



Exactly your chemistry.

Annual Report 2002

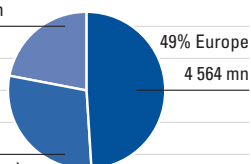
The year in summary

Sales by region

Total 2002: CHF 9 330 mn

22% Asia/Africa/Australia

2 083 mn



29% Americas

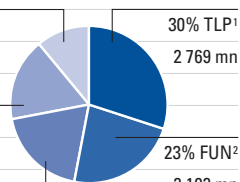
2 683 mn

Sales by division

Total 2002: CHF 9 330 mn

11% MB⁵

1 027 mn



17% LSE⁴

1 618 mn

19% PA³ 1 814 mn

¹ Textile, Leather & Paper Chemicals

² Functional Chemicals

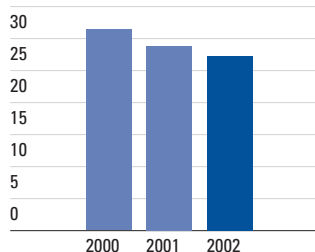
³ Pigments & Additives

⁴ Life Science & Electronic Chemicals

⁵ Masterbatches

Employees

thousand



Key figures

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

¹ For explanation please refer to the section on dividends on page 5 of our Financial Report 2002

Thumbnail sketch

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

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

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

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

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The Annual Report is published together with a Financial Report, which contains a report on the financial performance, a detailed information on Corporate Governance and the company's financial statements.

We would be pleased to send you both reports: phone +41 61 469 61 37 or www.clariant.com/Publications

The Chairman's Report

Dear shareholders,

This Annual Report summarizes the key results of your company in the 2002 business year. Last year's operational success in a difficult economic environment was overshadowed by the painful financial repercussions of Clariant's entry in the life science business in 2000.

Financial result

In 2001, we had to make an extraordinary write-down of goodwill on the BTP business in the financial statement. In 2002, we wrote off the entire goodwill remaining in the Life Science & Electronic Chemicals business, amounting to CHF 790 mn, and made an additional asset write-off of CHF 100 mn from our balance sheet.

This second write-off proved necessary because the prospects in the life sciences sector made a long-term cash flow return on the goodwill carried in the balance sheet seem questionable.

The result is a balance sheet from which a big imponderable has been removed, reducing the entire remaining goodwill to a solid CHF 450 mn. As a result, the company's equity capital has fallen by about half to CHF 914 mn. Clariant must now harness all its energy to reinforce this weakened equity capital base. We have a number of options open to us. A capital increase via the capital markets is not necessary at present.

The extraordinary goodwill write-off produced a net loss for fiscal 2002 of CHF 648 mn. Regrettably, in these circumstances the company will be unable to pay a dividend for the past business year. Clariant will make every effort to resume its practice in the current year of suitably remunerating shareholders for the capital they have entrusted to us.

One good piece of news in 2002 was that we were able to significantly reduce our net debt. This now stands at CHF 3.5 bn, about CHF 800 mn lower than the year-back level and CHF 1.7 bn lower than the peak it had reached two years ago. Clariant has set itself the target of maintaining this positive trend once again in the current business year.

Clariant succeeded in maintaining a good liquidity situation throughout the year despite the muted international market environment and the extraordinary circumstances it faced. The year closed with a net cash position of CHF 700 mn and with confirmed, though untapped, credit lines of over CHF 1.0 bn. Cash flow from our operations, moreover, reached CHF 751 mn, which was a respectable result.

Strategic factors for success

Clariant's businesses are subject to a large degree to the rules of a genuinely globalized marketplace. Selling prices are increasingly geared to the lowest raw material and transformation costs. A consequence of this is that more and more companies are shifting their production to emerging markets, mainly in Asia. Clariant is taking a proactive stance on this trend. The good growth rates of our businesses in Asia are a clear reflection of our efforts.

The environment in the year just begun is extremely fragile. Depressed demand occurs at a time of overcapacity, thus keeping selling prices under strong pressure.

Clariant will implement its programs to increase productivity rapidly and uncompromisingly in order to get closer to its goal of cost leadership. Essential elements in this program are the merging of production sites, the adjustment of organizational structures and the optimization of personnel allocation.

Cost leadership is one direction of our thrust. The other is closer partnership with our suppliers and customers and thus greater competency in the area of problem-solving. The company must increasingly exploit lucrative potential in both these areas.

Communication inside and outside the company – in other words with employees, shareholders, suppliers, customers, the public and the media – still has shortcomings and requires substantial improvement in the current year.

The necessary steps have been taken in relation to corporate governance in order to clearly define responsibilities and control functions. We have dedicated an expanded chapter of this Annual Report to this important issue.

Information for Shareholders

Personnel changes

At the end of 2002, Clariant set the stage for a younger Board of Management. Three division heads – François Dennefeld, Günther Hencken and Reinhart S. Meyer – will reach retirement age in the middle of this year. On stepping down, they will hand over the reins to three managers who have a broad spectrum of experience in various positions within Clariant. The three men in question – Dominik von Bertrab, Uwe Nickel and Siegfried Fischer – are all between 40 and 50 years of age. It is a good sign of succession planning when managers rise from the company's own ranks to positions of leadership.

Corporate value

The price of the Clariant share declined only slightly more (-2.3%) than the relevant SMI Index at the end of past year. The share price has come under pressure in recent weeks owing to the announcement of the extraordinary goodwill write-off made at the beginning of this year and the resulting speculation about the possibility of a capital increase.

I am confident that the measures taken will ensure that the value of the Clariant stock will once again rise to levels that are more in keeping with the company's intrinsic value.



Robert Raeber
Chairman of the Board of Directors



The CEO's Report

Dear shareholders,

I regret that we have to report another net loss due to special measures, following the loss sustained in 2001.

Unfortunately this gives the impression that Clariant was not operationally successful in its business activities.

The past business year showed, on the contrary, that Clariant can hold its own operationally even in an economically difficult and fiercely competitive environment.

Growth in market share

We raised our sales by 4.7% in local currency terms owing to our strong market presence, our good products and services and our motivated staff. Since our sales prices declined by only 2%, this growth in sales reflects volume growth of 6.7%. In other words, we gained market share last year. This positive result lends force to our Growth and Innovation initiative, which is the basis for organic expansion.

In Swiss francs, though, our sales declined by 3.3% because of the strength of the Swiss currency. In local currency terms, the Asian countries performed well, except for Japan, which was flat. Business was particularly buoyant in China, Hong Kong and Taiwan, where we posted growth of over 20%. In Latin America, too, we saw a comparable increase in local currency terms, though this equated to a slight decline in Swiss francs. The business climate in the NAFTA region did not significantly improve, though there were occasional signs of demand picking up. In local currency terms, we posted an increase of 3%. The picture in Europe was mixed. Clariant reported gains in Italy and Spain but declines in France and the UK. In Germany, the restructuring measures already carried out led to higher margins.

Disposals

In the past business year, Clariant sold its European emulsion business and North American hydrosulfite business, thereby further reducing the proportion of high-volume products that are closely dependent on commodity prices.

Measures for 2003

We also do not anticipate a generalized upturn in demand for the current year and are readying ourselves for weak growth. Clariant will maintain its focus on generating cash. This will help us reduce our net debt further and at the same time to reinforce our equity base. We have defined a number of measures that will be implemented rapidly and systematically.

In detail, these measures are as follows: We will sell off marginal businesses that currently account for 7% of our sales. We will continue the program launched last year to reduce current assets and lower this figure by a further CHF 100 mn. We will create regional service centers for administrative tasks and for optimizing our warehousing and logistics functions, thereby scaling back overheads by CHF 150 mn within two years. The European structures in particular will be adapted to changed business conditions and brought into line with the moderate economic expectations.

We have also decided to transform certain businesses into legally autonomous Clariant companies. They are to be optimally structured for their particular segment and their own needs. Our aim is to give these businesses the strategic scope they require to enhance their value.

We plan to keep a tight lid on capital spending. However, this will not prevent us from capitalizing on our opportunities in Asia or from transforming the fruit of our research and development efforts into new products for the market. For this purpose, we will have to invest from time to time in building new plant or modernizing existing facilities.

All these measures serve one single purpose:
to increase the performance of our company, there-
by enhancing its value and making it fit to meet the
challenges and the opportunities of the future.



Dr. Reinhard Handte
Chief Executive Officer



Corporate Bodies

Board of Directors

Pierre Borgeaud

Vice-Chairman

Heinrich Bossard

Dr. Reinhard Handte

Stephen J. Hannam

Roland Lösler

Vice-Chairman

Robert Raeber

Chairman

Tony Reis

Prof. Dr. Dieter Seebach

Dr. Herbert Wohlmann

Secretary of the Board of

Directors

Shareholder approval

The 7th Annual General Meeting of Clariant AG was held on May 7, 2002. Shareholders attending approved the annual report for 2001 and ratified the actions of the Board of Management and senior group executives.

Despite an accumulated loss due to extraordinary charges, a dividend total of CHF 46.032 mn was proposed and approved. This figure was equivalent to 33 percent of consolidated profits in 2001, i.e. CHF 140 mn, before restructuring and special goodwill depreciation. It was thus within the previous distribution range of 25-35 percent.

Changes in group management

Robert Raeber succeeded Dr. Rolf W. Schweizer as Chairman of the Board of Directors. Pierre Borgeaud was re-elected to the Board of Directors. The Annual General Meeting elected Heinrich Bossard, Delegate of the Board of Directors of Bossard AG, Zug, as a new member of the Board of Directors. Markus Kündig, Vice-Chairman of the group since its foundation, stepped down on reaching the retirement age.

Dr. François Darrort left the Board of Management during the year under review. He was succeeded as Head of the Life Science & Electronic Chemicals Division by Joachim Mahler. Mahler was previously Head of the Cellulose Ethers & Polymerisates Division, which was dissolved at the beginning of 2002.

Board of Management

Peter Brandenburg, Head of German operations and Chief Executive Officer of Clariant GmbH, Germany, since 2001

Dr. François Dennefeld, Head of the Textile, Leather & Paper Chemicals Division since 1999 and also Head of Special Regions since 2001

Nico Gontha, Head of the Masterbatches Division since June 2001

Dr. Reinhard Handte, Chief Executive Officer since 2001

Dr. Günther Hencken, Head of the Pigments & Additives Division since 2001

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

Reinhard S. Meyer, Head of the Functional Chemicals Division since 1997

François Note, Chief Financial Officer since 2001

Dr. Hartmut Wiezer, Head of Corporate Research & Development and New Business Development since 2000



Dr. Günther Hencken

Joachim Mahler

Dr. Hartmut Wiezer

Peter Brandenburg

Dr. Reinhard Handte

Dr. François Dennefeld

François Note

Reinhard S. Meyer

Nico Gontha

Company Profile

Clariant is a global leader in the field of fine and specialty chemicals. It focuses exclusively on supplying various manufacturing industries.

Specialty and fine chemicals

Clariant's innovative products meet two fundamental requirements for its customers: Not only do they increase the value of end products by improving their properties, but they also play a decisive role in the manufacture and processing of these end products.

Among the peculiarities of the specialty and fine chemicals business is the fact that innovation – in both products and technologies – is absolutely essential to growth. And because customers' requirements change constantly, research must be exceptionally creative, flexible and efficient.

What Clariant means by fine chemicals are those highly innovative specialty chemicals that are required for life sciences and the electronics industry. Their manufacture requires a high degree of technical sophistication as well as versatile, cutting-edge production plant. Clariant's fine chemicals business includes both customized activities and activities for the market in general.

For its customers in the pharmaceutical industry, for example, Clariant handles demanding research and development contracts for the development of active substances and is tasked with the synthesis of customer-specific intermediates or end products. Such work often involves parts of the customer's "backward integration."

Sustainable growth

With its products, technologies and know-how, Clariant either already holds or is aspiring to hold a leading position on the market. In pursuit of this goal, it has committed itself to sustainable growth based on its own innovative potential. The aim is to generate 30 percent of its sales with products and services that are no more than five years old and to achieve a growth rate that is higher than the market average. Substantial growth can be further enhanced by strategic acquisitions – as long as the relevant financial and operational criteria are met.

Clariant's success is a direct result of its employees' know-how and their ability to anticipate customers' needs and to develop innovative and efficient solutions in cooperation with them. Cultivating partnerships with its customers is therefore especially important to Clariant.

A young company

Clariant came into being in 1995 when the Sandoz Chemicals Division was spun off and floated on the stock market one year later. Hoechst specialty chemicals businesses were integrated in 1997. Three years later the British fine chemicals producer BTP was acquired.

Clariant operates worldwide and has over 100 Group companies on all five continents. With over 28 000 employees, it generates annual sales in the order of CHF 9 billion. It is domiciled and headquartered in Muttenz, near Basel in Switzerland.

Corporate Governance

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

Sustainable added value

Clariant's business policy is aimed at ongoing value enhancement. The focus is on the company's long-term success and not on short-term opportunities. Priority is given to trust-based relationships with shareholders, customers and suppliers, to employee satisfaction and to a sound reputation with public and private institutions and among the general public.

As proof of its commitment, fairness and responsibility as a business partner, the company has established an efficient and transparent division of tasks and responsibilities, effective control instruments and an open information policy.

Constant improvement. Clariant participated in the drafting of the "Swiss Code of Best Practice for Corporate Governance," initiated by *économiesuisse*, in order to benchmark its own organization against tried and proven rules and practices and to optimize these where possible.

Full responsibility at market level

Clariant has created a decentralized and lean management structure in order to streamline operational decisions, bringing them close to the market. The five operating divisions bear full responsibility as profit centers, within the budget framework set by the Board of Management and in line with the targets of the corporate strategy. Individuals with managerial responsibility are supported by concrete guidelines and an array of corporate analysis and control instruments.

Decentralized responsibility also plays a role in Clariant's success-related remuneration program. About 650 managers participate in the financial goals achieved during the business year and – through shares – benefit in the company's added value.

Professional management and control

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

Through its committees, the Board of Directors analyzes current and future market opportunities and risks in order to define Clariant's corporate vision as well as its business, organizational and financial strategies. As the supreme control body, it monitors the Board of Management's implementation of its targets.

The company paid CHF 480 000 for remuneration of the services of the Board of Directors. In the same period of time, the total compensation paid to members of the Board of Management amounted to CHF 12.1 million in cash. Over and above this, the members of the corporate bodies also received shares and options.

Regular information

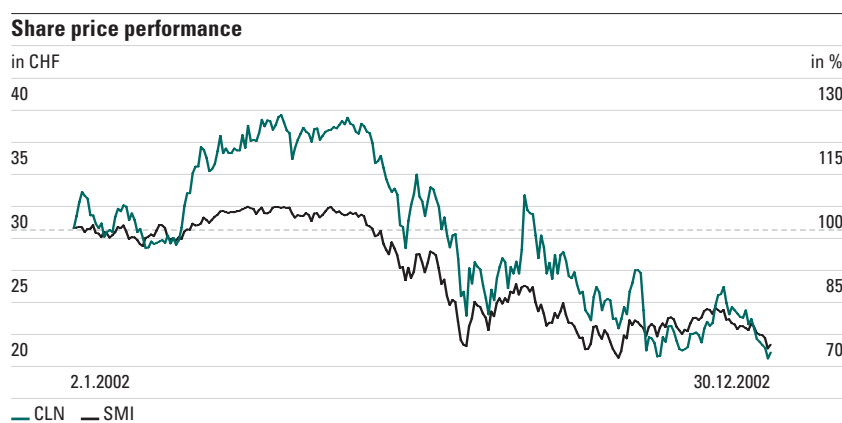
Clariant implements a proactive information policy geared to transparency. Shareholders are kept informed at regular intervals through "Shareholder letters."

The magazine "Clariant," which appears twice a year, and the Clariant website www.clariant.com also provide a wealth of information about the company.

The entire report on corporate governance can be found in the 2002 Financial Report or at www.governance.clariant.com

Share Price Trend

Despite initial hopes, economic activity failed to recover in 2002. This is reflected in the performance of the share price.



Share price performance in 2002

Shares in Clariant AG are listed on SWX Swiss Exchange as registered shares with the symbol CLN. They form part of the Swiss Market Index (SMI). In the course of fiscal 2002, a difficult year for the entire sector, Clariant shares moved generally in parallel with the SMI.

During the second quarter the share price temporarily detached itself from the SMI. In line with the general trend for early-cycle stocks in the chemical industry, it rose from around CHF 30 to almost CHF 40. In June it became clear that the recovery in economic activity that was widely expected in 2002 was not going to materialize, whereupon the price moved downwards in parallel with the SMI. Clariant's results for the first half of 2002, which were published in August, exceeded expectations. The stock market reacted with a short-lived price rise, and expected similar substantial improvements in the second half. But as experience has shown, business in the second half-year is never quite as good as it is in the first. When publishing its quarterly report in October, Clariant therefore adjusted profit expectations of the financial community downwards – which triggered a fall in the price. In the fourth quarter of the year, the shares once more tracked the SMI, ending the year at CHF 22.10.

Meetings with investors

In the course of the year Clariant conducted discussions with all the relevant analysts, clarifying both its corporate strategy and its restructuring measures. In November, Clariant held the "Clariant meets Investors" event in Frankfurt am Main. This gave some 70 investors and analysts from all over the world profound insights into the company's growth and innovation potential.

Shareholder structure

According to available information there are two shareholders holding more than 5 percent of the shares issued. One of these is Frankfurter Spezialchemikalien Verwaltungs GmbH & Co. KG of Frankfurt, Germany, with 11.8 percent of the equity capital. This company is a wholly-owned subsidiary of Hoechst AG of Frankfurt, of which Aventis AS of Strasbourg, in its turn, holds 97 percent. The origin of this holding was the 1997 take-over by Clariant AG of the Hoechst AG specialty chemicals division. The other shareholder in question is a partnership: Artisan Partners Ltd, based in Milwaukee, Wisconsin, USA, which has held 5.12 percent of the equity capital since 2002. The company is controlled by its General Partner, the Artisan Investment Corporation.

Share Information as per 31 December 2002		
Number	153 440 000	
Nominal value	CHF	5
Listing		SWX
Symbol		CLN
Issue price adjusted for split: IPO on June 29, 1995, 80 million shares	CHF	19.25
No. of treasury shares as per 31 December 2002		3 787 828
Price at the start of the year	CHF	31.40
High for the year on April 22, 2002	CHF	40.30
Low for the year on October 30, 2002	CHF	21.60
Price at the year-end	CHF	22.10
Performance for the year	%	- 29.6
All-time high on June 18, 1998	CHF	104
All-time low on October 10, 1995	CHF	17.4
Performance since issue	%	14.8
Average daily trading volume		583 344
EBITA* per share	CHF	4.57
Loss per share	CHF	- 4.30
Dividend per share	CHF	– ¹

* Operating result prior to special effects and goodwill amortization

¹ For explanation please refer to the section on dividends on page 5 of our Financial Report 2002

No. of shares by regions as per 31 December 2002				
Region	shareholders	in %	shares	in %
Switzerland	33 585	95.0	56 488 372	36.8
Europe	1 571	4.5	32 434 079	21.1
Outside Europe	188	0.5	3 965 176	2.6
<i>of which USA</i>	40	0.1	3 468 178	2.3
Nonregistered shares			60 552 373	39.5
Total	35 344	100.0	153 440 000	100.0

Dividend since IPO

	2002	2001	2000	1999	1998	1997	1996
Shares in issue	153 440 000	153 440 000	153 440 000	146 008 280	145 456 360	145 440 000	80 000 000
Dividend per share in CHF	–	0.30	1.10	1.00	0.90	0.70	0.50
Dividend total							
in CHF mn	–	46	149	146	131	102	40
As a percentage of consolidated profit	–	33*	29	24	25	28	32

* Before one-off special depreciation/amortization

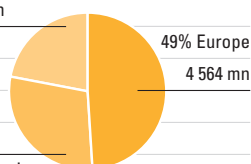
Economic Environment

Sales by region

Total 2002: CHF 9 330 mn

22% Asia/Africa/Australia

2 083 mn

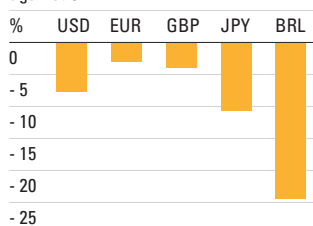


29% Americas

2 683 mn

Changes in exchange rates

against CHF



The world's major economies failed to get back on track for stable, sustained growth in 2002. Europe and Japan continued to lack momentum, while the US economy failed to live up to expectations.

Market conditions

With economic growth already sluggish, the situation was compounded by various accounting scandals and discussions surrounding the principles of corporate governance. Fears of both war in Iraq and deflation added to the pressure on the national economies. Although lending rates around the globe were very low, equity markets became increasingly volatile amid a wholesale slump in share prices. A lack of confidence in the economy was reflected in most of the markets in which Clariant operates. Many industries reduced capacities.

The German economy has been stagnant for almost two years now. Although the chemical industry increased the volume of sales by 2.5% in 2002, prices fell by 1.5%. In 2003, an upturn is not expected.

Market conditions in the USA were somewhat better in 2002 than they were the year before, leading to a slight increase in industrial production and better capacity utilization rates. Some markets firmed slightly. The US economy could grow slightly in 2003.

Brazil suffered mainly as a result of events in other Latin American countries. The economic crisis in Argentina and the general strike in Venezuela impacted negatively on investment. The weaker real bolstered the Brazilian export industry, something which was also to Clariant's benefit. 2003 is expected to bring slight economic growth and a rise in exports, with exchange rates remaining favorable.

Japan also failed to give any clear sign of a recovery in 2002. Although there was a slight increase in industrial production, the chemical industry was unable to benefit from this since a number of the industries to which it sells are relocating their production to China, Taiwan and other countries across Asia. The situation is not expected to change significantly in 2003.

Breakdown of sales

Each of the currencies of major relevance to Clariant weakened against the Swiss franc during the year under review. Clariant was affected most of all by the change in the exchange rate of the euro (-2.9%), the US dollar (-7.7%), the Japanese yen (-10.6%), the pound Sterling (-3.8%) and the Brazilian real (-24.5%). Overall, exchange rate movements brought about an 8.1% drop in sales at Clariant.

In 2002, the group companies in Europe contributed 54% of sales. Sales were down 5% in local currencies (-7% in CHF). However, efficiency improvements resulted in a higher gross margin and a higher operating result.

The group companies in the Americas contributed 27% of sales. Sales were up 12% in local currency terms (-6% in CHF). Overall, the companies posted higher margins and operating results, both in local currencies and in Swiss francs.

Clariant generated 19% of group sales in Asia, Australia and Africa, where revenues were up 9% in local currencies. However, once translated into strong Swiss francs, most of this growth was lost. Against a backdrop of sustained economic growth and productivity improvements, the group companies in Asia managed a sharp rise in their operating result.

Business Trend

Amid harsh economic conditions, Clariant grew sales 4.7% in local currencies, with each of its divisions making a contribution. In Swiss francs, sales were down 3.3%. Special write-downs depressed the result.

Write-downs

The life science units did not perform as well as expected, with the Pharma and Custom Synthesis Business Units unable to improve their performance to the necessary extent. As the situation in the market points to a slow recovery for these businesses, even over the medium term, the group recognized a special goodwill write-down of CHF 790 mn. Therefore, the Life Science & Electronic Chemicals Division has fully written off the goodwill remaining from the BTP acquisition as at the end of the period under review.

The group also took an asset impairment charge of CHF 100 mn. These write-downs resulted in a consolidated loss of CHF 648 mn.

If the group had not taken these special measures, it would have posted a net result of CHF 242 mn. The net loss and the negative impact of exchange rate fluctuations reduced equity to CHF 914 mn. This translates into an equity ratio of 10.7%.

Increase in sales and profitability

Each of the divisions increased its sales volume and improved its product mix during the period under review. With growth in excess of 20% in local currencies (+12% in CHF), business in China, Hong Kong and Taiwan developed particularly well.

Production costs fell from 68.2% of sales in 2001 to 67.3% in 2002 due to improved capacity utilization rates, the benefits feeding through from the restructuring program and the fall in the price of raw materials. In marketing and distribution, the proportion of variable costs remained stable, while it was possible to reduce the proportion of fixed costs. Financing costs were lower due to the reduced level of debt.

One-off events

One-off events had a negative impact on the cost of administration and continuing operations. The main factor was the construction of a new production plant in the USA, which, due to technical problems, resulted in CHF 50 mn of additional costs.

Disposals and debt reduction

During the period under review, Clariant sold its European emulsion business and its global emulsion powder business. It also sold its hydrosulfite activities in North America.

Once again, the group managed to sharply reduce the level of net debt, this time to less than CHF 3.5 bn. It did so by generating a high operating cash flow, reducing current assets, scaling back investments, using the proceeds from disposals and owing to the strong Swiss franc.

Consolidated sales

Total 2002: 9 330 CHF mn

CHF bn

10

8

6

4

2

0

2001 2002



Sales by division

Total 2002: 9 330 CHF mn

11% MB⁵

1 027 mn

17% LSE⁴

1 618 mn

19% PA³ 1 814 mn

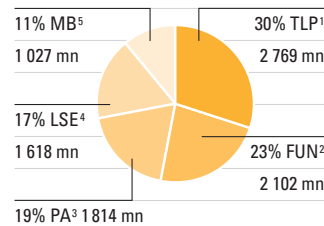
¹ Textiles, Leather & Paper Chemicals

² Functional Chemicals

³ Pigments & Additives

⁴ Life Science & Electronic Chemicals

⁵ Masterbatches



Net debt

CHF bn

5

4

3

2

1

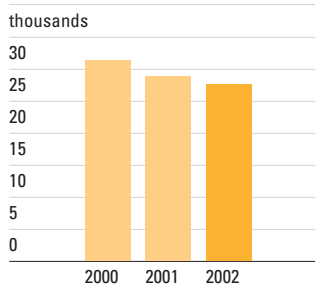
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2001 2002

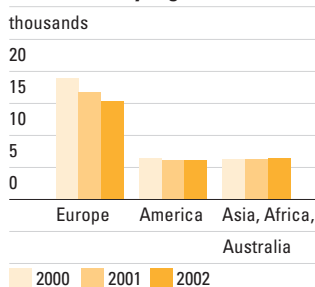


Employees

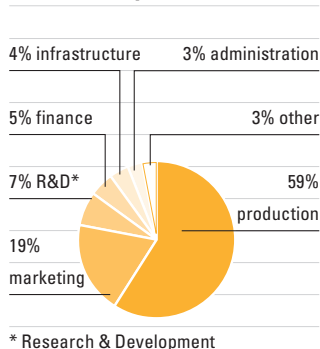
Number of staff



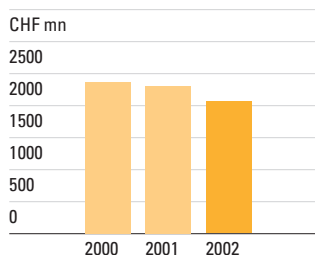
Breakdown by region



Breakdown by function



Staff costs



Defining objectives, communicating expectations, recognizing achievement. Fostering the potential of our people means creating incentives, and giving credit for personal initiative and for thinking and acting entrepreneurially.

Fostering successors

Clariant sets great store by the continual advancement of the technical expertise and social competence of our employees. Special importance is attached to the individual grooming of senior technical and managerial staff. In 2002 the group systematically identified "high flyers" at an international level: 50 high potentials from 25 countries took part in special development programs designed to prepare them for senior management roles. Further programs will follow in 2003. Staff are also improving their qualifications in a broad range of basic and advanced training courses at the national and regional level.

Binding values

Customer focus, a global mindset, the ability to make things happen and the willingness to learn are among the most important requirements for a career with Clariant. This is the outcome of a structured survey of 100 senior managers in the group. The resulting manual, "Clariant Competencies," is both an inspiration and an obligation: it lays down the central principles of internal management work.

Groupwide standards

The functional expansion of the Clariant Human Resources Information System – CHRIS – is a further step towards standardizing personnel processes and making them more efficient. At the same time the system supports internal personnel development, since groupwide screening makes the identification of suitable candidates faster and simpler. Standardized records of agreed objectives and assessments also make the appraisal process transparent to staff, as well as ensuring that remuneration reflects performance.

Results-driven remuneration

Clariant's remuneration system consists of fixed and variable components. Under the Group Bonus Plan, 650 managers draw performance-related salaries. The performance-related component, which varies according to the management level, can be as much as 50% of annual salary. As well as depending directly on the achievement of individually agreed objectives, effective remuneration thus also depends on the success of the business unit and the group as a whole. The Long Term Incentive Plan provides for an equity-participation program involving shares, with a stock option program as an alternative for the 50 most senior managers.

Social responsibility

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

The total payroll declined by 1 055 in 2002. Besides natural attrition, this was due to disposals and restructuring programs. In the year under review these included the sale of our emulsions business in Europe to Celanese AG and of our hydrosulfite business in North America to Chemtrade Logistics Inc. of Ontario, Canada. Demands of the employees affected were secured by transfer agreements whenever possible.

Environment, Safety and Health

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

Commitment to sustainability

Clariant's mandatory principles on Environment, Safety and Health are laid down in the group's ESH rules. Besides compliance with national laws and regulations, the goals of the "Business Charter for Sustainable Development" of the International Chamber of Commerce and the "Responsible Care" initiative of the chemical industry serve as guiding principles. With regard to social responsibility, Clariant's models include the precepts of the International Labor Organization.

Integrated product policy

For Clariant, integrated product policy means the inclusion of all processes along the value chain. Even at the stage of supplier selection, price and quality are not the only criteria: a special appraisal mechanism is used to assess suppliers' compliance with ESH requirements.

In accordance with the principles of local responsibility and accountability, problems are solved where they occur. ESH representatives in every part of the company therefore cooperate closely with its responsible line management. They make sure that the ESH regulations are effectively implemented at all facilities. Regular workshops are held to ensure that all employees accept their share of the responsibility, in line with their functions and their competencies. At the same time Clariant provides its customers with comprehensive information and services to ensure that its products are used in ways that are safe and not harmful to the environment, and can be properly disposed of.

Effective monitoring

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

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

Regular internal and external audits are carried out to monitor compliance and support the transfer of experience among the facilities. A new ESH know-how database, installed in 2002, facilitates the exchange of information.

Constant improvement

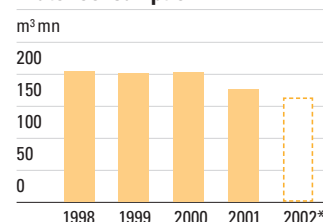
In 2001, following several years' continuous decline, CO₂ emissions and energy consumption rose again – in contrast to water consumption, which decreased. This was due to the integration of BTP. In 2002 these figures declined again.

Every year Clariant invests substantial sums in safety and environmental protection. At the Höchst facility, for example, 3.8 million euro have been spent on installing automatic filter presses. These simplify work routines and at the same time reduce the energy costs of drying pigments by 20%. At the Griesheim facility a new exhaust-air purification unit installed at a cost of 900 000 euro is reducing the emission of organic substances by 80%.

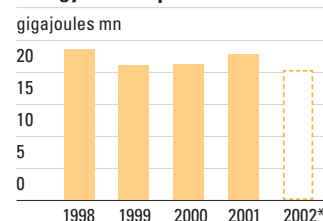
With the EU White Paper in mind. In view of the exacting requirements of the EU White Paper, great significance will be attached in future to the successful introduction of a new method of evaluating product-specific risks.

Further information is contained in the brochure "Clariant's position on environment, safety, health," which can be downloaded from www.esha.clariant.com

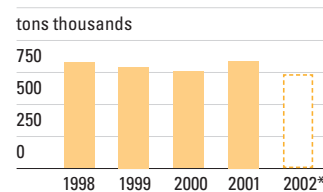
Water consumption



Energy consumption



CO₂ emissions



No. of accidents



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

Definitive figures are available at

www.esha.clariant.com

Risk Management

As a globally operating firm, Clariant is subject to a variety of risks. Specialist departments identify potential risks on a continuing basis and take suitable monitoring, control and safety measures. A central risk management system is being developed that will in future bring together all the various control systems.

Environment, safety and health

Under certain circumstances, risks for the environment, safety and health can be caused by Clariant's products or production processes. In order to identify weaknesses and minimize particular risks, the relevant parameters from all the company's sites are analyzed centrally. In addition, operational risks can be pinpointed by means of a software-assisted risk portfolio. You can find further information on this subject on page 27.

Financial risks

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

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

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

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

market situation and the use of financial instruments such as swaps, forward transactions and options that serve to maintain flexibility.

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

Liquidity risks. Liquidity management must ensure that the operating business have access to sufficient liquid assets at all times. Current and future cash flows are carefully monitored for this purpose. Imbalances can be offset through cash reserves, realizable securities and credit lines from the company's banks.

Computer risks

In order to protect against computer crashes, Clariant operates business-critical software, such as the global Clariant SAP system WINS, solely in a central computer center with two physically separated server parks. The company's global network is also managed centrally and its architecture is parallel to deal with failures or breakdowns. Drills are conducted to ensure that emergency procedures work and are mastered by the employees concerned. Reliable and permanently updated tools guard against virus attacks.

Contingency risks

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

Control and optimization

Internal and external audits review and constantly optimize all the elements of risk management, including those not mentioned here.

Research and Development

To Clariant, what drives organic growth is permanent innovation. What makes the crucial difference in competition for customers and market share is new or improved products and services and optimized processes.

Market-oriented innovation

To translate market potential and customer needs as efficiently as possible into business solutions, research and development – R&D – at Clariant is decentralized. The divisions prioritize their projects on the basis of market requirements and the prospects of success, and assume full responsibility for their implementation.

About 60% of the 2002 R&D budget were spent on refinements and innovations in existing application fields. A further 25% were spent on improving manufacturing processes and on measures to safeguard our cost and technology leadership. The remaining 15% went on new products, applications and services in new markets.

Groupwide projects. Where projects involve developments for new business fields or new technologies that are of interest to more than one division, they are managed by the group research department – which also takes care of start-up financing. But the operational implementation of these – often higher-risk – projects with attractive growth prospects lies with the divisions. In the year under review more than ten projects with potential sales of over CHF 150 million were conducted. Light-management films for better flat screens were recently introduced and have already proved themselves in the market – as has microreactor technology for more effective process development and the manufacture of special-quality products. The most recent successes are based on nanomaterials, among them products for easy-to-clean and anti-scratch coatings and nanometallic powders for the electronics industry.

Cross-divisional knowledge management

Business-specific know-how is made available throughout the group in order to accelerate the innovation process. An integrated patent strategy protects the results and safeguards their success.

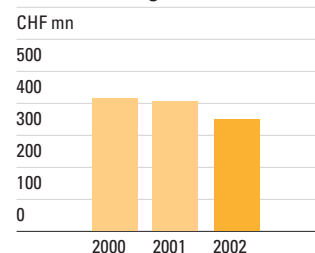
Apart from IT-supported data management, the most important source of knowledge transfer is personal dialogue. Within the New Business Development framework, global and regional interdivisional teams generate new ideas for the innovation pipeline from regional trends in markets and technologies. At the same time core technology teams work on extending know-how in the key technologies that are most important to Clariant. And at the annual innovation forums, young scientists from all parts of the group present their work, discuss their findings and are given useful stimuli.

Selected partnerships

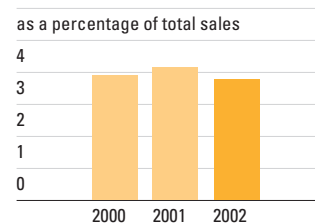
Collaborating with external partners also produces important research results. The Pigments & Additives Division, for example, cooperated with the University of Frankfurt and the Max Planck Institute for Solid State Research in Stuttgart on an analysis of the complex crystal structure of organic pigments using synchrotron radiation. And new methods of bonding dyes and pigments with synthetics, thus creating new product classes, are being developed in partnership with the University of Toronto.

The Life Science & Electronic Chemicals Division is cooperating with the Institute for New Materials in Saarbrücken on the development of nonreflecting surface materials – for flat screens, for example. The results of a project with Queens University, Canada, are also extremely promising. The uses of the synthesis methods that it has developed include the production of special boric acids. This is a major step in the establishment of our technological leadership in the field of organometallic compounds, essential building blocks for the manufacture of pharmaceuticals.

Total R&D budget



R&D ratio

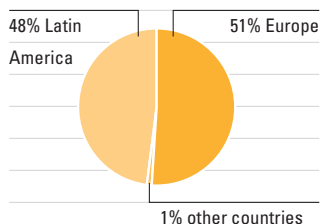


Patent families

Around 200 new applications per year

e-Business

Clariant Business Center users



On-line purchasing

- 5 000 transactions/month
- 70 on-line catalogues in use
- 10% price reduction

Greater customer focus, increased efficiency, innovation and portfolio optimization are the mainstays of Clariant's e-business strategy. Every e-business investment must support at least one of these objectives.

Integrated platform

The basis of the efficient execution of business processes is WINS, Clariant's SAP-R/3-based information system. This provides a common platform linking staff in different countries and divisions, and it ensures the value chain is continuous and uninterrupted: from the delivery of raw materials to production and packaging and ultimately dispatch and invoicing. This system gives Clariant standardized interfaces and system structures throughout the group, and thus a crucial competitive edge.

Channeled distribution

The Clariant Business Center on the Internet has already proved its worth as an attractive sales and marketing mechanism. A year after commissioning, it is already available in more than 15 countries, and availability will shortly be extended to Asia and North America. At any time of the day or night, customers can make use of extensive services and place orders on-line. Individual price lists and statistics can be downloaded, availability and delivery status checked, analysis certificates and safety data sheets printed out. As the system is segmented and based on specific customer profiles, the information it delivers is always relevant to the user.

Cost-cutting purchasing channels

The electronic catalogues of the cc-Chemplorer and Tradecom marketplaces are increasing efficiency on the procurement side.

Following a successful pilot trial involving the on-line purchase of laboratory equipment, around 1 800 staff in Germany, Switzerland, the UK, Brazil and Argentina now use 70 on-line catalogues for material procurement. This has speeded up purchasing and made it possible to achieve price reductions. With around 5 000 transactions per month worth CHF 22 million, 20% of the total transaction volume in Germany was conducted via this channel in the year

under review. Purchase prices could be lowered by 10%. In 2003, the system will be extended to Spain, France, Mexico and the US, and expanded to cover such fields as packaging and services. The existing centralized IT systems mean that the investment required is minimal.

The results achieved by the use of on-line auctions for ordering have exceeded expectations. Clariant has therefore agreed to collaborate more closely with the Chemconnect platform.

Global trading platforms

Various Internet projects based on customer needs simplify trading processes. As a fast follower, Clariant adapts successful electronic tools for its own purposes and continually expands the infrastructure required for them. The criteria for the selection of suitable tools are determined by the various markets and customer segments.

The capabilities and cost-cutting potential of the Elemica and Omnexus electronic trading platforms are currently under investigation.

Elemica focuses on the contract business that is typical of the chemical industry, linking Clariant's ERP system directly with those of its trading partners. Following the successful completion of the test phase, these activities are scheduled to be expanded in the first half of 2003.

Bundling together the products offered by more than 25 global suppliers in the plastics industry, Omnexus is employed by more than 18 000 registered users worldwide. The Masterbatches Division will be represented in this marketplace in 2003.

Outlook

Clariant expects the overall economic situation to remain equally difficult throughout 2003. Against this background, it expects organic growth, as before, to exceed growth in the market.

Strategic measures

At the center of Clariant's activities in 2003 will be the implementation of strategic measures for portfolio development and the creation of regional service centers.

Portfolio management will involve selling off non-core businesses, which currently account for approx. 7 percent of group sales. To enhance strategic flexibility, the Pharma, Custom Synthesis and Electronic Materials Business Units as also the Masterbatches Division are to be transformed into separate legal entities.

In Europe in particular, regional service centers are to be set up with the aim of lowering distribution, logistics and general administration costs by 10 percent.

In operational terms, cash flow management and a further reduction in net debt will continue to be of paramount importance. Existing programs to reduce costs, increase efficiency and lower net current assets will therefore be pursued with undiminished intensity.

Divisions

2003 will see textile manufacturers shifting still more of their production capacity to Asia, at the expense of the USA and Europe. With its new factory in Tianjin, the Textile, Leather & Paper Chemicals Division* is well prepared for this development. While there are grounds for optimism in the paper sector, the leather unit expects sales to remain stable, as does the textile sector.

The Pigments & Additives Division* expects the adverse market conditions to continue throughout 2003. A new business structure and clear customer focus should generate additional growth, however.

The European factories of the Masterbatches Division* are to be further optimized to lower costs even more. In Asia, the division will continue to expand and expects 2003 to achieve yet another increase in market share.

The Functional Chemicals Division* expects additional growth in the current year – especially in the NAFTA region. Capacity utilization is to be increased and portfolio development continued with a view to lowering the proportion of commodities.

In the semiconductor industry, the Life Science & Electronic Chemicals Division* expects two different trends for semi conductor components and flat screens. While growth in chip production is likely to remain very sluggish, sales of flat screens are expected to rise significantly. The Pharma and Custom Synthesis units expect the project pipeline to yield only moderate growth in the current year. All in all, the division's sales expectations are muted owing to the weak growth of the economy as a whole.

* For detailed information on the divisions please refer to page 38 following

Overview

Profile

Textile, Leather & Paper Chemicals

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

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

Pigments & Additives

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

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

Masterbatches

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

preferred supplier for plastics processors and the textile industry. On the local level, each of the division's 53 production plants furnishes complete technical service for all products and applications.

Functional Chemicals

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

Process Chemicals unit markets products and services for the oil and gas extracting and refining industry and for the metallurgy and mining industry. The Biocides Business Unit produces biologically active additives for cosmetics, paints, polymers and disinfectants. Cellulose ethers are most commonly used in the construction and paint industry.

Life Science & Electronic Chemicals

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

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

Report on the Divisions

Markets

Brands and products

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

UV absorbers, fluorochemicals, paper dyes (Cartasol®), disperse dyes (Foron®), reactive dyes (Drimarene®)

Paints, lacquers, coatings, plastics, automotive industry

Hostaperm® pigments, PV Fast®, Graphtol®, Novoperm® pigments, Reflex Blue® grades, Exolith®, Ceridust®

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

Cesa®, Hydrocerol®, Remafin®, Renol®, Omnicolor®

Detergents, rinses and cleansers, body care products, aviation, automotive and machine tools, agrochemicals, paints and lacquers, plastics, construction, oil and gas extraction, mining

Oxethylate, polyethylene glycols, Peractive® Hostapur SAS® corrosion inhibitors and biocides, Tylose®, Genamin®, Genapol®, Calcogen®, Klebosol®, Arkopal®, Safeway®, Safewing®, Antifrogen®, Safebreak®, Genosorb®, Dodiflow®, Dissolvan®, Scaletreat®, Phasetreat®

Semiconductor and electronics industry, pharmaceuticals and agrobusiness, industries such as coatings, plastics, scents and flavorings

Pharmaceutical and agrochemical active ingredients, generic products, intermediates, building blocks, AZ® photoresists

Textile, Leather & Paper Chemicals

Business performance

The Textile, Leather & Paper Chemicals Division increased its sales in local currencies by 1.9%. This corresponds to a 6.6% decline in sales in Swiss franc terms. EBITA came to CHF 214 million, equating to a 7.7% margin.

The division posted a result that was better than the previous year's on the strength of rising volumes, moderate price pressure and stable margins.

The Textile Dyes and Textile Chemicals Business Units were handicapped by the weak textile markets in the United States, Europe and Japan. Shifting part of production to Asia, especially China, only partially offset the downturn. In the automotive textile segment, which has high requirements in terms of product fastness, the division gained market share. The Textile Chemicals Business Unit posted high growth rates in Pakistan, India and Turkey with products for technical textiles.

The Paper Business Unit stood out clearly from the general market growth trend with a very good performance on the whole. Higher volumes for optical brighteners compensated for the price pressure.

Following a slow start, the leather business bounced back and reached the year-back level. The traditional markets for shoe, clothing and upholstery leather showed higher profitability with stable sales. Clariant reinforced its presence in the automotive leather segment.

The Emulsions Business Unit initially benefited from falling commodity prices, though these rose again in the second half of the year. A weakening European construction sector is also putting a damper on sales, a trend only partially offset by a vigorous adhesives sector.

Portfolio focal points

The division is one of the leading providers of specialty chemicals and colorants for the textile, leather and paper industries, with decentralized structures and a broad range of products.

The Textile Dyes Business Unit's product line includes disperse, reactive, acid and sulfur dyes. The Textile Chemicals Business Unit's product range includes specialty chemicals for pretreatment, dyeing, printing and refining of textiles. Optical brighteners and chemicals for functional treatment of technical and other textiles are also offered. The Paper Chemicals Business Unit supplies paper dyes, optical brighteners and process and pulping chemicals. The Leather Chemicals Business Unit is one of the leading suppliers of refining chemicals. It supplies all chemicals used in finishing and dyeing and a complete range of wet-end chemicals. The construction, paint and adhesives industries are the main customers for emulsions.

Changes. During the period under review, Clariant sold its European emulsions business to Celanese AG of Kronberg, Germany, in order to concentrate on developing fast-growing segments. The sale also further reduces exposure to high-volume businesses heavily dependent on raw material prices.

The division sold its North American hydrosulfite business to Chemtrade Logistics Inc. of Ontario, Canada, for the same reason. Hydrosulfite is mainly used by the paper industry as a bleaching agent.

In Tianjin, China, the division opened a new production facility for textile and leather chemicals during 2002 with the aim of capturing additional market share in this growth region. The new facility's current production volume is roughly 6 000 metric tons per year and can be doubled if needed at little expense.

Innovation

The division brought some 30 new chemical products to market during the period of the report. These include Sandoperm® SE 1 oil, an innovative, silicon-based self-emulsifying nanoemulsion. The product imbues cotton, viscose and polyester fabrics with new properties: garments feel soft, dry and cool.

The division established an innovative color management service for the textile industry under the name Archroma Global Services®. Defined standards which take account of differing types of fabric, availability of dyes, environmental factors and other characteristics such as washability and lightfastness of colors provide precise, exactly reproducible results in textile dyeing, regardless of when and where production takes place.

Other innovative developments include high-performance dyes with very good lightfastness for automotive textiles and for microfibers.

Outlook

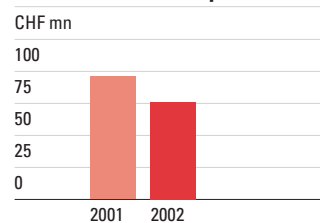
Textile producers will shift additional capacity to Asia at the expense of the United States and Europe in 2003. With the new facility in Tianjin, the division is well-placed to address this development. The remaining emulsions business lines will be integrated into the Textile Chemicals Business Unit in the current year. The forecast for the paper sector is optimistic. Like the Textiles sector, the Leather Business Unit expects stable sales.

Profit/Loss*

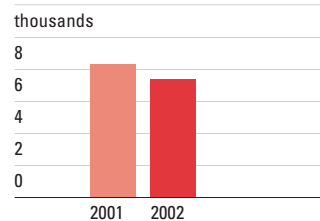
CHF mn		
	2002	2001
Sales	2 769	2 965
EBITA	214	227
EBITA margin	7.7%	7.7%

* Restated

Research and development



Employees



Business units

Textile Dyes, Textile Chemicals, Leather, Paper

Headquarters

Muttenz, Switzerland

Pigments & Additives

Business performance

The Pigments & Additives Division increased its sales in local currencies by 4.5%. This corresponds to a 3.1% decline in sales in Swiss franc terms. EBITA came to CHF 210 million, equating to a 11.6% margin.

The significant sales growth was achieved by expanding market share despite a continuing weak economy. Only the Ink Pigments Business Unit saw sales decline because print output fell off sharply in the period under review. In contrast, the Pigments Business Unit raised sales, particularly in the plastics, coatings and nonimpact printing segments. Demand for special additives was buoyant in 2002, giving the Additives Business Unit substantial sales growth.

Portfolio focal points

The division develops and produces pigments for paints and lacquers, for plastics and for specialized industries. Expertise and a global presence make the unit a market leader in this industry. A broad product spectrum comprising numerous high-performance pigments meets even the exacting demands of the automotive and electronics industries, for example with ink jet pigments. Ink pigments are supplied to the printing ink industry. Here too, Clariant is a leading supplier and can meet the most stringent demands, such as for security pigments used in printing banknotes.

The core business also includes additives to improve heat resistance as well as light and weather resistance of plastics and paints. Halogen-free flame retardants are used in protective coatings in the construction sector, in resins for construction and electronics, and in thermoplastics and polyester fibers. The division's comprehensive portfolio also includes waxes based on various raw materials. These products play a leading role in their respective fields of application.

Changes. During the period under review, the division defined a new business structure in order to focus even more closely on customer needs and to further boost performance. Accordingly, the separation hitherto existing between Pigments and Additives was eliminated in early 2003. The new organizational structure comprises four sector-based business units: Coating Industries, Plastic Industries, Printing Industries and Specialized Industries. The new structure has opened new opportunities for sustained growth and enables more streamlined business processes, better knowledge management and a global branding strategy.

Innovation

The new synthetic waxes based on Clariant's metallocene technology have been well-received by the market. This technology allows wax properties such as melting point, hardness or viscosity to be precisely set and adapted to various applications. It allowed the addition of products to the portfolio which significantly improve the dispersion of organic and inorganic pigments and carbon black in polyolephines.

The division achieved promising initial sales of "Driz Pearls," a newly introduced form factor for distribution. Driz Pearls are practically dust-free and have very good flow properties, making them especially easy to apply.

The division saw progress in the development of its microreactor-based pigment production pilot facility, significantly improving key product characteristics.

The new halogen-free flame retardants met with great acclaim in various industries. The electronics industry expressed particularly high interest since these flame retardants meet its special requirements. A new production facility for this product group is under construction to build on this success.

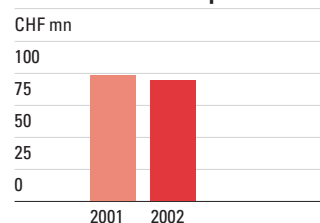
Outlook

The division expects difficult market conditions to continue in 2003. Nevertheless, the new business structure and an extremely clear customer focus should generate further growth.

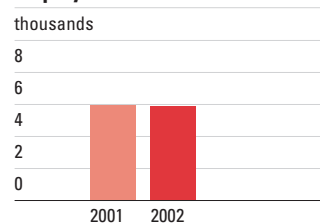
Profit/Loss

CHF mn		
	2002	2001
Sales	1 814	1 872
EBITA	210	230
EBITA margin	11.6%	12.3%

Research and development



Employees



Business units as of 1 January 2003

Coating Industries, Plastic Industries, Printing Industries and Specialized Industries

Headquarters

Sulzbach am Taunus, Germany

Masterbatches

Business performance

The Masterbatches Division increased its sales in local currencies by 5.4%. This corresponds to a 1.1% decline in sales in Swiss franc terms. EBITA came to CHF 100 million, equating to a 9.7% margin.

All four regional business units increased their sales in the past fiscal year. Growth in Latin America, Asia-Pacific and the “emerging markets” as well as the Middle East and eastern Europe was particularly strong. This offset the decline in sales in the Synthetic Fibers segment, where performance in the USA and Benelux countries was especially weak.

Restructuring measures that were taken in Germany and the USA in 2001, along with strict cost management and favorable price trends for raw materials, improved the bottom line.

Portfolio focal points

The Masterbatches Division’s worldwide production network supplies color and additive concentrates and special mixtures of these components. A combination of worldwide presence and strong local partnerships makes Clariant a preferred supplier for plastics processors and the textile industry. On the local level, each of the division’s 53 production plants provides complete technical service for all products and applications. The division endeavors to a position of technological leadership in every aspect of masterbatch production.

Changes. Because of the Masterbatches Division’s typical business model, with strong local partnerships between supplier and customer, the division is structured into regional business units. At the beginning of the period under review, the division split its regional business unit for the Americas to better address differing customer demands in North and South America. The improved ability of the two new units, NAFTA and Latin America, to meet these needs has already borne fruit during the period under review. Meanwhile, the Benelux and France businesses were merged to take advantage of synergies.

Innovation

Practically all development within the Masterbatches Division is tailor-made for specific customers or segments. Since their needs often focus on design trends in retail markets such as consumer electronics or automobiles, product life cycles are short. Accordingly, the division turns over some 35% of its portfolio each year.

In addition to new products, development work especially focuses on new services. Together with an international trend research agency the division created "Perceptions," a unique tool to help product designers forecast upcoming trends. The current edition of "Perceptions" presents various concepts of paradise using a broad palette of sounds, scents, materials and visual stimuli, anticipating the world of colors and materials in 2004 and 2005.

An extensive range of services to help designers create their products is offered by the new Color-Works™ Design Centers opened in Singapore and Taiwan during the period under review. A key component of these centers is Clariant's proprietary, computer-aided design tool COSMICS, which enables the user to create and view two- or three-dimensional representations of customer products in various color schemes and different virtual surroundings. Additional Design Centers are scheduled to open in Frankfurt, Germany, and Boston, Massachusetts, in 2003.

The division brought a new assortment of additive masterbatches to market during this period for the growing polyester packaging and PET bottle market segment. The new products extend the service life of the packaging and provide better protection for contents. These additives increase UV resistance and reduce gas permeability, for example.

For the European automotive industry, the Masterbatches Division has developed special interior design effects in collaboration with Johnson Controls Interior Systems, a leading manufacturer of auto interior equipment. The new products were introduced at the Paris Auto Show.

Outlook

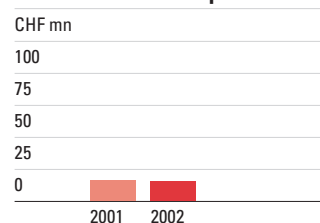
Optimization of production facilities in Europe continues with a view to further reducing costs. Business will continue to expand in Asia.

The division expects to capture additional market share in 2003.

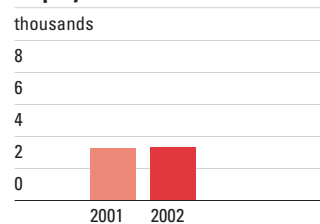
Profit/Loss

CHF mn		
	2002	2001
Sales	1 027	1 038
EBITA	100	81
EBITA margin	9.7%	7.8%

Research and development



Employees



Business units

Europe, Asia Pacific, NAFTA, Latin America

Headquarters

Muttenz, Switzerland

Functional Chemicals

Business performance

The Functional Chemicals Division increased its sales in local currencies by 5.8%. This corresponds to a 2.4% decline in sales in Swiss franc terms. EBITA came to CHF 141 million, equating to a 6.7% margin.

In the Detergents Business Unit, capacity utilization was good and the cost structure optimized. Unfortunately, the late commissioning of a plant for bleach activators dented the result.

Sales of performance chemicals rose substantially in local currencies despite various adverse factors. The mild winter at the beginning of the period under review dragged down sales of deicing agents, while the general strike in Venezuela at year-end caused production losses.

In the Process Chemicals Business Unit, plants were running at good capacity throughout the year. In particular, products for the oil industry did well.

The Cellulose Ethers Business Unit achieved sales growth. The construction industry continued to contract in central Europe, though this was more than offset by growing demand from southern and eastern Europe, the USA and Asia.

The cost structure for biocides was substantially improved.

Portfolio focal points

The Functional Chemicals Division's products are based on nonionic, anionic and cationic surfactants and on polymers. The five business units operate in twelve different market segments. The most important products are high-quality raw materials for detergents and cosmetics as well as products for the oil industry, combined with comprehensive service.

The Detergents Business Unit is a global partner to the detergents industry, furnishing surfactants, performance additives and bleach activators. Performance Chemicals, based on the division's entire product range, supplies such industries as personal care, aviation, automotive, agrochemicals, paints and coatings or plastics and industrial chemistry. The Process Chemicals Business Unit markets products and services for the oil and gas producing and refining industry. Products for the metalworking and mining industries are another focal point. The Biocides Business Unit produces and formulates a broad spectrum of biologically active ingredients for cosmetics, paints, polymers and disinfectants. Cellulose ethers are most commonly used in the construction and paint industry.

Changes. During the period under review the division sold its silicates business in France, one of the commodities lines still remaining in its portfolio in the wake of specialization. The global emulsion powders business was also sold in late 2002, further streamlining the portfolio.

The division brought a new ethoxylation facility on-line in Coatzacoalcos, Mexico. The facility is well situated logistically and capable of supplying both North and South America. This investment concludes the first stage of an expansion strategy in Mexico and the NAFTA region launched by Clariant in 2000 with the acquisition of the Mexican company Christianson SA. The new facility has an annual capacity of 40 000 metric tons and plays an important role in the Functional Chemicals Division's growth strategy.

In Great Britain, a new plant was opened for production of Aristoflex®, a synthetic polymer used by the cosmetics industry to provide consistency in current cream gels.

Integration of the British subsidiary TR Oil Services was completed in 2002. The division now offers one-stop shopping for the oil and gas producing industry concentrated in the Clariant Oil Services Group.

Innovation

The division works very closely with customers on research and development projects. Some of these projects, such as new raw materials for detergents, are exclusive. An intensive search is under way for bleach activators for low wash temperatures, which would have a great market potential both within and outside Europe.

The division's first sales were of raw materials and finished products for "easy-to-clean" applications, which are used to coat sanitary kitchen and bath ceramics to facilitate cleaning. These new nanomaterials are in particularly high demand in Asia and South America, where large producers manufacture ceramics for export.

New launches include products for the oil and gas industry, such as hydrate inhibitors to prevent the formation of gas hydrates in gas production. The Clariant Oil Services Group's new service strategies, such as mobile analysis devices for use in the oil-fields, save oil producers time and money.

Outlook

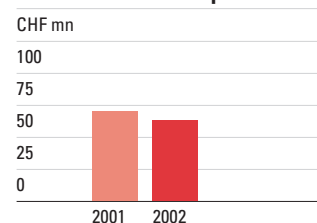
For 2003, the division expects additional growth especially in the NAFTA region. Production capacity utilization will rise further. Product portfolio development will continue with a view to further reducing the share of commodities.

Profit/Loss*

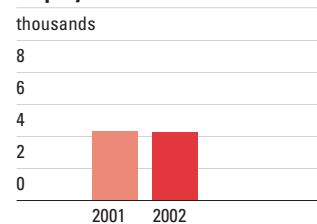
CHF mn		
	2002	2001
Sales	2 102	2 153
EBITA	141	168
EBITA margin	6.7%	7.8%

* Restated

Research and development



Employees



Business units

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

Headquarters

Sulzbach am Taunus, Germany

Life Science & Electronic Chemicals

Business performance

The Life Science & Electronic Chemicals Division increased its sales in local currencies by 6.6%. This corresponds to a 0.4% decline in sales in Swiss franc terms. EBITA came to CHF 32 million, equating to a 2.0% margin.

The Electronic Materials Business Unit grew considerably faster than the market. The traditional semiconductor market showed no significant growth, though this was more than offset by the positive trend for flat screens, which are being ever more widely used.

The Specialty Fine Chemicals unit remained profitable despite fiercer competition and successfully defended its leading positions for its most important products.

The market situation for the Pharmaceuticals Business Unit did not improve in fiscal 2002. Demand for exclusive syntheses declined, in particular because there were fewer registrations and a number of clinical trials failed. The entire sector was therefore plagued by overcapacity for both active substances and precursors. This had a particularly adverse impact on the Custom Synthesis Business Unit. The weakness of the US dollar had a negative effect, since a large part of the division's products is exported to the dollar zone.

Portfolio focal points

The division underwent restructuring during the period under review in order to better meet market demands. It now comprises the four business units Electronic Materials, Pharmaceuticals, Custom Synthesis and Specialty Fine Chemicals.

Electronic Materials. The business unit's product portfolio comprises all chemicals for the lithography process used in production of semiconductor elements such as memory chips, processors, hard disk reader heads and flat-screen displays. Furthermore, during the period of the report, the business unit expanded its product range by investing in an east German start-up engaged in final assembly of memory chips. The unit's newly developed light management films have gained a foothold on the market and have been used for the first time in a commercially available product, a personal digital assistant (PDA).

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

Pharmaceuticals. This business unit is a service partner in the introduction of new drugs, supplying customer-specific late-stage intermediates, patented active ingredients and some 30 different generic drugs. One of the most important product groups is active ingredients to combat Aids. Over a dozen of the largest pharmaceutical producers are among its customers. During the period under review, the business unit's production capacity was consolidated by selling one plant (ProBioSint in Italy) and closing four others. Pursuant to a strategy review undertaken at the same time, the unit will concentrate on so-called "small molecules" and will not

enter into the biotechnology field. Instead it will expand its capacity in the field of chiral synthesis. "Small molecules" are chemical compounds which can be produced by means of organic chemistry processes.

Custom Synthesis. This unit supplies products to different industries. A focal point is precursors and active ingredients for agrochemical products. The unit also has customers in the scents and flavorings sectors and in photochemicals. It produces exclusively for individual customers but also has catalog products in its program.

Innovation

The next generation of computer chips will feature even smaller structures than today's. New process chemicals will be needed in their production. The division's move into this so-called 193 nm technology was highly successful, and initial sales are imminent. Polysilazanes, developed in Japan and offering excellent prospects for use as insulation layers in microchips, are aimed at the same market. The division's stake in a new company in eastern Germany adds nanometals to the product portfolio. These materials can greatly simplify final assembly of microchips when used as solder. With them the division can round out its portfolio by proficiently addressing the final step of the production chain.

The Pharmaceuticals Business Unit brought commercial volumes of over a dozen products to market in the period under review. Several chiral precursor products are well advanced in the development pipeline.

One area where the Specialty Fine Chemicals Business Unit saw progress was in the field of silica colloids, which are established on the market under the brand name Highlink. Nanoscale Highlink OG types are used to render surfaces scratchproof or easily cleaned. Highlink DM can replace formaldehyde in adhesives for particle board and has great market potential.

Outlook

In the semiconductor industry, the division continues to anticipate divergent trends for construction elements and for flat-panel displays. Whereas chip production will likely see only extremely modest growth, the flat-panel display business should continue to expand rapidly. Not only are modern displays increasingly displacing traditional cathode-ray tubes in computer monitors and television sets, but manufacturers are also producing ever larger displays for a growing number of new applications.

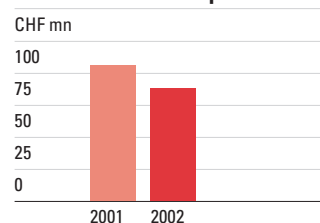
The Pharmaceuticals and Custom Synthesis Business Units expect only moderate growth from the project pipeline during the current fiscal year. The approval process of the American Food and Drug Administration (FDA) will continue to be lengthy and uncertain, especially for generic substitute drugs. Genuine new drugs, conversely, should be able to reach the market more quickly. Further consolidation of the pharmaceutical industry is also to be expected.

Overall, the division's sales forecast is cautious due to the low level of economic growth.

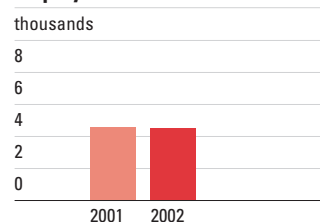
Profit/Loss

CHF mn		
	2002	2001
Sales	1 618	1 624
EBITA	32	- 73
EBITA margin	2.0%	- 4.5%

Research and development



Employees



Business units

Electronic Materials, Specialty Fine Chemicals, Pharmaceuticals, Custom Synthesis

Headquarters

Sulzbach am Taunus, Germany

Forward-Looking Statements

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

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This Annual Report is also available in German language. The German version is decisive.

The Annual Report is published together with a Financial Report, which contains a report on the financial performance, a detailed information on Corporate Governance and the company's financial statements.

We would be pleased to send you both reports: phone +41 61 469 61 37 or www.clariant.com/Publications



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Ereignisse nach Redaktionsschluss

Der Verwaltungsrat von Clariant hat in seiner Sitzung am 11. März 2003 Roland Lösner einstimmig und mit sofortiger Wirkung als Nachfolger von Reinhard Handte zum CEO ernannt.

Reinhard Handte hatte darum gebeten, ihn von seinen Funktionen als CEO und Verwaltungsrat abuberufen.

Der Verwaltungsrat spricht ihm für seine langjährigen Verdienste um das Unternehmen seinen Dank aus.

Roland Lösner, 60, gehört seit dem Jahr 2000 dem Clariant Verwaltungsrat an und war zuvor fünf Jahre lang Finanzchef des Unternehmens. Vor seinem Eintritt bei Clariant hat Roland Lösner eine internationale Karriere bei Sandoz durchlaufen.

Events after Copy Date

In its meeting on 11 March 2003 the Board of Directors unanimously appointed Roland Lösner as CEO with immediate effect.

Reinhard Handte has resigned as CEO and member of the Board of Directors.

The Board of Directors has expressed its recognition of Reinhard Handte's contributions to the development of the company.

Roland Lösner has been a member of the Clariant Board of Directors for three years and acted previously for five years as CFO of the company. Before moving to Clariant Roland Lösner made an international career at Sandoz.