete review of how best to serve these very different commercial environments. Investment for growth and spending for innovation will be prioritized accordingly. This review is a key part of the Clariant 2010 strategy and will allow us to adopt different models for each part of our business. Reducing costs and minimizing the impact of raw material prices will remain a priority across the company.

## *AROUND THE REGIONS*

› EUROPE

Clariant's highest sales volumes are in Europe, with good growth rates in Eastern Europe, including Russia. The largest advances were made by Masterbatches, although these were partly offset by Textile, Leather & Paper Chemicals declines, as its customers continue to move their manufacturing to low-cost, emerging markets. Clariant's focus in Europe is to right-size the infrastructure so that it meets the needs of tomorrow's rather than yesterday's customers: for instance, the closure of an entire leather chemicals production site in the UK. As part of this effort, the European organization has been separated clearly from the global one so that it can concentrate on improving profitability in this key region.

### › AMERICAS

The fast-growing Latin American countries, coupled with double-digit growth in Process Chemicals, part of the Functional Chemicals Division, was offset by the Textile, Leather & Paper Chemicals Division's declines. Sales in local currency terms in the US were flat as a result. A slowdown in North American construction, triggered by the sub-prime debt crisis, clouds the short-term outlook. Our focus in the US is growth in those segments with good opportunities, while making ongoing adjustments to the infrastructure.

### › ASIA / AUSTRALIA / AFRICA

Growing domestic demand, especially from the rapidly-growing middle classes in countries such as China, India, and the Middle East, is creating new customers as well as new competition for Clariant. Many low-cost production countries are emphasizing the implementation of higher environmental and safety standards to reduce the impact of their activities. This creates opportunities for Clariant products, for example through the replacement of chrome and lead in pigments and greater use of flame retardants due to the introduction of fire protection codes.

In order to focus on the opportunities in emerging markets, Clariant's Asia and India strategies were reviewed in 2006. Our aim has been to build strong relationships with emerging players, shorten supply chains through extending capacity, respond faster to customer needs and, depending on customer requirements, provide added-value services. The Clariant 2010 strategy also addresses the growing importance of emerging regions by transferring decision-making away from the corporate center closer to where customers are located.

In 2007 strong demand and the implementation of the Asia strategy enabled Clariant to take maximum advantage of the rapidly-growing Chinese markets. Sales in China grew 17% in local currency. However, strengthening currencies in some emerging markets, such as India, have negatively impacted exports.

Looking ahead, the outlook is for an economic slowdown in 2008, with the US and some European markets being affected the most. Growth in emerging markets is expected to slow, but to a lesser degree.

### CUSTOMER STRUCTURE

***Textile, Leather & Paper Chemicals (TLP)***
Textile industry, leather industry, pulp and paper industry, construction industry.

***Pigments & Additives (PA)***
Coatings industries[1], plastics industries, printing industries, specialized industries[2].

***Masterbatches (MB)***
Resin producers, compounders[3], polymer converters[4], manufacturers of industrial goods[5].

***Functional Chemicals (FUN)***
Oil and gas industry, detergents and cosmetics formulators, and a range of other industries from aviation and automotive to crop protection and construction.

[1] Manufacturers of automotive, industrial and powder coatings, and decorative paints.
[2] Including flame retardants, cosmetics, leather, and stationery.
[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.

## *VALUE-BASED SELLING*

Clariant is firmly committed to profitable growth. A key element to achieving this is Clariant's Value Based approach. During 2007 Clariant trained its 1,850 marketing and sales managers in Value-Based Selling (VBS). The courses, delivered through the newly-created Clariant Academy, have increased the company's ability to understand and respond to customer needs. The program will continue in 2008 with training on the recently launched PRIMA pricing tool.

PRIMA is being rolled out globally across the organization and provides managers with a transparent view of product and customer profitability, thereby supporting the effectiveness of Clariant's price managers.

Based on the PRIMA data we focus on volume increases with customers with whom we can generate a healthy profit – even if that translates into a lower sales growth rate.


## *INNOVATION IN TECHNOLOGIES AND PROCESSES*

Once upon a time, this *moto-car* existed only in an inventor's mind. So, too, did many Clariant products that have changed science fiction into technology fact. Some of our recent innovations include ceramics, tough enough to shield spaceships and bullet trains; macropolymers with precisely engineered molecular weights, and solvents that disperse or degrease, yet go easy on the environment. Led by our Technology & Innovation Council, inspired by awards and rewards, and standing atop our existing 15,000+ patents, there's no end to the new inventions that Clariant scientists are working on – and that's no fairy tale.

**What do *you* need?**

# *Innovation in Technologies and Processes:*
## *"Cost Leadership through Process Innovation."*

**Clariant's strategy for future success is highly dependent on our achievements in two distinct, but dependent, areas of innovation technology: product and process. A strong pipeline of innovative solutions secures the future of the company – in particular at the service-driven end of our portfolio. Inseparable from this commitment to innovation is our drive for continuous improvement.**

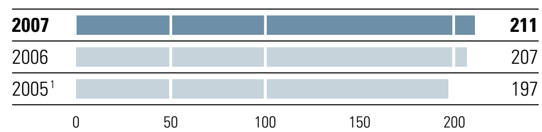
### *MARKET LED INNOVATIONS*

Clariant undertakes market- and customer-led innovation activities within individual business areas on a decentralized basis, while continuing to develop the company's core competencies efficiently. From its position as a corporate function, **Group Technology** ensures that knowledge about strategically important, cross-sectional technologies is exchanged throughout the company. Day-to-day responsibility for making this happen lies with the staff of Innovation & Knowledge Management, whose tasks are to drive forward innovation activities and new core competencies as a platform for fresh business fields.

The **Technology & Innovation Council,** comprising divisional R & D coordinators and representatives of Group Technology, plays a decisive role in the evaluation of project ideas, thereby ensuring a unified company-wide approach. New Business Development project proposals are handled by interdisciplinary, close-to-the-market regional teams in Europe, America, and Asia as part of a target-oriented innovation process.

*TOTAL R & D COSTS*

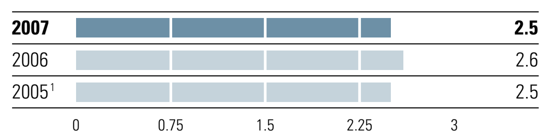
CHF millions




[1] Restated for discontinued operations

*TOTAL R & D RATIO*

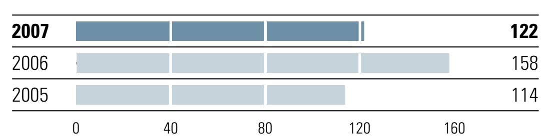
% of sales




[1] Restated for discontinued operations

*PATENTS*

Number of new applications (priority filings)



## INCUBATOR FUND

Clariant has set aside a special 'incubator fund', specifically to explore new business and technology opportunities that involve higher-than-normal degrees of risk. When one of these projects shows signs of becoming commercially successful, Clariant establishes an incubator business to pioneer what could end up as a business unit in its own right. An example of these vanguards is Functional Coatings & Advanced Materials, a unit set up in 2007 within our subsidiary, Clariant Advanced Materials GmbH (CAM). Nanomaterials and silicon-containing polymers are at the heart of CAM's technological expertise. These are used in turn to manufacture multifunctional coatings for different substrates, and are also important raw materials in the production of other specialty materials such as high-performance ceramics.

Chemtreat Composites (India) and KiON, a US-based company acquired by Clariant in 2006, have contributed significantly to the rapid market launch of an early example of these first products: anti-graffiti agents and easy-to-clean coatings.

CAM cooperates with a network of leading universities and institutes such as ETH Zurich, the University of Bayreuth, and comparable institutions worldwide, for the early development of additional products. A key feature is the involvement of potential end-users at an early stage. The areas of composite materials and anti-corrosion are early examples, with further incubator projects currently being set up in the fields of renewable raw materials and photovoltaics.

## PROCESS INNOVATION

The complementary side to Clariant's strategy for ensuring future success involves competitive production processes: the routes we use to bring innovations to the market quickly and cost-effectively.

Through targeted knowledge transfer, expert teams from all divisions contribute to speeding up innovation activities in the crucial area of cross-application technologies. Clariant's decentralized divisional process technology expertise is nurtured by an international team of experts, drawn from all divisions, under the umbrella of a Process Development Network (PDNet). A review by PDNet is mandatory for all investments in new production facilities of over CHF 5 million; the improvements resulting from these reviews are aimed at minimizing risk and speeding up successful innovation implementation.

The systematic identification of potential improvements to existing Clariant production methods in all divisions is also an important function for PDNet. Throughout the company, and in collaboration with external partners, new processes are constantly in development, testing, and implementation. A prime example could take the form of innovative software tools to improve the statistical analysis of factors influencing production processes. The process innovations that we initiate here play a large and successful role in improving the efficiency of Clariant's manufacturing operations.

A real-life example is Drimaren® Blue HF-RL a textile dye used for cellulosics. Despite having considerable market potential, in its early days one of the final components was purchased externally; an expensive undertaking. In order to rein these costs in, we decided to produce the major part in-house. An interdisciplinary team defined the overall strategy with R & D responsible for optimizing the synthesis process.

The economies realized in manufacturing, helped by additional savings of better sourcing of key compounds, significantly reduced our overall costs, and thus improve our competitiveness. This, in turn, resulted in massive sales volume increases. Today, Drimaren Blue HF-RL is one of Textiles' best-selling reactive dyestuffs.

Another example comes from Exolit® AP 422, a phosphorus-based, halogen-free flame retardant. The challenge for Clariant was to meet increasing demand driven by a 7% growth in the market for intumescent coatings, at the same time as maintaining high quality. All of this had to be done in a controlled-cost environment, with staffing levels remaining unchanged.

The strategic cooperation that Clariant entered into with BRAIN AG to develop and produce innovative textile enzymes is a prime example of adding value at both levels – technology and process. Using the combined know-how, market knowledge, and chemical and biotechnological experience of both companies, both companies are now better able to identify and develop innovative enzymes for textile processing.

Although these companies' synergistic research program is only a few months old, we have already identified several highly promising enzymes with the dual potential to introduce new biological properties to textile processing as well as optimize the process steps during their production.

## CLARIANT INNOVATION AWARD

Successful and high-paced innovation is the cornerstone of our growth strategy. It is against this background, and a desire to foster and reward a culture of innovation, that we inaugurated the Clariant Innovation Awards in 2007. These awards, which will become an annual feature in the Clariant calendar, underline the significance of customer- and market-oriented innovation as a strategic factor in organic growth and sustained competitiveness.

Prizes are awarded for outstanding product, process and business innovations. A shortlist of the best applicants is drawn up by the Technology & Innovation Council, from which the winners are then selected by a jury of distinguished internal and external adjudicators. Two further criteria are that submissions should have an annual sales or savings potential of more than CHF 10 million, and must already have contributed at least CHF 1 million to earnings. The proposals submitted in 2007 have total sales potential of some CHF 200 million.

## ›› THE INNOVATION AWARDS 2007:

At the inaugural award ceremony, the **Clariant Innovation Gold Award** was presented in recognition of new developments in cold flow improvers for biodiesel in the Dodiflow® product range. The use of biodiesel, based on renewable raw materials – fatty acid methyl esters (FAME) – plays a major role in reducing carbon dioxide emissions into the atmosphere. However, the FAME:biodiesel ratio can only be increased to optimum levels if the tendency for all forms of diesel to clump into solid particles at low temperatures is suppressed. In close cooperation with the biodiesel industry, Clariant chemists were able to solve this problem with the development of Dodiflow® flow improvers. This advance gives Clariant exclusive access to an attractive growth market.

Making our chemical processes more efficient is a crucial part of the Clariant 2010 strategy. Helping us achieve this goal is an abundance of software analysis tools that use statistical methods to analyze the variables involved in process operations. Parameters typically under scrutiny include raw material usage, energy efficiency, product yield, and the proportion of by-products generated during each cycle.

However, most methods focus on individual process steps; the disadvantage being that improvements to one parameter can often trigger a cascade of negative effects in others.

Another method is to investigate entire production process chains. Although these offer greater overall precision, the process improvements suggested by this approach can be so complex as to be of little practical use. At the other end of the scale, simpler methods can be equally limited because their conclusions are often too general.

This year's **Clariant Innovation Silver Award** recognized a new approach, already responsible for saving many hundreds of thousands of Swiss Francs. The winning system, developed by two process developers at our Gendorf plant in Germany, allows process investigators to use a sliding scale to 'dial up' the level of complexity. Being able to control the desired amount of detail allows process developers to tailor investigations to fit the requirements of each process, case by case.

The successful product development of tutoProm™, based on silicon-containing polymers, won the **Clariant Innovation Bronze Award.** This novel product helps customers minimize the economic damage caused by graffiti vandalism, and has been successfully put to use by a number of customers, notably Deutsche Bahn, the German Federal railway system. Other promising applications are also opening up for this exciting product category.


***CEO Jan Secher at the Clariant Innovation Award Ceremony***

The **Extra Innovation Award** went to our Amazon/Brazil team, who developed a new range of Clariant masterbatches using renewable raw materials – a world-first. These researchers found ways of using natural, temperature-sensitive polymer dyes made from renewable raw materials when making masterbatches at high temperatures. Significantly, the finished products manufactured from this material are fully biodegradable.

A **Special Innovation Award,** made to recognize cross-divisional and crossfunctional innovations, was presented to two teams who developed alkylphenol ethoxylate-free dispersing and degreasing agents for pigments and leather chemicals. This advance marks an important step in resolving a persistent ecological problem, and promises to become an important line of business for Clariant for the long term.

## *PEOPLE AND CULTURE*

Power to – and from – our people. Top performance is a must in world-class organizations, whether in bobsledding or specialty chemicals. At Clariant, we stimulate it with our Performance Management process that sets goals and responsibilities throughout the organization. A Talent Management system guides career paths and succession plans. Skills of new and old colleagues are sharpened by a Trainee Program as well as the Clariant Academy, while the entire system is underpinned by 'The Clariant Way', a general approach to working that is all about flexibility, efficiency and excellence.

**What do *you* need?**


ALGE-TIMING
min.
sec.
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# **People and Culture:** *"Empowering People through a Culture of Excellence!"*

In order to achieve world-class performance, there needs to be a clear understanding throughout the organization, not only about the products and services that Clariant delivers, but everything that is important to us as a company: who we are, what we stand for, and how we go about our day-to-day business. These values are the inspiration and driving force behind everything Clariant does – from our image, service and management style, to our product development programs and marketing practices, and finally, to the products themselves.

Our employees are the key to achieving world-class performance. Meeting our demanding objectives requires fostering a culture in which all employees are clear about their role and their contribution to the organization. This provides the underlying foundation to ensure our people are empowered to develop the skills that drive Clariant toward success. It is management's task to embrace the challenge of regularly encouraging their direct reports, giving them the freedom to apply their creativity, and providing them with the necessary support and leadership through an organized performance management system.

In this respect, 2007 saw the consistent implementation of a long-term program of measures which form part of the Clariant 2010 strategy. The major components of this program are performance management, talent management, training and organizational development.

## IT ALL BEGINS WITH PERFORMANCE MANAGEMENT

'Clariant 2010' has been underway for more than a year now, and a major part of this new strategy has to do with the way we work. At its heart is our commitment to a high-performance culture which engenders values of continuous improvement, personal accountability and entrepreneurship.

Clariant's Human Resources department is responsible for realizing this commitment company-wide by implementing Performance Management and effecting positive behavioral change. Using consistent methodology, the department's task is to coach our people and support them in identifying competencies, setting targets, drawing up performance contracts, and agreeing performance indicators.

The Performance Management process follows two, mutually dependent paths. The first makes use of the company's hierarchical structure. Each organizational unit agrees a performance contract with the next highest level. These contracts contain not only the specific objectives that the unit intends to achieve in the next financial year, but also defines which key performance indicators will be applied to measure their achievements.

The second element takes place one-on-one. Performance dialogs are held between employees and their line managers to agree individual responsibilities, objectives and performance indicators.

## FOSTERING A LEARNING ORGANIZATION AND BUILDING CAPABILITY WITH THE CLARIANT ACADEMY AND TRAINEE PROGRAM

As well as observing an active policy of attracting talented people, Clariant also needs to nurture their careers after they join. In this regard, the second contribution made by performance dialogs is to identify individual development needs, together with details of any training measures that may be required. Following this process, our Trainee Program is better able to match individual skills with specific positions within the company, as well as improve planning by fostering the skills we need for tomorrow.

The final objective of performance dialogs is to single out employees with the necessary aptitude and dedication to take on leadership roles in the future. These candidates are then individually assessed and supported in order to optimize their future career steps.

Underpinning this process is the Clariant Academy, a capability-building initiative which in 2007 became fully operational, placing us in a much stronger position to provide focused training for the company's current and future leaders.

The aims of the Academy are to improve business and personal competences; develop skills planning, implement important change processes, and lastly, apply and adapt this training content within specific functions, as in, for example, Sales and Marketing or Supply Chain Management.

Last year, some 2,000 employees took advantage of these programs, reinforcing Clariant's enviably high retention rate and helping us ensure that we have the right people in the right places at the right time. The two main focus areas of both the Clariant Academy and Trainee Programs in 2007 were sales force and management level training.

## CREATING A LEANER ORGANIZATION IN A CULTURE OF FAIR COOPERATION

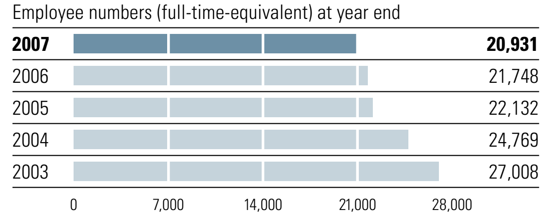
A part of the Clariant 2010 strategy involves a reduction of 10% of workforce positions by 2010. Some of this downsizing has already taken place using a managed reduction program, designed to minimize uncertainty and the social upheaval that comes with job losses. Special mention is made in recognition of the constructive and sympathetic contribution made by employee representatives, whose partnership and teamwork during this time is appreciated by all.

While we have no formalized minimum notice periods for operational changes, we inform employee representatives and staff as early as possible e.g. in the case of pending plant reductions or closures. Clariant is proud that the majority of changes and restructuring in recent years have been implemented in close and trusting collaboration with local employee representatives. Clariant's management team aims to encourage this common path in the future, jointly discussing and structuring necessary changes together with elected employee representatives.

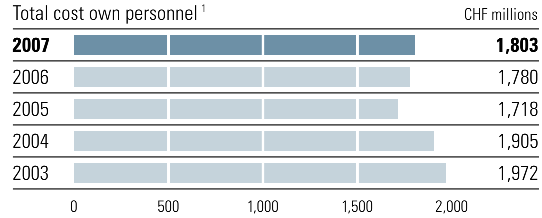
The culture of cooperation and fairness extends throughout all aspects of our global employee relations. Clariant fully complies with the standards of the International Labor Organization and constantly monitors its locations in this regard. This includes full respect for regulations concerning freedom of association. About 50% of our employees are covered by collective bargaining agreements. We adhere to all local rules on equal treatment of temporary and part-time employees with full-time staff. We respect or surpass any local minimum wage regulations and, depending on the competitive situation in each location, entry-level wages are usually at least 110% of minimum wages levels.

### *DEVELOPMENT OF STAFF AND PERSONNEL COSTS*

Employee numbers (full-time-equivalent) at year end




Total cost own personnel [1] CHF millions




[1] Excluding exceptional personnel costs

## SHARING KNOWLEDGE THROUGH DIVERSITY

The interaction of different cultures and the diversity of international experience play an important role in the success of a globally-active company. Proximity to the markets and acting together in a worldwide production network require a blend of local competence and international business experience. Our human resources policy aims to provide management with international experience in order to equip them for leadership roles in their respective native regions. The company headquarters in Muttenz has thus developed in recent years, with staff representing more than 25 nationalities. Worldwide, our employees are drawn from 91 different nations, making Clariant indeed a cosmopolitan, diverse family. We provide our people, whose average age is 41, with rewarding and productive career opportunities.

## A CULTURE THAT POWERS INNOVATION

The assertion by Heraclitus more than 2,500 years ago that nothing is permanent except change has never been truer – at least in business. At Clariant, we are in the process of building an efficient, high-performing organization able to adapt quickly to changing business needs and exploit innovative ideas.

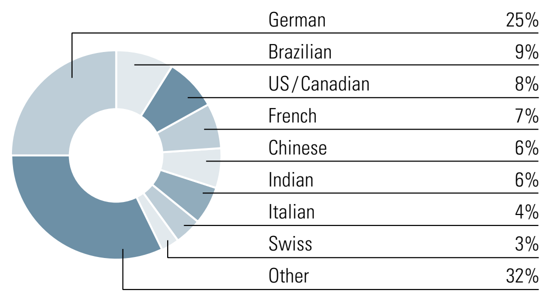
Broad-based expertise and extensive experience are just two of the many strengths that we draw on continuously to launch new services, applications and products. For example, we utilize our knowledge of the market to identify trends and anticipate customer needs.

But this is never enough. In addition to thinking ahead, we are also able to secure and extend our market leadership through continuous investment in researching and developing new products, services and applications. A significant part of this effort takes the form of individual employee ideas. We encourage our people to step forward and make their voices heard, enabling us to turn problems and aspirations into products and services.

Continuous innovation at Clariant lies at the heart of our plans for long-term growth and profitability. For us it means nothing less than people working together, pooling knowledge, experimenting with new possibilities and implementing new ideas, the success of which is measured by the value they add.

### *BREAKDOWN BY NATIONALITY*

Clariant employs people from 91 different nationalities.
This is how the numbers break down:
1,906 employees, corresponding to about 9% of the employees, work outside their home country.



*“The Clariant Way is aimed at nurturing operational excellence, characterized by flexible process orientation, a willingness to identify quickly when changes to our structures are needed, and implementing those changes efficiently.”*

## *CORPORATE SUSTAINABILITY*

Safety first. At Clariant, we ensure that both our production processes and our products pose minimal risks to employees, to customers and to society. No wonder our chemicals are sourced by renowned toymakers. Our approach is not simply to comply with laws, but to lead in protecting human health and the natural environment. That calls for major investments, for instance in the European Union's new regulations for the licensing of chemicals. Implementing REACH (Registration, Evaluation, and Authorization of Chemicals) throughout our supply chain is yet another leadership first in safety and accountability. In a word – sustainability.

**What do *you* need?**

# **Corporate Sustainability:** *"Securing the Future with Responsible Management."*

### CEO STATEMENT

Deeply rooted in the Clariant culture is a commitment to deal responsibly with customers, employees, the environment, and local communities.

Throughout this document there are references to our three-pillar strategy to achieve an above-industry-average return on invested capital by 2010 (ROIC): operational excellence, business structure, and business portfolio. Clariant's corporate responsibility program is also clearly aligned with this strategy.

Our Energy 2010 initiative is a good example as it combines cost savings with environmental efficiency: in particular regarding $CO_2$ emissions. Not only will we cut roughly 8% from our energy costs by the end of 2009, it will also reduce the net energy taken to manufacture thousands of different products made by our customers. We are proud to be on track with this ambitious goal.

In parallel with this initiative is the joint development work we undertake with key customers to innovate products with enhanced environmental value. An example is our close collaboration with Timberland to create environmentally-friendly dyes for their organic cotton products.

The result of mutual efforts such as these is an equally mutual business benefit, helping us and our customers strengthen our respective positions in the growing high-margin markets for green products.

Similarly, we see increased calls for product safety not as a business threat, but rather an opportunity. As a provider with a proven track record for product safety, Clariant has the experience to help customers design 'safety' into their products, helping ensure they are compliant with the highest international standards.

We are convinced that our pro-active emphasis on corporate responsibility will help us to secure long-term, world-class performance in the face of challenges such as rising costs of raw materials and energy, exposure to fierce competition, and increasing government regulation.

To inform our shareholders and other stakeholders transparently about our efforts in this regard, we are now following the guidelines of the Global Reporting Initiative (GRI). The GRI is an independent, non-profit, multi-stakeholder organization whose focus is on increasing comparability and transparency in the corporate reporting of sustainability and responsibility. As well as providing guidance about sustainability performance, GRI provides a universally-applicable framework in which disclosed information can be compared on an equal footing across national borders and industry sectors.

I am pleased to inform you that this Annual Report is GRI-compliant.

***Jan Secher***
*Chief Executive Officer*

GRI REPORT
GRI CHECKED

**Corporate responsibility is a key aspect of securing our company's long-term success and prosperity, and creating value for our customers and shareholders. Hand in hand with these principles is our commitment to the interests of other stakeholders and the measures we take to protect the environment. Together they form the foundations of our operating philosophy as we strive to become a world-class performer.**

## RESPONSIBLE AND ACCOUNTABLE

In all of our business activities, accountability to shareholders and other stakeholders with respect to corporate responsibility is paramount, and laid out in detail in the Clariant Code of Conduct. In order to sustain this commitment and build on our reputation as a trustworthy, loyal, and respectful partner in all internal and external relationships, the people of Clariant remain dedicated to finding the best balance between environmental, social, and economic needs.

## ENVIRONMENTAL EXCELLENCE

Our Environment, Safety & Health (ESH) organization is responsible for setting mandatory principles, binding for all Clariant facilities worldwide. Guidelines are defined centrally, standardized for the Group, and adapted continually. All ESH managers at site, country/region, and Group level have at their disposal a range of efficient mechanisms and controls for guideline implementation. As knowledge of ESH issues at all levels of the company is key to long-term success, an expertise database is utilized to leverage ESH knowledge across the organization.

Addressing environmental and safety targets in every activity that we undertake is one of Clariant's central goals. In addition to many product innovations with environmental benefits (some examples of which are discussed in the divisional chapters of this report, as is the 2007 EPA Award, described on page 34), we focus on the environmental excellence of our processes. In addition to complying with internal regulations and national laws and statutes, our priority is for continuous improvement of our ESH performance. Resource consumption, emissions, waste management, and occupational safety are monitored at all facilities worldwide and evaluated centrally. Comparisons against internal and external benchmarks allow us to measure success as well as detect and eliminate weaknesses.

The table overleaf illustrates the results of our environmental protection efforts with a 5-year trend overview on key environmental performance indicators for the period 2002 to 2006. Corresponding data for 2007 will be published on our website in April 2008, to allow for the time necessary to collect, check, and validate robust data from our production sites in 40 countries around the globe.

Clariant invests considerable sums in safety and environmental protection every year. The total for 2007, about CHF 45 million, was in line with ESH investments for the previous three years. An example of a project included in this figure is a CHF 850,000 adaptation of a waste water treatment plant in Jamshoro, Pakistan, to accommodate substantial production increases of Textile, Leather & Paper Chemicals. A package of process optimization measures in several plants at the Höchst site, Germany, to reduce organic waste water load is another example, this time illustrating the many occasions when environmental protection measures and economic benefits go hand in hand. By making use of regulatory incentives, we expect to reclaim almost the total investment of more than CHF 4 million from refunds in waste water charges.

In 2006, Clariant launched a key initiative in the quest for environmental excellence – the Group-wide Energy 2010 program. The aim is to make more intelligent use of all our energy sources: setting clear and specific targets to reduce energy consumption. The program involves an audit of all high energy-consuming plants or sections within plants. Separately, we have been able to record significant reductions in greenhouse gas emissions in recent years. Since 2002, emissions have been cut by more than 35%, corresponding to reductions of more than 500,000 metric tons. These greenhouse gas reductions are doubled – 70% – if we compare current performance against our 2,000 records. Activities in 2007 included, for example, the deployment of a heat pump to utilize waste heat at our Muttenz site in Switzerland. Separately, we have identified more than 200 projects in Latin America for process optimization and raising awareness of the benefits of reduced energy demand. In addition to their environmental benefits, these projects contribute to reducing Clariant's energy costs significantly.

Clariant has a global incident-reporting and emergency management system. All information concerning products, processes, and technologies, as well as the measures that need to be taken if an emergency arises, can be retrieved at any time.

Operating safe and accident-free work practices continues to pose a challenge for Clariant. In order to build on improvements already recorded in this area, the Board of Directors has initiated a global accident prevention program which involves all divisions, countries, and sites. Following an extensive analysis phase in 2007, implementation measures have now begun. By 2010, our aim is to reduce the accident rate by at least a further 20%.

In recognition of the quality of our ESH management, in 2007 the Swiss Association for Quality and Management Systems (SQS) awarded Clariant the global ISO 14001-2004 and OHSAS ISO 18001-1999 certificates. Furthermore, Clariant's ESH policy fulfills the goals of the Business Charter for Sustainable Development defined by the International Chamber of Commerce. In many countries, Clariant actively supports the chemical industry's highly effective Responsible Care initiatives.

## *PRODUCT SAFETY*

### TURNING SAFETY INTO VALUE

Without question, the issue of product safety is just as critical in the eyes of our customers as price, quality, or service. And with good reason. Recent decisions to remove large numbers of toys from store shelves in the United States are a stark reminder that the debate on product safety is more important now than at any previous time. The damage to sales and reputation when issues such as these arise confirm that product safety is a business-critical function.

The prime responsibility of Clariant's Product Safety department is to mitigate and manage the risks of these kinds of problems. They achieve this by coordinating safety activities within each division and across each region, down to country level. In addition, the department is currently managing registration of the soon-to-be-implemented European REACH legislation.

Testing our products before they leave the factory has always been a hallmark of Clariant's activities, but clearly, this key function has never been more vital as a prerequisite for sustainable business growth than it is today. The growing challenge for Product Safety is to show that the company's products continue to keep pace with increasing compliance requirements. This assurance of safety in turn generates real value for our customers and their end users.

| *SELECTED ENVIRONMENTAL PERFORMANCE INDICATORS: 5-YEAR TREND 2002–2006* | *Unit* | *2006* | *2005* | *2004* | *2003* | *2002* |
|---|---|---|---|---|---|---|
| **Material, energy and water consumption** | | | | | | |
| Materials used to manufacture products | 1,000 tons | 2,401 | 2,480 | 2,642 | 2,630 | 2,906 |
| Purchased electricity consumption | 1,000 TJ | 4.27 | 4.55 | 4.78 | 4.96 | 5.12 |
| Natural gas consumption | 1,000 TJ | 6.25 | 6.94 | 7.26 | 7.91 | 9.03 |
| Fuel oil consumption | 1,000 GJ | 1,024 | 1,206 | 1,292 | 1,428 | 1,312 |
| Water consumption, incl. process water etc. | million $m^3$ | 102 | 114 | 121 | 136 | 133 |
| **Discharge to air and waters, waste** | | | | | | |
| Carbon dioxide emissions | 1,000 tons | 596 | 642 | 672 | 733 | 779 |
| Global warming potential (carbon equivalent) | 1,000 tons | 898 | 1,032 | 1,070 | 1,086 | 1,426 |
| Sulfur dioxide | tons | 611 | 685 | 765 | 804 | 822 |
| Oxides of nitrogen | tons | 515 | 839 | 1,101 | 1,110 | 1,133 |
| Total effluent discharge | million $m^3$ | 29.3 | 31.4 | 33.9 | 35.2 | 36.7 |
| Organic substances (chemical oxygen demand) | 1,000 tons $O_2$ | 7.04 | 7.81 | 7.98 | 8.12 | 7.59 |
| Generated non-hazardous waste | 1,000 tons | 135 | 128 | 135 | 148 | 142 |
| Generated hazardous waste | 1,000 tons | 144 | 175 | 170 | 173 | 186 |
| **Occupational accidents** | | | | | | |
| Frequency: lost time accident rate | [1] | 1.05 | 1.13 | 1.27 | 1.20 | 1.39 |
| Severity: lost workday rate | [2] | 19.6 | 17.3 | 20.8 | 18.3 | 22.8 |

[1] Number of work-related accidents resulting in lost workdays per 200,000 working hours

[2] Number of lost workdays resulting from work-related accidents per 200,000 working hours

## NEW SAFETY LAB IN INDIA

Calls – by regulatory authorities, retail and trade organizations, and customers – for greater oversight of safety issues have steadily increased compliance requirements in terms of new manufacturing legislation, transport standards, and eco-labeling statutes.

It is against this background, and following the 2005 elevation of Product Safety into a corporate function, that we commissioned a world-class Product Safety laboratory in India. A valuable addition to Clariant's global testing network, the new amenity, located in the heart of our Asian high-growth focus markets, is able to address compliance challenges head-on, using a comprehensive suite of physical, ecological, and restricted substances testing. Encouraged by the lab's initial success in processing Asian products, we are now in the process of opening up its facilities for the benefit of Clariant's entire product portfolio worldwide.

## REACH – STAYING AHEAD OF THE GAME

June 2007 saw an entirely new set of EU chemicals legislation begin a complex, phased rollout. REACH, the **R**egistration, **E**valuation, and **A**uthorization of **Ch**emicals, represents the most comprehensive set of laws of any kind ever ratified by the European Parliament. Replacing at a stroke no less than 40 existing regulations, and with an implementation calendar spanning nearly 12 years, REACH will regulate the production, import, storage, and *application* of more than 30,000 chemicals across the entire European Union, and will increasingly affect other regions of the world as well.

Although the new regulations may appear to simplify compliance requirements, the reality is that they will be more complex to follow than their predecessors. Moreover, despite the fact that REACH is an EU initiative, the impact of this raft of legislation will be felt far beyond the borders of what is the world's largest market. Clariant expects other regions and countries will find it necessary to enact similar laws in the years to come. The most likely trend-leader is the Globally Harmonized System – a new United Nations labeling convention on chemicals, similar to REACH – which will eventually be adopted globally by most UN-member states.

So, with an implementation calendar spanning nearly 12 years, the question remains whether the industry should adopt REACH at an early stage or observe other operators' experiences from the sidelines, so to speak. For Clariant the decision is clear; timely implementation is the only responsible action to take. But that is not the only reason behind Clariant's decision to 'stay ahead of the global game'. We believe that maintaining this commitment will give us and our customers the upper hand at least throughout REACH's 12-year legislative rollout, and possibly beyond. And here's the reason why. Any short term cost advantages that some might hope for by delaying the inevitable investment

### » REACH IN A NUTSHELL

**Products** Chemicals, raw materials, and intermediates used in their formulation and end products, either manufactured in the EU or imported. The requirements do not cover medicinal or plant protection products, food, animal feed, polymers, chemical waste, or radioactive substances, all of which are regulated separately.

**Applications** The uses to which a chemical substance can be put are limited to specific applications as described in the registration documentation. Uses which lie outside the original list require separate, additional authorization.

**Responsibility** Producers and importers will have to demonstrate the safety of their chemicals. This represents a strengthening of previous legislation in which the onus was on authorities to prove that a substance was unsafe.

The distinction between old and new chemical entities will disappear, with all substances needing to be registered centrally by the Helsinki-based European Chemicals Agency (ECHA).

**Timescale** For quantities of 1,000 tons/year or greater, the deadline is November 2010. Smaller quantities will not need to join the list until later, ending with volumes in excess of one ton requiring registration by June 2018.

**It's the Law** REACH is the most comprehensive piece of chemicals legislation ever enacted anywhere, and the largest single set of laws of any kind passed by the European Parliament. Many breaches of current law that have traditionally been considered infringements will, in the future, be dealt with using criminal codes.

decision will be more than offset by the commercial losses suffered when markets realize they are not being sold products compliant with the latest safety regulations. Product Safety's primary REACH responsibilities are to manage the registration task and implement the law's requirements as they progressively come into force. Because of the size of the task, strategy related to building REACH into Clariant's operations and coordination of day-to-day activities relating to the new legislation will be undertaken separately.

Product Safety's primary REACH responsibilities are to manage the registration task and implement the law's requirements as they progressively come into force. Because of the size of the task, strategy related to building REACH into Clariant's operations and coordination of day-to-day activities relating to the the new legislation will be undertaken separately.

### INTEGRATED PRODUCT POLICY

Close observers of Clariant's way of doing business will already know that for us, integrated product policy means the inclusion of environmental, safety and health issues in all processes along the entire value chain, from the development of product concepts all the way to disposal or recycling. Price and quality are not the only criteria when choosing a supplier; a crucial factor brought into the decision matrix is suppliers' compliance with ESH requirements. Further downstream, Clariant provides its customers with comprehensive information and services to ensure that our products are used safely and do not harm the environment.

### » EPA AWARD

The U.S. Environmental Protection Agency (EPA) last year awarded Clariant the P2 Recognition Project Award for an innovative product designed to cut downtime in paper- and board-making machinery caused by 'sticky' contaminants. Cartaspers PSM also reduces, by as much as 90%, the amount of solvents required by cleaning and re-start processes. It is this advance that played a key role in winning the Award, since the P2 program is dedicated to recognizing chemicals that make a major contribution to pollution prevention. In its citation, the EPA noted that Cartaspers PSM cuts down worker exposure to volatile organic compound emissions, as well as improving paper machine efficiency by reducing the amount of waste products generated during production. The EPA screens up to 2,500 chemicals each year, of which only three, including Cartaspers PSM, were honored with the P2 Award in 2007.

## INTEGRITY AND COMMUNITY

The new Clariant Code of Conduct, launched in 2007, is the principal policy, binding on all Clariant employees, covering responsible behavior, protecting the reputation of the company, and reducing risks for our shareholders. Make no mistake, the Code is a living document, and requires Clariant, as well as each and every employee, to respect and fully abide by a comprehensive set of rules on fair competition, freedom of association, the right to collective bargaining, corruption, discrimination, and child and forced labor. Using detail provided by line management, Clariant's General Counsel is the ultimate contact point for compliance questions, a responsibility that includes the tracking of all notifications of code breaches and other related legal issues. In the year under review, no instances were registered involving noncompliance with rules and regulations concerning corruption, unfair competition, or discrimination.

In addition to securing compliance with guidelines for ethical business behavior, Clariant places great value on acting as a responsible and supportive corporate citizen, wherever we do business. The responsibility for community projects and charitable contributions lies with regional business units who are best placed to respond to local needs. One example is Clariant's Volunteer Council at our North American headquarters in Charlotte, NC, which will celebrate its 10th anniversary in 2008. It has already logged thousands of volunteer hours on behalf of dozens of charitable and community organizations and initiatives related to health causes, the fight against hunger and homelessness, and early education in science and technology. Another example is our university partnership in China, a central feature of which is a project to invite students from leading institutions to join a training program in Clariant's own laboratories. The latest event in the project took place in October 2007 and involved a series of lectures by Clariant staff to students of leather science. The lecturers addressed a number of subjects, including REACH. With activities such as these, Clariant strives to make a positive impact on global knowledge-sharing for responsible chemistry – a key determinant of our markets for tomorrow.

## RISK MANAGEMENT

**As a diverse and globally-active company, Clariant is exposed to various risks – general and sector-specific. It is therefore essential to analyze possible risks thoroughly and assess their manageability in daily operations, specifically before important company decisions are made.**

### MANAGEMENT SYSTEMS

Clariant operates a central risk management system that distinguishes between strategic and operational risks, in addition to continuous operational risk management by the functions. Strategic risks affect the achievement of the company's strategy and can be both highly complex and difficult to quantify.

While the evaluation of strategic risk remains the responsibility of the Board of Management, operational risks can be clearly assigned to managers and functions to be part of their daily business responsibilities. Clariant aims at managing and mitigating operational risks as part of the day-to-day operational responsibility at each management level, measured as part of the performance management process. In addition, Clariant allocates operational risk management responsibility on a Group level to a nominated risk owner. The activities of this owner are supported by a risk sponsor, appointed from the Board of Management. Risk owners report to the Risk Management Steering Committee, consisting of the Chief Financial Officer, the Head of Corporate Development, and the Head of Legal Affairs.

The Risk Management Steering Committee is supported by a Group Risk Manager. The central risk management system is in addition to the specific risk evaluations carried out by functions (such as internal audit, Treasury, ESH, legal and insurance management), and monitors the development of risk exposure as well as the impact of measures taken. Furthermore, we are able to introduce measures to counter risks arising from current business activities; these risks are promptly identified by means of monthly internal reports on the company's financial exposures (e.g. currency, interest, credit risk). Each year, the Audit Committee considers the process, developments, and results of identified risks. In addition, the results of the risk management assessment are incorporated into the Internal Audit program for the following year. Accounting and Controlling also adapt their reporting systems to changing requirements as and when needed.

### PRODUCT AND ENVIRONMENTAL RISKS

To protect itself against risks arising from public and product liability, 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. Further details can be found on pages 32–34.

### FINANCIAL RISKS

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 implemented at any time. International exchange rate fluctuations impact the company's assets and earnings, which are reported in Swiss Francs. Transaction risks arise from imbalances in payment streams between 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. Exchange rates of liabilities are carefully managed. The company invests in the international financial markets in order to manage its liquid assets. Cash reserves are invested; 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 legal matters including tax law, patent law, product liability, competition, 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 parallel architecture is able to deal with failures or breakdowns. Reliable and permanently updated tools guard against virus attacks. Emergency procedures are practiced regularly.

# Financial Review:
# "A Year of Progress and Challenges."

## OVERVIEW

**In 2007 Clariant improved its sales, operating cash flow and net income. At the same time, raw material costs rose sharply and restructuring charges were substantial, which depressed margins. For continuing operations before exceptional items, EBITDA (before restructuring and disposals) slipped to CHF 812 million from CHF 855 million and EBIT to CHF 539 million from CHF 592 million. Operating cash flow rose to CHF 540 million from CHF 328 million, and the group loss before minorities of CHF 2 million compares with losses of CHF 85 million for the year previously. In 2008, management's top priority will be to restore profitability, primarily through a combination of cost cuts and price increases.**

### SALES, SG & A, CASH FLOW IMPROVE

In 2007, Clariant sales from continuing operations were up 5% in Swiss Francs (4% in local currencies) to CHF 8,533 million. Robust demand drove up volume in nearly all segments.

The increase in cash flow from operating activities by more than CHF 200 million to CHF 540 million was due mainly to a major streamlining and rationalization of inventories throughout the company, plus tighter management of receivables and payables. Efforts to cut sales, general & administrative (SG & A) costs began to bear fruit.

An overall increase of sales prices by about 1% was passed on to customers. However, this was not enough to offset higher raw material and energy costs. Raw materials expenses alone rose by more than CHF 150 million.

Continuing operations posted net income of CHF 108 million, down from CHF 131 million in 2006. The net result before minority interests reached CHF 5 million, up from a loss of 78 million CHF in 2006.

### TAX-ADVANTAGED PAYOUT

Once again, Clariant will make an annual payment to shareholders through a par value reduction, which offers a tax advantage over a dividend.

## RESULTS BY DIVISION

Clariant now consists of four divisions: Textile, Leather & Paper Chemicals (TLP); Pigments & Additives (PA); Masterbatches (MB); and Functional Chemicals (FUN). Final dissolution and disposal of the former Life Science Chemicals (LSC) Division was completed during 2007.

### TLP ACCELERATES CHANGES

Sales increased just over 1% in Swiss Francs, driven by Paper Business sales. Textiles were flat, and Leather declined. Assets were rationalized, the three main events being: the shutdown of five Leather and Textile plants, consolidation of seven European Textile laboratories into two, and selling off the underperforming Leather Business in Australia. Selling prices were raised towards year-end, new partnerships were started in Textiles in the field of self-cleaning materials, while commercial sales started of a new barrier coating for paper.

### PA RIDES HIGH ON SPECIALTIES AND COATINGS

Despite sales of products for printing suffering from customer consolidation and softening demand, Non-impact printing is a noticeable growth area, and Coatings saw sales increases in a weakening market. We also saw strong demand for specialties, especially Exolit® non-halogenated flame retardants, and Licocene® metallocene waxes. Sales increased 3%, despite a fall in prices and volumes for plastics applications and a proportionate 8% fall in gross margin levels.

### MB GROWS SALES AND PROFIT

Despite market softness, CHF sales increased 10% and EBIT before exceptionals increased. Prices rose in line with increases in raw material costs. Integration of the former Ciba masterbatches business was completed. MB exited the weak market in Australia, rationalized three sites in France, and put a site in Mexico up for sale, while boosting its presence in New Zealand and buying a local firm in Colombia.

### FUN LIFTED BY PROCESS CHEMICALS

Division sales rose 7% in Swiss Francs (5% in local currencies). All sectors were positive, while process chemicals grew at near double-digit rates thanks to vigorous demand from the oil and mining sector. Specialty Intermediates weakened due to soft demand, and sales of de-icing products for the aviation industry suffered during the mild winter.

### FORMER LSC DISPOSAL COMPLETED

In 2007 Clariant divested its final remnant of the former Life Science Chemicals Division. The sale of the Custom Manufacturing Business helps Clariant focus on its core portfolio, but also led to a loss of CHF 65 million, in addition to operating losses of CHF 33 million. No further charges for former LSC operations are expected in 2008.

## *RESULTS BY REGION*

### ASIA STRONG, AMERICAS AND EUROPE STABLE

Growth in the Far East was strongest, with Europe holding its own, and business in the Americas variable, lagging in the north, but buoyed up by strong growth in Latin America. Net foreign exchange movement was slightly positive, with the Swiss Franc falling relative to the Euro but strengthening against the US Dollar and Japanese Yen.

### CHINA LEADS THE WAY

China leads the world in both population and sustained economic growth over several years. Little surprise then, that Clariant enjoyed double-digits sales in most businesses in 2007. Also strong were Indonesia and South Korea. Business in Japan remains stable, while in Australia, we exited our underperforming TLP and MB operations.

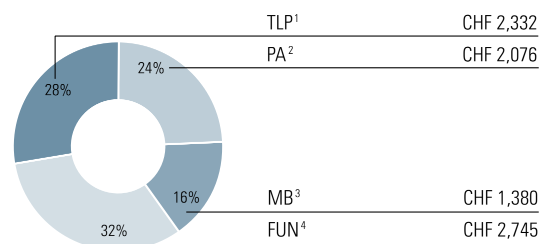
### EUROPE GROWING FASTEST IN THE EAST

Overall growth for Clariant's largest region was 1% in local currencies. Europe's largest-single economy, Germany, managed a solid increase of 2%. This, together with double-digit growth in Russia and Eastern Europe, and Turkey not far behind, more than offset declines elsewhere, especially in Southern Europe.

*SALES BY DIVISION*

CHF millions

Total 2007: CHF 8,533

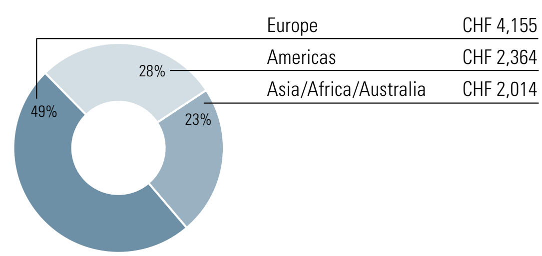



[1] Textile, Leather & Paper Chemicals
[2] Pigments & Additives
[3] Masterbatches
[4] Functional Chemicals

*SALES BY REGION*

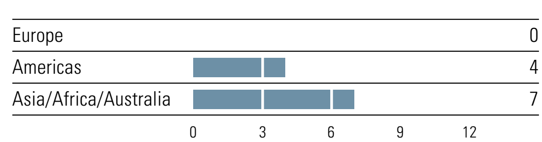
CHF millions

Total 2007: CHF 8,533




*ORGANIC SALES GROWTH BY REGION [1]*

%




[1] Excludes MB business acquired from Ciba

### US BATTLES TO KEEP LEVEL

Despite recession fears, US sales increased 1% in local currencies. The best news from the Americas Region came from the latin countries, led by Argentina with an increase of 19%, followed by Brazil at 6% and Mexico 5%.

## *CLARIANT 2010 COMES INTO FOCUS*

Significant progress was made in the implementation of Clariant 2010, a corporate-wide plan to achieve above industry-average return on invested capital (ROIC) by 2010.

### EVERYDAY HIGHER PRICING

Clariant's prices in 2007 rose more than 1% year-on-year, and the momentum continues to rise. By the fourth quarter, another 5-12% increase was announced. Also in the fourth quarter, a new pricing-management tool, PRIMA, was adopted as well as new policy; with customers who are unprofitable to supply, Clariant will increase prices, transfer the account to a distributor, or, if neither measure restore profitability, exit the business.

### PRODUCT/SERVICE SPLIT

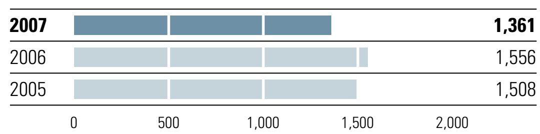
During 2007 Clariant segregated its commoditized or 'product-led' businesses from its more specialized or 'service-led' ones. The former will be run to generate cash, the latter to stimulate growth, while both will aim to be cost leaders within their respective markets.

### RATIONALIZED PLANT AND MANPOWER

To operate more efficiently, Clariant has consolidated many operations. TLP announced plans to shut its entire Selby, UK, production site and five of seven textile-dye laboratories in Europe. PA announced plans to close its US production site, at Coventry, Rhode Island. MB combined three sites into one in France and plans to dispose of its site in Naucalpan, Mexico. The remainder of the former LSC division was divested. Group headcount was also reduced by about 1,000. While these moves serve to streamline Clariant's operations, they also incurred one-off restructuring and impairment charges and operating losses of around CHF 260 million.

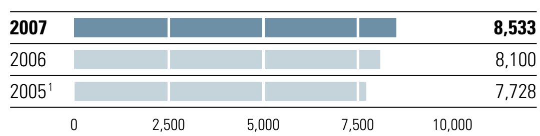
*NET DEBT*

CHF millions




*CONSOLIDATED SALES*

CHF millions




[1] Restated for discontinued operations

### OTHER COST REDUCTIONS

In addition to the product/service split and rationalization, Clariant advanced a number of initiatives to lower outgoings.

- Energy 2010 – a project to cut CHF 30 million from electricity and fuel costs.
- Planning Booster – inventories have begun to fall, yet product availability is rising. This contributed to a write-down taken for the whole of 2007 of some CHF 50 million.
- Product pruning – we were able to achieve a portfolio cut of 20%. Another 6% of the remainder will be eliminated by 2010.

### DEVOLVED DECISION-MAKING

At the start of 2008, regional levels of the divisions were given greater responsibility and accountability for operating results. Management believes this will sharpen the focus on profitability in 2008 and beyond, as well as achieve better performance at all management levels.

## *STRONG BALANCE SHEET*

Once again, Clariant's year-end balance sheet is robust, with stable assets, firm liquidity and conservative gearing.

**Total assets** increased just over 1% to from CHF 7,188 million to CHF 7,285 million, and the percentage split between current and non-current assets remained constant at 55:45. The value of property, plant, equipment and intangibles remained stable. Assets held for sale at the end of 2006 were disposed of, strengthening cash and other current asset positions. Although sales volumes were higher, net working capital increased only by a modest CHF 32 million, thanks mainly to inventory optimization. Year-end inventories were down 2.4% to CHF 1,477 million.

**Cash and cash equivalents** rose almost 15% to CHF 509 million from CHF 443 million, and other current assets climbed to CHF 535 million from a 2006 figure of CHF 378 million. Accounts receivable were almost unchanged at CHF 1,449 million. **Equity** fell 3% to CHF 2,372 million from CHF 2,433 million, mainly due to capital payout to shareholders of CHF 58 million. Reserves were down less than 1% to CHF 1,350 million.

**Pension plan assets and liabilities** as of 2007 are stated explicitly, instead of consolidated in other line items. Retirement benefit obligations amounted to CHF 515 million and pension plan assets were CHF 122 million.

**Gross debt** was nearly constant at CHF 1,995 million. An increase of CHF 106 million in short-term obligations was virtually matched by a CHF 106 million decrease in non-current debt. Because of the slight decline in equity, **gearing** remains satisfactory at 57%.

### EARNINGS PER SHARE

At year-end 2007 the total number of Clariant shares was 230,160,000. The weighted average used to calculate results per share was 227,153,836, compared to 226,767,254 at the end of 2006. Continuing operations earned CHF 0.44 per share while discontinued operations posted a loss of CHF 0.45 per share, leaving a net loss for the group of CHF 0.01 per share. This compares to a 2006 group net loss of CHF 0.37 per share.

### DIVESTITURES & ACQUISITIONS

The final remnant of the former Life Science Chemicals Division, Custom Manufacturing, was divested in the second quarter. Masterbatches acquired a small operation in Colombia, and TLP and MB sold their operations in Australia.

Clariant is committed to managing its portfolio more actively than in the past. A complete portfolio review is being conducted in the first quarter of 2008. The company will sell businesses where market and profit positions are no better than mediocre; make acquisitions elsewhere where these positions are strong.

# Division Masterbatches

# Masterbatches

- SUCCESSFUL INTEGRATION OF OPERATIONS PURCHASED FROM CIBA IN FRANCE, SAUDI ARABIA AND MALAYSIA
- MAJOR ACQUISITIONS, EXPANSIONS, AND GOOD ORGANIC GROWTH ACROSS THE GLOBE CONTRIBUTE TO SALES GROWTH OF 8 PERCENT IN LOCAL CURRENCY
- CONSOLIDATION AND RELOCATION OF SITES TO ESTABLISH A PLATFORM FOR IMPROVED PROFITABILITY
- INVESTMENTS IN NEW TECHNOLOGY, EQUIPMENT AND FACILITIES TOTALING CHF 60 MILLION
- ORGANIC SALES GROWTH OF 2 PERCENT IN LOCAL CURRENCY
- SUSTAINABLE EBIT OPERATING MARGIN OF 9 PERCENT DILUTED BY INTEGRATION COSTS FOR CIBA MASTERBATCHES

**Clariant Masterbatches is the global leader in color and additive concentrates and performance solutions for the plastics industry, with strong positions in packaging, consumer goods, automotive and fiber market segments. Recognizing that proximity to customers and speed to market are key success factors, the Division operates 54 manufacturing facilities and has a presence in 33 countries. Fully 80% of its customers are within 400 kilometers of a production plant.**

## *PROFILE AND STRATEGY*

### CORE COMPETENCES

Last year, Clariant Masterbatches completed more than 85,000 color matches and manufactured 243,000 production batches. What sets the Division apart from its product-oriented competitors, however, is its commitment to service and support that goes well beyond color and additives. Changes in supply-chain dynamics have created an opportunity for the Division to clearly define its value proposition to customers and maintain healthy margins despite a challenging economic environment.

### PRODUCTS & SERVICES

Complementing its existing portfolio, Clariant Masterbatches introduced a range of new products during 2007.

**Colors & Special Effects**

The new RENOL®-natur color masterbatches, made from all-natural, renewable resources, made their debut at just the right moment in 2007 to help manufacturers wanting to do more to minimize their products' impact on the environment. At the same time, vibrant new Environmental Impact colors allow packagers to use a higher percentage of post-consumer-recycled plastics without compromising on shelf impact. High-Contrast surface effects are achieved by laying down very different colors together (red and blue, for instance) to create a look that rivals high-end special-effect materials, but at a fraction of the cost.

**Additive Masterbatches**

Additive masterbatch introductions in 2007 included new HYDROCEROL® chemical foaming and nucleating agents, formulated to enhance the processability and market value of environmentally-friendly biopolymers and material derived from recycled polyester soft-drink bottles. HYDROCEROL® is also being used to reduce material consumption and limit weight in packaging, consumer goods and construction products.

*"We are a strong and credible partner for customers with global objectives and will achieve continued growth through a service-driven focus."* – DOMINIK VON BERTRAB

**Services**
The seven Clariant ColorWorks™ Design Centers worldwide are a dynamic resource for companies seeking to accelerate new products to market, bring color into the early stages of design, and cultivate brand recognition and value. In 2007, centers in Singapore and Taiwan were completely renovated and now offer a totally new environment and expanded capabilities. The ColorWorks team also released the 2008 edition of ColorForward™, the advanced trends-analysis program issued annually to help identify emerging social and cultural influences, link them to colors and inspire product designers and marketing professionals.

## STRATEGIC GOALS
In line with Clariant's corporate objective of emphasizing service, the Division has been building deeper understanding and broader expertise in the issues affecting end markets and nurturing customer relationships. Other strategic objectives include the following:

**Achieve Above-Market Sales Growth**
The Division expects to achieve this target in all regions, leveraging its global reach to expand the number of key accounts and increase penetration in key market segments. Additional investments to expand the capabilities of the ColorWorks design services network are planned.

**Leverage Acquisitions for Growth**
The recent purchase of Ciba Masterbatches in France, Saudi Arabia, and Malaysia, Acquos in New Zealand, and the acquisition of well-established masterbatch operations in Latin America will support growth in these regions. Future acquisitions and technology enhancements will build market presence elsewhere.

**Increase Operational Effectiveness**
The global roll-out of a Continuous Improvement Process (CIP) will increase the operational effectiveness of all facilities. A multi-year capital investment program will upgrade equipment and de-bottleneck facilities across the globe. New site openings and relocations continue at an accelerated pace, especially where additional capacity or upgraded technologies are needed to capture sales opportunities. In 2007, the Division completed relocations to new world-class sites in Thailand and Colombia. Future relocations have been approved for 2008 in China (Guangzhou) and Mexico.

**Deliver Financial Targets (Cash Flow)**
By focusing on value-added selling and effective rawmaterial sourcing, the Division expects to deliver sustainably good margins and excellent returns on invested capital. A strategic initiative to invest in modern extruder technology can be expected to pay off in lower conversion costs. At the same time, overhead costs (SG & A expenses) will be further reduced as a percentage of sales. Stringent attention is also given to improve working capital levels without impairing service levels or market competitiveness.

## *MARKETS AND VALUE DRIVERS*

The Masterbatches Division has excellent geographic and market segment coverage. Its technical and service leadership, along with a portfolio of innovative products, ensures success across a large, diversified customer base.

Most masterbatch products are customized formulations that meet the special needs of individual customers and end markets. Consequently, the Division has identified the industries in which it has enjoyed market success in the past and which offer the opportunity for significant future growth.

**Packaging**

The packaging segment is the most attractive market due to its size (currently accounting for 41% of Division sales), its growth potential, and close fit with Clariant service offerings and capabilities. Package developers and product marketers face a vast array of competitive issues in today's global economy. Clariant Masterbatches has been developing new technologies and services aimed at ensuring that packaging customers succeed in the marketplace. These include:

- New colorants, special effects and additives, along with design and production assistance, to help shorten time-to-market
- Differentiated products on the store shelves
- Reduced material and energy consumption
- Overall cuts in packaging volume
- Increased use of renewable, recyclable materials, and
- Enhanced process efficiencies.

Packaging customers are increasingly international. They strive to develop a global brand message, supported by a global look, with products launched simultaneously on several continents. This, along with consumer and retailer desire for packaging that is more environmentally friendly, creates many new opportunities on which the Masterbatches Division is uniquely prepared to capitalize.

**Consumer Goods**

The consumer goods (non-packaging) market segment accounts for almost 20% of Masterbatches business, and these customers also face a complex range of challenges including increasingly global markets, regulatory and environmental pressures, and the need to cut costs while differentiating their products.

In the consumer goods market, Clariant is well known for its high-quality masterbatches, where product performance, color, and visual effects are critical to a product's success. However, customers know that product performance and productivity improvement are equally important. So Masterbatches has positioned itself to deliver in these areas as well, and in a way that is highly cost-effective and easy to integrate into any product development program.

**Textiles**

Clariant's strengths in technology and service make it the leading supplier of masterbatches for spin dyeing of synthetic fibers. The potential exists to grow faster than the overall market. To achieve this objective, the Division intends to work on further product developments to enhance its quality and service. The introduction of new specialties, including additives, form part of a program of activities planned for geographical regions where market share is currently still low.

**Automotive**

With more vehicles on the roads than ever before (the number increases daily as developing countries become wealthier), the potential for Masterbatches to grow as a partner in the automotive industry is exciting. Today, products are supplied to major polymer producers to color their resins, to producers of film used in instrument panels, to injection-molding companies, and to producers of textile fiber used in seating; all demonstrating Masterbatches ability to serve complex markets. The segment is already the Division's 4$^{th}$ largest market.

Color is crucial for automotive designers, who, along with the fashion industry, are generally considered to be trendsetters. As diversified as the industry is – both geographically and in the complexity of its supply chain – color consistency is critical. Here, too, Clariant Masterbatches is uniquely positioned to deliver what customers require. The Division will soon be responsible for producing thousands of color 'master plaques' for one well-known carmaker. These plaques will be used to match precisely the colors used for all interior parts made of plastics, fabric, and leather.

Clariant Masterbatches understands the extraordinary challenges these markets face – complexities of polymer materials and processing technologies, increasingly complicated regulations, multi-continent manufacturing, speed to-market and pricing issues, and progressively more sophisticated consumers. Working as part of their product development team, Masterbatches experts can close the circle between concept and end-product performance, and do this locally, globally and in the fastest way possible.

## » FOCUS TOPIC: CUSTOMERS AND PARTNERSHIPS

### *Masterbatches Division 360º Service™ Initiative Adds Value*

Clariant Masterbatches delivers added value at every stage of a customer project, from initial concepts to material and process development to manufacturing and marketing to product launch, brand protection and brand rejuvenation. With this in mind, the Division inaugurated a concept it calls 360º Service™. More than just an attitude or approach to helping customers, 360º Service transcends all markets and acknowledges best practices that make a tangible difference to customers – locally, regionally and internationally.

› **World-Class Global Presence** – A leading cell phone manufacturer needed masterbatches for difficult-to-color, high-temperature nylon phone bodies. When large-scale production began in China, Eastern Europe and Finland, Clariant's expertise and knowledge of locally sourced materials, regional manufacturing practices and regulatory requirements ensured a smooth and efficient product launch.

› **Culture of High Performance** – Going beyond what is expected, Clariant Masterbatches helped a global manufacturer revitalize its Latin American laundry product brand. Using the ColorWorks™ premier design and technology center, ColorForward™ consumer trend analysis, as well as market and customer research, Clariant helped produce a new, more appealing package that differentiated the brand, without compromising existing equity.

› **Creating Value Through Innovation** – When a cosmetics company needed to change the look of a major global product line, Clariant ColorWorks quickly turned initial concepts into precise, tested special-effects masterbatches. The unique and cost-effective look was matched in half a dozen different materials across five continents to ensure global consistency.

› **Single-Point Accountability** – A global manufacturer of hand-held devices was able to launch a new product quickly, despite problems getting a soft-touch polymer to bond with an engineering plastic substrate. Acting as project manager, Clariant coordinated all parties, including designers, multiple material suppliers and production engineers, to resolve manufacturing problems and distribute workable formulations across Asia.

› **Versatile Business Model** – The ability to collaborate across all divisions helped Clariant deliver interior color-palette 'masters' for a leading automotive OEM. Utilizing expertise from the Textile, Leather & Paper Chemicals and Pigments & Additives Division, a Masterbatches team developed color standards for interior components made not just of plastic but also fabric, leather and other materials.

360º Service is the sum of everything Masterbatches does to deliver added value to customers every day. It is how the Division does business, and it is why people, from brand marketers and plastics processors to small contract manufacturers, turn again and again to Clariant Masterbatches for products, service and knowledge they can find nowhere else.

## *FINANCIAL PERFORMANCE*

### SALES GROWTH

Masterbatches witnessed strong growth in every region except North America during 2007. Markets in Western Europe remained strong, and performance in this market continues to be excellent. Sales in Latin America were supported by strong local results plus acquisitions in Guatemala and Colombia. Continuing market developments in Eastern Europe and Special Markets* should continue to provide an excellent growth lever for the Division. Additionally, Asia-Pacific remains a core focus, where a growing presence in China combines with a strong established base in ASEAN countries and New Zealand.

### RAW MATERIALS & PRICING

The escalation of oil prices in 2007 presented a very demanding raw-materials environment. With prices of US$ 60 to 100+/barrel, Masterbatches faced a number of challenges as pigment and polymer suppliers raised prices. Material costs were also adversely impacted by a decision of the Chinese government to remove export tax incentives for suppliers of Pigments & Additives.

Based on the short life cycle of colors and the ability to build value into new products, Masterbatches was able to recover some of the cost increases through new product pricing. Additionally, it was necessary to pass along moderate price rises for existing products to further compensate for the upswing in raw material costs.

### RESTRUCTURING/DIVESTMENT/ACQUISITION

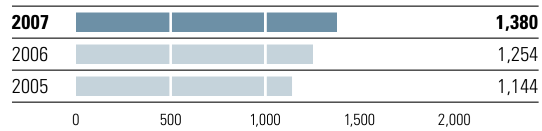
The Division had a year of restructuring, divestment and acquisitions. We disposed of our operations in Australia to Acquos, a local competitor. At the same time the Division acquired the New Zealand Masterbatch operations of Acquos, thus improving capabilities to serve that market.

In Latin America, a developing region for the Division, growth continued both organically and through acquisition. Masterbatches obtained a niche operation in Guatemala to strengthen its position in Central America. In Q4 it acquired a small, well-established supplier in Colombia, further strengthening the Division's position as a specialty masterbatch supplier in Latin America.

In Q3 Masterbatches disposed of a paste business in France (part of the Ciba acquisition) to a more focused partner while, at the same time, obtaining that company's masterbatch business in Belgium.

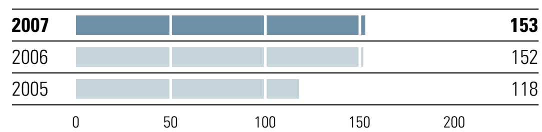
*SALES*

CHF millions




*EBITDA*[1]

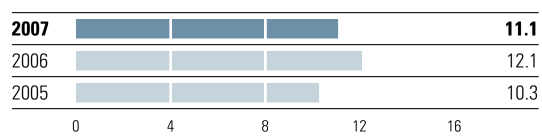
CHF millions




[1] Before restructuring and disposals

*EBITDA*[1] *MARGIN*

%




[1] Before restructuring and disposals

* Clariant's Special Markets incorporates the following countries: Pakistan, Turkey, India, Morocco, Saudi Arabia, and South Africa.

Masterbatches also restructured sites in a number of regions to create a foundation for future growth. The Division consolidated two sites in the United States to gain efficiency in specialty compounding operations. It restructured operations in France from three manufacturing sites to one following the Ciba acquisition of 2006. Additionally, it closed a small unit in Denmark with all business successfully transferred into the Nordic operations.

During 2007 the Division continued with its plan to invest in leading-edge technology such as new, highly-efficient extrusion lines, in order to reap benefits in both production costs and efficiencies. It also continued to invest in many process improvements throughout its global operations. For example, this year, Masterbatches transferred its regional business headquarters and production operations in Thailand to a new, state-of-the-art facility and in Q4, began the move into a new manufacturing site in Colombia. The Division will continue to improve and automate manufacturing units that demonstrate the most growth potential.

### NET WORKING CAPITAL

The Division seeks to balance the need to manage working capital efficiently, while maintaining high service levels and competitive terms. There is a clear trend of customers requiring shorter lead times. This places added pressure on masterbatch producers to increase local inventories so that materials are available to support rapid production and shipment to the customer. Masterbatches intends to work with raw material suppliers to reduce lead times as well as proactively managing inventory throughout the entire supply chain. Additionally, many growth markets require longer payment terms than the developed markets of North America and Europe. Accounts receivable growth must be carefully managed to limit risk while providing competitive selling terms.

### EARNINGS

Earnings in 2007 were impacted by one-time restructuring and integration costs associated with the acquisition of Ciba Masterbatches in late 2006. This led to the closure of two sites in France and significant production redistribution. Additionally, earnings were impacted in the 2nd half by weaker economic conditions and slowing growth rates around the world.

## ›› OUTLOOK

Global strategic acquisitions and rationalization of existing manufacturing capacity have increased both market share and production efficiency. An ongoing commitment to modernization and management development suggests that continued improvement should be expected. The regional and end-use markets that form the core of the business generally remain strong, and substantial growth is anticipated.

The Division's growth will continue, albeit slightly slower for the more mature regions. Special Markets and Asia-Pacific will post double-digit figures. Masterbatches will actively pursue acquisition opportunities in all regions where they fit strategically and can provide growth, technology and sustainable profitability.

While continuing to innovate in conventional product areas, Masterbatches will create new offerings that spring from renewable resources. These and other 'green' initiatives should be well received among customers seeking to minimize their environmental footprint. Multinational brand marketers will benefit from a program to expand and update the services available through the global ColorWorks network.

Looking at the broader economic climate, globalization will continue and accelerate. The companies that succeed in the coming year will be those that recognize the intensified rivalry in the value chain and contribute substantially to the development of brand equity for their customers. The key to success lies in a clear business strategy that focuses on core competencies and a clearly-defined value proposition, according to our customers' needs, and implemented by our global marketing network.

Division

# Pigments & Additives

# Pigments & Additives

- SOLID, ORGANIC GROWTH OF ENTIRE BUSINESS; SALES INCREASED 3 PERCENT
- ADAPTATION OF FUTURE STRATEGY TO ENSURE A BASIS OF SOLID GROWTH AND INCREASED PROFITABILITY IN ALL AREAS
- NEW PIGMENTS CAPACITY BROUGHT ONSTREAM IN CHINESE JOINT VENTURE; PARTNERSHIP ESTABLISHED TO PRODUCE ANTIOXIDANTS IN TAIWAN
- SUCCESSFUL DIVISION-WIDE 'ACTIVITY VALUE ANALYSIS' PROGRAM TO REMOVE ACTIVITIES GENERATING INSUFFICIENT VALUE, IMPROVE TECHNICAL MARKETING EFFECTIVENESS, AND STRENGTHEN COST LEADERSHIP
- TWO CLOSURES TO LOWER COST BASE: AN ENTIRE PRODUCTION SITE IN THE US, AND A SINGLE PLANT IN GERMANY
- NEW DIVISION HEAD AS PART OF A PACKAGE OF SENIOR MANAGEMENT CHANGES HERALDED IN DURING 2007

## CLARIANT – GLOBAL LEADER IN PIGMENTS & ADDITIVES

**Despite volume growth and price increases across the portfolio, 2007 saw a disappointing fall in margins, resulting from the combined effect of customer consolidation, rising production costs, increased competition and currency fluctuations.**
**Meeting the challenges of 2008 will ensure that our customer-led organization will not only continue to offer a broad portfolio of high-quality products, but that we shall confirm our position as a world leader in our chosen markets: competent and reliable, established yet innovative. We turn leading-edge discovery and synthesis technologies into quality products, bringing them to markets around the world by our experienced customer service team.**

## PRODUCTS AND SERVICES

**Coatings** – we specialize in supplying automotive, decorative and industrial finishes. Thanks to our product range and a global network of representatives, technical centers and manufacturing plants, Clariant is the leading supplier to this industry.

**Plastics** – Clariant offers a complete range of colorants, from pigments, pigment preparations and dyes, to waxes and other additives. We cover all polymers in a wide range of markets. In addition, we lead the market in pigments for performance plastics, we have the broadest wax portfolio in the industry, and we are a key player in specialty polymer additives.

**Printing** – We supply colorants and additives, and our expertise is sought after worldwide across a broad range of printing technologies: decorative laminates, publication-, packaging-, offset-, gravure-, flexographic-, and screen printing, as well as electrophotographic and inkjet printing (non-impact printing), from home/small office installations to larger professional wide format.

**Specialties** – Our colorants and additives are highly valued as precursors for a variety of applications, including adhesives, specialty polymers, intumescent systems, anodized aluminum, cosmetics, detergents, stationery, and the agrochemical industry.

Clariant prides itself on the levels of service it can offer to customers. Our **Technology Service** teams assess and advise on process technologies. In 2007 we held a symposium for ASEAN plastics processors in Malaysia, while a workshop roadshow for the masterbatch and compounding industries toured India.

**Color Service** helps customers to match colors for individual applications. We offer analytical expertise and testing. In addition, our expertise comprises know-how on continuous process improvement, as well as state-of-the-art methodologies and their application in lean manufacturing. To complete the picture, we offer supply chain expertise: Vendor Managed Inventory models, collaborative planning, and harmonized supply chains.

The key aspect linking all of our industry products is product safety. We consult on regulatory and toxicological issues, and are focused on the needs of all our customers to comply with current and future regulations, including the new European REACH legislation.

## MARKETS AND VALUE DRIVERS

### COATINGS – CLARIANT SETS THE STANDARD

Our key strength is the wide recognition enjoyed by our products as industry gold standards in terms of quality. Other strengths are our global presence and world-class technical marketing. Our high-performance DPP (diketo-pyrrolo-pyrrol) pigments are the foundation of our leading position in the market.

One major opportunity is the introduction of global key-account management, allowing for a more tailored approach to key customers. Another advance is the broadening of the product portfolio with innovations such as ED (Easily Dispersible) pigments, a technically superior process to simplify pigment dispersion in paint – leading to lower manufacturing costs and improved productivity.

In early 2007, Clariant's PA Division was awarded the prestigious 'Excellent Supplier Award', courtesy of PPG Industries. PPG is one of the world's largest global automotive paint producers, every year rating its suppliers using the criteria of quality, delivery, documentation, innovation, responsiveness, and commercial value.

### PLASTICS – INNOVATION FOR A CONTINUOUSLY DYNAMIC INDUSTRY

The plastics market is dynamic and growing. Top product quality, excellent service, compliance with safety regulations as well as a global presence in all regional markets; these are the mainstays of our Plastic Business.

We are constantly developing and promoting innovative products to provide novel solutions for our customers. An example is DrizPearls – free-flowing, organic pigments with a high polyolefin affinity. These non-dusting, pre-wetted pigments offer a number of benefits to masterbatchers and compounders: safe handling, accurate dosing, waste reduction, optimum pigment wetting and dispersion, improved throughput, reduced cleaning times and material savings. These benefits lead to substantial cost savings, improved efficiency, better performance and considerable quality improvement.

In March 2007, Kuala Lumpur became the host city for the PA Division's third annual Symposium for the Plastics Industry for customers in the highly competitive south-east Asia region.

With the help of a comprehensive overview of all of PA's products for plastics processing, including colorants, additives, waxes, and flame retardants, the Symposium was able to support customers enhance the performance of their products and better differentiate them from those of their competitors.

The Symposium followed closely on the heels of the latest in a series of two-day customer seminars for the masterbatch and compounding industries in India.

### PRINTING – LEADER IN NIP AND SPECIALTIES

In publication inks, Clariant sets the industry standard for yellow pigments, and has significantly increased its business with rubine pigments. Our strong position in the key NIP (non-impact printing) and specialty inks segments combine a global production and sales network, innovation, advanced technology, top-class service, and of course, compliance with industry standards and regulations such as REACH.

A key element of our growth strategy is a stronger focus on value-added products and services, as well as an improved, tailored approach to markets and competition. For specialty inks, the Asian market holds considerable growth potential, while in NIP, the opportunities lie in digital photo print and in strengthening the company's position as a preferred partner for OEMs (Original Equipment Manufacturers).

It is said that the arrival of inkjets changed the face of printing. Now, the technological revolution is about to take another stride – this time in the field of raw materials. And Clariant's customers can rest assured that we have the inside track. Instead of conventional soluble dyes, the future material of choice for inkjet colorants will be organic color pigments. Unlike dyes, whose properties are dominated by their chemistry, pigment properties are influenced both by chemical and physical parameters. Hence, in addition to exploring new dispersants and optimizing dispersant systems, tailoring the physical properties of pigments is essential in allowing colorants to take full advantage of modern inkjet printing technologies. The traditional properties of size, surface, and shape of the pigments, also referred to as 'Triple S', are critical to final print quality.

This specific modification of properties presents unlimited opportunities. However, each application has its own requirements. Office and desktop applications need high transparency, good optical density, and superior standards of photorealistic quality. By contrast, the specification list for wide-format printing is headed by high durability to light and weather, water-fastness, and sometimes greater opacity. Clariant, you may be sure, is intensively researching all of these areas.

## SPECIALTIES – FINDING OUR NICHES

Here, the focus is on niche, application-oriented markets. For instance, non-halogenated specialties, where our Exolit® flame retardant systems enjoy market leadership. Other examples that keep our research staff busy are aqueous intumescents (substances that swell when exposed to heat, thus increasing in volume with a corresponding reduction in density). Thanks to these efforts, a new class of flame-retardant applications will soon to be within reach.

We are pursuing niche applications in consumer industries as well, for instance, in LicoCare® for cosmetics. Stricter regulation across the globe is creating a new demand for improved products, as well as for comprehensive solutions which feature in both products and services.

Clariant has now developed a process to manufacture high-quality nano-zeolites in technical quantities. Our new nano-scale alumosilicates (Lucidot®) open up a wide range of application engineering opportunities in biochemical processes such as molecular sieves, ion exchangers, selective adsorbents and catalysis. They can be also used as carrier materials. When used in combination with fluorescent dyes, they can serve to develop more powerful thin film solar panels and fluorescence concentrators, energetically optimized light-emitting diodes (LEDs) or even novel laser systems.

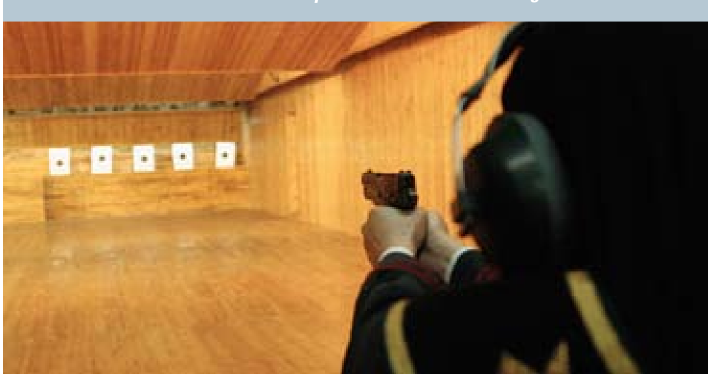
## >> FOCUS TOPIC: CUSTOMERS AND PARTNERSHIPS

**Licocene® performance polymers**

Clariant's pioneering activities in the new field of metallocene waxes is creating an exciting range of new applications. They are produced by metallocene catalysis, a unique process developed by Clariant for the synthesis of low molecular weight polymers – here are three examples.

Licocene® performance polymers are the perfect material for bullet-stops in shooting ranges. They are long-lasting, thanks to self-healing of the channels produced as the material arrests the bullet's travel. They accommodate a wide range of calibers, and eliminate the lead-dust which typically builds up in wooden and steel bullet stops, as well as the costs incurred in disposal. What is more, Licocene can be recycled.

*Lethal bullets come to a dead stop in Licocene® self-healing waxes*



Clariant has recently started to offer innovative polyolefin waxes for cosmetic applications. Sold under the trade name LicoCare®, these products modify the viscosity and the hydrophobic properties of products such as skin creams, cosmetic pencils, mascara, and deodorants. They are also used in hair-removal waxes and as a carrier material for pigments.

Metallocene technology is also viewed as the future of hot melt adhesives, and Clariant is determined to become the trend-setter in metallocene-based raw materials for this application.

**Strengthening investments in fast-growing Asian markets**

Clariant has entered into an agreement with Zhejiang Bahie Chemical Holding Group, one of our joint venture partners. In order to expand our global production network and further consolidate our leading position in high-performance organic pigments, we will expand the Hangzhou Bahie Clariant Pigments Co. Ltd. joint venture by investing in a production facility for high-performance Quinacridone pigments. Growth for these pigments is projected to rise annually at 3–4%, partly because of their increasing use in high-performance architectural, automotive and industrial coatings, as well as plastic coloration and printing inks.

The new plant will be built at the joint venture's existing facility in China's Zhejiang province, and is scheduled for start-up in early 2010.

## *FINANCIAL PERFORMANCE*

### OVERVIEW

We remain challenged in many areas, in particular, competition from low-wage countries and the high levels of overcapacity currently affecting the entire industry. The Division was also challenged by consolidation of customers and increased competition by non-traditional competitors from the Far East. As a result, maintaining an acceptable price-performance ratio has been especially difficult throughout 2007, leading to increasing price pressure and a squeeze on margins, especially in those areas where we have low market share and slow growth.

### SALES

**Pigments & Additives** continued to expand in 2007, mainly as a result of organic growth. Overall, prices remained stable as volumes increased, achieving a local currency growth rate of 3%. Asia, especially China, Latin America, India, Turkey and other emerging markets enjoyed strong growth, up to double-digit percentage increases. Despite a downturn in demand in the United States, we maintained sales at the previous year's levels. In Europe, our biggest region, we were able to further grow our business.

**Coatings** saw positive growth in a competitive environment, with strong revenue expansion across all market segments and regions except North America, although even there, steps already taken to improve the top line are now beginning to take effect.

In **Plastics,** Clariant struggled with the industry-wide problem of coping with high and ever-increasing oil prices. While in Europe and the United States we fought hard to maintain market share, Asia and Latin America recorded strong growth. Sales of new waxes and our new Taiwanese production of antioxidants helped counter declines in other product lines.

In **Printing,** turnover grew slightly. Strong demand in developing countries was not enough to outweigh the continuing consolidation trend among customers, a practice designed to give them more pricing power, as well as in-sourcing strategies implemented by several ink producers. On the plus side, high-end applications in non-impact printing continued to grow strongly.

**Specialties** were able to record sizeable increases in both volumes and prices in several niche areas: for instance, non-halogenated flame retardants and custom chemicals for consumer-product formulators.

*"2007 was a tough year. True, our customers bought more products, but at prices yielding insufficient margin after manufacturing and other costs were paid for. Some people aren't sure how we can remedy the situation. Not us. Our strategy is based on cost leadership, and a leaner, more responsive structure. This will have the dual benefit of delivering profitable growth, as well as strengthening the supply of first-class products and services to the customers in our market, so they can meet the challenges in theirs."*

*– OKKE KOO*

## MARGINS

Despite a number of early successes in implementing Clariant 2010 strategic initiatives within the Division, profitability throughout the year remained unsatisfactory. Efforts to raise prices could not offset the high increases in raw material and energy costs. Adverse currency trends put further pressure on margins. In addition, restructuring measures impacted operating profit after exceptional items, mainly due to the closure of underperforming activities in Germany and the USA.

## PRODUCTION COSTS

Part of Clariant's 2010 strategy is to rationalize its production facilities. In the Pigments & Additives Division, this led to the decision to close two units, a plant producing intermediates in Germany and an entire site in the United States. These moves incurred some CHF 60 million in one-off restructuring costs. Further measures to improve utilization of fixed assets are under review.

In China, we commissioned a new, joint-venture pigments plant. This project, and a Taiwanese partnership set up to produce antioxidants, are both helping to reduce costs in challenging segments.

In September, we launched a major program with the dual aim of controlling SG & A costs, and improving the efficiency and effectiveness of technical marketing. An 'Activity Value Analysis' was launched globally, designed to improve our cost leadership position, having as a specific objective the identification of overhead activities that are not adding sufficient value. Eleven hundred staff, distributed among a total of 150 cost centers, were evaluated, leading to the elimination of more than 300 positions.

## EARNINGS

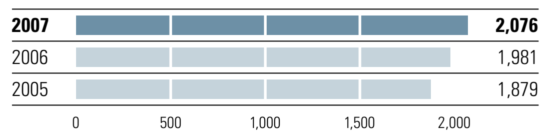
Revenues were depressed by tough market conditions, rising raw material prices, and adverse currency trends; this could not be fully compensated for by price increases and efficiency improvements. This resulted in a fall in operating income margin to 9.2%.

## WORKING CAPITAL

The Division maintained inventories in the face of volume growth. Nonetheless, levels remain too high, and further measures have been started to correct the imbalance. Despite strong pressure to extend payment terms which vary enormously region by region, we maintained receivables at constant levels. Thus, the Division was able to generate a sizeable cash flow, thanks to a combination of a reduced working capital – created by inventory optimization – and a careful investment policy.

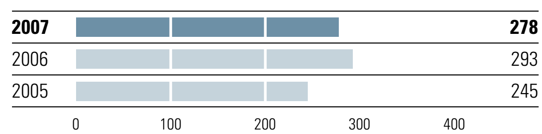
*SALES*

CHF millions




*EBITDA[1]*

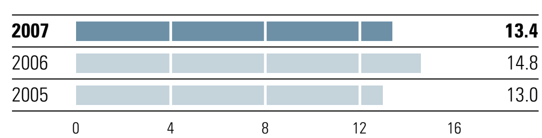
CHF millions




[1] Before restructuring and disposals

*EBITDA[1] MARGIN*

%




[1] Before restructuring and disposals

## OUR AGENDA FOR SUCCESS

There is no doubt that action is urgently needed, and, by way of response, a Pigments & Additives agenda for success is already underway. The first step was to identify a new strategic direction for the next three years, ensuring its alignment with Project Energize and the company's umbrella strategy – Clariant 2010. This was completed in 2007.

### RESTRUCTURED DIVISION

Crucially, 2008 will see the implementation of a number of key steps designed to strengthen our cost leadership position and implement a new divisional structure, characterized by a greater focus on individual sectors and their specific needs. Each business will function in different ways and be managed separately, adopting styles chosen to represent the needs of the customers and business segments that they serve. In other words, there will be a clear differentiation between those that are product-driven, and others, where the lines of demarcation are determined by service levels.

### NEW BUSINESS UNIT

The most important feature of the new structure is the formation of a new business unit. Base Products has been created to reflect the growing commodity nature of our product portfolio, and will primarily be responsible for polymer additives and publication inks. Commoditized markets are defined by strong competition, with price being the overarching differentiator. In contrast to the other three full-service business units: Coatings, Plastics and Specialties, Base Products is a 'no frills' operation, offering fewer, standard products, and requiring minimal service levels. In adopting this new approach, we will be more agile, able to react faster, and define a clearer differentiation in terms of our customers' needs. It will also help us create a clearer separation between product- and service-driven businesses, and simultaneously support their very different management needs.

The Pigments & Additives Division has identified the following goals that will drive our success in 2008:

a. To reach a leading **E**arnings **B**efore **I**nterest and **T**ax (EBIT) percentage for our industry, in other words, one of the most profitable companies relative to sector benchmarks.
b. Improve operational excellence, specifically in the areas of cost leadership and reduced complexity.

## ›› OUTLOOK

This is how we will attain our future goals:

› **Rationalize the portfolio.** We are putting in place a series of corrective measures in areas that have the potential to become more profitable. In those businesses or products where there is insufficient potential for improvement, we will either reduce our commitment by re-assigning them to our new Base Products business unit, or remove them from the portfolio entirely.

› **Build a distributor network.** This move, to take care of less-profitable business, will free up in-house resources, enabling them to concentrate on the higher added-value customers.

› **Focus on emerging markets.** These are defined as having high growth potential. Leading the list are China and India.

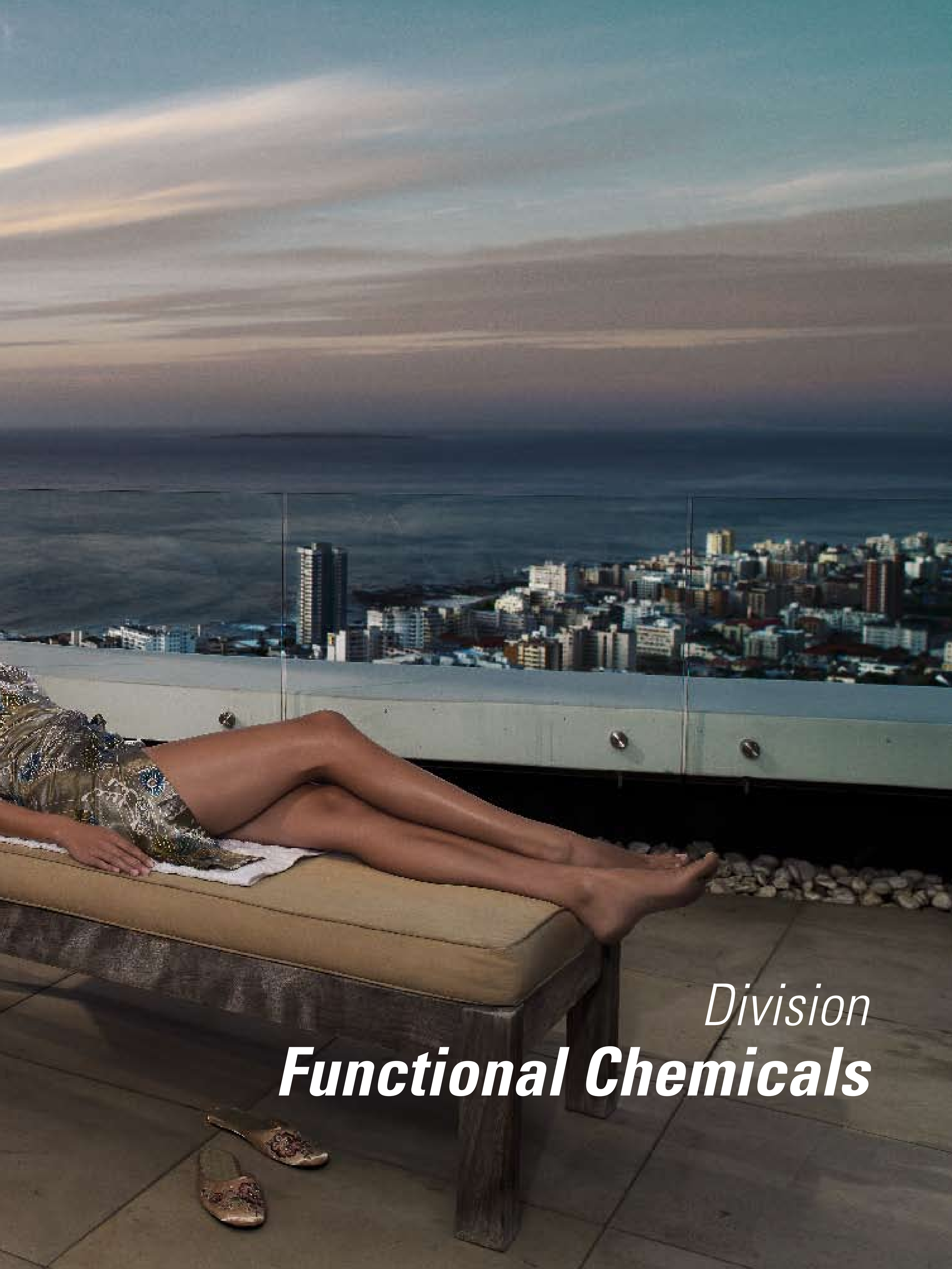
› **Establish operational excellence.** We will 'right-size' our production network – aligning them according to the new portfolio – and introduce Lean Six Sigma to achieve productivity improvement. We have already started looking at each of the Division's sites, and an early decision arising from this review is to close the plant in Coventry, Rhode Island, transferring production to Clariant facilities in other countries.

› **Optimize the supply chain.** We will introduce new planning techniques which will help us realize the win-win scenario of inventory reduction at the same time as improving shipping performance. We will also be able to improve the quality of 'make-vs.-buy' decision-making: selective reduction of raw material and conversion costs by outsourcing manufacturing activities.

› **Reduce raw material costs.** We will introduce measures aimed at strengthening our sourcing position towards key suppliers.

› **Identify and reduce, or eliminate, non-value adding overhead activities.**

› **Acquire additional business.** We expect considerable progress when the changes above begin to bite in 2008. Once this happens, we will look for synergies outside the company and make selective purchases to augment our own organic growth plans.



Division
# Functional Chemicals

# Functional Chemicals

- STRONG DIVISIONAL SALES GROWTH OF 5 PERCENT IN LOCAL CURRENCIES. HIGHER RAW MATERIAL AND ENERGY COSTS REDUCED MARGINS
- INVESTMENT APPROVED FOR MULTIPURPOSE UNIT IN ZHENJIANG, CHINA. ACQUISITION OF LEADING OIL, GAS AND WATER TREATMENT SERVICES COMPANY IN LATIN AMERICA
- ALLOCATION OF ENTIRE PORTFOLIO TO THREE BUSINESS MODELS; 'APPLICATION-DRIVEN', 'SOLUTION-DRIVEN', AND 'PRODUCT-DRIVEN'

**In 2007 FUN saw strong overall growth across the Division, with excellent sales and volume growth in oil and mining chemicals, construction chemicals, crop protection, and aviation. Margins suffered from higher raw material and energy costs, which were partially offset by price increases at the end of 2007.**

**A new plant being brought on stream, and approval to commission a major multipurpose production unit, both in China, are examples of activities designed to capitalize on the continuing growing demand in low-cost countries. In Latin America, we acquired a leading chemical supplier to the oil, gas and water treatment sectors.**

**As well as delivering strong revenue growth, the Division reduced costs and improved working capital. Overall margins for FUN were lower due to escalating raw material costs. Addressing the 'margin gap' is a key focus for the new divisional strategy; unveiled at the end of 2007. It provides a clear focus on increasing the Division's EBIT contribution and forms the basis of how the FUN will operate in the future.**

## *PROFILE & STRATEGY*

### PROFILE

FUN's products are non-ionic, anionic and cationic surfactants, polymers, and glyoxylic acid, glyoxal as well as downstream derivatives. Key customers for the Division are the oil industry, formulators of detergents and cosmetics, and a range of other industries from aviation and automotive, to crop protection and construction. For 2007 the Division was organized into three businesses; Detergents, Performance Chemicals and Process Chemicals. This structure was reorganized for 2008 as part of the new divisional strategy.

### DETERGENTS

The Detergents Business provides anionic, cationic and special non-ionic surfactants as well as bleach activators to the global detergents industry. Clariant, a world leader in bleach and softener formulations, has the scale to deliver value in this price-driven market.

### PERFORMANCE CHEMICALS

Performance Chemicals benefits from the Division's entire product range, and supplies industries as diverse as personal care, crop protection, paints & coatings, plastics, construction chemicals as well as pharmaceuticals.

## PROCESS CHEMICALS

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, aviation, heating and cooling, automotive and aviation industries.

## NEW STRATEGY FOR FUN

The key feature of Clariant 2010 is to maximize the profitability across the portfolio by separating the more commoditized product-driven businesses from the higher-value, service-driven businesses. Building on this premise, the Division has allocated its entire portfolio to three business models. Product-driven businesses will be managed for cost, whereas the application-driven and solution-driven businesses will be managed for growth.

**Product-driven businesses** cover those products with a more limited requirement for value-added service, and where customers tend to buy a well-defined product at a market price. Minimizing costs to remain competitive is the main driver for these businesses. For example a new business unit has been created to manage the Detergents and Specialty Intermediates portfolio. To reduce complexity and SG & A costs, the unit has set up a customer-service team working from a single location.

**Application-driven businesses,** such as Crop Protection, will be managed for growth. They require a higher level of service and customer support than product-driven businesses. Applications are typically more tailored to individual customer needs, and may include additional services, such as operator training programs.

**Solution-driven businesses** will also be managed for growth. They require the highest level of service, innovation, and technical support as part of an overall package. Examples of a solution-based business include Oil Services which is profiled overleaf, in the Customers and Partners section.

*"With our strategy we can target investment in those business areas, such as oil services, where the customer recognizes the added-value of service and innovation. Likewise we can focus on reducing costs in areas where price is the main driver."*

*– SIEGFRIED FISCHER*

## KEY REGIONS AND MARKETS

### › CHINA

In this booming region, the FUN strategy is to follow existing large customers as they enter the Chinese market, rather than to pursue new accounts within the country. Key account managers work with global customers to ensure products and services are supplied to consistent quality.

To keep supply chains short and remain competitive, the Division continued to build its presence in China. A new multipurpose production plant at Tianjin came on stream in 2007. Meanwhile, a second multipurpose plant in Zhenjiang will manufacture a broad range of the division's products when it comes on stream in 2009.

Businesses such as Personal Care, Metal Working and Clariant Oil Services, continue to grow. European and US luxury brands, produced for the Chinese market, increasingly contain larger proportions of higher value ingredients as they replace basic shampoos, soaps and hand creams.

### › NORTH AMERICA

FUN made a significant infrastructure investment in the US during 2007. The first part of a multipurpose plant in Mount Holly, North Carolina, came on stream to support key growth business in North America, such as Metal Working and Personal Care.

### › EUROPE

The European market – still the Division's largest region for sales – 2007 performance levels matched those of the year before. This achievement came in spite of product portfolio rationalization during the year and the closure of an uneconomic detergent plant in German towards the end of 2006. New production units for polymers used in Oil Services and Personal Care applications started operations in early 2007. To strengthen the Industrial Biocides business, a new unit went into operation in the course of the year. The European market still offers high potential for innovation which is being captured by offering customers application services and new products.

### › LATIN AMERICA

Sales growth in Latin America was very strong in 2007. Internal restructuring and portfolio optimization programs during the year also boosted profitability with improved margins compared with 2006. The strong valuation of the Brazilian currency – the Real – was successfully managed by pricing and cost management measures.

### ›› BEST INNOVATION CONTRIBUTOR 2007

Clariant has recently been awarded **Best Innovation Contributor 2007** by the maker of Persil, now celebrating its 100th anniversary. In collaboration with experts from the Division FUN, Henkel was able to design a unique stain-dissolving detergent booster that works at wash temperatures even cooler than the low-temperature products currently available. Achieving this milestone not only promises to reduce the cost and complexity of washing in millions of households worldwide, it is also another contribution by Clariant in furthering sustainable environmental protection.

## » FOCUS TOPIC: CUSTOMERS AND PARTNERSHIPS

### *OIL SERVICES*

Getting oil out of the ground gets harder with time. As barrel after barrel is extracted, the task of bringing the world's leading energy resource to the surface becomes progressively more difficult and expensive. Long before wells run dry they are closed down, with production moving on to newer, more profitable reserves.

However, in recent years energy companies are reversing this process: re-opening old oil wells once considered uneconomic. The first reason is obvious; with prices touching US Dollar 100 a barrel, 9–10 times higher than just a decade ago, crude oil in real terms is more valuable than ever before. Unprecedented price rises justify continued production from these difficult wells, which in turn call for technical innovations in oilfield chemicals and services from Clariant. Our additives make the oil flow easier, increasing production rates, and lowering costs per barrel. Our products also protect valuable oilfield equipment from attack by salts, sulfides and other highly corrosive of impurities that are present in crude oil.

Clariant's competitive advantage comes from a combination of cutting-edge chemistry with onsite technical expertise and knowledge. Since crude oil properties differ widely from place to place, each oil requires its own specific treatments. That is why Clariant Oil Services experts travel with their own portable laboratories to determine at the wellhead which combination of products is required.

And, the story doesn't end once the crude is out of the ground. Clariant's Oil Services offer operators additional support by treating and safely disposing of large amounts of production wastewater – often involving millions of liters an hour. Clariant's involvement and support for the industry continues with Clariant's refinery chemicals used during refining and production processes.

***Giving longer life to the world's nodding donkeys***

***The still-growing Burj Dubai towers over the traditional denizens of the desert***

It is by working closely with oil companies that Clariant continues to grow its Oil Services business. For example the North American operations are expanding by 25% as Clariant does its bit to keep wells open.

### *RECORD BREAKING CONCRETE CHEMISTRY*

At a height of more than 800 meters, the Burj Dubai (Tower of Dubai) will be the tallest building in the world when it is completed in 2008. And some of the credit goes to Clariant, whose concrete chemistry products help turn architects' dreams into reality.

The ability to carry huge static loads is a key property for concrete, but the sheer height of the modern breed of super-skyscrapers, such as the Tower, puts altogether new demands on the material. About 30 tons of concrete are pumped each hour, at more than 400 atmospheres pressure from the foot of the construction site up to the working area, more than 200 floors above. The 30-minute journey requires exacting flow rates and setting times. Superplasticizers using raw materials from Clariant provide the solution. These special aggregates represent a huge leap forward in concrete technology, improving flow properties, reducing costs, and minimizing construction times.

## MARKETS/TRENDS

Macroeconomic trends support the Division's growth projections. Personal Care is profiting from continued population and economic expansion in emerging markets, for example in India and China, where the rapidly-growing middle classes are able to afford higher-value consumer goods. Products and services to the construction sector continue to benefit from the global building boom. And, the ever-growing demand for energy is also increasing the need for Clariant Oil Services, where the industry is looking for new solutions to boost production efficiency from mature oil fields.

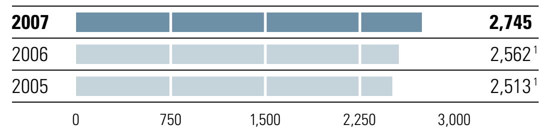
## FINANCIAL PERFORMANCE

FUN delivered substantial growth in line with strategic targets. Organic sales increased by 5% compared to the previous year, driven by higher-selling prices and larger volumes. Asia and North America delivered significant growth rates. These regions were supplemented by strong performance in Latin America, while growth in Europe remained flat, as projected.

Overall margins for the Division were impacted by higher raw material costs, although their effect was partially ameliorated by price increases put in place in 2007. Working Capital management was a key focus of the Division in 2007 and FUN posted significant improvements over last year.

### SALES

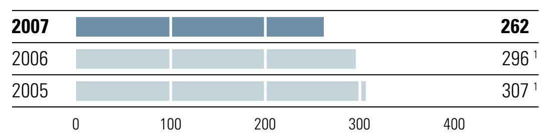
CHF millions




[1] Restated. 2005 and 2006 figures include continuing business of the former Life Sciences Division, and in addition, for 2005, CABB (sold in June 2005).

### EBITDA[2]

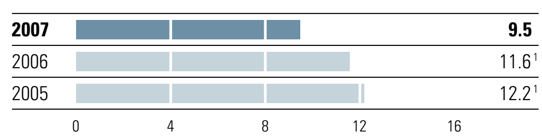
CHF millions




[1] Restated. 2005 and 2006 figures include continuing business of the former Life Sciences Division, and in addition, for 2005, CABB (sold in June 2005).
[2] Before restructuring and disposals

### EBITDA[2] MARGIN

%




[1] Restated. 2005 and 2006 figures include continuing business of the former Life Sciences Division, and in addition, for 2005, CABB (sold in June 2005).
[2] Before restructuring and disposals

### DETERGENTS

Detergents delivered strong growth in local currency, counterbalancing lower sales following the shutdown of an uneconomic production plant in Germany in 2006. However, this sales performance was not able to offset higher raw material costs and margins came under pressure.

### PERFORMANCE CHEMICALS

Performance Chemicals delivered solid growth in 2007. Key drivers include the continued high demand in the Crop Protection and Construction Chemicals businesses. Only Specialty Intermediates, with its glyoxilic acid derivative products, have experienced lower market demand. From a regional perspective, Asia and Latin America were the key growth drivers.

### PROCESS CHEMICALS

Process Chemicals showed excellent growth compared with the previous year. Clariant Oil Services successfully implemented its strategy, with organic growth supported by acquisitions. High demand in the Refinery, Metal Working and Mining businesses also drove up sales, with growth focused in Asia, North America and Latin America.

## » OUTLOOK

In 2008 the Division expects a year-on-year sales volumes growth of around 4%. This growth will be mainly driven by the business in Asia, Latin America and North America. The trend to low-cost production in Asia and Latin America is predicted to continue and growth will remain strong in these regions. Demand in Europe is expected to grow at lower rates than in 2007, especially in consumer segments like Detergents and Personal Care. Market growth in North America may be slower if the sub-prime crisis impacts those sectors important to Clariant, such as construction. Even if this does happen, the Division anticipates gains in North American market share.

In order to maintain margins, FUN will focus on product pricing and reducing SG&A costs. Matching the right business model to each market segment is the key to achieving these cost reductions. Product rationalization measures, started in 2007, will also continue.

The Division will continue to invest in high-growth markets like China, as well as North America where a new proproduction unit will come on stream in early 2008. Special attention will be given to the service-business segments and, where possible, acquisitions will be used further to gain market share and additional technologies.

Division

# Textile, Leather & Paper Chemicals

# Textile, Leather & Paper Chemicals

- MODEST OVERALL SALES GROWTH BUT WITH LOWER MAR GINS DUE TO HIGHER RAW MATERIAL COSTS
- FURTHER SITE CONSOLIDATION UNDERTAKEN TO REDUCE COMPLEXITY AND PRODUCTION COSTS
- SIGNIFICANT REDUCTION OF SG & A COSTS DUE TO DEDICATED ACTIONS IN THE BUSINESSES
- NEW TLP STRATEGY IMPLEMENTED TO ACHIEVE SUBSTANTIALLY INCREASED PROFITABILITY

**In 2007 the Division's sales continued to grow, although gains were modest compared with 2006. Growth in China and Latin America was strong, but all businesses suffered from weaker market conditions in the second half of 2007.**
**Good progress was made both on reducing SG & A costs and the site consolidation program. However, profitability of all three businesses was well below 2006 as margins declined. This was mainly due to increased raw material prices, which the Division was unable completely to compensate for through price increases. In particular, the Leather Business suffered from deteriorating market conditions and from unsatisfactory performance of the 'wet-end' chemicals business. To address the margin gap, TLP has launched its 'Low Cost Focus' strategy, which will transform the Division by stripping out complexity and reducing costs.**

## PROFILE AND STRATEGY

### PRODUCTS, SERVICES, SOLUTIONS

The **Textile Business** develops and produces textile chemicals and dyes for the apparel and technical textiles industry. Our products are used to enhance the properties of all types of in- and outdoor clothing, textiles for the home and the medical and construction sectors. Clariant's textile products provide a range of value-adding characteristics for fabrics such as flame retardance, resistance to microbial attack or damage from UV radiation, and the ability to repel water and stains.

The **Leather Business** provides products to all the main leather sectors including the shoe, bag, automotive and furniture industries. Clariant's products provide added-value by making natural hide smoother and breathable, as well as providing resistance to water and aging, color fade and abrasion.

Our expertise in the management of whiteness and color has made Clariant's **Paper Business** the leader for optical brightening agents (OBAs) and colorants. Working across all sectors, from tissues to cardboard and recycled products, Clariant provides advanced solutions for coating, fiber improvement and strength management.

## STRATEGIC GOALS

In line with the Clariant 2010 strategy, TLP has undertaken a thorough strategic review. The key challenge facing all three of the Division's businesses in 2008 is to significantly improve profitability margins. This will be achieved by clearly defining growth areas, while focusing on cost leadership and pricing.

### ACHIEVING A 'LOW COST FOCUS'

Remaining competitive through cost leadership is a pivotal element of the Division's 2010 strategy. This low-cost focus will be delivered in four ways:

- **Further portfolio rationalization.** The program of decisive product pruning and restructuring of unattractive product lines will continue to raise profitability and reduce business complexity.
- **Site consolidation.** Production will be concentrated at key sites. Meanwhile, there will be selective disposal or closures of unprofitable plants. Several Emulsion sites will be sold, as well as unprofitable plants closed or restructured.
- **SG & A cost improvement.** Leaner structures, less complex infrastructure, and an optimized supply chain process will enable the division to improve its cost position.
- **Growth and innovation.** The Division will focus innovation on those growth markets where customers are able to afford it. In these markets we will continue to use our R & D expertise to differentiate ourselves from the competition.

*"Cost leadership and concentration of all our activities on profitable segments and markets are key elements for a rapid turnaround." – PETER BRANDENBERG*

### NEW BUSINESS STRUCTURE

To deliver both cost savings and targeted growth, the business was restructured as part of the Clariant 2010 process. The more commoditized products, where price is the main differentiator, are managed for cash. By contrast, the application-driven and service-driven businesses, where customers are willing to pay for innovation and service, are managed for growth.

The Textiles Business provides a good example of how this structure works: two business lines will be managed for growth and service orientation; another business line will be managed for cash. The Emulsion business for example, currently part of Textiles, has very different dynamics. To manage that business effectively and boost profitability, Emulsions will be taken out of the Textile Business and managed according to the requirements of the different markets.

### REDUCING COMPLEXITY, REDUCING COSTS

A good example of how the low cost focus will be delivered comes from the Paper Business. Reducing the number of packaging sizes for each product simplifies production, forecasting, and logistics planning, as well as enabling inventories and repacking reductions. A further reduction in logistics costs will be realized by a new collaboration with a leading European transport company. Under the scheme, Clariant will rent mobile tanks to be located on customer premises. This increase in mobile capacity will enable a corresponding reduction in the frequency of deliveries.

### PRICING

In 2007, Clariant's margins were significantly impacted by higher raw material costs. Increases in crude oil and energy prices were compounded by other raw material price hikes. Although Clariant raised prices several times at the end of 2007, the increases were insufficient to compensate for these higher costs. As a consequence, further action on pricing is planned. This includes implementation of Clariant's comprehensive pricing management system called PRIMA, and the roll-out of Value-Based Selling training across the Division.

The Division continues to foster and drive a high-performance culture among its employees, in which individual accountability plays a key and active role.

## MARKETS AND VALUE DRIVERS

All three TLP businesses operate across a broad range of markets, each with its own dynamics. However, key themes appear across the Division: Firstly, the continued global shift to low-cost production; secondly, increasing raw material prices and a complex production network and, of course, an increasing focus on environmental performance, creating both challenges and opportunities for Clariant.

### TEXTILES-TARGETED INNOVATION

Recognizing that in specific growth areas, customers require innovation to give them a marketing edge, the Business launched 54 new products in 2007. Clariant's new generation of fluorocarbons based on $C_6$ Chemistry, which provides the benefits of existing technology but with improved environmental performance, is specified by increasing numbers of customers. In addition, Clariant launched a global pigment dispersion range: Printofix® T and A. These pigments are certified by an independent third party institute and bear the Oeko-Tex® label. The recent partnership with Schoeller Technologies AG for the outstanding nanotechnology-based liquid- and dirt-repellent finish, NanoSphere®, is a response to the demand for innovative, value-adding finishes.

## » FOCUS TOPIC: CUSTOMERS AND PARTNERSHIPS

By working with a broad range of partners with complementary expertise, TLP brings unique solutions to its customers as the following examples show:

### Integrated hygiene from Sanitized®

SANITIZED AG is a pioneer and a specialist in developing, manufacturing and marketing safe, effective and ready to use antimicrobial additives. Products and services are available through Clariant's worldwide distribution network. Products made by Sanitized® all bear the Sanitized® seal of quality that promises end users safety, hygiene, well being, and material protection in line with the company's license standard. Antimicrobial additives are used in various textiles, particularly for active and swim wear, casual and business wear as well as underwear and socks.

### Matching colors with Pantone

In March, Clariant and Pantone Inc. – creator of the only globally recognized color reference system – entered a partnership to produce SMART, a new color management and specification system for designers, retailers and producers. SMART is an 'off-the-shelf' color system for cotton textiles. This new system complements Clariant's existing customized color management service ARCHROMA. SMART streamlines the color development process and ensures color production that can be accurately reproduced and delivered anywhere in the world. The system includes 1,925 new color swatch cards for home textiles and apparel development. Clariant provides the dyestuff, formulation, and technical know-how to get the exact PANTONE colors required. The colors are durable because they are formulated to maximize color-fastness, light-fastness and durability to washing, dry cleaning and wear. The partnership is a perfect fit – a 'SMART' solution that takes advantage of Clariant's global network and expertise in combination with Pantone's unequaled color system.

### Going 'nano' with Schoeller Technologies

The partnership with Schoeller Technologies AG announced at the ITM A in Munich in September provides customers worldwide with access to the outstanding NanoSphere® self-cleaning textile finish. Based on nanotechnology, this finish provides fabrics with a fine structured surface – difficult for water and dirt particles to settle on, as they do not have a continuous surface. As a result, it is easy to rinse off with a little water. Textiles finished with NanoSphere® require less frequent washing at lower temperatures without any loss in performance. NanoSphere® has been tested exhaustively, offers unparalleled water resistance, self-cleaning, and durable protection characteristics and meets the requirements of the low-pollutant bluesign® safety standard. The Textiles Business is responsible for its production, sales and distribution worldwide. Patent holder Schoeller Technologies AG is responsible for branding and marketing.

### Chrome-free leather with Rhodia

Cooperation with the international chemical group Rhodia was announced in May. Based on joint efforts in R&D and production, Clariant's product portfolio will be complete with an additional component from Rhodia. The reason is that with this component, Clariant has the exclusive rights of distribution for the leather market. This system will be applied to the production of ecologically sound chrome-free leather that meets today's and future market requirements, mainly those of the automotive, but also the shoe-upper, garment and upholstery industries.

*Bringing color to life...*


*... and hygiene...*

*... glamour...*

*... and comfort*

To help customers to reduce their production costs, the Textile Business launched a new service – 'CostCalc' database, which allows customers to undertake a complete analysis of their production expenditure. The package is then supported by Clariant's consulting services to drive production costs and offer textile chemicals and dyes for efficient, economical production for high-quality textiles.

Improving customer understanding enables Clariant to respond with greater speed to fashion and market trends. To this end, the business set up a second marketing arm to work with indirect customers, such as brand owners and retailers. Building on Clariant's outstanding competence in the technical and marketing know-how, the new team is an interface between manufacturer and designer.

### LEATHER – TOUGHER CONDITIONS WORLD-WIDE

A global slowdown in demand, combined with raw material price increases and the continuing pressure to increase environmental performance, made 2007 a tough year for the leather sector. By way of response, Clariant's Leather Business reduced approximately 25% of its global leather product range, significantly reducing complexity and costs. This move will be further supported by a clear focus on key growth countries and markets, such as the automotive industry or other high-performance segments.

To provide improved service to these growth sectors, the Leather Business launched a number of new services and products in 2007. For example, Clariant established a dedicated fashion team to work closely with designers on the development of shoe and accessory fashion trends. The Business also introduced a color management system, offering customers valuable advantages in terms of time savings, ease of use and accuracy in color matching for leather finishing. This package combines our innovative Neosan® 2000 and PPE® pigment ranges, exclusive software, and advanced database management. This combination provides a truly customized solution to manage the entire color supply chain and speed up time to market.

In response to customers' environmental needs, the Leather Business launched a new environment-friendly range of beamhouse products in 2007. We are now able to provide customers with a complete leather production portfolio – from beamhouse, tanning, re-tanning, and dyeing to finishing.

### PAPER – FOCUS ON EMERGING MARKETS

The Paper Business's focus on emerging markets has balanced fluctuating performance elsewhere – such as the drop in demand for Optical Brightening Agents (OBAs) in the latter part of 2007.

Recycled paper and board grades are set to become a high-growth sector and Clariant is well positioned to take advantage of this opportunity. The Paper Business has a strong track record, accumulated over many years, in all areas of environmental performance. This knowledge of legislation and evolving customer preferences gives us a noticeable competitive advantage.

In 2007, we developed new OBA ranges that are well advanced with regard to REACH requirements. In particular, the new Leucophor® SAC liquid is far ahead of the competition. Cartafluor® CFI, a sizing fluorochemical in our chemicals range, provides grease-, oil- and water-resistance to paper, is now compliant with the FDA's stringent requirements for food contact. And the high environmental standards of the European 'EU Flower' eco-label for copying and graphic paper were met by the tinting blue dye Cartasol® 3R-EU liquid. Cartasol 3R-EU, which replaces another product that gave the same shade of blue, is now copper-free and also has improved fastness properties.

To support customers' needs to reduce costs, the Paper Business launched its 'Chemicals on Tap' initiative to maintain customers' own inventory levels, ensuring that they always have the necessary products in the right quantities. We are working together with the world's leading instrumentation company, Endress+Hauser, to provide the top quality infrastructure necessary for this vendor-managed inventory concept (VMI). The first steps towards the implementation of VMI are very encouraging and customers value this added service.

## FINANCIAL PERFORMANCE

Local currency sales for the TLP Division remained flat in 2007. EBITDA before restructuring and disposals came to CHF 217 million, equating to a margin of 9.3%.

Sales of Textile products remained flat in 2007; the Leather Business declined, following reduced industry-wide demand. On the brighter side, the Paper Business grew, driven by strong performance in Argentina, Chile, Venezuela and Clariant's Special Markets*, more than offsetting the continuing slowdown in North America.

Lower margins compared with 2006 can be mainly attributed to increases in the price of raw materials and energy, unfavorable exchange rates in key markets, and the Chinese Government's decision to withdraw VAT refunds on exports. Despite price increases introduced in July and August, these were not enough to offset higher raw material costs.

The TLP Division realized substantial savings through the SG & A program. Net Working Capital also showed positive results with product rationalization programs also progressing well.

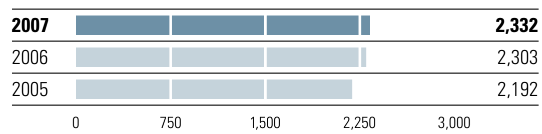
The Division booked CHF 105 million of restructuring costs during the year, most of which related to the site consolidation program, and included the closure of the leather site in Selby, UK. TLP invested in manufacturing to create increased capacity for dyes, chemicals and optical brighteners in China, India, Pakistan, and the USA. A capacity expansion program for sulfur-dyeing systems in Spain will be finalized in 2008.

Sales for the **Textile Business** failed to meet targets due to weaker than expected demand, with particularly poor results booked in the second half of 2007. Unfavorable currency developments, notably the weak US Dollar and strong Euro, also impacted both growth and margins. Although pricing initiatives introduced mid-year are beginning to show positive results, they were not sufficient to offset raw materials price increases. On the positive side, inventory management progressed well, product rationalization was on track, and reductions in SG & A cost were on target.

Demand for functional finishes is still high, and the product groups involved showed above-average growth. As well new nanotechnology and $C_6$ fluoro chemistry products ranges (highlighted above), cellulose dyes also performed well, led by the recently-launched Drimaren HF dyes, which delivered rapid market penetration.

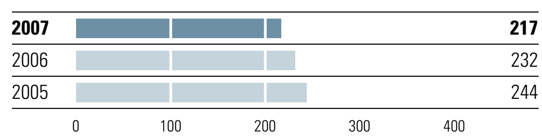
*SALES*

CHF millions




*EBITDA[1]*

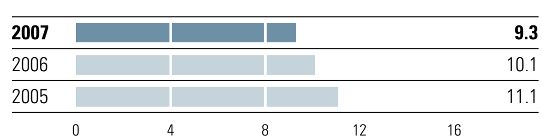
CHF millions




[1] Before restructuring and disposals

*EBITDA[1] MARGIN*

%




[1] Before restructuring and disposals

The Textile Business experienced strong growth in Asia – driven by China and Indonesia, as well as positive developments in Pakistan – while in Europe the trend was slightly negative. This is largely attributable to sharp market declines in Italy and Spain. Despite unfavorable currency rates, the Business enjoyed positive sales growth in Latin America, led by our Brazilian activities. A negative trend for garments continues in North America with no signs of stabilizing.

* Clariant's Special Markets incorporates the following countries: Pakistan, Turkey, India, Morocco, Saudi Arabia, and South Africa.

The **Leather Business** has been affected by reduced demand across the industry, which is expected to continue into 2008. Strong currencies in important leather markets, as well as an increased government focus on environmental protection in India and China, have combined to have a negative impact on local leather industries. Despite this difficult backdrop, Clariant was able to maintain its high market share globally and remains a top-three industry supplier. The Business observed improved performance in the finishing sector, recording above-average growth.

The need to streamline both the structure and organization drove the Business's 2007 product portfolio rationalization program. This included a selective withdrawal from the underperforming products and segments in the 'wet-end' chemicals business. At the same time, the Business consolidated a number of sites and transferred production to key markets such as India, China, Indonesia, and Brazil.

The pricing initiatives undertaken mid-year began to deliver positive results during the third quarter. Working capital and SG & A showed improvements over the previous year, with further improvements anticipated.

Clariant's **Paper Business** continued to grow, in terms of volume and overall value, while maintaining margins at 2006 levels.

This performance was achieved despite a general slowdown throughout North America, which is responsible for nearly 25% of overall sales. Here, reduced local demand affected the key Optical Brightening Agents' (OBAs) market in particular. Asia recorded excellent growth, predominantly driven by China, Hong Kong and Indonesia. Europe continues to be an important market for the Paper Business, with Germany showing excellent local currency growth. However, other European countries experienced difficult times, with mills closing in France, Italy, and Great Britain. Latin America showed strong growth, mainly in Brazil and Argentina. Special Markets*, though a small contributor to overall sales, showed excellent local currency growth compared with 2006.

The Business maintained EBIT at the previous year's level, in spite of pressure on margins from higher raw material costs in the second half of 2007. The Business was forced to raise its prices in order to absorb these substantial increases. SG & A expenses remained on par with those of 2006, despite increasing costs in outbound freight in all regions. R & D costs remained at the previous year's levels. Volumes in 2007 increased over 2006, leading to higher transportation costs, while research and development costs remained at the previous year's levels.

Overall net working capital improved over the previous year and attained the budgeted level, with improvements in inventory KPI days and receivables DSO days.

## » OUTLOOK

Globalization and increased environmental consciousness will continue to exert major influences on TLP's businesses.

***Textile Business***

Ongoing globalization of our markets demands global prices, global availability, global quality standards and a global network. Clariant differentiates itself from the competition by being able to serve global customers. Meanwhile, textile manufacturing will continue to migrate to low-cost markets, and pressure on prices will increase. Global warming, high energy prices, and water shortages are just some of the reasons that attention is increasingly being focused on sustainability. The textile industry is not exempt, and its companies are looking for ways to manufacture ecologically as well as economically. Clariant is a leading supporter in helping them to do both.

***Leather Business***

The industry's main markets of the future are in the developing world: Argentina, Brazil, China, India, and Turkey.These countries will drive growth in leather, together with Italy, which will continue to be the major source of fashion trends that can spread throughout the world in a matter of weeks. In all of these regions, Clariant holds a leading position and maintains local organizations with strong technical and application support. In the high-performance automotive sector, Clariant forms the interface between major component makers, tanneries and automotive companies' design centers. Outstanding Key Account Management in R & D, technical support and excellent supply chain management are, and will remain, key differentiators. Clariant's innovation rate – among the highest in the segment of performance products – will be maintained.

***Paper Business***

One of the industry's important trends is the increasing use of recycled paper. Our R & D, indeed our overall focus, has responded to this shift. We are creating products for fiber activation, 'stickies' control and re-pulpability that can be used in paper manufacturing. Although aimed mainly at paper packaging manufacturers, these efforts are also directed to a lesser extent at tissue producing markets. Another key trend is the growing demand for healthy and environmentally benign products. We are steadily adapting our portfolio to include products that are potentially less harmful, such as our PFOA-free Cartapack coatings for food packaging.

* Clariant's Special Markets incorporates the following countries: Pakistan, Turkey, India, Morocco, Saudi Arabia, and South Africa.

# Corporate Governance

## PRINCIPLES OF CORPORATE GOVERNANCE

**Clariant is committed to the highest international standards of Corporate Governance. Clariant's principles and regulations on corporate governance are set out in the Articles of Association of Clariant Ltd and in the organizational group regulations of the Clariant Group and the Clariant Code of Conduct. The Board of Directors reviews these documents regularly and adapts them to new conditions when necessary. The Articles of Association of Clariant Ltd as well as the Clariant Code of Conduct can be viewed on the Internet at *www.governance.clariant.com*. In addition to the provisions of the Swiss Code of Obligations, Corporate Governance reporting is in compliance with the guidelines of SWX Swiss Exchange and follows the rules set out in the Swiss Code of Best Practice.**

## 1. GROUP STRUCTURE AND SHAREHOLDERS

### 1.1 GROUP STRUCTURE

Until the end of 2007, the Group consisted of four 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 2007, Clariant sold the Custom Manufacturing Business of its Functional Chemicals Division. The Group Functions: Finance, Human Resources, Information Technology, ESHA, Legal, Communications, Supply Chain Management, Production Services, and Procurement 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, 2007, the market capitalization stood at CHF 2,424 million. 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 SHAREHOLDINGS OF 3% OR MORE OF TOTAL SHARE CAPITAL

As of December 31, 2007, Bestinver Gestión SA, Madrid, Spain owned 5.21% of the share capital.

### 1.3 CROSS-SHAREHOLDINGS

There are no cross-shareholdings.

*CLARIANT LISTED COMPANIES December 31, 2007*

| ***Listed company*** | ***Registered office*** | ***Listing*** | ***Capitalization*** | ***Shareholdings*** | ***ISIN no.*** |
|---|---|---|---|---|---|
| | | | CHF millions | % | |
| Clariant Chemicals (India) Ltd | Mumbai | Bombay Stock Exchange, Mumbai (BSE, CLARICHEM) and National Stock Exchange of India, Mumbai (NSE, CLNINDIA) | INR 8,980 | 63.40 | INE492A01029 |
| Clariant (Pakistan) Ltd | Karachi | The Karachi Stock Exchange (KSE) | PKR 4,411 | 75.00 | PK007670101 |

## *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 may be increased by a maximum of CHF 34,000,000 by issue of a corresponding maximum of 8,000,000 registered shares of CHF 4.25 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 2006 and 2007 can be found on page 142 of this Annual Report. The details for 2005 can be found on page 124 (note 28) of the 2006 Annual Report.

### 2.4 SHARES AND PARTICIPATION CERTIFICATES
As at December 31, 2007, 230,160,000 registered shares had been issued, each with a par value of CHF 4.25.

### 2.5 BONUS CERTIFICATES
Clariant Ltd has not issued any non-voting equity security (Genussschein).

### 2.6 LIMITATIONS ON TRANSFERABILITY
Transfer of registered shares requires the approval of the Board of Directors, which may delegate this function. Approval is granted if the acquirer fulfills the formalities laid down in Art. 5 of the Articles of Association.

### 2.7 NOMINEE REGISTRATIONS AND VOTING RIGHTS
Voting rights at Clariant are limited to 10% of the share capital in accordance with Art. 12, para. 1 of the Articles of Association. Also, special rules apply to nominees if they fail to disclose the identity of the persons they represent and if their shareholding exceeds 2%.

### 2.8 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 145) of the notes to the Consolidated Financial Statements.

*CLARIANT UNLISTED COMPANIES December 31, 2007*

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

## 3. BOARD OF DIRECTORS

The Board of Directors of Clariant Ltd comprises at least six and no more than ten members. At the 12th Annual General Meeting, Dr Rudolf Wehrli and Dr Jürg Witmer, both Swiss citizens, were elected as new members of the Board of Directors for a four-year term of office.

### 3.1 MEMBERS OF THE BOARD OF DIRECTORS

**Prof. Peter Chen,** 47, 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 was then appointed at 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. He is presently Vice President of Research at the ETH Zurich.

**Peter R. Isler,** 61, 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,** 65, Swiss citizen
Klaus Jenny studied economics at the University of St. Gallen. After finishing his doctorate, he held various management positions at Schweizerische Kreditanstalt (now Credit Suisse) before being appointed a member of its Executive Board 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,** 65, 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,** 65, German citizen
Kajo Neukirchen studied business administration and physics at the University of Bonn. After finishing his doctorate in business administration, 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 groups. Between 1993 and 2003 Kajo Neukirchen was CEO of Metallgesellschaft (now the GEA Group), a manufacturing and chemical conglomerate. Today, Kajo Neukirchen holds major shareholdings in eight medium-sized manufacturing companies.

**Tony Reis,** 66, 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.

**Rudolf Wehrli,** 58, Swiss citizen
Following comprehensive studies in the humanities at the universities of Zurich and Basel with doctorates in theology (1976), philosophy (1979), and German Language and literature studies (1979), Rudolf Wehrli began his career in 1979 at McKinsey & Co. In 1984, he joined the Schweizerische Kreditanstalt (Bank Credit Suisse) as member of the Executive Board. Two years later, Rudolf Wehrli accepted the position of Marketing Manager and member of the Board for the internationally-active Silent Gliss Group. In addition, five years later, he took over the management for their German subsidiary. In 1995, he transferred to the Gurit-Heberlein-Group as member of the Board of Management and was promoted to Chief Operating Officer in 1998 and Chief Executive Officer in 2000. He remained in this position until the company's split-up in 2006.

**Jürg Witmer,** 59, Swiss citizen
Jürg Witmer studied political science at the Institut de Hautes Etudes Internationales of Geneva University and law at the University of Zurich where he received his doctorate. In 1978, he joined Hoffmann-La Roche in Basel, first as a member of the legal department and then as assistant to the Chairman and CEO. In 1984, he moved to Hong Kong as Regional Marketing Manager, later becoming General Manager of Roche Far East. In 1990, he was appointed Head of Corporate Communications and Public Affairs at Roche Headquarters in Basel. In 1994, he moved to Vienna as General Manager of Roche Austria. From 1999 to 2005, he was CEO of the Givaudan Group. He has been Chairman of Givaudan since 2005.

All members of the Board of Directors are non-executive.

### 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), Gesellschaft zur Förderung der Forschung und Ausbildung im Bereich der Chemie (Zurich), Scientific Advisory Board at OC Oerlikon Corporation AG

**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); Chairman 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
Activities on behalf of companies and representative functions: none

**Rudolf Wehrli**
Board of Directors/supervisory mandates: Rudolf Wehrli holds mandates on various boards of directors. Since 2002, he has been president of the Schweizerische Gesellschaft für Chemische Industrie, the umbrella organization of the chemical and pharmaceutical industry across the whole of Switzerland. In relation to this function, he is a member of the commission board of economiesuisse.

**Jürg Witmer**
Board of Directors/supervisory mandates: Givaudan SA, Vernier/Geneva (Chairman); Syngenta AG, Basel; Bank Sal. Oppenheim (Schweiz) AG
Activities on behalf of companies and representative functions: none

### 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.

| *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 | 2009 |
| Rudolf Wehrli | 2007 | 2011 |
| Jürg Witmer | 2007 | 2011 |

### 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

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 more 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) comprises the Chairman and the Vice Chairman. It 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.

*BOARD OF DIRECTORS – COMMITTEE RESPONSIBILITIES*

| *Director* | *Executive Committee* | *Audit* | *Strategy* | *Appointments/ Compensation* | *Technology and Innovation* |
|---|---|---|---|---|---|
| Roland Lösser | Chairman | | Chairman | Member | |
| Peter Chen | | | Member | | Member |
| Peter R. Isler | | Member | | | |
| Klaus Jenny | | Chairman | | | |
| Kajo Neukirchen | | | Member | | Member |
| Tony Reis | Member | | Member | Chairman | |
| Rudolf Wehrli | | | | | Member |
| Jürg Witmer | | | | Member | |

■ Chairman
■ Member

The **Strategy Committee** (STC) comprises the members of the EC and at least 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 and a third member of the board. 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.

*BOARD OF DIRECTORS – COMMITTEES*

| *Committees* | *Number of meetings* | *Duration/h* | *CEO/CFO* | *Other attendees* |
|---|---|---|---|---|
| Board of Director | 7 | 6–8 | yes | Management Board and Head of Group Legal |
| Executive Committee | 6 | 2–4 | yes | Management Board when submitting own proposals |
| Audit | 6 | 3–5 | CFO only | Auditors, Risk Management and Head of Group Legal |
| Strategy | 5* | 2–4 | CEO only | |
| Appointments and Compensation | 6 | 2–3 | no | |
| Technology and Innovation | 2** | 2–4 | | |

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

The **Audit Committee** (AUDC) comprises two members of the Board of Directors. The Chairman must be an independent, non-executive member of the Board of Directors. The AUDC reviews the activities of the external auditors, their collaboration with the internal auditors and organizational adequacy. It also reviews the performance, compensation and independence of the external auditors. All consultancy mandates concluded with the external auditors in the Group are submitted for information purposes by the CFO to the committee 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, and in particular with the Code of Conduct. 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 three members of the Board of Directors with experience in research, 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) as well as changes in conditions associated therewith;
- 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 functions, and heads of important subsidiaries;
- Approval of investments which exceed CHF 20 million;
- Approval of the liquidation or disposal of a subsidiary, a stake in a joint program or in another company, or significant portions thereof, of rights to products or industrial property rights, provided the annual sales of the company concerned or of a division or of the product or the industrial property rights associated with it exceed CHF 20 million;
- Ensuring succession planning and management development;
- Ensuring a management and corporate culture that is appropriate for the company's objectives;
- Ensuring an internal control system and adequate risk and compliance management.

The Board of Directors has delegated the executive management of Clariant Group to the CEO and the other members of the Board of 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 CEO and under his supervision, the Board of Management, are responsible for:

- Operational implementation of Group strategies and the strategies and action programs of individual divisions and subsidiaries;
- Managing the divisions and functions;
- Preparing and deploying resources as efficiently as possible to implement Group strategy in accordance with the budget;
- Ensuring compliance with legal requirements and the organizational regulations with Clariant standards;
- 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 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 services.

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 divisions are supported by Group Services, including procurement, supply chain management, IT and site services as well as Group Functions.

### 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 audit reports, also receives a summary of the work performed by the Group audit function and the audit results every six month. 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 distinguishes between operational risks and strategic risks and regularly monitors the development of the most important risks (e.g. insurable, environmental protection, financial, commercial and political risks) in view of Clariant's efforts to mitigate such risks to commercially acceptable levels. Detailed information on our risk management system can be found on page 35 of this report. In addition to the documents required for the passing of 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 relevant information about competitors in the same manageable period since the beginning of the year, structured by division with main sales areas and key product groups plus the major subsidiaries;
- Quarterly reports on 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 report on the business and financial status of Clariant at 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 Human Resources and the four Division Heads.

### 4.1 MEMBERS OF THE BOARD OF MANAGEMENT

On December 31, 2007, the Board of Management Management comprises the following members:

**Dominik von Bertrab,** 48, 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,** 60, Swiss citizen
**Head of Textile, Leather & Paper Chemicals Division**
Peter Brandenberg is an economist, and was appointed Head of the Textile, Leather & Paper Chemicals Division in September 2007. At the beginning of 2003 he became Head of Regions, and since 2005 he has also been responsible for the global service functions. 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,** 52, German citizen
**Head of the Functional Chemicals**
Siegfried Fischer is an engineer. He was appointed Head of the Functional Chemicals Division in April 2003, and in June 2004 was additionally appointed as head of 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,** 39, 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.

**Okke Koo,** 49, Dutch citizen
**Head of the Pigments & Additives Division**
Okke Koo is a physician. He was appointed Head of the Pigments & Additives Division in August 2007. Before joining Clariant, he was the Chief Executive Officer of Avebe, a leading global starch manufacturer. Prior to joining Avebe, Okke Koo worked for Avery Dennison, Akzo Nobel Coatings, VNU Publications, and Beecham Pharmaceuticals.

**Jan Secher,** 50, 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, 2006 its Chief Executive Officer. He was previously CEO of the Swiss firm SICPA Group, a world-leading supplier of packaging and security inks for banknotes. Jan Secher began his career in 1982 at ASEA (now ABB), in sales/marketing and product management, which included a five-year posting in North America. From 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 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.

**Johann Steiner,** 41, German citizen
**Head of Group Human Resources**
Johann Steiner is an economics graduate from the University of Passau in Germany. He joined Clariant in 2002 as Corporate Compensation & Benefits manager, taking charge of Corporate HR operations in 2003. Two years later he was named as the new Head of Group Human Resources, becoming a Member of the Clariant Board of Management in July 2007. Before joining Clariant, Johann Steiner held several senior management HR positions at DaimlerChrysler Aerospace AG and EADS in Ottobrunn, near Munich, and Paris. From 1993 to 1998 he was a Senior HR Consultant at Towers Perrin in Frankfurt.

**Hartmut Wiezer,** 60, German citizen
**Head of Group Technology (until 31.12.2007)**
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 t Clariant. After studying chemistry in Germany, he joined Hoechst AG in 1975, holding a succession of positions in the Polymer Additives Business Segment, including R&D, Marketing and Pilot Factory Production. From 1983 until 1986 he was Assistant in Hoechst's R&D Head Office and subsequently Project Manager and Head of R&D for Electronic Materials in the Information Technology Division. He was appointed Head of R&D for the Fine Chemicals Business Unit in 1989, and Head of the Fine Chemicals Business Unit in 1995. He moved to Clariant in 1997 when the Specialty Chemicals Division was taken over from Hoechst.

### 4.2 MANAGEMENT CHANGES IN 2007
Hartmut Wiezer retired from his position as Head of Group Technology at the end of 2007. During the course of the year, Okke Koo replaced Uwe Nickel as Head of the Pigments & Additives Division. Peter Piringer and subsequently Philippe Royer were replaced by Peter Brandenberg as Head of Textile, Leather & Paper Division.

### 4.3 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.

### 4.4 MANAGEMENT CONTRACTS
There are no management contracts with third parties pursuant to this guideline.

## *5. COMPENSATIONS, SHAREHOLDINGS AND LOANS*

Based on the transparency regulations in Switzerland as amended, notably the new transparency law (Swiss Code of Obligations Art. 663b to Art. 663c para. 3), the Corporate Governance guidelines of the SWX and the Annex to the Swiss Code of Best Practice (recommendations on compensation for members of Boards of Directors and Executive Boards, in the economiesuisse), a separate compensation report is to be compiled for the financial year 2007.

Given that the figures relating to the compensation of the Board of Directors and members of the Management Board are reported in some detail in the Notes to the Annual Report, and can thus be audited, there is no need to repeat the figures in the compensation report when a reference to the figures in the Notes will suffice.

### 5.1 MEMBERS AND RESPONSIBILITIES OF THE APPOINTMENTS AND COMPENSATION COMMITTEE (ACC) OF THE BOARD OF DIRECTORS

The ACC is currently made up of three members on the Board of Directors; the Chairman is Tony Reis and the other two members are Roland Lösser and Jürg Witmer. The Secretary to the ACC is the Head of Human resources. The President of the ACC can invite the Chief Executive Officer to discussions on individual agenda items, taking into account potential conflicts of interest which would oblige him to abstain.

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. In particular, it considers and submits to the Board of Directors the proposals of the CEO concerning candidates for the positions of heads of divisions, other members of the Management Board, function heads reporting directly to the CEO and Regional Presidents.

The ACC draws up principles for compensation of members of the Board of Directors and submits them to the Board of Directors for approval. It approves the employment contracts for the CEO, members of the Management Board, function heads reporting directly to the CEO, 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. If the matter is urgent, the ACC may take decisions together with the President.

The committee reviews the global 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 Management Board, function heads, and heads of subsidiaries.

The ACC holds three meetings per year as a rule:

a. *February:* Full allocation to the Executive Bonus Plan, determination of bonus payments for members of the Management Board, allocation to the bonus budget for top performers
b. *July:* Fundamental questions concerning the Group's HR priorities
c. *December:* Review of compensations for members of the Board of Directors and the Management Board

The ACC also meets as needed.

### 5.2 BASIC PRINCIPLES

Clariant's compensation policy is based on three main principles:

a. The level of the total compensation should be competitive and in line with market conditions and enable Clariant to acquire international, experienced management board members, and secure their longstanding commitment to the Group.
b. The structure of the total remuneration should be highly performance- and success-oriented in order to ensure that shareholder and management interests are aligned.
c. The compensation components should be straightforward, transparent and focused, so as to guarantee all participants (shareholders, members of the Board of Directors and members of the Management Board) the highest degree of clarity and goal-orientation.

In order to uphold these principles, the ACC analyzes and discusses market developments at regular intervals and considers the implications for Clariant. Key examples are as follows:

a. The restructuring of the variable compensation for financial year 2005 for 270 executives in the Clariant Group.
b. The restructuring of the equity-based compensation plan and the resultant abolition of share option schemes for financial year 2005.
c. The review and restructuring of the overall compensation level for members of the Management Board in 2007.

## 5.3 STRUCTURE OF COMPENSATION FOR MEMBERS OF THE BOARD OF DIRECTORS

The structure of the compensation for members of the Board of Directors is documented in the guideline on the remuneration of members of the Board of Directors of Clariant AG, which was brought into force by the Board of Directors in January 2006.

The remuneration of members of the Board of Directors is made up of three components:

a. Fee
b. Equity-based compensation
c. Committee meeting attendance fees

The fee for a member of the Board of Directors is CHF 50,000 gross per financial year. The fee for members of the Executive Committee is CHF 75,000 gross per financial year, whilst the fee payable to the Chairman of the Board of Directors has been set at CHF 400,000 gross per financial year. In each case, the fees are paid in cash in the middle of a financial year for the full financial year.

In addition to the fee, the members of the Board of Directors receive an annual share distribution equivalent in value to the fee. The Chairman of the Board of Directors receives an annual share distribution worth CHF 100,000 gross.

The shares are blocked for three years and remain the property of Clariant. At the end of the three-year waiting period, the shares become the private property of the members of the Board of Directors. The share plan for members of the Board of Directors is structured in the same way as the share plan for managers at Clariant.

The members of the Board of Directors receive meeting attendance fees for their work on committees of the Board of Directors, set at CHF 2,500 for a full-day meeting and CHF 1,250 for a half-day meeting. No meeting attendance fees are paid for meetings of the Executive Committee or for the plenary meeting of the Board of Directors.

The compensation for members of the Board of Directors is subject to the Swiss taxation and social security laws, with Clariant paying any employer contributions which are required. The members of the Board of Directors do not receive lump-sum reimbursement of entertainment expenses above and beyond actual expenditure on business trips.

## 5.4 COMPENSATION FOR MEMBERS OF THE MANAGEMENT BOARD

The ACC regularly reviews the level and structure of the compensations for the members of the Management Board using market analyses. The most recent detailed analysis was in December 2006. Various market outlooks were used as a basis for the analysis:

a. Comparison of remuneration of managers in European chemical companies.
b. Comparison of remuneration of managers in globally active-companies in Switzerland.

In view of the increasing internationalization of Clariant's management, the ACC believes it is necessary to include both outlooks in the analysis in order to ensure that the remuneration package offered attracts managers of international caliber, and also to ensure that the place of residence and employment, as well as the contractual arrangement are in line with Swiss framework conditions. Two vital sources of information are the comparison data supplied by internationally-renowned consulting firms (e.g. Towers Perrin, Hewitt, Mercer), and information gathered in-house, such as, for instance, our experience of search processes for suitably qualified managers.

Based on this analysis, the ACC defines a reference range for the total compensation of the members of the Management Board, which is used to determine the individual level of the total compensation. On this basis, the actual level of compensation paid to a member of the Management Board depends specifically on the performance achieved in a given financial year.

The structure of the total compensation for members of the Management Board breaks down into three components:

a. Basic salary amounting to no more than 50% of the total compensation
b. Cash bonus amounting to at least 25% of the total compensation
c. Share bonus amounting to at least 25% of the total compensation

The bonus components of the total compensation are amounts which are only paid out if the objectives set for a particular financial year are met in full. The actual level of the bonus components may vary between 0 and double these target values in the financial year in question, depending on the extent to which these objectives are achieved.

The ACC uses the reference point for the total compensation of the members of the Management Board as a basis for reviewing and determining each individual compensation package. The actual level of the total compensation paid to individual members of the Management Board is determined by market prospects, and, in particular, by performance and personal development.

OTHER PAYMENTS

The members of the Management Board participate in the pension schemes of the Clariant Group, notably the Clariant pension fund with an insured income up to CHF 200,000 per annum. and the management pension fund with an insured income of a further CHF 595,000 per annum. The maximum insured income under the pension schemes therefore stands at CHF 795,000 per annum. Clariant's pension schemes conform with the legal framework of the occupational pension scheme (BVG). For members of the Management Board and all other Clariant employees alike, the insured income is defined as the basic salary plus the target cash bonus. Equity-based income components are not pensionable. The usual term insurance policies for death and disability form part of Clariant's pension schemes. The total employer contribution is approximately 11% of the insured income in the case of the Clariant pension fund and 22% of the insured income in the case of the Clariant management pension fund. These contributions cover both the contributions to the formation of retirement capital, and the risk components. Both schemes are contribution-based; the management pension fund solely provides the members with retirement capital on retirement, and does not incorporate pension payments.

In general terms, the compensation package does not provide any additional fringe benefits for members of the Management Board above and beyond the pension schemes. Clariant undertakes to pay the international school costs for international managers, under individual contractual agreements. Any such agreements are reported under the breakdown of total costs for the members of the Management Board, which appears in the Notes.

### 5.5 VARIABLE REMUNERATION FOR MEMBERS OF THE MANAGEMENT BOARD

Clariant introduced a new, variable remuneration system for managers into the Group in 2005. This system also covers members of the Management Board. Consequently, the following statements apply not only to the members of the Management Board but also to approximately 270 other managers at Clariant.

The Clariant Executive Bonus Plan is based on the following key features:

a. The total amount of bonus payments distributed in a year is solely determined by the result achieved by the Clariant Group.
b. The Clariant Group's result is determined with the aid of ROIC and cash flow targets.
c. The amount of an individual participant's bonus is determined by his/her individual target bonus and the contribution by his/her organizational unit (division, business unit, function) to the overall result.
d. The target contribution of the business units and divisions is measured with reference to sales growth, EBIT and developments in working capital (inventories, receivables from customers).
e. An employee's individual performance based on personal objectives is not measured under the bonus system but as part of the annual review of total compensation.
f. In order to reward outstanding performances over a financial year, the ACC grants an additional top performer budget each year amounting to 5% of the total bonus, which is shared between no more than 20% of the participants.

The annual evaluation of the achievement of objectives and allocation of the total bonus pot are performed by the ACC in the February following the financial year in question, and approved by the Board of Directors.

This system ensures that the bonus payments made to employees are as closely aligned as possible with the Group's overall result. The total amount of bonus payments to the participants of the Clariant Executive Bonus Plan for financial year 2007 stands at 43% of the total target amounts.

Bonuses are always paid out in the March following the financial year in question. The Clariant Executive Bonus Plan provides for half of the total bonus payment for a year to be paid out in cash, and half in Clariant-registered shares.

### 5.6 EQUITY-BASED REMUNERATION

Clariant uses equity-based income components for approximately 270 top managers worldwide. Under this scheme, these employees receive 50% of their annual bonus in the form of shares which are blocked for three years and remain the property of Clariant. The shares later become the private property of the employees. Each year, the ACC determines an allotment rate deduced from the average rate over three trading days in the second week of January. The number of allotted shares is calculated by dividing the value of the share bonus for a year by the allotment rate.

If an employee should voluntarily leave Clariant before the waiting period expires, all shares which have not yet been transferred at this point in time become invalid.

### 5.7 COMPENSATION OF THE CHIEF EXECUTIVE OFFICER

The rules set out above governing the remuneration of the members of the Management Board are also fully applicable to the CEO.

CONTRACTUAL ARRANGEMENTS FOR MEMBERS OF THE MANAGEMENT BOARD

All members of the Management Board have employment contracts with Clariant International Ltd, Clariant Group's management company. The contractual provisions are governed exclusively by Swiss law.

Over the course of 2008, the contracts of the members of the Management Board are to be amended from the current notice period of 18 months to a standardized period of 12 months. This notice period sets out a detailed and exhaustive list of the claims associated with severance. Specific change in control agreements are in place with the Chief Executive Officer. If Clariant should serve notice on the CEO under a change of ownership, the value of the severance payment amounts to 24 months, and not 12 months, of the total remuneration.

## *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 AND REPRESENTATION

A shareholder may be represented at the Annual General Meeting by another shareholder with the right to vote, a legal representative, a corporate body (Organvertreter), an independent proxy (unabhängiger Stimmrechtsvertreter), or a depositary (Depotvertreter). The shares held by any one shareholder may be represented by one representative only. Voting rights at Clariant are limited 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, 2009 to submit requests for items to be included on the agenda for the 14th Annual General Meeting, to be held on April 2, 2009.

### 6.5 ENTRY IN THE SHARE REGISTER

There are no special rules concerning deadlines for entry in the share register. For practical reasons shareholders must be registered in the share register no later than March 30, 2009 in order to be entitled to vote. There are no voting rights restrictions except those of 6.1 above.

## *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 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 6.0 million for auditing the 2007 financial statements (2006: CHF 6.1 million).

### 8.3 ADDITIONAL HONORARIUMS

PricewaterhouseCoopers received a total fee of CHF 3.3 million for consultancy and special audits (2006: CHF 5.2 million).

### 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 one teleconference with 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. 729a Swiss CO.

## 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 source of frequently-updated, relevant information. Included in the site are contact and address details.

# Financial Statements

### CONSOLIDATED FINANCIAL STATEMENTS OF THE CLARIANT GROUP



### REVIEW OF TRENDS



### FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ

## CONSOLIDATED FINANCIAL STATEMENTS OF THE CLARIANT GROUP

### CONSOLIDATED BALANCE SHEETS at 31 December 2007 and 2006

| ASSETS | Notes[1] | 31.12.2007 CHF mn | % | 31.12.2006 CHF mn | % |
|---|---|---|---|---|---|
| ***Non-current assets*** | | | | | |
| Property, plant and equipment | 4 | 2 401 | | 2 422 | |
| Intangible assets | 5 | 339 | | 335 | |
| Investments in associates | 6 | 294 | | 288 | |
| Financial assets | 7 | 17 | | 63 | |
| Prepaid pension assets | 15 | 122 | | 90 | |
| Deferred income tax assets | 8 | 113 | | 89 | |
| **Total non-current assets** | | **3 286** | 45.1 | **3 287** | 45.7 |
| ***Current assets*** | | | | | |
| Inventories | 9 | 1 477 | | 1 513 | |
| Trade receivables | 10 | 1 449 | | 1 446 | |
| Other current assets | 11 | 535 | | 378 | |
| Cash and cash equivalents | 12 | 509 | | 443 | |
| Current income tax receivables | | 29 | | 24 | |
| **Total current assets** | | **3 999** | 54.9 | **3 804** | 52.9 |
| **Non-current assets held for sale** | 22 | – | 0.0 | **97** | 1.4 |
| **Total assets** | | **7 285** | 100.0 | **7 188** | 100.0 |

| EQUITY AND LIABILITIES | Notes[1] | 31.12.2007 CHF mn | % | 31.12.2006 CHF mn | % |
|---|---|---|---|---|---|
| ***Equity*** | | | | | |
| Share capital | 13, 28 | 978 | | 1 035 | |
| Treasury shares (par value) | 13, 28 | – 16 | | – 16 | |
| Other reserves | 28 | 642 | | 648 | |
| Retained earnings | 28 | 709 | | 706 | |
| **Total capital and reserves attributable to Clariant shareholders** | | **2 313** | | **2 373** | |
| Minority interests | 28 | 59 | | 60 | |
| **Total equity** | 28 | **2 372** | 32.6 | **2 433** | 33.8 |
| ***Liabilities*** | | | | | |
| ***Non-current liabilities*** | | | | | |
| Financial debts | 14 | 1 267 | | 1 376 | |
| Deferred income tax liabilities | 8 | 179 | | 183 | |
| Retirement benefit obligations | 15 | 515 | | 495 | |
| Provision for non-current liabilities | 16 | 231 | | 244 | |
| **Total non-current liabilities** | | **2 192** | 30.0 | **2 298** | 32.0 |
| ***Current liabilities*** | | | | | |
| Trade payables | 17 | 1 321 | | 1 207 | |
| Financial debts | 18 | 728 | | 623 | |
| Current income tax liabilities | | 244 | | 215 | |
| Provision for current liabilities | 19 | 428 | | 351 | |
| **Total current liabilities** | | **2 721** | 37.4 | **2 396** | 33.3 |
| **Liabilities directly associated with non-current assets held for sale** | 22 | – | 0.0 | **61** | 0.9 |
| **Total liabilities** | | **4 913** | 67.4 | **4 755** | 66.2 |
| **Total equity and liabilities** | | **7 285** | 100.0 | **7 188** | 100.0 |

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

## **CONSOLIDATED INCOME STATEMENTS** *for the years ended 31 December 2007 and 2006*

| | Notes[1] | 2007 CHF mn | 2007 % | 2006 CHF mn | 2006 % |
|---|---|---|---|---|---|
| Sales | 20, 21 | 8 533 | 100.0 | 8 100 | 100.0 |
| Costs of goods sold | | –6 045 | | –5 614 | |
| **Gross profit** | | **2 488** | 29.2 | **2 486** | 30.7 |
| Marketing and distribution | | –1 384 | | –1 328 | |
| Administration and general overhead costs | | –391 | | –394 | |
| Research and development | | –211 | | –207 | |
| Income from associates | 6 | 37 | | 35 | |
| Gain from the disposal of activities not qualifying as discontinued operations | 23 | 1 | | 4 | |
| Restructuring and impairment | 27 | –262 | | –211 | |
| **Operating income** | | **278** | 3.3 | **385** | 4.8 |
| Finance income | 25 | 31 | | 33 | |
| Finance costs | 25 | –102 | | –143 | |
| **Income before taxes** | | **207** | | **275** | |
| Taxes | 8 | –99 | | –144 | |
| **Net income from continuing operations** | | **108** | 1.3 | **131** | 1.6 |
| ***Discontinued operations*** | | | | | |
| Loss from discontinued operations | 22 | –103 | | –209 | |
| **Net income/loss** | | **5** | 0.1 | **–78** | –1.0 |
| Attributable to: | | | | | |
| Shareholders of Clariant Ltd | | –2 | | –85 | |
| Minority interests | | 7 | | 7 | |
| **Net income/loss** | | **5** | 0.1 | **–78** | –1.0 |
| ***Basic earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)*** | | | | | |
| Continuing operations | 26 | 0.44 | | 0.55 | |
| Discontinued operations | 26 | –0.45 | | –0.92 | |
| **Total** | | **–0.01** | | **–0.37** | |
| ***Diluted earnings per share attributable to the shareholders of Clariant Ltd (CHF/share)*** | | | | | |
| Continuing operations | 26 | 0.44 | | 0.54 | |
| Discontinued operations | 26 | –0.45 | | –0.92 | |
| **Total** | | **–0.01** | | **–0.38** | |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS *for the years ended 31 December 2007 and 2006*

| | Notes[1] | | **2007** CHF mn | | [2] 2006 CHF mn |
|---|---|---|---|---|---|
| Net income | | | 5 | | –78 |
| Adjustment for: | | | | | |
| Depreciation of property, plant and equipment (PPE) | 4 | 264 | | 269 | |
| Impairment | | 84 | | 231 | |
| Amortization of intangible assets | 5 | 9 | | 7 | |
| Impairment of working capital | | 53 | | 57 | |
| Income from associates | 6 | –37 | | –35 | |
| Tax expense | | 99 | | 117 | |
| Net financial income and costs | | 94 | | 99 | |
| Gain from the disposal of activities not qualifying as discontinued operations | 23 | –1 | | –4 | |
| Loss on disposal of discontinued operations | 22 | 70 | | 101 | |
| Other non-cash items | | –20 | | 28 | |
| **Total reversal of non-cash items** | | | **615** | | **870** |
| Dividends received from associates | 6 | | 30 | | 22 |
| Interest paid | | | –86 | | –69 |
| Interest received | | | 29 | | 22 |
| Income taxes paid | | | –88 | | –75 |
| **Cash flow before changes in working capital and provisions** | | | **505** | | **692** |
| Changes in inventories | | | –39 | | –156 |
| Changes in trade receivables | | | 20 | | –48 |
| Changes in trade payables | | | 76 | | –45 |
| Changes in other current assets and liabilities | | | –69 | | –56 |
| Changes in provisions | | | 47 | | –59 |
| **Cash flow from operating activities** | | | **540** | | **328** |
| Investments in PPE | 4 | –312 | | –358 | |
| Investments in financial assets and associates | | –15 | | –4 | |
| Investments in other intangible assets | 5 | –8 | | –4 | |
| Changes in current financial assets[3] | | –116 | | 5 | |
| Sale of PPE and intangible assets | | 18 | | 25 | |
| Acquisition of companies, businesses and participations | 24 | –8 | | –45 | |
| Proceeds from the disposal of discontinued operations | 22 | 25 | | 46 | |
| Proceeds from the disposal of subsidiaries and associates | 23 | 23 | | 33 | |
| **Cash flow from investing activities** | | | **–393** | | **–302** |
| Reduction of share capital to shareholders of Clariant Ltd | 28 | –57 | | –58 | |
| Treasury share transactions | | –8 | | –4 | |
| Proceeds from financial debts | | 308 | | 1 130 | |
| Repayments of financial debts | | –317 | | –867 | |
| Dividends paid to minority shareholders | 28 | –9 | | –7 | |
| **Cash flow from financing activities** | | | **–83** | | **194** |
| Currency translation effect on cash and cash equivalents | | | 2 | | |
| **Net change in cash and cash equivalents** | | | **66** | | **220** |
| **Cash and cash equivalents at the beginning of the period** | 12 | | **443** | | **223** |
| **Cash and cash equivalents at the end of the period** | 12 | | **509** | | **443** |

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

2 Restated (see Note 1.07).

3 This item concerns the investment of cash and cash equivalents earmarked for the bond repayment in March 2008 in short-term deposits over ninety days.

## ***CONSOLIDATED STATEMENTS OF RECOGNIZED INCOME AND EXPENSE*** *for the years ended 31 December 2007 and 2006*

| | Notes[1] | **2007** CHF mn | 2006 CHF mn |
|---|---|---|---|
| Net investment hedge | 29 | –31 | –16 |
| Currency translation differences | | 26 | 1 |
| Tax on items taken directly to or transferred from equity | | –3 | |
| **Net income recognized directly in equity** | | **–8** | **–15** |
| Net income / loss | | 5 | –78 |
| **Total recognized income and expense for the period** | 28 | **–3** | **–93** |
| Attributable to: | | | |
| Shareholders of Clariant Ltd | 28 | –11 | –100 |
| Minority interests | 28 | 8 | 7 |

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 2006 and 2007.

# 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 12 February 2008. They will be subject to approval by the Annual General Meeting of Shareholders scheduled for 10 April 2008.

### 1.02 – BASIS OF PREPARATION

The consolidated financial statements of the Clariant Group have been prepared in accordance with the 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 2007

In 2005 the IASB issued IFRS 7, Financial Instruments: Disclosures, and the complementary amendment to IAS 1, Presentation of financial statements – capital disclosures, which became effective as of 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 the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The standard was adopted as of 1 January 2007 and comparable information was restated. As it covers disclosure requirements only, it did not have any impact on the classification and valuation of the Group's financial instruments.

In 2005 the IASB issued IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies, which became effective as of 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 has a currency of a hyperinflationary economy as its functional currency, this interpretation did not have any impact on the Group's accounts.

In 2006 the IASB issued IFRIC 8, Scope of IFRS 2 which became effective as of 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 has applied this interpretation from 1 January 2007, but it did not have any impact on the Group's accounts.

In 2006 the IASB issued IFRIC 9, Reassessment of Embedded Derivatives which became effective as of 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 has applied this interpretation since 1 January 2007, but it did not have any impact on the Group's accounts.

In 2006 the IASB issued IFRIC 10, Interim Financial Reporting and Impairment, which became effective as of 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 has applied this interpretation since 1 January 2007, but it did not have any impact on the Group's accounts.

## 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 2008 or later periods but which the Group has not early adopted, as follows:

- 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.

- IAS 23 (revised), Borrowing Costs (effective for annual periods beginning on or after 1 January 2009). This revised standard requires that all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset be capitalized as part of the cost of that asset. The Group estimates that this new accounting treatment of borrowing costs will reduce its finance costs and increase depreciation.

- IAS 1 (revised), Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). This revised standard requires the presentation in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

  The revised standard also requires the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when an accounting policy is applied retrospectively or a retrospective restatement is made as defined in IAS 8, or when items are reclassified in the financial statements.

  Further, the standard requires the disclosure of reclassification adjustments and income tax relating to each component of other comprehensive income and the presentation of dividends recognized as distributions to owners and related amounts per share in the statement of changes in equity or in the notes. The Group will apply the revised standard from 1 January 2009. As the new requirements concern disclosures only, they will not impact the Group's accounting policies.

- IFRS 2 (amended) (effective for accounting periods beginning on or after 1 January 2009) deals with two matters. It clarifies that vesting conditions can be service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. Whether this new requirement will impact the Group's accounting policies is currently under investigation.

- IFRS 3 (revised), Business combinations requires significant changes in the application of the acquisition method to business combinations. All payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through profit or loss. Goodwill may be calculated based on the parent's share of net assets or it may also include goodwill related to the minority interest. All transaction costs will be expensed. The standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009, with earlier application permitted. These new requirements may impact significantly Group's accounting policies for future business combinations.

- IAS 27 (amended) (effective for accounting periods beginning on or after 1 July 2009) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognized in profit or loss. In addition, total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. These new requirements could impact the accounting for future transactions with non-controlling interest formerly minority interest.

- 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 interpretation 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 or 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 interpretation is not expected to have any impact on the Group's accounts.

- IFRIC 13, Customer loyalty programs (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points of free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation is not expected to have any impact on the Group's accounts.

- IFRIC 14, IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective for annual periods beginning on or after 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. Clariant is currently assessing the impact of this interpretation 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.

- **Transactions with minority interests:** The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

- **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 METHODS 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

The presentation of the cash flow statement was changed to provide more relevant information. Comparative information was reclassified accordingly. In the new cash flow statement presentation, all non-cash expenses are added back to the net result, including interest and tax expenses. The receipts and payments of interests and payments of taxes are reported separately in operating activities. Dividends received from associates are classified as cash flows from operating activities, as investments in associates are of a strictly operating nature. In the prior version of the cash flow statement dividends received were classified cash flows from investing activities.

### 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 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 costs 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 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 or 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 costs, 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 inventories are fully written off. These adjustments are recorded as provisions, which are deducted directly from the inventory value in the balance sheet. The provisions are reversed when the inventories concerned are either sold or destroyed and as a consequence are removed from the balance sheet.

### 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 twelve 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 twelve 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 twelve 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 four divisions, which are at the same time the Group's reportable business segments:

- Textile, Leather & Paper Chemicals
- Pigments & Additives
- Masterbatches
- Functional Chemicals

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, metal complex 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 Leather Business produces chemicals and colorants for retanning, tanning, dyeing and finishing. Its offering includes wet-end dyes and auxiliaries, wet-end chemicals and finishing chemicals. The Paper Business supplies paper dyes, optical brighteners and process and pulping chemicals.

The **Pigments & Additives Division** develops and produces colorants for paints and coatings, for plastics and for special applications. The product range includes high-performance pigments, pigment preparations and dyes to meet the specific demands of, for example 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 light and wheather resistance as well as heat resistant properties in plastics and coatings. Non-halogenated 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 metal-working, mining and the aerospace and automotive industry. Since 1 January 2007 the division also comprises the activities of Specialty Fine Chemicals which were formerly a part of the Life Science Chemicals Division. That division was dissolved at the end of 2006 when the biggest part of its activities were sold. Comparable information was restated.

The **Masterbatches Division** supplies color and additive concentrates and special mixtures of these components used by manufacturers of plastic goods. These products are supported by value-added services that help customers deal with such issues as complex local and international regulations, multicontinent manufacturing, speed-to-market, pricing pressures and the demands of progressively more sophisticated consumers.

**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 4.25 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 for 2006.

### 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 transaction 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 twelve months from the balance sheet date. This includes the portion of non-current debt that is due within twelve 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 twelve 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 twelve 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 twelve 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 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 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, 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 the 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

- **Exposure to 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, when they are denominated in a currency that is not the respective subsidiariy's functional currency.

- **Foreign exchange risk management:** 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. 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 foreign exchange exposures in each major currency according to defined hedging ratios.

  Currency exposures arising from the net assets of the Group's foreign operations are managed primarily through borrowings denominated in the relevant foreign currency.

As per 31 December 2007, a bond denominated in Euro with a notional amount of EUR 600 million was designated as a hedge of a net investment. As per 31 December 2007 the unrealized foreign exchange loss, resulting from the translation of the bond into Swiss francs, amounted to CHF 31 million (2006: CHF 16 million) and was recognized in the cumulative translation reserves in the shareholders' equity.

The purpose of this hedge is to offset part of the foreign exchange risk lying with the Group's European subsidiaries and resulting from movements in the exchange rate Euro/Swiss francs.

› **Foreign exchange risk sensitivity:** The estimated percentage change of the following foreign exchange rates used in this calculation is based on the foreign exchange rate volatility for a term of 360 days observed at 28 December 2007.

At 31 December 2007, if the Euro had strenghtened/weakened by 4% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 2 million higher/lower (2006: CHF 3 million if the Euro had varied by 3%), mainly as a result of foreign exchange gains/losses on translation of Euro denominated intragroup financing and trade receivables (2006: mainly as a result of foreign exchange gains/losses on translation of Euro denominated cash and cash equivalents, as well as intercompany and trade receivables).

Equity would have been CHF 40 million lower/higher (2006: CHF 29 million), arising mainly from foreign exchange gains/losses on translation of the Euro financing.

At 31 December 2007, if the US dollar had strenghtened/weakened by 7% against the Swiss franc with all other variables held constant, pre-tax profit for the year would have been CHF 8 million higher/lower (2006: CHF 12 million change if the US dollar had varied by 9%), mainly as a result of foreign exchange gains/losses on translation of US dollar denominated trade receivables.

## INTEREST RATE RISK

› **Exposure to interest rate risk:** Financial debt issued at variable rates as well as cash and cash equivalents expose the Group to cash flow interest rate risk; the net exposure as per 31 December 2007 was not significant. Financial debt issued at fixed rates does not expose the Group to fair value interest rate risk because it is recorded at amortised cost. At the end of 2007 year-end, 91% of the net financial debt was at fixed rates (2006: 86%).

› **Interest rate risk management:** It is the Group's policy to manage the cost of interest using fixed and variable rate debt and interest-related derivative. Group Treasury monitors the net debt fix-to-float mix on an ongoing basis.

› **Interest rate risk sensitivity:** To calculate the impact of a potential interest rate shift on profit and loss, a weighted average interest rate change was determined, based on the terms of the financial debt issued at variable rates, cash and cash equivalents and the movements of the corresponding interest rates (interest rates comparison between end of 2007 and end of 2006):

At 31 December 2007, if the CHF interest rates on net current financial debt issued at variable interest rates had been 34 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been CHF 1.3 million lower/higher (2006: CHF 1.4 million for a CHF interest rate shift of 128 basis points).

At 31 December 2007, if USD interest rates on net current financial debt issued at variable interest rates had been 72 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been CHF 0.7 million lower/higher (2006: CHF 1.0 million shift for a US dollar interest rate change of 93 basis points).

## OTHER PRICE RISK

With regard to the financial statements the Group was not exposed to other price risk in the sense of IFRS 7, Financial Instruments: disclosures as per 31 December 2007.

## CREDIT RISK

› **Exposures to credit risk:** Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. As per 31 December 2007 the Group had no significant concentration of credit risk regarding customers due to diversity.

› **Credit risk management:** The Group 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.

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 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 Group maintains a cash pooling structure with a leading European bank, over which most European subsidiaries execute their cash transactions denominated in Euro. As a result of this cash pool the Group at certain times has substantial current financial assets and at other times substantial current financial liabilities. In view of the bank being rated AA by the most important rating agencies Clariant does not consider this to pose any particular counterparty risk.

The table below shows in percent of total cash and cash equivalents the share deposited with each of the three major counterparties at the balance sheet date:

| *Counterparty* | *Rating* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|---|
| Bank A | AA+ | 31.5% | 11.3% |
| Bank B | AA | 28.7% | 29.5% |
| Bank C | –a | 6.3% | 0.0% |

## LIQUIDITY RISK

› **Liquidity risk management:** The Group aims to maintain 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.

As per 31 December 2007, the Group faced the below described maturity profile. The amounts disclosed are the contractual undiscounted cash flows. In 2008 an amount of CHF 1 760 million (CHF 1 570 million in 2007) will become due whereof the main part are the trade and other accounts payable for around CHF 952 million (CHF 856 million in 2007). The other CHF 700 million are mainly due for the repayment of a CHF 384 million bond in March 2008 (CHF 175 million bond was repaid in August 2007) and various current financial debts from legal entities with an amount of CHF 250 million (CHF 350 million in 2007). The remaining amount includes positions such as drawn securitization, interest payments on the bonds and warranties. For the three years between 2009 and 2011 an annual amount, mainly interest, of CHF 50–60 million will fall due and is already known. In 2012 the outstanding debt position of around CHF 300 million is driven by a repayment of a CHF 250 million bond due in April and interest payments about CHF 50 million during the year. The repayment of the EUR 600 million bond including the linked interest payments will become due in 2013.

The Group covers its liabilities out of operational cash flow generated, liquidity reserves in form of cash and cash equivalents (31 December 2007: CHF 509 million vs. 31 December 2006: CHF 443 million), non-utilised, available asset-backed-security lines (31 December 2007: CHF 158 million vs. 31 December 2006: CHF 146 million), committed open credit lines (31 December 2007: CHF 750 million vs. 31 December 2006 unchanged), uncommitted open cash pool limits (31 December 2007: CHF 200 million vs. 31 December 2006 unchanged) and through the selected issuance of capital market instruments.

## 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 the 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.

## 2.3 – CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of invested capital as part of the return on invested capital concept. Invested capital is calculated as the sum of total equity as reported in the consolidated balance sheet plus current and non-current financial liabilities as reported in the consolidated balance sheet plus estimated liabilities from operating leases, less cash and cash equivalents not needed for operating purposes, less net assets held for sale as reported in the consolidated balance sheet.

The Group is not subject to externally imposed capital requirements.

Invested capital was as follows on 31 December 2007 and 2006 respectively:

| CHF mn | 2007 | 2006 |
|---|---|---|
| Total equity | 2 372 | 2 433 |
| Total current and non-current financial liabilities | 1 995 | 1 999 |
| Estimated operating lease liabilities | 625 | 662 |
| Less cash and cash equivalents | – 509 | – 443 |
| Cash needed for operating purposes | 171 | 162 |
| Less assets held for sale | – | – 36 |
| **Invested capital** | **4 654** | **4 777** |

## 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.

Some subsidiaries operate in a way that leads to tax losses, which can be used to offset taxable gains of subsequent periods. The Group constantly monitors the development of such tax loss situations. Based on the business plans for the subsidiaries concerned the recoverability of such tax losses is determined. In the case that a tax loss is deemed to be recoverable the capitalization of a deferred tax asset for such tax losses is then decided. The time horizon for such a calculation is in line with the mid-term planning scope of the Group.

### (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 2006** | | | | | | | |
| 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** | |
| 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** |
| Additions | | 23 | 82 | 13 | 194 | 312 | |
| Acquisitions | | | 2 | | | 2 | |
| Reclassifications | | 34 | 122 | 10 | –166 | – | |
| Reclassified to held for sale | | | | | –5 | –5 | |
| Disposals | –6 | –12 | –9 | –1 | –1 | –29 | |
| Depreciation | | –60 | –178 | –26 | | –264 | |
| Impairment | –10 | –25 | –39 | –1 | –3 | –78 | |
| Reversal of impairment | | | 1 | | | 1 | |
| Exchange rate differences | 11 | 15 | 13 | 1 | – | 40 | |
| **At 31 December 2007** | **392** | **742** | **1 061** | **71** | **135** | **2 401** | |
| Cost | 570 | 2 429 | 4 789 | 494 | 151 | 8 433 | |
| Accumulated depreciation | –178 | –1 687 | –3 728 | –423 | –16 | –6 032 | |
| **Net book value** | **392** | **742** | **1 061** | **71** | **135** | **2 401** | **9 237** |

As at 31 December 2007, commitments for the purchase of PPE totaled CHF 51 million (2006: CHF 59 million).

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

| CHF mn | **31.12.2007** | 31.12.2006 |
|---|---|---|
| Cost – capitalized finance leases | 22 | 28 |
| Accumulated depreciation | –6 | –11 |
| **Net book value** | **16** | **17** |

## 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Finance lease liability – minimum lease payments:

| CHF mn | **31.12.2007** | 31.12.2006 |
|---|---|---|
| No later than 1 year | 3 | 3 |
| Later than 1 year but no later than 5 years | 10 | 11 |
| Later than 5 years | 19 | 19 |
| **Total minimum lease payments** | **32** | **33** |
| Future finance charge on finance leases | – 16 | – 16 |
| **Present value of finance lease liabilities** | **16** | **17** |

The present value of finance lease liabilities is as follows:

| CHF mn | **31.12.2007** | 31.12.2006 |
|---|---|---|
| No later than 1 year | 2 | 3 |
| Later than 1 year but no later than 5 years | 7 | 7 |
| Later than 5 years | 7 | 7 |
| **Total minimum lease payments** | **16** | **17** |

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

## 5. INTANGIBLE ASSETS

| CHF mn | Goodwill | Other | **Total** |
|---|---|---|---|
| **At 1 January 2006** | | | |
| 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** |
| Additions | | 8 | 8 |
| Acquisitions | | 5 | 5 |
| Amortization | | – 9 | – 9 |
| **At 31 December 2007** | **306** | **33** | **339** |
| | | | |
| Cost | 406 | 146 | 552 |
| Accumulated amortization | – 100 | – 113 | – 213 |
| **Net book value** | **306** | **33** | **339** |

The amount reported as goodwill is the result of a number of acquisitions in various divisions. 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 USA and India.

**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* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| Textiles | 6 | 6 |
| Leather | 231 | 231 |
| Pigments & Additives | 27 | 27 |
| Masterbatches | 35 | 35 |
| Functional Chemicals | 7 | 7 |
| **Net book value** | **306** | **306** |

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. No further growth is assumed beyond this four-year period. 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 10.0% for all cash generating units (2006: 9.0%).

The most important part of goodwill is the amount of CHF 231 million (2006: CHF 231 million) remaining from the BTP acquisition in 2000. This goodwill is allocated to the CGU Leather. For the impairment testing procedure the planning assumptions were critically reviewed. These comprise radical measures to improve the CGU's performance in the coming years. It is planned to streamline the CGU's product portfolio, to close unprofitable production sites and generally reduce overhead costs. In the business plan it is assumed that these measures will lead to a substantial improvement in the CGU's topline growth, but also raise profitability over its current level. Based on these assumptions the recoverable amount of the CGU Leather on a value in use basis exceeds its carrying amount. The recoverable amount would be equal to the carrying amount if the assumed annual sales growth rate were reduced by 0.3%, or alternatively, if the operating margin were reduced by 0.4% of sales.

If the assumed annual growth rate were reduced by two percentage points the carrying amount would exceed the recoverable amount of the CGU's net asset by CHF 98 million. If raw material costs were assumed to be two percentage point of sales higher the carrying amount of the net assets would exceed the recoverable amount by CHF 72 million. In 2006, the goodwill of Leather was already revalued for impairment in the amount of CHF 100 million.

The CGU Textiles holds goodwill in the amount of CHF 6 million. The net assets of this CGU were also tested for impairment and deemed recoverable. The recoverable amount would be equal to the carrying amount if the assumed annual sales growth rate were reduced by 0.7%, or alternatively, if the operating margin were reduced by 0.6% of sales. If the assumed annual growth rate were reduced by one percentage point the carrying amount would exceed the recoverable amount of the CGU's net assets by CHF 45 million. If raw material costs were assumed to be one percentage point of sales higher the carrying amount of the net assets would exceed the recoverable amount by CHF 52 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 | 2007 | 2006 |
|---|---|---|
| **Beginning of the year** | **288** | **282** |
| Acquisitions | 3 | 1 |
| Disposals | –13 | –6 |
| Share of profit | 37 | 35 |
| Dividends received | –30 | –22 |
| Exchange rate differences | 9 | –2 |
| **End of the year** | **294** | **288** |

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 |
|---|---|---|---|---|---|---|
| **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** | |
| **2007** | | | | | | |
| Infraserv GmbH & Co. Höchst KG | Germany | 1 457 | 874 | 1 473 | 58 | 32 |
| Infraserv GmbH & Co. Gendorf KG | Germany | 221 | 120 | 404 | 12 | 50 |
| Infraserv GmbH & Co. Knapsack KG | Germany | 195 | 87 | 304 | 10 | 21 |
| Others | | 166 | 60 | 242 | 17 | |
| **Total** | | **2 039** | **1 141** | **2 423** | **97** | |

There were no unrecognized losses in the years 2007 and 2006. No accumulated unrecognized losses existed as at the Balance sheet date.

The Infraserv companies were set up by the former Hoechst group to cater to the infrastructure needs of it's subsidiaries prior to 1997. The shareholdings in associates summarized under "Other" concern mainly companies specializing in selling Clariant products. Due to the specialized nature of these companies there is no active market in which these shareholdings could be traded, hence no fair value is indicated. However, there is no evidence that the recoverable amount would be lower than the carrying amount.

## 7. FINANCIAL ASSETS

| CHF mn | 2007 | 2006 |
|---|---|---|
| Beginning of the year | 63 | 47 |
| Exchange rate differences | 1 | |
| Accrued interest | | 4 |
| Additions | 11 | 12 |
| Repayments and disposals | –58 | |
| **End of the year** | **17** | **63** |

Financial assets include the following:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Vendor loan note | – | 48 |
| Other investments | 17 | 15 |
| **Total** | **17** | **63** |

Financial assets are denominated in the following currencies:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| EUR | 13 | 7 |
| USD | 1 | – |
| CHF | 2 | 56 |
| Other | 1 | – |
| **Total** | **17** | **63** |

The Vendor loan note was accepted as part of the payment for the disposal of Electronic Materials in 2004 and was repaid early in March 2007 (see Note 22).

The carrying amounts of these assets are classified as follows:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Held to maturity | – | 58 |
| Designated as available for sale | 17 | 5 |
| **Total** | **17** | **63** |

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

The fair value of the vendor loan note which was classified as "held to maturity" was determined based on discounted cash flows at a discount rate of 8%. Other investments are valued in the same manner at discount rates as applicable in the respective country or at their quoted market prices.

During 2006 and 2007 there were no impairments on financial assets held to maturity or held for sale.

The maximum exposure to credit risk of financial assets at the reporting date is their fair value.

## 8. TAXES

| CHF mn | 2007 | 2006 |
|---|---|---|
| Current income taxes | – 126 | – 164 |
| Deferred income taxes | 27 | 20 |
| **Total** | **– 99** | **– 144** |

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:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | CHF mn | % | CHF mn | % |
| **Income before tax** | **207** | | **275** | |
| **Expected tax expense/rate[1]** | **– 57** | 27.5 | **– 74** | 26.9 |
| Effect of taxes on items not tax-deductible | – 47 | 22.7 | – 57 | 20.7 |
| Effect of utilization and changes in recognition of tax losses and tax credits | 33 | – 15.9 | – 11 | 4.0 |
| Effect of tax losses and tax credits of current year not recognized | – 32 | 15.5 | – 8 | 2.9 |
| Effect of adjustments to current taxes due to prior periods | – 8 | 3.9 | 6 | – 2.2 |
| Effect of tax exempt income | 8 | – 3.9 | 6 | – 2.2 |
| Effect of other items | 4 | – 1.9 | – 6 | 2.2 |
| **Effective tax expense/rate** | **– 99** | 47.8 | **– 144** | 52.4 |

[1] Calculated based on the income before tax of each subsidiary (weighted average).

Compared to 2006 the expected tax rate was higher in 2007 due to part of the profit in countries with higher tax rates.

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

| CHF mn | 2007 | 2006 |
|---|---|---|
| Beginning of the year | – 94 | – 140 |
| Effect of acquisitions | – | – 1 |
| Effect of disposals | – | – 4 |
| Effect of discontinued operations | – | 24 |
| Tax on disposal result of discontinued operations | – | 20 |
| Reclassified to held for sale | – | – 6 |
| Tax on vested equity share based payments reversed to equity | – 3 | – 4 |
| Income statement charge | 27 | 20 |
| Exchange rate differences | 4 | – 3 |
| **End of the year** | **– 66** | **– 94** |

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 taxation authority.

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| ***Deferred tax liabilities on:*** | | |
| PPE and intangible assets | 264 | 286 |
| Prepaid pensions, other accruals and provisions | 35 | 11 |
| **Total deferred tax liabilities** | **299** | **297** |
| Thereof offset with deferred tax assets within the same jurisdiction | 120 | 114 |
| **Net deferred tax liabilities** | **179** | **183** |
| ***Deferred tax assets on:*** | | |
| PPE and intangible assets | 41 | 50 |
| Retirement benefit obligations | 57 | 80 |
| Tax losses carried forward and tax credits | 82 | 40 |
| Other accruals and provisions | 53 | 33 |
| **Total deferred tax assets** | **233** | **203** |
| Thereof offset with deferred tax assets within the same jurisdiction | 120 | 114 |
| **Net deferred tax assets** | **113** | **89** |
| **Net deferred tax balance** | **– 66** | **– 94** |

Of the deferred tax assets capitalized CHF 20 million refer to tax losses of the French subsidiaries (2006: CHF 20 million), CHF 13 million to tax losses of the Italian subsidiaries (2006: CHF 20 million) and CHF 20 million to tax losses of the US subsidiaries (2006: CHF 0 million). Clariant considers it probable that these tax losses can be recovered 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 376 million at 31 December 2007 (CHF 725 million at 31 December 2006).

The tax losses on which no deferred tax assets are recognized are reviewed for recoverability at each balance sheet date. The largest part of these tax losses arose in Switzerland and is not deemed to be recoverable before they expire.

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

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Expiry by: | | |
| 2007 | – | 128 |
| 2008 | 372 | 129 |
| 2009 | 709 | 642 |
| 2010 | 10 | 46 |
| 2011 | 102 | |
| after 2011 (2006: after 2010) | 872 | 883 |
| **Total** | **2 065** | **1 828** |

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| **Unrecognized tax credits** | **48** | **8** |

The tax credits expire between 2008 and 2013.

## 9. INVENTORIES

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Raw material, consumables, work in progress | 551 | 559 |
| Finished products | 926 | 954 |
| **Total** | **1 477** | **1 513** |

| CHF mn | 2007 | 2006 |
|---|---|---|
| ***Movements in write-downs of inventories*** | | |
| Beginning of the year | 52 | 75 |
| Additions | 45 | 45 |
| Reversals | –50 | –52 |
| Effect of disposals | – | –12 |
| Reclassified to held for sale | – | –4 |
| **End of the year** | **47** | **52** |

As at 31 December 2007, inventories in the amount of CHF 21 million were pledged as collateral for liabilities (2006: CHF 57 million).

The cost for raw materials and consumables recognized as an expense and included in "costs of goods sold" amounted to CHF 3 987 million (2006: CHF 3 667 million).

## 10. TRADE RECEIVABLES

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Gross accounts receivable – trade | 1 490 | 1 503 |
| Gross accounts receivable – associates | 8 | 8 |
| Less: provision for impairment of accounts receivable | –49 | –65 |
| **Total trade receivables – net** | **1 449** | **1 446** |

The following summarizes the movement in the provision for doubtful accounts receivable.

| CHF mn | 2007 | 2006 |
|---|---|---|
| At 1 January | –65 | –67 |
| Charged to the income statement | –18 | –29 |
| Amounts used | 15 | 12 |
| Acquisitions | | –1 |
| Unused amounts reversed | 19 | 18 |
| Exchange rate differences | | 2 |
| **At 31 December** | **–49** | **–65** |

Of the provision for impairment the following amounts concerned trade receivables that were individually impaired:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Trade receivables aged up to six months | –7 | –19 |
| Trade receivables aged over six months | –34 | –40 |
| **Total trade receivables – net** | **–41** | **–59** |

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.

The maximum credit risk on trade receivables is equal to their fair value. Collaterals are only taken in rare cases (2007: CHF 5 million, 2006: CHF 5 million).

## 10. TRADE RECEIVABLES (CONTINUED)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Currency | | |
| EUR | 644 | 640 |
| USD | 288 | 291 |
| GBP | 37 | 40 |
| JPY | 70 | 72 |
| CHF | 7 | – 1 |
| Other | 403 | 404 |
| **Total trade receivables – net** | **1 449** | **1 446** |

As of 31 December 2007 trade receivables in the amount of CHF 214 million (2006: CHF 223 million) were past due, but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| up to 3 months past due, but not impaired | 200 | 197 |
| 3 to 6 months past due, but not impaired | 12 | 14 |
| more than 6 months past due, but not impaired | 2 | 12 |
| **Total trade receivables – net** | **214** | **223** |

## 11. OTHER CURRENT ASSETS

Other current assets include the following:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Other receivables | 314 | 270 |
| Current financial assets | 167 | 42 |
| Prepaid expenses and accrued income | 54 | 66 |
| **Total** | **535** | **378** |

Other receivables include staff loans, advances, advance payments, VAT and sales tax receivables.

Current financial assets include deposits with an original maturity exceeding 90 days, securities and loans to third parties and are classified as available for sale.

The amount recognized in the books for other current assets is equal to their fair value.

The maximum exposure to credit risk of other current assets at the reporting date is their fair value.

There was no impairment of current financial assets in 2007 and 2006.

Other receivables are denominated in the following currencies:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| EUR | 182 | 121 |
| USD | 19 | 15 |
| GBP | 11 | 4 |
| JPY | 2 | 2 |
| CHF | 10 | 39 |
| Other | 90 | 89 |
| **Total** | **314** | **270** |

Current financial assets are denominated in the following currencies:

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| EUR | 29 | 1 |
| USD | 1 | – |
| CHF | 131 | 30 |
| Other | 6 | 11 |
| **Total** | **167** | **42** |

## 12. CASH AND CASH EQUIVALENTS

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Cash at bank and on hand | 241 | 328 |
| Short-term bank deposits | 268 | 115 |
| **Total** | **509** | **443** |

The effective interest rate on short-term bank deposits in Swiss francs was 2.40% (2006: 1.60%); these deposits have an average maturity of 56 days (2006: 26 days).

There were no major short-term bank deposits denominated in currencies other than Swiss francs.

The maximum exposure to credit risk on cash and cash equivalents is equal to their book value.

## 13. CHANGES IN SHARE CAPITAL AND TREASURY SHARES

| ***Registered shares each with a par value of CHF 4.25 (2006: CHF 4.50)*** | ***Number of shares 2007*** | ***Par value 2007*** | *Number of shares 2006* | *Par value 2006* |
|---|---|---|---|---|
| | | *CHF mn* | | *CHF mn* |
| At 1 January | 230 160 000 | 978 | 230 160 000 | 1 035 |
| **At 31 December** | **230 160 000** | **978** | **230 160 000** | **1 035** |
| Treasury shares | –3 792 691 | –16 | –3 511 698 | –16 |
| **Outstanding capital at 31 December** | **226 367 309** | **962** | **226 648 302** | **1 019** |

| ***Treasury shares (number of shares)*** | ***2007*** | *2006* |
|---|---|---|
| Holdings at 1 January | 3 511 698 | 3 867 293 |
| Shares purchased at fair market value | 1 470 000 | |
| Shares purchased on exercise of put options | | 750 000 |
| Shares sold at fair market value | –880 000 | –500 000 |
| Shares transferred to employees | –309 007 | –605 595 |
| **Holdings at 31 December** | **3 792 691** | **3 511 698** |

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 Company's 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 Company's 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.

Based on the information available at the time of this report, Bestinver Gestion S.A. SGIIC held 7.56% of the Clariant shares at 31 December 2007 (31 December 2006: less than 5%).

## 14. NON-CURRENT FINANCIAL DEBTS

| CHF mn | Interest rate in % | Term | Notional amount | Net amount 31.12.2007 | Net amount 31.12.2006 |
|---|---|---|---|---|---|
| Straight bonds | 3.750 | 1997–2007 | 200 CHF mn | | 175 |
| Straight bonds | 4.250 | 2000–2008 | 500 CHF mn | 384 | 384 |
| Straight bonds | 3.125 | 2007–2012 | 250 CHF mn | 250 | – |
| Straight bonds | 4.375 | 2006–2013 | 600 EUR mn | 994 | 961 |
| **Total straight bonds** | | | | **1 628** | **1 520** |
| **Liabilities to banks and other financial institutions[1]** | | | | **9** | **21** |
| **Obligations under finance leases** | | | | **14** | **14** |
| **Subtotal** | | | | **1 651** | **1 555** |
| **Less current portion** | | | | **–384** | **–179** |
| **Total** | | | | **1 267** | **1 376** |
| Breakdown by maturity | | | 2008 | | 392 |
| | | | 2009 | 7 | 8 |
| | | | 2010 | 2 | – |
| | | | 2011 | | – |
| | | | 2012 | 251 | – |
| | | | thereafter | 1 007 | 976 |
| **Total** | | | | **1 267** | **1 376** |
| Breakdown by currency | | | CHF | 251 | 384 |
| | | | EUR | 1 007 | 977 |
| | | | other | 9 | 15 |
| **Total** | | | | **1 267** | **1 376** |
| ***Fair value comparison (including current portion)*** | | | | | |
| Straight bonds | | | | 1 549 | 1 509 |
| Others | | | | 23 | 35 |
| **Total** | | | | **1 572** | **1 544** |
| **Total net book value of assets pledged as collateral for financial debts** | | | | **33** | **114** |
| Total collaterized financial debts | | | | 18 | 17 |

[1] Average interest rate in 2007: 4.5% (2006: 4.6%).

In April 2007, a CHF 250 million bond was issued (2006: EUR 600 million) and bonds in the amount of CHF 175 million were paid back on expiry (August 2007, 2006: CHF 159 million). The net effect from bond transactions in 2007 was CHF 75 million (2006: CHF 802 million).

**Valuation.** Non-current financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently stated at amortized cost. There are no long-term financial liabilities valued at fair value through profit and loss.

The fair values reported for the bonds are quoted market prices as of the balance sheet date. The fair values of the other non-current financial debts, which are equal to their book value, are determined on a discounted cash flow basis.

**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.** Certain Asian subsidiaries pledge trade receivables and inventories as a security for bank overdraft facilities. In case the subsidiaries default on their obligations the borowers have the right to take possesion of these assets and receive the cash flows resulting from them.

The assets are pledged 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 recognized as 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.

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Changes in the present value of defined benefit obligations:

| CHF mn | Pension plans (funded and unfunded) | | Post-employment medical benefits (unfunded) | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Beginning of the year | 2 080 | 2 097 | 95 | 113 |
| Change in the scope of consolidation | | 1 | | |
| Current service cost | 58 | 72 | 2 | 2 |
| Interest costs on obligation | 91 | 84 | 5 | 5 |
| Contributions to plan by employees | 13 | 12 | | |
| Benefits paid out to personnel in reporting period | –96 | –82 | –4 | –4 |
| Actuarial gains of reporting period | –110 | –54 | –7 | –9 |
| Past service costs of reporting period | | 1 | | |
| Termination benefits | | 2 | | |
| Effect of curtailments | | –22 | 2 | –6 |
| Effect of settlements | 6 | | | |
| Reduction in obligations due to divestitures | | –15 | | |
| Reclassifed to held for sale | | –30 | | |
| Exchange rate differences | –30 | 14 | –5 | –6 |
| **End of the year** | **2 012** | **2 080** | **88** | **95** |

Changes in the fair value of plan assets:

| CHF mn | **2007** | 2006 |
|---|---|---|
| Beginning of the year | 1 698 | 1 567 |
| Expected return on plan assets | 96 | 85 |
| Contributions to plan by employees | 13 | 12 |
| Contributions to plan by employer | 79 | 59 |
| Benefits paid out to personnel in reporting period | –71 | –58 |
| Actuarial gain (loss) of reporting period | –24 | 48 |
| Effect of settlements | –2 | |
| Reclassified to held for sale | | –18 |
| Exchange rate differences | –46 | 3 |
| **End of the year** | **1 743** | **1 698** |

The Group expects to contribute CHF 60 million to its defined benefit pension plans in 2008.

As of 31 December 2007 the pension plan assets included no registered shares issued by the Company (2006: nil).

The amounts recognized in the balance sheet:

| CHF mn | Defined benefit pension plans | | Post-employment medical benefits | | Total | |
|---|---|---|---|---|---|---|
| | **31.12.2007** | 31.12.2006 | **31.12.2007** | 31.12.2006 | **31.12.2007** | 31.12.2006 |
| Present value of funded obligations | –1 604 | –1 667 | | | –1 604 | –1 667 |
| Fair value of plan assets | 1 743 | 1 698 | | | 1 743 | 1 698 |
| **Surplus/(deficit)** | **139** | **31** | **–** | **–** | **139** | **31** |
| Present value of unfunded obligations | –408 | –413 | –88 | –95 | –496 | –508 |
| Unrecognized actuarial losses (gains) | 50 | 142 | | 7 | 50 | 149 |
| Unrecognized past service costs (gains) | 1 | 1 | –11 | –15 | –10 | –14 |
| Limitation on recognition of assets | –49 | –29 | | | –49 | –29 |
| **Net liabilities in the balance sheet** | **–267** | **–268** | **–99** | **–103** | **–366** | **–371** |

Thereof recognized in:

| CHF mn | **31.12.2007** | 31.12.2006 | **31.12.2007** | 31.12.2006 | **31.12.2007** | 31.12.2006 |
|---|---|---|---|---|---|---|
| Retirement benefit obligation | –389 | –358 | –99 | –103 | –488 | –461 |
| Prepaid pension assets | 122 | 90 | | | 122 | 90 |
| **Net liabilities in the balance sheet for defined benefit plans** | **–267** | **–268** | **–99** | **–103** | **–366** | **–371** |

The amounts recognized in the income statement are as follows:

| CHF mn | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
|---|---|---|---|---|---|---|
| Current service cost | –58 | –72 | –2 | –2 | –60 | –74 |
| Interest cost | –91 | –84 | –5 | –5 | –96 | –89 |
| Expected return on plan assets | 96 | 85 | | | 96 | 85 |
| Net actuarial losses recognized in the current year | –8 | –11 | | | –8 | –11 |
| Past service costs recognized in the current year | –1 | –1 | 3 | 4 | 2 | 3 |
| Termination benefits | | –2 | | | – | –2 |
| Effect of curtailments | 1 | 22 | | 5 | 1 | 27 |
| Limitation on recognition of assets | –5 | –29 | | | –5 | –29 |
| **Total expenses** | **–66** | **–92** | **–4** | **2** | **–70** | **–90** |

Thereof the amount of CHF 1 million (2006: CHF 1 million) is reported under discontinued operations.

| CHF mn | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
|---|---|---|---|---|---|---|
| Actual return on plan assets | 72 | 133 | – | – | 72 | 133 |

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Defined benefit obligation | –488 | –461 |
| Defined contribution obligation | –27 | –34 |
| **Retirement benefit obligation** | **–515** | **–495** |
| **Prepaid pension plan asset** | **122** | **90** |
| **Net retirement benefit obligation recognized** | **–393** | **–405** |

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

| | 2007<br>% | 2006<br>% |
|---|---|---|
| Equities | 39 | 47 |
| Bonds | 35 | 31 |
| Cash | 9 | 6 |
| Property | 12 | 12 |
| Alternative investments | 5 | 4 |

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

| | 2007<br>% | 2006<br>% |
|---|---|---|
| Discount rate | 4.9 | 4.4 |
| Expected return on plan assets | 5.4 | 5.6 |
| Expected inflation rate | 1.8 | 2.0 |
| Future salary increases | 2.5 | 2.6 |
| Long-term increase in health care costs | 9.6 | 10.1 |

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 for each pension plan a weighted average expected long-term rate of return.

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 | 9 | –7 |

Amounts for current and previous periods:

| ***Defined benefit pension plans*** CHF mn | 2007 | 2006 | 2005 |
|---|---|---|---|
| Defined benefit obligation for pension plans, funded and unfunded | –2 012 | –2 080 | –2 097 |
| Fair value of plan assets | 1 743 | 1 698 | 1 567 |
| **Deficit** | **–269** | **–382** | **–530** |
| Experience adjustments on plan liabilities | –23 | 3 | –23 |
| Experience adjustments on plan assets | –24 | 48 | 123 |

| ***Post-employment medical benefits*** CHF mn | 2007 | 2006 | 2005 |
|---|---|---|---|
| Defined benefit obligation for post-employment medical plans | –88 | –95 | –113 |
| Experience adjustments on plan liabilities | –2 | –2 | –3 |

**Defined contribution post-employment plans.** In 2007, CHF 34 million were charged to the income statements of the Group companies as contributions to defined contribution plans (2006: CHF 32 million).

In Germany approximately 6600 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 2006 the pension fund's obligations are fully funded. Also for 2007 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' contributions to the pension plan or by reducing the benefits which are paid out to the entitled parties. In the case of a reduction of the benefits it has to be verified whether this triggers the requirement for additional funding by the employer. 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 and their employee representatives.

Clariant contributions to this pension plan amounted to CHF 18 million in 2007 (CHF 16 million in 2006) .

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 | Environmental provisions | Personnel provisions | Restructuring provisions | Other provisions | **Total provisions for non-current liabilities 2007** | Total provisions for non-current liabilities 2006 |
|---|---|---|---|---|---|---|
| At 1 January | 134 | 41 | 1 | 68 | 244 | 289 |
| Additions | 16 | 10 | 3 | 21 | 50 | 57 |
| Effect of acquisitions | – | – | – | – | – | 1 |
| Effect of disposals | – | – | – | – | – | –23 |
| Reclassifications | –25 | –10 | –1 | – | –36 | –25 |
| Reclassified to held for sale | – | – | – | – | – | –4 |
| Amounts used | –1 | –6 | – | –7 | –14 | –16 |
| Unused amounts reversed | –6 | –1 | – | –14 | –21 | –35 |
| Changes due to the passage of time and changes in discount rates | 1 | | – | 2 | 3 | 1 |
| Exchange rate differences | – | 2 | – | 3 | 5 | –1 |
| **At 31 December** | **119** | **36** | **3** | **73** | **231** | **244** |
| ***Debts falling due*** | | | | | | |
| Between 1 and 3 years | 55 | 6 | 3 | 29 | 93 | 69 |
| Between 3 and 5 years | 33 | 12 | – | 7 | 52 | 38 |
| Over 5 years | 31 | 18 | – | 37 | 86 | 137 |
| **At 31 December** | **119** | **36** | **3** | **73** | **231** | **244** |

**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.

**Personnel provisions.** 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 twelve 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 twelve 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 provisions.** Other provisions include provisions for obligations relating to tax and legal cases in various countries where settlement is expected after twelve 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 | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Trade payables | 705 | 650 |
| Payables to associates | 45 | 19 |
| Accruals | 369 | 351 |
| Other payables | 202 | 187 |
| **Total** | **1 321** | **1 207** |

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

## 18. CURRENT FINANCIAL DEBTS

| CHF mn | 31.12.2007 | 31.12.2006 |
|---|---|---|
| Banks and other financial institutions (including employee's accounts) | 344 | 444 |
| Current portion of non-current financial debts | 384 | 179 |
| **Total** | **728** | **623** |

Current financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently stated at amortized cost. There are no current financial liabilities valued at fair value through profit and loss.

The fair value of current financial debt, other than the current portion of non-current financial debt approximates its carrying amount due to the short-term nature of these instruments.

## 19. MOVEMENTS IN PROVISIONS FOR CURRENT LIABILITIES

| CHF mn | Environmental provisions | Restructuring provisions | Personnel provisions | Other provisions | **Total provisions for current liabilities 2007** | Total provisions for current liabilities 2006 |
|---|---|---|---|---|---|---|
| At 1 January | 19 | 54 | 152 | 126 | 351 | 431 |
| Additions and reclassifications | 27 | 114 | 152 | 103 | 396 | 305 |
| Effect of disposals | | | | | – | –5 |
| Reclassified from / to held for sale | | | | 5 | 5 | –19 |
| Amounts used | –16 | –30 | –166 | –74 | –286 | –319 |
| Unused amounts reversed | –3 | –4 | –11 | –21 | –39 | –43 |
| Exchange rate differences | – | –3 | 2 | 2 | 1 | 1 |
| **At 31 December** | **27** | **131** | **129** | **141** | **428** | **351** |

**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 twelve 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).

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

**Other provisions.** Other provisions are recorded for liabilities (comprising tax, legal and other items in various countries) falling due within the twelve 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 2007 AND 2006

| **Region** CHF mn | [1] Sales | | [2] Operating income | | Number of employees at 31 December | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| ***Continuing operations*** | | | | | | |
| Europe | 4 155 | 3 939 | 21 | 85 | 10 749 | 11 174 |
| *thereof in Germany* | *1252* | *1173* | *111* | *100* | *4982* | *5154* |
| *thereof in Switzerland* | *147* | *140* | *-161* | *40* | *1642* | *1610* |
| The Americas | 2 364 | 2 292 | 158 | 195 | 4 879 | 4 925 |
| *thereof in the US* | *995* | *1031* | *15* | *65* | *1652* | *1733* |
| *thereof in Brazil* | *589* | *521* | *52* | *38* | *1648* | *1695* |
| Asia / Africa / Australia | 2 014 | 1 869 | 99 | 105 | 5 303 | 5 649 |
| **Total continuing operations** | **8 533** | **8 100** | **278** | **385** | **20 931** | **21 748** |

| **Region** CHF mn | Investments in PPE and intangibles | | Depreciation of PPE and intangibles | | [3] Net operating assets at 31 December | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| ***Continuing operations*** | | | | | | |
| Europe | 188 | 208 | 258 | 332 | 2 204 | 2 339 |
| *thereof in Germany* | *93* | *104* | *106* | *137* | *428* | *523* |
| *thereof in Switzerland* | *15* | *20* | *34* | *36* | *690* | *620* |
| The Americas | 78 | 75 | 53 | 48 | 758 | 829 |
| *thereof in the US* | *32* | *34* | *25* | *23* | *219* | *280* |
| *thereof in Brazil* | *24* | *24* | *20* | *18* | *264* | *255* |
| Asia / Africa / Australia | 48 | 46 | 39 | 33 | 771 | 821 |
| **Total continuing operations** | **314** | **329** | **350** | **413** | **3 733** | **3 989** |

[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.

## 21. DIVISIONAL BREAKDOWN OF KEY FIGURES 2007 AND 2006

Inter-segment 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)*** | |
|---|---|---|---|---|
| | ***2007*** | *2006* | ***2007*** | *2006* |
| Divisional sales | 2 339 | 2 310 | 2 137 | 2 031 |
| Sales to other divisions | –7 | –7 | –61 | –50 |
| **Total sales** | **2 332** | **2 303** | **2 076** | **1 981** |
| Operating expenses | –2 187 | –2 143 | –1 904 | –1 784 |
| Income from associates | – | 1 | 20 | 19 |
| Gain from the disposal of subsidiaries and associates | | | | |
| Restructuring and impairment | –105 | –111 | –115 | –5 |
| **Operating income** | **40** | **50** | **77** | **211** |
| Finance income | | | | |
| Finance costs | | | | |
| **Income before taxes** | | | | |
| Taxes | | | | |
| **Net income from continuing operations** | | | | |
| **Discontinued operations:** | | | | |
| Income from discontinued operations | | | | |
| **Net income** | | | | |
| Total assets | 1 767 | 1 905 | 1 779 | 1 804 |
| Liabilities | –172 | –155 | –174 | –150 |
| **Total equity and minority interests** | **1 595** | **1 750** | **1 605** | **1 654** |
| Net debts[4] | | | | |
| **Total net operating assets[1]** | **1 595** | **1 750** | **1 605** | **1 654** |
| Thereof: | | | | |
| Investments in PPE and intangibles for the period[5] | 71 | 74 | 71 | 79 |
| Investments in associates | 3 | 13 | 143 | 190 |
| Operating income | 40 | 50 | 77 | 211 |
| Add: Systematic depreciation of PPE[5] | 72 | 71 | 84 | 76 |
| Add: Impairment loss on PPE and goodwill | 55 | 103 | 17 | – |
| Add: Amortization of other intangibles | | | 2 | 1 |
| **EBITDA[2]** | **167** | **224** | **180** | **288** |
| Add: Restructuring and impairment | 105 | 111 | 115 | 5 |
| Less: Impairment loss on PPE and goodwill (Reported under restructuring and impairment) | –55 | –103 | –17 | – |
| Less: Gain from the disposal of subsidiaries and associates | – | – | – | – |
| **EBITDA before restructuring and disposals** | **217** | **232** | **278** | **293** |
| Operating income | 40 | 50 | 77 | 211 |
| Add: Restructuring and impairment | 105 | 111 | 115 | 5 |
| Less: Gain from the disposal of subsidiaries and associates | – | – | – | – |
| **Operating income before restructuring, impairment and disposals** | **145** | **161** | **192** | **216** |

[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 (see Note 1.24).

[4]

| ***Calculation of net debt*** *CHF mn* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| Non-current financial debt | 1 267 | 1 376 |
| Add: current financial debt | 728 | 623 |
| Less: cash and cash equivalents | –509 | –443 |
| Less: current deposits 90 to 365 days | –125 | |
| **Net debt** | **1 361** | **1 556** |

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

| ***Master-batches (MB)*** | | ***[3] Functional Chemicals (FUN)*** | | ***Total divisions continuing operations*** | | ***Corporate*** | | ***Total Group*** | |
|---|---|---|---|---|---|---|---|---|---|
| ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* |
| 1 381 | 1 255 | 2 803 | 2 615 | 8 660 | 8 211 | | – | 8 660 | 8 211 |
| –1 | –1 | –58 | –53 | –127 | –111 | | – | –127 | –111 |
| **1 380** | **1 254** | **2 745** | **2 562** | **8 533** | **8 100** | **–** | **–** | **8 533** | **8 100** |
| –1 259 | –1 135 | –2 558 | –2 339 | –7 908 | –7 401 | –123 | –142 | –8 031 | –7 543 |
| 3 | 1 | 7 | 9 | 30 | 30 | 7 | 5 | 37 | 35 |
| | | | | – | – | 1 | 4 | 1 | 4 |
| –22 | –9 | – | –35 | –242 | –160 | –20 | –51 | –262 | –211 |
| **102** | **111** | **194** | **197** | **413** | **569** | **–135** | **–184** | **278** | **385** |
| | | | | | | | | 31 | 33 |
| | | | | | | | | –102 | –143 |
| | | | | | | | | **207** | **275** |
| | | | | | | | | –99 | –144 |
| | | | | | | | | **108** | **131** |
| | | | | | | | | | |
| | | | | | | | | –103 | –209 |
| | | | | | | | | **5** | **–78** |
| 728 | 707 | 1 515 | 1 435 | 5 789 | 5 851 | 1 496 | 1 337 | 7 285 | 7 188 |
| –111 | –107 | –197 | –169 | –654 | –581 | –4 259 | –4 174 | –4 913 | –4 755 |
| **617** | **600** | **1 318** | **1 266** | **5 135** | **5 270** | **–2 763** | **–2 837** | **2 372** | **2 433** |
| | | | | | | 1 361 | 1 556 | 1 361 | 1 556 |
| **617** | **600** | **1 318** | **1 266** | **5 135** | **5 270** | **–1 402** | **–1 281** | **3 733** | **3 989** |
| 64 | 51 | 85 | 114 | 291 | 318 | 23 | 11 | 314 | 329 |
| 5 | 4 | 139 | 77 | 290 | 284 | 4 | 4 | 294 | 288 |
| 102 | 111 | 194 | 197 | 413 | 569 | –135 | –184 | 278 | 385 |
| 29 | 31 | 68 | 64 | 253 | 242 | 11 | 14 | 264 | 256 |
| 5 | – | –1 | 4 | 76 | 107 | 1 | 43 | 77 | 150 |
| | 1 | | | 2 | 2 | 7 | 5 | 9 | 7 |
| **136** | **143** | **261** | **265** | **744** | **920** | **–116** | **–122** | **628** | **798** |
| 22 | 9 | – | 35 | 242 | 160 | 20 | 51 | 262 | 211 |
| –5 | – | 1 | –4 | –76 | –107 | –1 | –43 | –77 | –150 |
| – | – | – | – | – | – | –1 | –4 | –1 | –4 |
| **153** | **152** | **262** | **296** | **910** | **973** | **–98** | **–118** | **812** | **855** |
| 102 | 111 | 194 | 197 | 413 | 569 | –135 | –184 | 278 | 385 |
| 22 | 9 | – | 35 | 242 | 160 | 20 | 51 | 262 | 211 |
| – | – | – | – | – | – | –1 | –4 | –1 | –4 |
| **124** | **120** | **194** | **232** | **655** | **729** | **–116** | **–137** | **539** | **592** |

| [5] ***Discontinued operations*** | ***2007*** | *2006* |
|---|---|---|
| *CHF mn* | | |
| Investment in PPE and intangibles | 6 | 33 |
| Systematic depreciation | – | 13 |

## 22. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

**Custom Manufacturing.** In September 2006 Clariant launched a project to sell its Custom Manufacturing Business pertaining to the Division Life Science Chemicals. On June 29, 2007 the business, comprising sites in Germany and the United States, was transferred to International Chemical Investors Group (ICIG). As a result, these activities are 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 in 2006. 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 in 2006.

The result of discontinued operations is as follows:

| *CHF mn* | ***2007*** *(6 months)* | *2006* |
|---|---|---|
| Sales | 82 | 211 |
| Restructuring | 3 | –11 |
| Impairment | –7 | –81 |
| Operating expenses | –111 | –248 |
| **Operating loss** | **–33** | **–129** |
| | | |
| Financial result | | –1 |
| **Loss from discontinued operations before taxes** | **–33** | **–130** |
| | | |
| Taxes | | 24 |
| **Loss from discontinued operations after taxes** | **–33** | **–106** |
| | | |
| Loss on the disposal of the discontinued operation | –72 | |
| Taxes (current and deferred) | 7 | |
| **Loss from discontinued operations after taxes** | **–98** | **–106** |

| ***Cash flow from discontinued operations*** *CHF mn* | ***2007*** *(6 months)* | *2006* |
|---|---|---|
| Operating cash flows | –18 | –65 |
| Investing cash flows | –7 | –17 |
| Financing cash flows | –15 | 2 |
| **Total cash flow** | **–40** | **–80** |

| ***Net assets held for sale***<br>*CHF mn* | [1] **2007** | *2006* |
|---|---|---|
| Property, plant and equipment | | 1 |
| Deferred tax assets | | 6 |
| Inventories | 53 | 48 |
| Trade receivables | 22 | 40 |
| Other current assets | 1 | 1 |
| Cash and cash equivalents | 5 | 1 |
| **Total assets held for sale** | **81** | **97** |
| | | |
| Trade payables | 28 | 21 |
| Income tax provisions | | 2 |
| Provisions | 21 | 38 |
| **Total liabilities associated with assets held for sale** | **49** | **61** |
| | | |
| Number of employees of the disposal group | 458 | 486 |

| ***Net income and cash flow from the disposal of discontinued operations***<br>*CHF mn* | **2007** | *2006* |
|---|---|---|
| Total proceeds received in 2007 | 23 | – |
| **Consideration for sale** | **23** | **–** |
| | | |
| Net assets sold including disposal-related expenses and liabilities incurred | –95 | – |
| **Loss on disposals before tax expense** | **–72** | **–** |
| | | |
| Taxes (current and deferred) | 7 | – |
| **After tax loss on disposal** | **–65** | **–** |
| | | |
| The net cash flow from sale is determined as follows: | | |
| Proceeds received in 2007 | 23 | – |
| Payments made in 2007 | –30 | |
| Less: cash and cash equivalents in subsidiary sold | –5 | – |
| **Net cash flow from sale** | **–12** | **–** |

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

## 22. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)

**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.

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

The result of discontinued operations is as follows:

| *CHF mn* | ***2007*** | *2006 (6 months)* |
|---|---|---|
| Sales | | 114 |
| Restructuring | | –2 |
| Operating expenses | | –113 |
| **Operating loss** | **–** | **–1** |
| Financial result | | –4 |
| **Loss from discontinued operations before taxes** | **–** | **–5** |
| Taxes | | 3 |
| **Loss from discontinued operations after taxes** | **–** | **–2** |
| Loss on the disposal of the discontinued operation | –5 | –121 |
| Deferred tax on tax loss generated | | 20 |
| **Loss from discontinued operations** | **–5** | **–103** |

| ***Cash flow from discontinued operations*** *CHF mn* | ***2007*** | *2006 (6 months)* |
|---|---|---|
| Operating cash flows | – | 3 |
| Investing cash flows | – | –17 |
| Financing cash flows | – | 14 |
| **Total cash flow** | **–** | **–** |

| ***Net assets of disposal group*** | ***2007*** | *[1] 2006* |
|---|---|---|
| *CHF mn* | | |
| Property, plant and equipment | – | 115 |
| Deferred tax assets | – | 5 |
| Inventories | – | 75 |
| Trade receivables | – | 40 |
| Other current assets | – | 5 |
| Cash and cash equivalents | – | 7 |
| Trade payables | – | –41 |
| Financial debt | – | –8 |
| Provisions | – | –37 |
| Income tax liabilities | – | –3 |
| **Total net assets of disposal group** | **–** | **158** |
| | | |
| Number of employees of the disposal group | – | 760 |

| ***Net income and cash flow from the disposal of discontinued operations*** | ***2007*** | *2006* |
|---|---|---|
| *CHF mn* | | |
| 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 | –5 | –174 |
| **Loss on disposals before tax expense** | **–5** | **–120** |
| | | |
| Taxes (current and deferred) | – | 19 |
| **After tax loss on disposal** | **–5** | **–101** |
| | | |
| The net cash flow from sale is determined as follows: | | |
| Proceeds received in 2006 | – | 53 |
| Payments made to buyer in 2007 | –3 | – |
| Less: cash and cash equivalents in subsidiary sold | – | –7 |
| **Net cash flow from sale** | **–3** | **46** |

| ***Total cash flow from the disposal of discontinued operations and assets held for sale*** | ***2007*** | *2006* |
|---|---|---|
| *CHF mn* | | |
| Net cash flow from sale of Custom Manufacturing | –12 | |
| Net cash flow from sale of Pharmaceutical Fine Chemicals | –3 | 46 |
| Net cash flow from repayment of vendor loan note | 40 | |
| **Net cash flow** | **25** | **46** |

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

## 22. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE (CONTINUED)

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

| **2006**<br>CHF mn | **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** |
| *Thereof loss on disposal of discontinued operations and assets held for sale* | *–101* | *–* | *–101* |

| **2007**<br>CHF mn | **Pharmaceutical Fine Chemcials** | **Custom Manufacturing** | **Total 2007** |
|---|---|---|---|
| Sales | | 82 | 82 |
| Restructuring | | 3 | 3 |
| Impairment | | –7 | –7 |
| Operating expenses | | –111 | –111 |
| **Operating loss** | **–** | **–33** | **–33** |
| Financial result | | – | – |
| **Loss from discontinued operations before taxes** | **–** | **–33** | **–33** |
| Taxes | | – | – |
| **Loss from discontinued operations after taxes** | **–** | **–33** | **–33** |
| Loss on the disposal of the discontinued operation | –5 | –72 | –77 |
| Taxes (current and deferred) | | 7 | 7 |
| **Loss from discontinued operations** | **–5** | **–98** | **–103** |
| *Thereof loss on disposal of discontinued operations and assets held for sale* | *–5* | *–65* | *–70* |

## 23. DISPOSAL OF ACTIVITIES NOT QUALIFYING AS DISCONTINUED OPERATIONS

In this section are reported disposals of subsidiaries, associates and activities that do not qualify as discontinued operations in the sense of IFRS 5.

On 7 May 2007, Clariant sold associate Abieta Chemie GmbH, Germany. Clariant Australia sold its Masterbatch activities on 1 May 2007 and its Textile, Leather and Paper activities on 1 October 2007.

On reclassification to non-current assets held for sale these balance sheet items were revalued to the lower of book value or fair value less costs to sell. This revaluation caused an impairment devaluation of CHF 3 million relating to Australian Masterbatch activities and 2 million relating to its Textile, Leather and Paper activities, which is reported in the income statement line "Restructuring and Impairment".

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".

| ***Net income and cash flow from the disposal of activities*** <br> *CHF mn* | ***Total 2007*** | *Total 2006* |
|---|---|---|
| Consideration for sale received | 17 | 33 |
| Consideration for sale receivable | 3 | – |
| **Total consideration for sale** | **20** | **33** |
| Net assets sold including disposal-related expenses | – 19 | – 29 |
| **Gain on disposals** | **1** | **4** |
| **Net cash flow** | **23** | **33** |

## 24. BUSINESS COMBINATIONS

**Toschem.** On 1 October 2007 Clariant acquired the Colombian company Toschem de Colombia Ltda, a leading supplier of chemicals and services to the oil and gas and industrial water treatment markets in Colombia for the amount of CHF 5 million. The acquired business contributed sales of CHF 2 million and net profit of less than CHF 1 million to the Group for the period from 1 October 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group sales would have increased by CHF 8 million and net income would have increased by less than CHF 1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary's to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

| ***Purchase consideration*** <br>*CHF mn* | |
|---|---|
| Cash paid | 3 |
| Cash payable | 1 |
| **Total purchase consideration** | **4** |
| Fair value of net assets acquired | –4 |
| **Goodwill** | **–** |

The assets and liabilities as of 1 October 2007 arising from the acquisition are as follows:

| ***Purchase consideration*** <br>*CHF mn* | *Pre-acquisition* | *Fair value adjustments* | *Recognized carrying amounts* |
|---|---|---|---|
| Inventories | 1 | – | 1 |
| Property, plant and equipment | 1 | – | 1 |
| Intangibles | | 2 | 2 |
| **Net assets acquired** | **2** | **2** | **4** |
| Purchase consideration settled in cash | | | –3 |
| **Cash flow on acquisition** | | | **–3** |

**Masterandino.** On 1 November 2007 Clariant acquired the Colombian company Masterandino, a Masterbatch producer in Colombia for the amount of CHF 5 million. The acquired business contributed sales of CHF 1 million and net profit of less than CHF 1 million to the Group for the period from 1 November 2007 to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group sales would have increased by CHF 6 million and net income would have increased by CHF 1 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary's to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustment to intangibles had applied from 1 January 2007, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

| ***Purchase consideration*** <br> *CHF mn* | |
|---|---|
| Cash paid | 5 |
| **Total purchase consideration** | **5** |
| Fair value of net assets acquired | –5 |
| **Goodwill** | **–** |

The assets and liabilities as of 1 November 2007 arising from the acquisition are as follows:

| ***Purchase consideration*** <br> *CHF mn* | *Pre-acquisition* | *Fair value adjustments* | *Recognized carrying amounts* |
|---|---|---|---|
| Inventories | 1 | | 1 |
| Property, plant and equipment | 1 | | 1 |
| Intangibles | – | 3 | 3 |
| **Net assets acquired** | **2** | **3** | **5** |
| Total purchase consideration settled in cash | | | –5 |
| **Cash flow on acquisition** | | | **–5** |

## 24. BUSINESS COMBINATIONS (CONTINUED)

**KiON.** On 14 February 2006 the Group acquired all of the shares in KiON Corporation, located in the USA at an amount 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 and liabilities 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 at an amount of CHF 30 million. 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*** <br> *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 justified due 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*** <br> *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 |
| Current liabilities | –21 | | –21 |
| Non-current 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** |

## 25. FINANCE INCOME AND COSTS

| ***Finance income*** *CHF mn* | ***2007*** | *2006* |
|---|---|---|
| Interest income | 26 | 30 |
| *thereof interest on loans and receivables* | *24* | *19* |
| *thereof income from financial assets held to maturity* | *1* | *1* |
| Other financial income | 5 | 3 |
| *thereof gains on the valuation of fair value hedges* | *1* | *2* |
| **Total finance income** | **31** | **33** |

| ***Finance costs*** *CHF mn* | ***2007*** | *2006* |
|---|---|---|
| Interest expense | –107 | –112 |
| Other financial expenses | –18 | –20 |
| Currency result, net | 23 | –11 |
| **Total finance costs** | **–102** | **–143** |

Other financial income mainly consists of 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.

In 2007 and 2006 no gains or losses on fair value hedges or cash flow hedges transferred from equity, no ineffective parts of cash flow hedges or hedges of a net investment were recorded in the income statement.

## 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).

| | 2007 | 2006 |
|---|---|---|
| ***Net income attributable to shareholders of Clariant Ltd (CHF mn)*** | | |
| Continuing operations | 101 | 124 |
| Discontinued operations | –103 | –209 |
| **Total** | **–2** | **–85** |
| ***Diluted net income attributable to shareholders of Clariant Ltd (CHF mn)*** | | |
| Continuing operations | 101 | 124 |
| Discontinued operations | –103 | –209 |
| **Total** | **–2** | **–85** |
| ***Shares*** | | |
| Holdings on 1 January | 226 648 302 | 226 292 707 |
| Effect of the issuance of share capital and transactions with treasury shares on weighted average number of shares outstanding | 505 534 | 474 547 |
| **Weighted average number of shares outstanding** | **227 153 836** | **226 767 254** |
| Adjustment for granted Clariant shares | 1 181 689 | 1 059 753 |
| Adjustment for dilutive share options | 31 872 | 43 761 |
| **Weighted average diluted number of shares outstanding** | **228 367 397** | **227 870 768** |
| ***Basic earnings per share attributable to shareholders of Clariant Ltd (CHF/share)*** | | |
| Continuing operations | 0.44 | 0.55 |
| Discontinued operations | –0.45 | –0.92 |
| **Total** | **–0.01** | **–0.37** |
| ***Diluted earnings per share attributable to shareholders of Clariant Ltd (CHF/share)*** | | |
| Continuing operations | 0.44 | 0.54 |
| Discontinued operations | –0.45 | –0.92 |
| **Total** | **–0.01** | **–0.38** |

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 implements deep-going measures designed to improve the Group's performance. The aim of these efforts is to increase the Group's operating result and reduce net working capital. The changes that are being made to the processes and structures in order to achieve these aims result a substantial loss of jobs across the Group.

**Restructuring.** In 2007 Clariant recorded expenses for restructuring in the amount of CHF 185 million in continuing operations for projects mainly in Germany, the United Kingdom and the United States, where several sites are closed and the headcount is being further reduced. In September 2007 Clariant announced the closure of its production site in Selby, UK pertaining to the division Textile, Leather, Paper in the course of 2008. The closure will result in a substantial headcount reduction entailing restructuring costs in the amount of CHF 28 million. Additionally property, plant and equipment in the amount of CHF 50 million was impaired based on value in use calculation. In October 2007 Clariant announced the closure of its production site in Coventry, USA by December 2008. The closure will result in a substantial headcount reduction entailing restructuring costs in the amount of CHF 41 million. Additionally the useful life of the assets of the site concerned was reassessed and brought in line with the timing of the plant closure. This lead to additional depreciation in the amount of CHF 20 million to be charged to the income statement in the fourth quarter of 2007 and the year 2008. This charge would have been reported in subsequent periods, had it not been decided to close the plant. As this depreciation charge is clearly distinct from the depreciation charged in the regular course of business excluding any site closures, it is posted to the line "Restructuring and impairment" in the income statement. The

| *CHF mn* | | *TLP* | | *PA* |
|---|---|---|---|---|
| | ***2007*** | *2006* | ***2007*** | *2006* |
| **Cash out expenses for restructuring** | **20** | **6** | **7** | **9** |
| ***Non-cash expenses for:*** | | | | |
| Leaving indemnity | 17 | 3 | 47 | –1 |
| Others | 13 | –1 | 44 | –3 |
| **Total non-cash expenses for restructuring** | **30** | **2** | **91** | **–4** |
| **Total restructuring expenses** | **50** | **8** | **98** | **5** |
| ***Impairment of PPE:*** | | | | |
| Land and buildings | 12 | 2 | 6 | – |
| Machinery and equipment | 43 | 1 | 11 | – |
| **Total impairment of PPE** | **55** | **3** | **17** | **–** |
| Impairment of Goodwill | | 100 | | |
| **Total impairment** | **55** | **103** | **17** | **–** |
| Reversal of impairment of PPE | – | | – | |
| **Total impairment and reversal of impairment** | **55** | **103** | **17** | **–** |
| **Total restructuring and impairment** | **105** | **111** | **115** | **5** |
| **Thereof non-cash expenses** | **85** | **105** | **108** | **–4** |

[1] Restated due to the integration of the Division Life Science Chemicals (LSC) into the Division Functional Chemicals (FUN).

amount charged to the income statement for the accelerated depreciation of the assets of the Coventry site amounts to CHF 4 million in 2007. The expenses concern the Pigments & Additives division. 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.

**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 2006 and 2007. 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. 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 also described in Note 5.

| MB | | FUN | | Total divisions | | Corporate | | Total Group | |
|---|---|---|---|---|---|---|---|---|---|
| ***2007*** | *2006* | ***2007*** | *[1] 2006* | ***2007*** | *2006* | ***2007*** | *2006* | ***2007*** | *2006* |
| **13** | **3** | **18** | **14** | **58** | **32** | **21** | **6** | **79** | **38** |
| | | | | | | | | | |
| 3 | 4 | –6 | 4 | 61 | 10 | –1 | 2 | 60 | 12 |
| 1 | 2 | –11 | 13 | 47 | 11 | –1 | – | 46 | 11 |
| **4** | **6** | **–17** | **17** | **108** | **21** | **–2** | **2** | **106** | **23** |
| **17** | **9** | **1** | **31** | **166** | **53** | **19** | **8** | **185** | **61** |
| | | | | | | | | | |
| – | – | – | | 18 | 2 | 1 | 43 | 19 | 45 |
| 5 | – | – | 4 | 59 | 5 | – | – | 59 | 5 |
| **5** | **–** | **–** | **4** | **77** | **7** | **1** | **43** | **78** | **50** |
| | | | | – | 100 | | | – | 100 |
| **5** | **–** | **–** | **4** | **77** | **107** | **1** | **43** | **78** | **150** |
| | | –1 | | –1 | – | – | | –1 | – |
| **5** | **–** | **–1** | **4** | **76** | **107** | **1** | **43** | **77** | **150** |
| **22** | **9** | **–** | **35** | **242** | **160** | **20** | **51** | **262** | **211** |
| **9** | **6** | **–18** | **21** | **184** | **128** | **–1** | **45** | **183** | **173** |

## 28. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *at 31 December 2007 and 2006*

| 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 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 & 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** |
| | | | | | | | | | | |
| **Total recognized income and expense for the period** | | | | | **–6** | **–6** | **–5** | **–11** | **8** | **–3** |
| Dividends to third parties | | | | | | – | | – | –9 | –9 |
| Share capital reduction | –57 | | | | | – | | –57 | | –57 |
| Employee share & option scheme: | | | | | | | | | | |
| Effect of employee services | | | | | | – | 7 | 7 | | 7 |
| Equity share options issued | | | | | | | 4 | 4 | | 4 |
| Treasury share transactions | | | | | | – | –3 | –3 | | –3 |
| **Balance 31 December 2007** | **978** | **–16** | **767** | **–** | **–125** | **642** | **709** | **2 313** | **59** | **2 372** |

During 2006 and 2007 Clariant reduced its share capital by CHF 0.25 per share resulting in a pay-out of CHF 57.5 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. The put options had a strike price of CHF 18.00 and expired in June 2007 without having been excercised.

## 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 derivatives.

**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.

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 2007 and 2006, respectively.

| ***Financial instruments*** *CHF mn* | *Contract or underlying principal amount* | | *Positive fair values* | | *Negative fair values* | |
|---|---|---|---|---|---|---|
| | ***31.12.2007*** | *31.12.2006* | ***31.12.2007*** | *31.12.2006* | ***31.12.2007*** | *31.12.2006* |
| ***Currency related instruments*** | | | | | | |
| Forward foreign exchange rate contracts | 102 | 111 | 1 | 1 | | –2 |
| **Total financial instruments** | **102** | **111** | **1** | **1** | **–** | **–2** |

The fair value of these financial instruments is recorded in the position Other current assets in the balance sheet in the case of a positive value or as an accrual in the position Trade payables in the case of a negative value.

| ***Financial instruments by maturity*** *CHF mn* | *1–12 months* | | *1–5 years* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***31.12.2007*** | *31.12.2006* | ***31.12.2007*** | *31.12.2006* | ***31.12.2007*** | *31.12.2006* |
| ***Currency related instruments*** | | | | | | |
| Forward foreign exchange rate contracts | 102 | 111 | | – | 102 | 111 |
| **Total financial instruments** | **102** | **111** | **–** | **–** | **102** | **111** |

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

| ***Financial instruments by currency***<br>*Forward foreign exchange rate contracts*<br>*CHF mn* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| USD | 72 | 75 |
| EUR | 1 | 2 |
| BRL | 29 | 34 |
| **Total financial instruments** | **102** | **111** |

| ***Financial instruments effective for hedge-accounting purposes***<br>*CHF mn* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| **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 | –994 | –961 |

On 6 April 2006 Clariant issued a bond in the amount of EUR 600 million, denominated in euros (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 2007 in the amount of CHF 31 million (2006: CHF 16 million) resulting from the translation of the bond into Swiss francs was recognized in the cumulative translation reserves in Shareholders' equity.

Clariant engaged in two interest rate swaps in order to hedge the interest rate risk arising on this bond and accounted for these as fair value hedges. The interest rate swaps had a notional amount of EUR 100 million each and were entered into in May and June 2007 respectively. Both interest swaps were closed in August 2007.

| ***Volumes of securitization of trade receivables***<br>*CHF mn* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| Trade receivables denominated in US dollars | 73 | 88 |
| **Total** | **73** | **88** |
| | | |
| Related liability in the balance sheeet denominated in US dollars | 73 | 88 |
| **Total** | **73** | **88** |

**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 three 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 three years and expire after ten years.

The expense recorded in the income statement spreads the costs of each grant equally over the measurement period of one year and the vesting period of three 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 2007 CHF 7 million (2006: CHF 9 million) for equity-settled share based payments and less than CHF 1 million (2006: CHF 1 million) for cash-settled share based payments were charged to the income statement.

As of 31 December 2007 the total carrying value of liabilities arising from share-based payments is CHF 19 million (2006: CHF 20 million). Thereof CHF 18 million (2006: CHF 19 million) was recognized in equity for equity-settled share-based payments and CHF 1 million (2006: CHF 1 million) in non-current liabilities for cash-settled share-based payments.

***Options for Board of Directors (non-executive members)*** [1]

| Base year | Granted | Exercisable from | Expiry date | Exercise price | Share price at grant date | **Number 31.12.2007** | Number 31.12.2006 |
|---|---|---|---|---|---|---|---|
| 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*** [1]

| Base year | Granted | Exercisable from | Expiry date | Exercise price | Share price at grant date | **Number 31.12.2007** | Number 31.12.2006 |
|---|---|---|---|---|---|---|---|
| 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 | 87 352 | 124 568 |
| 2003 | 2004 | 2007 | 2014 | 12.00 | 18.74 | 49 326 | 49 326 |
| 2003 | 2004 | 2007 | 2014 | 16.30 | 18.74 | 53 479 | 60 391 |
| 2004 | 2005 | 2008 | 2015 | 19.85 | 19.85 | 146 237 | 146 237 |
| **Total** | | | | | | **1 269 741** | **1 313 869** |

[1] Past and current members.

As per 31 December 2007 the weighted average remaining contractual life of the share options was 3.6 years.

## 30. EMPLOYEE PARTICIPATION PLANS (CONTINUED)

**Shares for Board of Directors (non-executive members)**

| Base year | Granted | Vesting in | Share price at grant date | **Number 31.12.2007** | Number 31.12.2006 |
|---|---|---|---|---|---|
| 2004 | 2004 | 2007 | 18.74 | | 5 522 |
| 2005 | 2005 | 2008 | 19.85 | 10 077 | 10 077 |
| 2006 | 2006 | 2009 | 19.60 | 16 158 | 16 158 |
| 2007 | 2007 | 2010 | 19.15 | 22 192 | |
| **Total** | | | | **48 427** | **31 757** |

**Shares for members of Management**

| Base year | Granted | Vesting in | Share price at grant date | **Number 31.12.2007** | Number 31.12.2006 |
|---|---|---|---|---|---|
| 2003 | 2004 | 2007 | 18.74 | | 282 271 |
| 2004 | 2005 | 2008 | 19.85 | 393 397 | 433 121 |
| 2005 | 2006 | 2009 | 19.60 | 285 555 | 312 604 |
| 2006 | 2007 | 2010 | 19.15 | 454 310 | – |
| **Total** | | | | **678 952** | **1 027 996** |

All shares granted and shares for all options granted are held as treasury shares.

| | **Weighted average exercise price** | **Options 2007** | **Shares 2007** | Weighted average exercise price | Options 2006 | Shares 2006 |
|---|---|---|---|---|---|---|
| Shares / options outstanding at 1 January | 37.07 | 1 340 743 | 1 059 753 | 44.90 | 1 369 918 | 1 454 678 |
| Granted (incl. adjustment due to rights issue) | | | 491 903 | | | 347 826 |
| Exercised / distributed | 15.03 | –44 218 | –351 241 | 14.80 | –29 175 | –719 731 |
| Cancelled | | | –18 726 | | | –23 020 |
| **Outstanding at 31 December** | **37.61** | **1 296 525** | **1 181 689** | **37.07** | **1 340 743** | **1 059 753** |
| Exercisable at 31 December | 39.87 | 1 150 288 | | 41.44 | 1 084 699 | |
| Fair value of shares / options outstanding in CHF | | 1 279 331 | 12 443 145 | | 3 159 820 | 19 340 492 |

The fair value of shares granted during 2007 is CHF 9 million (2006: CHF 6 million) calculated based on market value of shares at grant date.

## 31. PERSONNEL EXPENSES

| CHF mn | **2007** | 2006 |
|---|---|---|
| Wages and salaries | –1 475 | –1 462 |
| Social welfare costs | –374 | –323 |
| Shares and options granted to directors and employees | –7 | –10 |
| Pension costs – defined contribution plans | –34 | –32 |
| Pension costs – defined benefit plans | –66 | –92 |
| Other post-employment benefits | –4 | 2 |
| **Total** | **–1 960** | **–1 917** |

Thereof the amount of CHF 30 million (2006: CHF 100 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. The information required by Art. 663b bis of the Swiss Code of Obligations regarding the emoluments for the members of the Board of Directors and the Board of Management is disclosed in the Statutory Accounts of Clariant Ltd on pages 160 and 161 of this report (not based on IFRS valuations). 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 UK and the US. These services comprise mainly administrative and trustee services. The total cost of these services is CHF 1 million (2006: 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 (2006: 6).

| ***Transactions with associates*** *CHF mn* | ***2007*** | *2006* |
|---|---|---|
| Income from the sale of goods to related parties | 37 | 41 |
| Income from the rendering of services to related parties | 4 | 7 |
| Expenses from the purchase of goods to related parties | –27 | –8 |
| Expenses from services rendered by related parties | –255 | –272 |

| ***Payables and receivables with associates*** *CHF mn* | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| Receivables from related parties | 8 | 8 |
| Payables to related parties | 45 | 19 |

| ***Transactions with Key Management*** *CHF mn* | ***2007*** | *2006* |
|---|---|---|
| Salaries and other short-term benefits | 6 | 8 |
| Termination benefits | 4 | – |
| Post-employment benefits | 1 | 1 |
| Share-based payments | 1 | 1 |
| **Total** | **12** | **10** |
| Number of granted shares for the reporting period | 130 334 | 117 419 |

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 | **31.12.2007** | 31.12.2006 |
|---|---|---|
| 2007 | | 70 |
| 2008 | 66 | 54 |
| 2009 | 48 | 39 |
| 2010 | 24 | 21 |
| 2011 | 16 | 13 |
| 2012 | 13 | |
| thereafter | 37 | 20 |
| **Total** | **204** | **217** |
| | | |
| Guarantees in favor of third parties | 63 | 53 |

Expenses for operating leases were CHF 86 million in 2007 and CHF 87 million in 2006.

**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 106 million (2006: CHF 176 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 2006 Clariant sold its Pharmaceutical Fine Chemicals business to Archimica, a company pertaining to Towerbrook Capital Partners. On October 25, 2007 Archimica Group Holdings B.V. filed a request for arbitration against Clariant before the Zurich Chamber of Commerce, raising various claims under the purchase agreement in an amount of EUR 42 million. Clariant fully contests such claims. Based on the situation no liability has been booked for these claims.

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 apart from the case mentioned above 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 risks.** 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):

| | **31.12.2007** | 31.12.2006 |
|---|---|---|
| 1 USD | 1.13 | 1.22 |
| 1 GBP | 2.25 | 2.39 |
| 100 JPY | 1.01 | 1.02 |
| 1 EUR | 1.66 | 1.61 |

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

| | **2007** | 2006 |
|---|---|---|
| 1 USD | 1.20 | 1.26 |
| 1 GBP | 2.40 | 2.31 |
| 100 JPY | 1.02 | 1.08 |
| 1 EUR | 1.64 | 1.57 |

## 35. IMPORTANT SUBSIDIARIES

| 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 Masterbatches 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 Masterbatches (Guangzhou) Ltd, Guangzhou | 100.0 | | ■ | ■ | |
| | Clariant Masterbatches (Shanghai) Ltd, Shanghai | 100.0 | | ■ | ■ | |
| | Clariant Pigments (Tianjin) Ltd, Tianjin | 60.0 | | ■ | ■ | |
| **Colombia** | Clariant (Colombia) SA, Cota-Cundinamarca | 100.0 | | ■ | ■ | |
| **Denmark** | Clariant (Danmark) A / S, Karise | 100.0 | | ■ | | |
| **Ecuador** | Clariant (Ecuador) S.A., Quito | 100.0 | | ■ | | |
| **Egypt** | Clariant (Egypt) SAE, Cairo | 85.7 | | ■ | ■ | |
| | The Egyptian German Co. for Dyes & Resins SAE, Cairo | 100.0 | | ■ | ■ | |
| **Finland** | Clariant (Finland) Oy, Vantaa | 100.0 | | ■ | | |
| | Clariant Masterbatches (Finland) Oy, Vantaa | 100.0 | | ■ | ■ | |
| **France** | Clariant Distribution (France), Puteaux | 100.0 | | ■ | | |
| | Clariant Masterbatches (France), Puteaux | 100.0 | | ■ | ■ | |
| | Clariant Masterbatches Huningue, Puteaux | 100.0 | | ■ | ■ | ■ |
| | Clariant Production (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 | | ■ | | |
| **Great Britain** | Clariant Distribution UK Limited, Horsforth / Leeds | 100.0 | | ■ | | |
| | Clariant Production 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 | | ■ | | |
| **India** | Clariant Chemicals (India) Ltd, Mumbai | 63.4 | | ■ | ■ | ■ |
| **Indonesia** | PT Clariant Indonesia, Tangerang | 100.0 | | ■ | ■ | |
| **Ireland** | Clariant Masterbatches Ireland 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 | | | ■ | |
| **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** | Clariant Distributie (Nederland) BV, Diemen | 100.0 | | ■ | | |
| | Dick Peters BV, Denekamp | 100.0 | | ■ | ■ | |
| **New Zealand** | Clariant (New Zealand) Ltd, Albany-Auckland | 100.0 | | ■ | ■ | |
| **Norway** | Clariant (Norge) AS, Bergen | 100.0 | | ■ | | |

| Country | Company name | Participation % | Holding/ Finance/Service | Sales | Production | Research |
|---|---|---|---|---|---|---|
| **Pakistan** | Clariant Pakistan Ltd, Karachi-Korangi | 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 | | ■ | | |
| **Russia** | Clariant (RUS) LLC, Moscow | 100.0 | | ■ | | |
| **Saudi Arabia** | Clariant Masterbatches (Saudi Arabia) Ltd, Riyadh | 93.0 | | ■ | ■ | |
| **Singapore** | Clariant (Singapore) Pte. Ltd, Singapore | 100.0 | | ■ | ■ | |
| **South Africa** | Clariant Southern Africa (Pty) Ltd, Weltevreden Park, Johannesburg | 100.0 | | ■ | ■ | |
| **Spain** | Clariant Ibérica Comercial S.L., L'Hospitalet de Llobregat, Barcelona | 100.0 | | ■ | | |
| | Clariant Ibérica Producción S.A., L'Hospitalet de Llobregat, 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 | | | ■ | ■ |
| **Taiwan** | Clariant Chemicals (Taiwan) Co., Ltd, Taipei | 100.0 | | ■ | ■ | |
| **Thailand** | Clariant Chemicals (Thailand) Ltd, Bangkok | 100.0 | | ■ | ■ | |
| | Clariant Masterbatches (Thailand) Ltd, Bangkok | 100.0 | | ■ | ■ | |
| **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 (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 90 to 152) of the Clariant Group for the year ended 31 December 2007.

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

| | |
|---|---|
| Daniel Suter | Dr. Matthias Jeger<br>Auditor in charge |

Basel, 12 February 2008

## REVIEW OF TRENDS

# FIVE-YEAR GROUP OVERVIEW

| *Five-year group overview 2003–2007* | | *2007* | *2006* | *2005 (restated)* | *2005* | *2004* | *2003* |
|---|---|---|---|---|---|---|---|
| **Divisional sales** | *CHF mn* | **8 660** | **8 211** | **7 800** | **8 261** | **8 772** | **8 783** |
| Change relative to preceding year | | | | | | | |
| in Swiss francs | % | 5 | 5 | | –6 | –0 | –9 |
| in local currency | % | 4 | 3 | | –8 | 2 | –4 |
| **Group sales**[1] | *CHF mn* | **8 533** | **8 100** | **7 728** | **8 181** | **8 530** | **8 516** |
| Change relative to preceding year | | | | | | | |
| in Swiss francs | % | 5 | 5 | | –4 | – | –9 |
| in local currency | % | 4 | 3 | | –6 | 2 | –4 |
| **Operating income before exceptionals** | *CHF mn* | **539** | **592** | **533** | **516** | **636** | **611** |
| Change relative to preceding year | % | –9 | 11 | | –19 | 4 | –11 |
| as a % of sales | | 6.3 | 7.3 | | 6.3 | 7.5 | 7.2 |
| **Operating income** | *CHF mn* | **278** | **385** | **448** | **368** | **533** | **559** |
| Change relative to preceding year | % | –28 | –14 | | –31 | –5 | – |
| as a % of sales | | 3.3 | 4.8 | | 4.5 | 6.2 | 6.6 |
| **EBITDA** | *CHF mn* | **628** | **798** | **714** | **710** | **918** | **1 119** |
| Change relative to preceding year | % | –21 | 12 | | –23 | –18 | –6 |
| as a % of sales | | 7.4 | 9.9 | | 8.7 | 10.8 | 13.1 |
| **Net income** | *CHF mn* | **5** | **–78** | **192** | **192** | **159** | **173** |
| Change relative to preceding year | % | –106 | –141 | | 21 | –8 | – |
| as a % of sales | | 0.1 | –1.0 | | 2.3 | 1.9 | 2.0 |
| **Investment in property, plant and equipment** | *CHF mn* | **306** | **325** | **321** | **348** | **289** | **301** |
| Change relative to preceding year | % | –6 | 1 | | 20 | –4 | –11 |
| as a % of sales | | 4 | 4 | | 4 | 3 | 4 |
| **Personnel costs** | *CHF mn* | **1 930** | **1 817** | **1 825** | **1 952** | **1 979** | **2 009** |
| Change relative to preceding year | % | 6 | – | | –1 | –1 | –4 |
| as a % of sales | | 23 | 22 | | 24 | 23 | 24 |
| Employees at year-end | *number* | 20 931 | 21 748 | 22 132 | 23 383 | 24 769 | 27 008 |
| Change relative to preceding year | % | –4 | –2 | | –6 | –8 | –3 |

[1] Incl. trading.

| ***Trend in Group sales by division*** | ***2007*** | | *2006 (restated)* | | *2006* | | *2005 (restated)* | | *2005* | | *2004* | | *2003* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* |
| Textile, Leather & Paper Chemicals | 2 332 | 27 | 2 303 | 29 | 2 303 | 29 | 2 192 | 28 | 2 192 | 27 | 2 203 | 26 | 2 179 | 26 |
| Pigments & Additives | 2 076 | 24 | 1 981 | 25 | 1 981 | 25 | 1 879 | 24 | 1 879 | 23 | 1 828 | 21 | 1 745 | 20 |
| Functional Chemicals | 2 745 | 33 | 2 562 | 31 | 2 281 | 28 | 2 083 | 27 | 2 083 | 25 | 1 977 | 23 | 2 033 | 24 |
| Life Science Chemicals | | | | | 281 | 3 | 430 | 6 | 883 | 11 | 1 414 | 17 | 1 518 | 18 |
| Masterbatches | 1 380 | 16 | 1 254 | 15 | 1 254 | 15 | 1 144 | 15 | 1 144 | 14 | 1 108 | 13 | 1 041 | 12 |
| **Total divisions** | **8 533** | 100 | **8 100** | **100** | **8 100** | 100 | **7 728** | 100 | **8 181** | 100 | **8 530** | 100 | **8 516** | 100 |

| ***Trend in Group sales by region*** | ***2007*** | | *2006* | | *2005 (restated)* | | *2005* | | *2004* | | *2003* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* | *CHF mn* | *%* |
| Europe | 4 155 | 49 | 3 939 | 49 | 3 797 | 49 | 4 111 | 50 | 4 214 | 49 | 4 239 | 50 |
| The Americas | 2 364 | 28 | 2 292 | 28 | 2 172 | 28 | 2 269 | 28 | 2 257 | 27 | 2 213 | 26 |
| Asia / Australia / Africa | 2 014 | 23 | 1 869 | 24 | 1 759 | 23 | 1 801 | 22 | 2 059 | 24 | 2 064 | 24 |
| **Total** | **8 533** | 100 | **8 100** | 100 | **7 728** | 100 | **8 181** | 100 | **8 530** | 100 | **8 516** | 100 |

## FINANCIAL STATEMENTS OF CLARIANT LTD, MUTTENZ

### CLARIANT LTD BALANCE SHEETS at 31 December 2007 and 2006

| ASSETS | 31.12.2007 | | 31.12.2006 | |
|---|---|---|---|---|
| | CHF | % | CHF | % |
| ***Non-current assets*** | | | | |
| Shareholdings in Group companies | 1 873 065 710 | | 1 702 995 578 | |
| Loans to Group companies | 468 945 607 | | 664 156 088 | |
| Intangible assets | 1 264 057 | | 1 724 204 | |
| **Total non-current assets** | **2 343 275 374** | 74.1 | **2 368 875 870** | 78.5 |
| ***Current assets*** | | | | |
| Receivables from Group companies | 436 599 271 | | 324 109 277 | |
| Other receivables | 12 824 887 | | 54 427 801 | |
| Accrued income | 1 467 818 | | 120 438 | |
| Marketable securities | 37 135 846 | | 59 025 031 | |
| Cash and cash equivalents | 332 950 259 | | 211 861 961 | |
| **Total current assets** | **820 978 081** | 25.9 | **649 544 508** | 21.5 |
| **Total assets** | **3 164 253 455** | 100.0 | **3 018 420 378** | 100.0 |

| EQUITY AND LIABILITIES | 31.12.2007 | | 31.12.2006 | |
|---|---|---|---|---|
| | CHF | % | CHF | % |
| **Total share capital** | **978 180 000** | | **1 035 720 000** | |
| ***Reserves*** | | | | |
| General reserve | 646 595 631 | | 646 595 631 | |
| Reserve for treasury shares | 90 588 025 | | 97 180 627 | |
| Free reserves | 596 236 598 | | 526 480 429 | |
| **Total reserves** | **1 333 420 254** | | **1 270 256 687** | |
| ***Accumulated losses/available earnings*** | | | | |
| Loss/income for the financial year | –14 313 693 | | 63 163 567 | |
| **Total accumulated losses/available earnings** | **–14 313 693** | | **63 163 567** | |
| **Total equity** | **2 297 286 561** | 72.6 | **2 369 140 254** | 78.5 |
| ***Liabilities*** | | | | |
| ***Non-current liabilities*** | | | | |
| Straight bonds | 250 000 000 | | 384 040 000 | |
| Loans from Group companies | 5 625 500 | | – | |
| **Total non-current liabilities** | **255 625 500** | 8.1 | **384 040 000** | 12.7 |
| ***Current liabilities*** | | | | |
| Provisions | 3 323 702 | | 3 145 286 | |
| Liabilities to Group companies | 201 290 104 | | 65 317 860 | |
| Other liabilities | 387 413 263 | | 177 257 940 | |
| Accrued expenses | 19 314 325 | | 19 519 038 | |
| **Total current liabilities** | **611 341 394** | 19.3 | **265 240 124** | 8.8 |
| **Total liabilities** | **866 966 894** | 27.4 | **649 280 124** | 21.5 |
| **Total equity and liabilities** | **3 164 253 455** | 100.0 | **3 018 420 378** | 100.0 |

## **CLARIANT LTD INCOME STATEMENTS** *for the years ended 31 December 2007 and 2006*

| | **2007** | 2006 |
|---|---|---|
| | CHF | CHF |
| ***Income*** | | |
| Income from financial assets | 231 505 063 | 271 678 974 |
| Income from cash, marketable securities and short-term deposits | 13 390 825 | 21 246 435 |
| Financial income | 9 522 951 | – |
| Other income | 42 400 884 | 40 853 674 |
| Exceptional income | – | 633 871 399 |
| **Total income** | **296 819 723** | **967 650 482** |
| ***Expenses*** | | |
| Financial expenses | 59 124 039 | 51 653 490 |
| Administrative expenses | 2 924 447 | 7 857 513 |
| Depreciation of financial assets | 199 834 564 | 694 700 000 |
| Other expenses (including taxes) | 49 250 366 | 35 042 203 |
| Exceptional expense | – | 115 233 709 |
| **Total expenses** | **311 133 416** | **904 486 915** |
| **Loss/income for the financial year** | **–14 313 693** | **63 163 567** |

# 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 200 million (prior year CHF 695 million).

The principal direct and indirect affiliated companies and other holdings of Clariant Ltd are shown on pages 150 and 151 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 37 million (prior year CHF 59 million) (see also note 6).

## 4. REPAYMENT OF SHARE CAPITAL

On 2 April 2007 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 978 180 000.

## 5. SHARE CAPITAL

| | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| Number of registered shares each with a par value of CHF 4.25 (2006: CHF 4.50) | 230 160 000 | 230 160 000 |
| In CHF | 978 180 000 | 1 035 720 000 |

| ***Conditional Capital*** | ***31.12.2007*** | *31.12.2006* |
|---|---|---|
| Number of registered shares each with a par value of CHF 4.25 (2006: CHF 4.50) | 8 000 000 | 8 000 000 |
| In CHF | 34 000 000 | 36 000 000 |

## 6. TREASURY SHARES (NUMBER WITH A PAR VALUE OF CHF 4.25 EACH [2006: CHF 4.50])

| | ***2007*** | *2006* |
|---|---|---|
| Holdings on 1 January | 3 247 278 | 3 601 273 |
| Shares bought at market value | 1 470 000 | – |
| Shares purchased on exercise of put options | – | 750 000 |
| Shares sold at market value | –880 000 | –500 000 |
| Shares to employees | –310 607 | –603 995 |
| **Holdings on 31 December** | **3 526 671** | **3 247 278** |

The average price of shares bought in 2007 was CHF 16.71 (2006: CHF 20.00).

The average price of shares sold in 2007 was CHF 17.95 (2006: CHF 20.37).

## 7. RECONCILIATION OF EQUITY

| CHF | Share capital | General reserve | Reserve for treasury shares | Free reserves | Net loss/income | Total |
|---|---|---|---|---|---|---|
| **Balance 31 December 2006** | **1 035 720 000** | **646 595 631** | **97 180 627** | **526 480 429** | **63 163 567** | **2 369 140 254** |
| Treasury share transactions | | | –6 592 602 | 6 592 602 | | – |
| Appropriation of profit/loss carried forward to reserves | | | | 63 163 567 | –63 163 567 | – |
| Repayment of share capital | –57 540 000 | | | | | –57 540 000 |
| Loss for the financial year | | | | | –14 313 693 | –14 313 693 |
| **Balance 31 December 2007** | **978 180 000** | **646 595 631** | **90 588 025** | **596 236 598** | **–14 313 693** | **2 297 286 561** |

## 8. STRAIGHT BONDS

| CHF thousand | Interest rate | Term | Amount 31.12.2007 | Amount 31.12.2006 |
|---|---|---|---|---|
| Straight bond | 3.750 | 1997–2007 | – | 174 610 |
| Straight bond | 4.250 | 2000–2008 | 384 040 | 384 040 |
| Straight bond | 3.125 | 2007–2012 | 250 000 | – |
| **Total** | | | **634 040** | **558 650** |

The bond falling due in 2008 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 31.12.2007 | Outstanding liabilities 31.12.2006 |
|---|---|---|
| Outstanding liabilities as guarantees in favor of Group companies | 1 142 | 1 073 |
| Outstanding liabilities as guarantees in favor of third parties | 25 | 24 |

## 12. EMOLUMENTS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE BOARD OF MANAGEMENT

### 1. BOARD OF DIRECTORS

| Name | Member of the Board of Directors | | Honorarium in CHF | Attendance fee in CHF | Shares granted | | | Social security in CHF | Total in CHF |
|---|---|---|---|---|---|---|---|---|---|
| | First elected | Elected until | | | Value at grant date | Number | Total value in CHF | | |
| Roland Lösser | 2000 | 2008 | 400 000 | – | 19.15 | 5 222 | 100 001 | 20 868 | 520 869 |
| Tony Reis | 1999 | 2007 | 75 000 | – | 19.15 | 3 916 | 74 991 | 6 251 | 156 242 |
| Peter Chen | 2006 | 2010 | 50 000 | 7 500 | 19.15 | 2 611 | 50 001 | 4 048 | 111 549 |
| Klaus Jenny | 2005 | 2009 | 50 000 | 16 250 | 19.15 | 2 611 | 50 001 | 3 522 | 119 773 |
| Peter Isler | 2004 | 2008 | 50 000 | 13 750 | 19.15 | 2 611 | 50 001 | 5 844 | 119 595 |
| Kajo Neukirchen | 2004 | 2008 | 50 000 | 5 000 | 19.15 | 2 611 | 50 001 | 3 617 | 108 618 |
| Rudolf Wehrli | 2007 | 2011 | 25 000 | – | 19.15 | 1 305 | 24 991 | 1 528 | 51 519 |
| Jürg Witmer | 2007 | 2011 | 25 000 | 10 000 | 19.15 | 1 305 | 24 991 | 1 527 | 61 518 |
| **Total** | | | **CHF 725 000** | **CHF 52 500** | | **22 192** | **CHF 424 977** | **CHF 47 205** | **CHF 1 249 682** |

***Shares and options held as per 31 December 2007***

| Name | Number of shares within vesting period | Number of privately held shares | Number of options within vesting period | Number of excercisable options |
|---|---|---|---|---|
| Roland Lösser | 8 624 | 22 173 | 101 352 | 28 467 |
| Tony Reis | 11 522 | 8 508 | | 1 701 |
| Peter Chen | 3 887 | 200 | | |
| Klaus Jenny | 6 422 | 20 000 | | |
| Peter Isler | 7 681 | 9 227 | | |
| Kajo Neukirchen | 7 681 | 3 227 | | |
| Rudolf Wehrli | 1 305 | 5 000 | | |
| Jürg Witmer | 1 305 | 25 000 | | |
| **Total** | **48 427** | **93 335** | **101 352** | **30 168** |

### 2. BOARD OF MANAGEMENT

| | CEO | Others | Total |
|---|---|---|---|
| Base salary | 850 000 | 3 203 583 | 4 053 583 |
| Cash bonus | 314 500 | 707 450 | 1 021 950 |
| Sharebased bonus: | | | |
| Number of shares | 33 280 | 74 862 | 108 142 |
| Value per share at grant date | 9.45 | 9.45 | 9.45 |
| Total value of shares | 314 496 | 707 445.9 | 1 021 941.9 |
| Benefits | 288 266 | 1 336 092 | 1 624 358 |
| **Total** | **CHF 1 767 262** | **CHF 5 954 571** | **CHF 7 721 833** |

During the year 2007 several members of the Board of Management left Clariant, while several other members joined the Board during the year. The above table takes into account presence on the Board of Management of these members as follows:

- Uwe Nickel 1 January–31 August 2007
- Peter Piringer 1 January–15 September 2007
- Philippe Royer 1 July–30 September 2007
- Okke Koo 1 August–31 December 2007
- Hartmut Wiezer 1 January–31 December 2007
- Johann Steiner 1 July–31 December 2007

Benefits comprise representation expenses, social security, contributions to the pension plan, family allowances and tuition.

The numbers disclosed above are not in accordance with the requirements of IFRS and therefore cannot be compared with the numbers disclosed in the Consolidated Financial Statement of the Clariant Group.

As part of the contractual agreement leaving indemnities in the amount of CHF 4.02 million were paid to three leaving members of the Board of Management in 2007.

***Shares and options held as per 31 December 2007***

| *Name* | *Number of shares within vesting period* | *Number of privately held shares* | *Number of options within vesting period* | *Number of excercisable options* |
|---|---|---|---|---|
| Jan Secher, CEO | 33 290 | 17 000 | | |
| Patrick Jany, member of the board of management | 9 503 | 14 611 | | 4 528 |
| Peter Brandenberg, member of the board of management | 15 199 | 1 330 | 16 892 | 28 137 |
| Okke Koo, member of the board of management | – | – | | |
| Dominik von Bertrab, member of the board of management | 20 513 | 4 000 | | 3 604 |
| Hartmut Wiezer, member of the board of management | 16 220 | – | | 5 630 |
| Siegfried Fischer, member of the board of management | 17 789 | 13 419 | | 17 243 |
| Johann Steiner, member of the board of management | 4 405 | 1 180 | | |
| **Total** | **116 919** | **51 540** | **16 892** | **59 142** |

## 13. 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.

## 14. SHAREHOLDERS HOLDING FIVE PERCENT OR MORE OF TOTAL CAPITAL

Based on the information available at the time of this report, Bestinver Gestion S.A. SGIIC held 7.56 % of the Clariant shares at 31 December 2007 (31 December 2006: less than 5%).

## PROPOSED TRANSFER OF ACCUMULATED LOSSES

The Board of Directors proposes to transfer the accumulated losses in the amount of CHF –14 313 693 against free reserves.

| ***Accumulated losses*** | *CHF* |
|---|---|
| Balance from prior year | – |
| Loss for the financial year | – 14 313 693 |
| **Total accumulated losses** | **– 14 313 693** |

| ***Appropriation*** | *CHF* |
|---|---|
| Transfer against free reserves | 14 313 693 |
| **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 4.25 to CHF 4.00 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 for June 2008, 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 156 to 161) of Clariant Ltd for the year ended 31 December 2007.

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 transfer of accumulated losses against free reserves comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

| | |
|---|---|
| Daniel Suter | Dr. Matthias Jeger<br>Auditor in charge |

Basel, 12 February 2008

## 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.

***Publisher***
Clariant International Ltd, Muttenz

***Managing Editor***
Erik Petersen

***Reporting Editor***
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***Financial Editor***
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***Photography Editor***
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***Concept, design, graphics and layout***
Wirz Corporate AG, Zurich

***Photography***
Sven Bänziger, Zurich
Kenneth Nars and Lou Dick (page 23), Timothy O'Rourke (page 29),
Schoeller Technologies AG (page 68)

***Consultant on sustainability reporting***
sustainserv, Zurich and Boston

***Printer***
Neidhart + Schön AG, Zurich

***Ordering address***
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***Cautionary statement regarding forward-looking statements***

This report contains forward-looking statements based on current assumptions and projections made by management. Such statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results and performance of Clariant International Ltd to differ from those expressed in, implied or projected by the forward-looking information and statements.
The information published in this report is provided by Clariant International Ltd and corresponds to the status as of the date of publication of this report.

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